

2024-25



# Report on Audit Quality Review

लेखापरीक्षा गुणवत्ता पुनर्विलोकन रिपोर्ट



**QUALITY REVIEW BOARD**

(Established under an Act of Parliament)

In Pursuit of Professional Excellence of Chartered Accountants in India

© क्वालिटी पुर्नविलोकन बोर्ड, भारत सरकार द्वारा चार्टर्ड एकाउंटेंट्स अधिनियम, १९४९ की धारा २८ए के अंतर्गत स्थापित।

सर्वाधिकार सुरक्षित। यह रिपोर्ट चार्टर्ड एकाउंटेंट्स अधिनियम, १९४९ की धारा २८ए के अंतर्गत भारत सरकार द्वारा स्थापित क्वालिटी पुर्नविलोकन बोर्ड द्वारा तैयार की गई है। इस रिपोर्ट के किसी भी हिस्से को क्वालिटी पुर्नविलोकन बोर्ड से लिखित रूप में बिना पूर्व अनुमति के पुनः प्रस्तुत नहीं किया जा सकता है, न ही एक पुनर्प्राप्ति प्रणाली में संग्रहीत किया जा सकता है अथवा प्रेषित किया जा सकता है, किसी भी रूप में या किसी भी तरह से, इलेक्ट्रॉनिक, मैकेनिकल, फोटोकॉपी, रिकॉर्डिंग, या अन्यथा किसी प्रकार से।

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<http://www.qrbca.in>

अक्टूबर, २०२५

October, 2025

### क्वालिटी पुर्नविलोकन बोर्ड | Quality Review Board

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## From the Chairperson's Desk

As we navigate an ever-evolving global financial landscape, the role of auditors in upholding trust, transparency, and accountability in financial reporting remains paramount. The complexities of modern business, coupled with rapid advancements in technology and heightened regulatory expectations, demand that auditors exercise unwavering professional scepticism, adopt innovative tools, and maintain rigorous adherence to standards. The current environment demands that auditors demonstrate exceptional professional scepticism and apply robust professional judgment. Auditors must critically assess management's judgments, especially concerning accounting estimates and fair value measurements, and not be over-reliant on management representations without adequate corroborating evidence. Failure to challenge management and show appropriate professional scepticism has been a recurring global concern. Audit firms must prioritize a strong internal culture focused on quality and implement effective internal supervision and review.

The Quality Review Board (QRB) remains steadfast in its mandate to review the quality of services provided by the members of the ICAI and guide them toward continuous improvement. Our continued endeavour is to oversee the audit quality services of audit firms, ensuring that deficiencies in audits are identified and appropriately addressed through our robust review mechanism. It is with great satisfaction that we continue this independent review function for entities in the public interest. Through our comprehensive review processes, we evaluate the quality of audits conducted by firms such as compliance with statutory and regulatory requirements, the application of professional standards, and the effectiveness of firms' quality control frameworks. By identifying areas of strength and opportunities for improvement, we aim to provide actionable insights that empower audit firms to elevate their practices.

This year's Annual Report encapsulates our findings, highlighting key trends, expectations, and focus areas derived from our quality reviews. We have placed particular emphasis on examining critical aspects such as the application of Accounting Standards, Standards on Auditing audit documentation, reporting requirements under relevant statute such as Companies Act, 2013, Banking Regulation Act, 1949 etc. These reviews serve as a vital resource for audit firms, offering guidance to address deficiencies, strengthen internal controls, and enhance overall audit quality. We encourage firms to analyse these findings, undertake root cause analyses of identified issues, and implement robust remedial measures to drive sustained improvement.

I extend my gratitude to Ms. Shefali Shah IRS (Retd.), Chairperson and Mr. Deepak Kapoor member of the Board for the period of the report. I also express my heartfelt gratitude to Ms. Deepti Gaur Mukerjee, Secretary (Corporate Affairs), Mr. Inder Deep Singh Dhariwal, Joint Secretary (Corporate Affairs) for their continued support. I would also like to thank the leadership of ICAI CA. Charanjot Singh Nanda, President of ICAI and CA. Prasanna Kumar D, Vice-President, ICAI. My appreciation goes to my fellow Board members Shri. Rajesh Kumar Bhoot, Pr. Commissioner of Income Tax (APA-2), Ministry of Finance, Shri Naveen Singhvi, Pr. Director (Commercial-II), O/o Comptroller & Auditor General of India, Shri Deep Mani Shah Chief General Manager, Corporation Finance Department, SEBI, Malladi Siva Subrahmanyam, IAAS (Retd.), CA. Pramod Jain, CA. Durgesh Kumar Kabra, CA. Dayaniwas Sharma, CA. Abhay Kumar Chhajed, CA. Chandrashekhar V. Chitale and special invitees to the Board CA. (Dr.) Jai Kumar Batra, Secretary of ICAI and Shri. Chandra Wadhwa.

I also appreciate the efforts of CA. Aakanksha Khanna Kapoor, Secretary of the QRB, CA. Ashish Tiwari, Assistant Secretary, CA. Rahul Dayal and the entire QRB secretariat in preparing this report and for providing continued assistance to the Board.

सादर,

एसडी/-  
मीनाक्षी गुप्ता

Meenakshi Gupta

अध्यक्ष, कालिटी पुनर्विलोकन बोर्ड

Chairperson, Quality Review Board

स्थान: नोएडा

दिनांक: ०९.१०.२०२५

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## Composition of the Board

The current composition of the Quality Review Board, established under the Chartered Accountants Act, 1949 as modified by the Government of India vide order dated 30.06.2025 is given below. Composition of the Board during the year 2024-25 is given at Annexure I.

### Nominees of the Central Government

1. Ms. Meenakshi Gupta, IAAS (Retd.), New Delhi – Chairperson (w.e.f. 01.07.2025)
2. Mr. Inder Deep Singh Dhariwal, Joint Secretary, Ministry of Corporate Affairs, Government of India, New Delhi – Member (w.e.f. 30.09.2022)
3. Mr. Deep Mani Shah, Chief General Manager, Securities and Exchange Board of India, Mumbai - Member (w.e.f. 12.10.2023)
4. Mr. Naveen Singhvi, Principal Director (Commercial-II), Office of the Comptroller & Auditor General of India, New Delhi – Member (w.e.f. 01.07.2025)
5. Mr. Rajesh Kumar Bhoot, Principal Commissioner of Income Tax (OSD) APA-2, Ministry of Finance, New Delhi - Member (w.e.f. 12.10.2023)
6. Mr. Malladi Siva Subrahmanyam, IAAS (Retd.), Visakhapatnam – Member (w.e.f. 01.07.2025)

### Nominees of the Council of the ICAI

7. CA. Chandrashekhar V. Chitale, Central Council Member, ICAI, Pune – Member (w.e.f. 24.08.2023)
8. CA. Durgesh Kumar Kabra, Central Council Member, ICAI, Mumbai – Member (w.e.f. 24.08.2023)
9. CA. Dayaniwas Sharma, Central Council Member, ICAI, Hyderabad – Member (w.e.f. 24.08.2023)
10. CA. Abhay Kumar Chhajed, Central Council Member, ICAI, Bhopal – Member (w.e.f. 24.08.2023)
11. CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Member (w.e.f. 24.08.2023)

### Special Invitees

- Mr. Chandra Wadhwa, Council Member, ICAI, New Delhi – Special invitee (nominated by the Central Government w.e.f. 10.06.2016)
- CA. (Dr.) Jai Kumar Batra, Secretary, ICAI – Special invitee

### Secretary to the Board

- CA. Aakanksha Khanna Kapoor, Joint Director, ICAI

## Composition of Sub-Committees/Groups of the Quality Review Board

The Board has set up two Quality Review Groups to examine the final reports of Technical Reviewers. In addition, the Audit Committee, a Sub Committee and an Expert Group has been set up to assist the Board. The current composition along with terms of reference of various Sub-committees/Groups constituted by the Quality Review Board is given below. The composition of the Sub Committees and Groups as it existed during 2024-25 is given in Annexure II.

### A. Quality Review Group -I (QRG-I)

#### **Terms of Reference:**

QRG-I may perform, inter alia, the following functions and submit its recommendations, from time to time, to the Quality Review Board (QRB) for its further consideration: -

- Review the quality of audit services of audit firms, selected by the QRB, with assistance of Technical Reviewers in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB, as well as suggest various other necessary requirements, procedures, reporting and other formats, as it may deem fit, for conducting reviews of the quality of audit services of audit firms and submit its recommendations to the QRB.
- Perform such other functions as may be requested by the QRB from time to time.

#### **Composition:**

- Mr. Naveen Singhvi, Principal Director (Commercial-II), Office of the Comptroller & Auditor General of India, New Delhi – Convenor
- Mr. Deep Mani Shah, Chief General Manager, Securities and Exchange Board of India, Mumbai – Member
- CA. Durgesh Kumar Kabra, Central Council Member, ICAI, Mumbai – Member
- CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Member
- Secretary, QRB to provide necessary secretarial support.

### B. Quality Review Group -II (QRG-II)

#### **Terms of Reference:**

QRG-II may perform, inter alia, the following functions and submit its recommendations, from time to time, to the Quality Review Board (QRB) for its further consideration:-

- Review the quality of audit services of audit firms, selected by the QRB, in respect of the cases placed before QRG-II, with assistance of Technical Reviewers in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB, as well as suggest various other necessary requirements, procedures, reporting and other formats, as it may deem fit, for conducting reviews of the quality of audit services of audit firms and submit its recommendations to the QRB.
- Perform such other functions as may be requested by the QRB from time to time.

**Composition:**

- Mr. Rajesh Kumar Bhoot, Principal Commissioner of Income Tax (OSD) APA-2, Ministry of Finance, New Delhi – Convenor
- Mr. Malladi Siva Subrahmanyam, IAAS (Retd.), Visakhapatnam – Member
- CA. Dayaniwas Sharma, Central Council Member, ICAI, Hyderabad – Member
- CA. Abhay Kumar Chhajed, Central Council Member, ICAI, Bhopal – Member
- Secretary, QRB to provide necessary secretarial support.

**C. Sub-Committee-I****Terms of Reference:**

Sub-Committee-I may perform, inter alia, the following functions and submit its recommendations, from time to time, to the Quality Review Board for its further consideration:-

- Recommend selection of Audit firms for quality review of their audit services and allotment of quality review work to the Technical Reviewers.
- Recommend Technical Reviewer/s that may be empanelled with the Quality Review Board and suggest measures as may be considered appropriate to further broaden the panel and issues connected therewith.
- Recommend industry specific experts, if required, for associating with the Quality Review Board.
- Look into all the issues arising from time to time relating to eligibility of Technical Reviewers to perform Quality Review assignments and the Sub-Committee could take appropriate decisions which may later on be informed to the Board for noting.
- Perform such other functions as may be prescribed from time to time.

**Composition:**

- CA. Dayaniwas Sharma, Central Council Member, ICAI, Hyderabad – Convenor
- Mr. Malladi Siva Subrahmanyam, IAAS (Retd.), Visakhapatnam – Member
- CA. Abhay Kumar Chhajed, Central Council Member, ICAI, Bhopal – Member
- Mr. Deep Mani Shah, Chief General Manager, Securities and Exchange Board of India, Mumbai – Member
- Secretary, QRB to provide necessary secretarial support.

**D. Audit Committee of QRB****Terms of Reference:**

- To consider audit report and financial statements of Quality Review Board (QRB) and recommend to QRB adoption of the financial statements.
- To recommend to QRB appointment /re-appointment of Auditors of the QRB and their audit fees.

**Composition:**

- Mr. Naveen Singhvi, Principal Director (Commercial-II), Office of the C&AG, New Delhi – Convenor
- CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Member
- The Audit Committee is further authorized to invite Auditor of the QRB
- Secretary, QRB to provide necessary secretarial support.

**E. Expert Group to examine QRB Procedure for Quality Review of Audit Services of Audit Firms and other matters****Terms of Reference:**

Group may perform, inter alia, the following functions and submit its recommendations for further consideration by the Quality Review Board:-

- Keeping in view the experience gained during the process of reviews being carried out by the QRB, changes to the domestic regulatory framework for audit oversight as well as international practices and requirements for audit oversight, undertake holistic examination of the various aspects of reviews and make recommendations to the Quality Review Board, from time to time, for suggesting appropriate amendments, if required, to the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB.
- Update, from time to time, the Technical Guide on Conducting Quality Reviews for the guidance of Technical Reviewers.
- Perform such other functions as may be prescribed from time to time.

**Composition:**

- CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Convenor
- CA. Chandrashekhar V. Chitale, Central Council Member, ICAI, Pune – Member
- Mr. Rajesh Kumar Bhoot, Principal Commissioner of Income Tax (OSD) APA-2, Ministry of Finance, New Delhi – Member
- Mr. Malladi Siva Subrahmanyam, IAAS (Retd.), Visakhapatnam – Member
- Secretary, QRB to provide necessary secretarial support

## Our Approach

Quality Review Board (QRB/ Board) established by the Government of India under the provisions of Section 28A of the Chartered Accountants Act 1949 is a dedicated Board formed with the objective to review the quality of services provided by the members of the ICAI including audit services. The Board reviews all the aspects of how an audit was performed by an audit firm with respect to the entities selected for the review. In order to review the quality of audit services, the Board annually selects audit firms and entities based on a predefined criterion. While the focus of the review is to assess and thereby enable improvement in the audit quality services of the audit firms an equitable weightage is given to the quality of financial reporting by the preparers of the Financial Statements. The major focus of the reviews is on compliance with technical standards, relevant laws & regulations, statutory and regulatory requirements, quality of disclosures and reporting, ethical standards and firm's quality control framework. The Board ensures that persons involved in the review exercise, at all stages, maintain confidentiality of information and avoid conflict of interest.

Cases of non-compliances are forwarded to the Disciplinary Directorate of the ICAI for its examination. In line with the decision taken by the Board at its 75th meeting, such cases of non-compliance are intimated to Ministry of Corporate Affairs (MCA) as well. Some instances/types of non-compliance are listed below :

- financial statements are not materially prepared in accordance with the requirements of the applicable financial reporting framework considering qualitative aspects of the entity's accounting practices as would affect the truth and fairness of the financial statements and auditor has not reported accordingly as per applicable standard on auditing; or
- auditor has not obtained reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error; or
- auditor does not express a modified opinion when, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually, or in aggregate, are material; or
- in other cases of non-compliances of technical standards or other relevant guidance or other relevant laws and regulations as would materially affect the truth and fairness of the financial statements;

In other cases, involving matters of improvement to compliance to various requirements of technical standards, other relevant laws and regulations and other relevant guidance which are not material in nature as would affect the true and fair status of the financial statements, individually or in aggregate, QRB issues advisory to the concerned AFUR for undertaking remedial measures for improvement in quality of services in future. These are also followed-up for compliance within a specified period. In matters involving general guidance that needs to be issued to the Audit firms/ members at large, recommendations are made to the Council of the ICAI in an aggregate manner at appropriate intervals.

To provide guidance to the Audit firms for ensuring improvement in the quality of their services, QRB publishes periodic reports, on an annual basis, providing key audit quality review findings in an aggregate manner. These reports are widely disseminated and publicly made available at QRB website.

## Our Expectations

Audit firms should continue their efforts to improve audit quality on a consistent basis by keeping abreast with the latest developments in the field of auditing and accounting and other regulatory framework. Further, the Audit firms which have been reviewed should address the deficiencies identified and highlighted by performing a root-cause analysis. This will help them prevent these issues from recurring.

We also encourage all the Audit firms to take note of the key findings and trends published annually in the QRB's 'Report on Audit Quality Review' which are available at QRB website at <https://www.qrbca.in/reports-publications/>

## How We Select Audit Firms for Review

QRB has adopted risk based approach for selection of audit engagements for initiating audit quality reviews. After the constitution of National Financial Reporting Authority (NFRA) under section 132 of the Companies Act 2013, QRB is undertaking review of the quality of audit services provided by the members of the Institute only in respect of entities other than those specified under Rule 3(1) of NFRA Rules, 2018 and those referred to QRB by NFRA under Rule 9(4) of NFRA Rules, 2018.

In year 2024 – 25 the approach of selection of the audit firms / companies for initiating audit quality review has been modified by the Board. Revised selection criteria is more dynamic in nature and covers larger and multifaceted sections of the companies / audit firms. Under the revised selection criteria not only the original risk-based approach has been kept as one of the key factors but new matrix, such as stratified random sampling, size of the audit firms, past advisories-based selection, have also been incorporated in the process. Accordingly, current year's selection has been done on the basis of following criteria:

(A) Entity based selection: Under the entity-based selection, the selection of the companies has been done on the basis of following parameters:

- (I) Stratified random sampling,
- (II) Risk based selection.

(B) Audit firm-based selection: Under the audit-firm based selection following parameters were considered:

- (I) Size of the firm,
- (II) Audit firms to whom advisories have been sent in previous year(s).

For current year's selection, companies outside the scope of Rule 3(1) of NFRA Rules 2018 i.e., public companies not falling within the scope of Rule 3(1) and private companies having turnover of Rs. 250 crores or more, were considered.

The statutory auditors in respect of the entities so selected, are identified for their audit quality review as per their quality review cycle determined in terms of the Procedure for Quality Review of Audit Services of Audit Firms. Generally, maximum of three audit engagements in respect of a particular Audit firm are selected for review during a particular quality review cycle covering entities of varied industries, size, geographical spread and regulatory concerns. Further, in the absence of any adverse finding in a past review, not more than one audit engagement of the same engagement partner/ proprietor of an Audit firm may be selected for quality review by the Board during a particular quality review cycle. However, in case of any adverse findings in past review/s or in any other situation, QRB may conduct quality review of any particular Audit firm or of a particular engagement partner at more frequent interval and/or select more than 3 audit engagements. In case of a joint central statutory audit of a selected entity, normally, each of the joint central statutory auditors are selected for review.

The Board assigns the audit quality review, so selected, to the empanelled Technical Reviewers as per the Standard Operating Procedure.

## How We Conduct Audit Quality Review

QRB has constituted Quality Review Group-I (QRG-I) and Quality Review Group-II (QRG-II) to conduct preliminary reviews with a view to assess the quality of audit and reporting by the auditors. QRG-I and QRG-II are assisted by Technical Reviewer/s (TRs), who are empanelled by the QRB on engagement basis from across the country. These TRs are practicing professionals and possess requisite experience and expertise essential to carry out the reviews. The role of the TRs is to conduct on-site and off-site review with a view to assess the quality of audit and reporting by the auditors, and the review of quality control framework adopted by the AFURs in conducting audit. The TR, based upon the conclusions drawn from the review, shall first issue a preliminary report to the AFUR for their reply on his observations and subsequently, based upon the replies of the AFUR, TR issues the final report to the QRB and AFUR. AFUR is once again provided an opportunity to submit its response on the observations raised in the final report to the QRB directly. The report, so prepared by the TR, along with the submissions of the AFUR thereon, are considered at the meetings of the QRG-I and QRG-II. The QRG-I and QRG-II may also consult the QRB on any issue, on which they feel that the guidance of the QRB is necessary. The QRG-I and QRG-II complete the review of cases referred to them by examining reports of TR along with the replies of AFUR

and submit their recommendations to the QRB. QRGs may request additional details or clarification from the TR and/or Audit Firm. In the process, they also assign rating to the work of Technical Reviewers.

Based on the recommendations of QRG-I and QRG-II, the QRB decides to

- (a) forward the cases where non-compliance has been observed to the Disciplinary Directorate of ICAI for its examination or (b)
- (b) issue advisory and guidance to the AFUR for improvement in the quality of services which are subsequently followed-up for compliance or
- (c) (c) accept the report and close the case if no/ trivial observations were reported on the quality of audit and reporting; and/ or
- (d) (d) make recommendations to the Council in an aggregate manner for any matters of general guidance to the Audit firms/ members at large.

The QRB has specified the format for the Final Report and the Quality Review Program Questionnaire containing questions concerning various aspects of Standard on Quality Control (SQC) -1, Standards on Auditing, Accounting Standards/ Indian Accounting Standards (Ind AS), as applicable, Schedule III of the Companies Act, 2013 (Div.I / Div. II, as applicable), Companies Auditor's Report Order and other relevant laws and regulations. QRB has also specified certain focus areas for review for the Technical Reviewers requiring them to also submit a report on such matters.

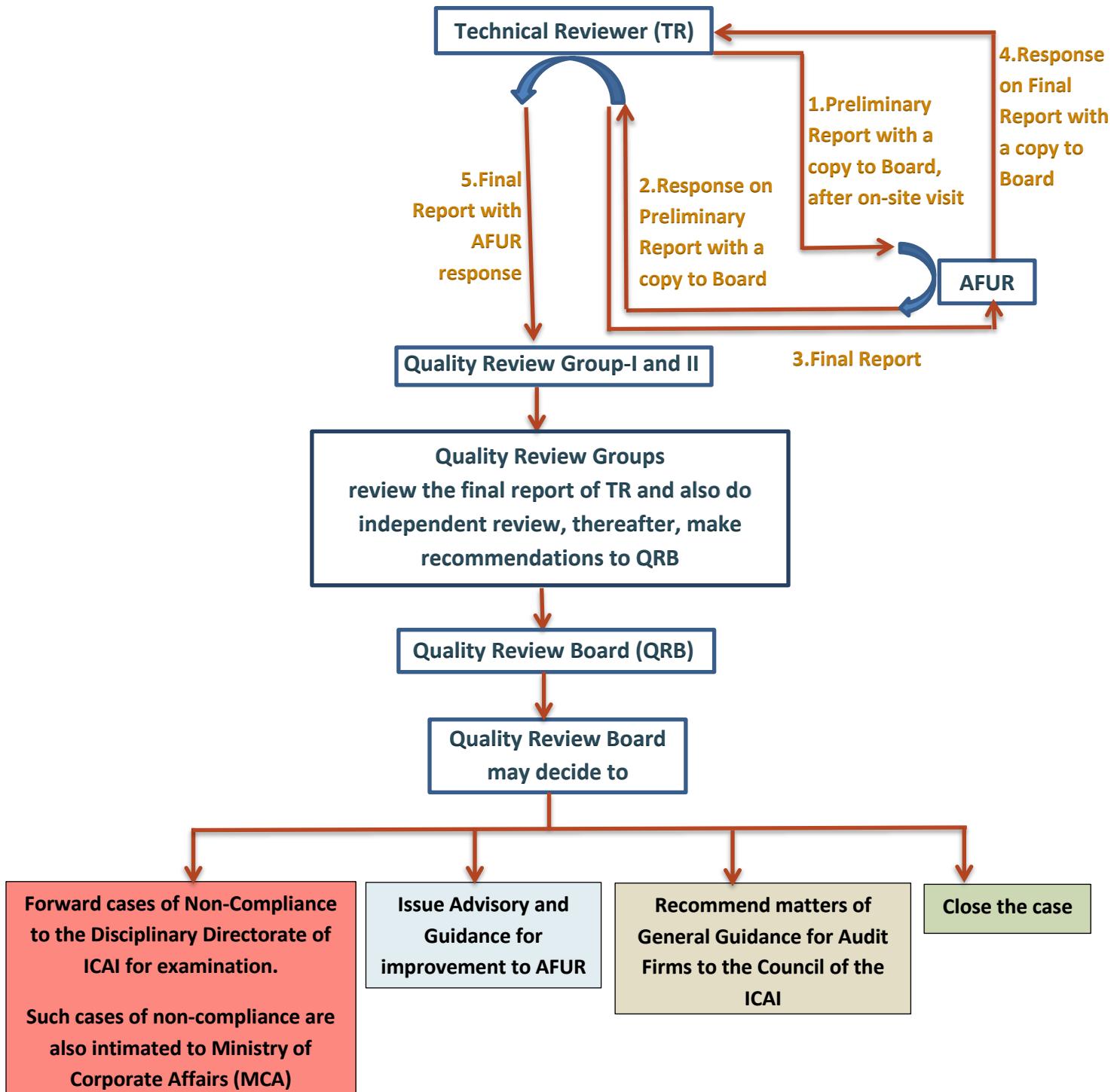
Independence of the TR and also the members of the review team viz-a-viz the AFUR as well as the auditee is imperative. Accordingly, TRs are required to fulfil, *inter alia*, the following conditions:

- a) TR does not have any disciplinary proceeding under the Chartered Accountants Act, 1949 pending against him/her or any disciplinary action under the Chartered Accountants Act, 1949 / penal action under any other law taken/pending against him/her during last three financial years and/or thereafter.
- b) TR or his/her firm or any of its network firms or any of the partners of TR's firm or that of the network firms should not have been the statutory auditor of the company/entity under review or have rendered any other services to the said company/entity during the last three financial years and/or thereafter.
- c) TR or his/her firm or any of its network firms or any of the partners of TR's firm or that of the network firms should not have had any association with the AFUR, during the last three financial years and /or thereafter.
- d) TR complies with all the eligibility conditions laid down for appointment as an auditor of the company/entity under review under section 141(3) of the Companies Act, 2013 so far as applicable.
- e) TR is not from the city/region of head office of AFUR.

TRs are also required to submit declaration for independence and eligibility for each one of his/her assistants, if any.

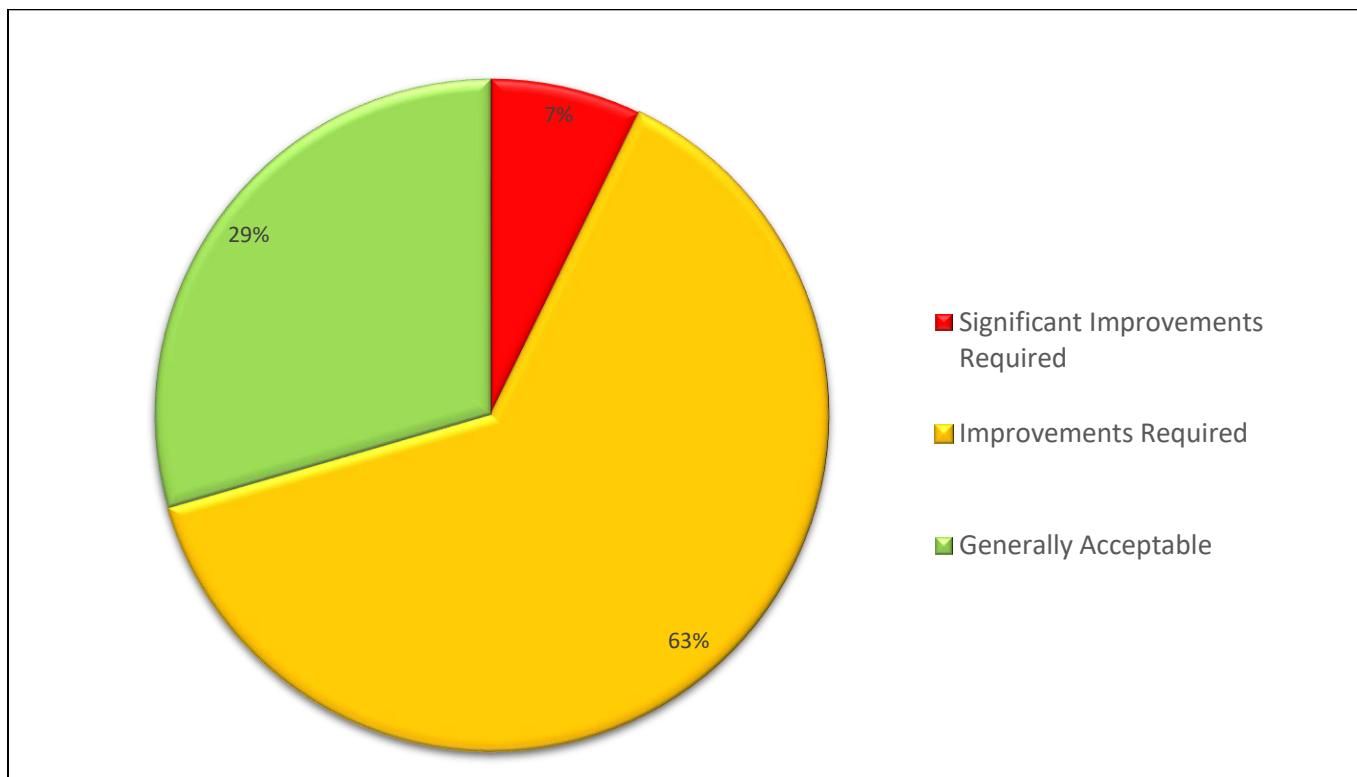
The QRB considers confidentiality of information pertaining to the quality review assignments to be of paramount importance. Accordingly, TR as well as all the members of the review team are required to submit a confidentiality declaration.

### Chart 1 : How we conduct Audit Quality Review



## Trend of Audit Engagements Reviewed FY 2012-13 to FY 2024-25

Chart 2 : Decisions taken on the basis of Audit Quality Reviews



### Action Taken

Since FY 2012-13 to FY 2024-25, the QRB has completed 702 reviews. Of these:

- 51 cases - 35 cases recommended to the ICAI Council for consideration and necessary action in terms of the requirements of Sec. 28B(a) of the Chartered Accountants Act, 1949 and 16 cases forwarded to the Disciplinary Directorate of ICAI for its examination in terms of the requirements of Sec. 28B(d) of the Chartered Accountants Act, 1949.
- 444 cases - Advisories were issued by Quality Review Board to concerned AFURs for improvement in quality in terms of the requirements of Sec.28B(c) of Chartered Accountants Act, 1949.
- 207 cases – Closed with no further action.

## Key Highlights – Review of Audits of Private Limited Companies (FY 2024-25)

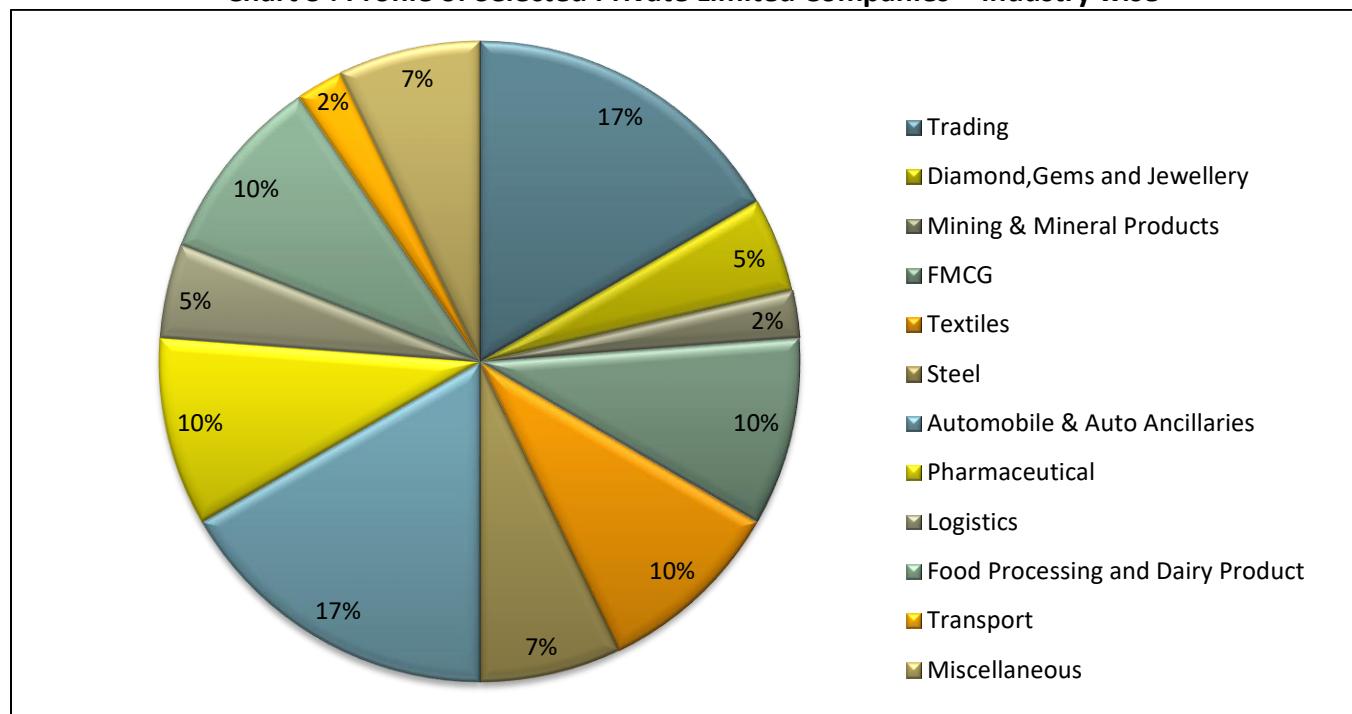
Highlights given hereunder are with respect to the audit quality reviews completed by the Quality Review Board during the financial year 2024-25. The Board has completed reviews of 45 audit engagements consisting of 43 AFURs and 42 private limited companies. These findings pertain to financial statements of 3 private limited companies for the audit of financial year 2017-18, 5 private limited companies for the audit of financial year 2018 -2019, 28 private limited companies for the audit of financial year 2020-2021 and 6 private limited companies for the audit of financial year 2021-22. These findings have been categorised under various sections such as Standards on Auditing, Accounting Standards viz. IGAAP along with Division I of Schedule III and Ind AS along with Division II of Schedule III and Other Relevant Laws and Regulations.

### a) Profile of Selected Private Limited Companies and AFURs

#### ❖ Profile of Selected Private Limited Companies – Industry wise

The following chart represents the number of industries forming part of the 42 selected private limited companies. It can be seen that maximum 7 companies are from Trading followed by 4 companies each from FMCG, Pharmaceutical, Textiles and Food Processing and so on.

**Chart 3 : Profile of Selected Private Limited Companies – Industry wise**

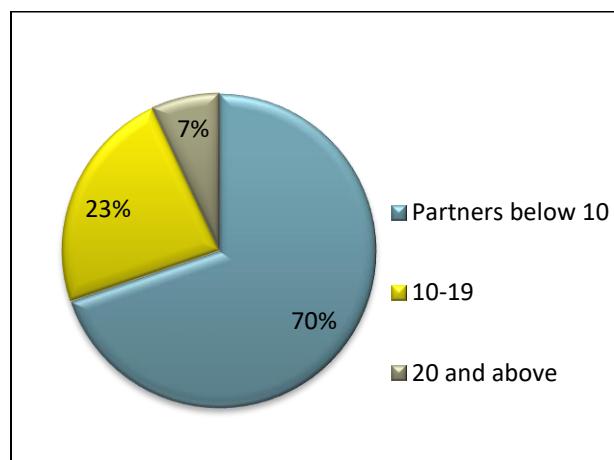


#### ❖ Profile of Selected AFURs – Number of Partners and Region wise break-up

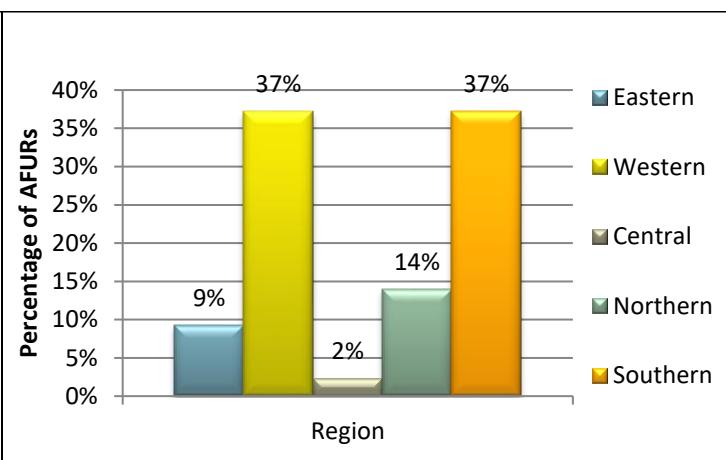
The following charts represent the break-up of selected AFURs in terms of the number of partners and region of the firms. Out of 43 AFURs reviewed during the period, no. of partners in 30 AFURs was below 10, while 10 AFURs had between 10-19 Partners and 3 AFURs had 20 and above Partners.

Further, out of 43 AFURs, 4 AFURs are from Eastern Region followed by 16 AFURs from the Western Region, 1 AFUR from Central Region, 6 AFURs from the Northern Region and 16 AFURs from the Southern Region.

**Chart 4 : Profile of Selected AFURs – Number of Partner wise break-up**



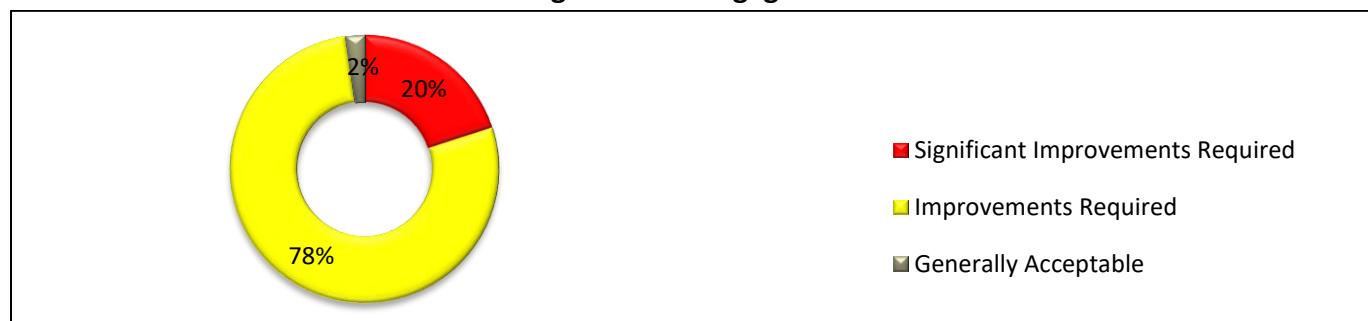
**Chart 5 : Profile of Selected AFURs - Region wise Break-up**



#### b) Findings of Audit Engagements Reviewed

The following chart represents the decisions taken based on the findings of the Audit Quality review carried out in respect of 45 audit engagements of private limited companies, during the year. In 98 percent of the audits reviewed, QRB has initiated action, while 78 percent cases required improvement where QRB issued advisories to the concerned AFURs to ensure improvement in the quality of their services in future, 20 percent cases were forwarded to the Disciplinary Directorate of the ICAI for its examination. Further, 2 percent cases were found to be acceptable and therefore closed with no further action.

**Chart 6 :Findings of Audit Engagements Reviewed**



## Action Taken

For FY 2024-25, QRB has completed reviews of 45 audit engagements of 42 private limited companies in respect of 43 AFURs. Of these:

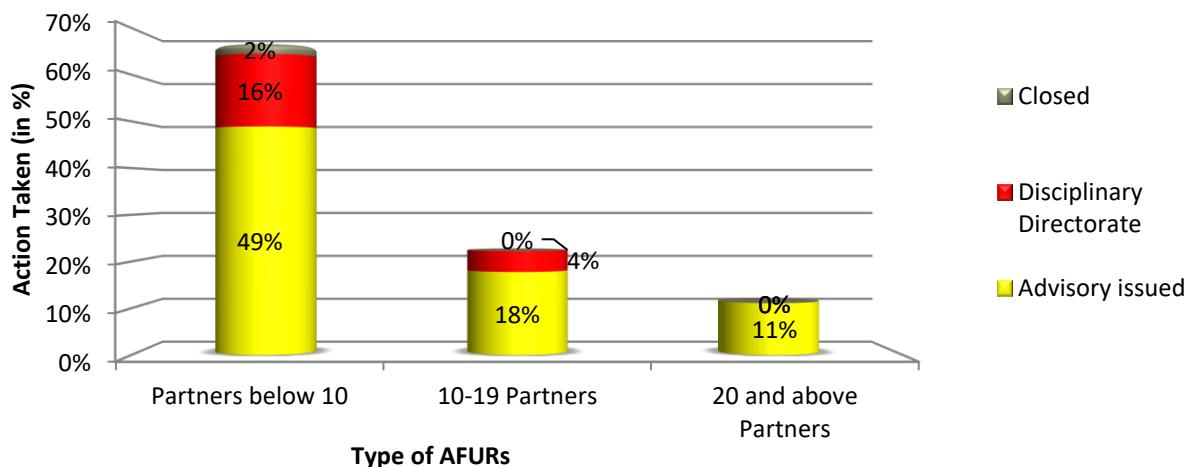
- 9 case - Forwarded to the Disciplinary Directorate of ICAI for its examination in terms of the requirements of Sec. 28B (d) of the Chartered Accountants Act, 1949.
- 35 cases - Advisories were issued by Quality Review Board to concerned AFURs for improvement in quality in terms of the requirements of Sec. 28B(c) of Chartered Accountants Act, 1949.
- 1 case - Closed.

### ❖ Break-up of Action Taken - Type of AFURs wise

The following chart represents further break-up of the action taken in respect of the audit engagements reviewed as per type of AFURs. AFURs are divided into 3 categories namely, AFURs having Partners below 10, between 10-19 Partners and with 20 and above Partners.

As can be seen below, in case of AFURs having less than 10 Partners, 49 percent cases required improvement where advisories were issued by the QRB, 16 percent cases were forwarded to Disciplinary Directorate and 2 percent cases were closed with no further action. In case of AFURs having between 10 – 19 Partners, 18 percent cases required improvement where advisories were issued by the QRB and 4 percent cases were forwarded to Disciplinary Directorate. In case of AFURs having 20 and above Partners, 11 percent cases required improvement.

**Chart 7 : Segregation of Decisions - Type of AFURs wise**



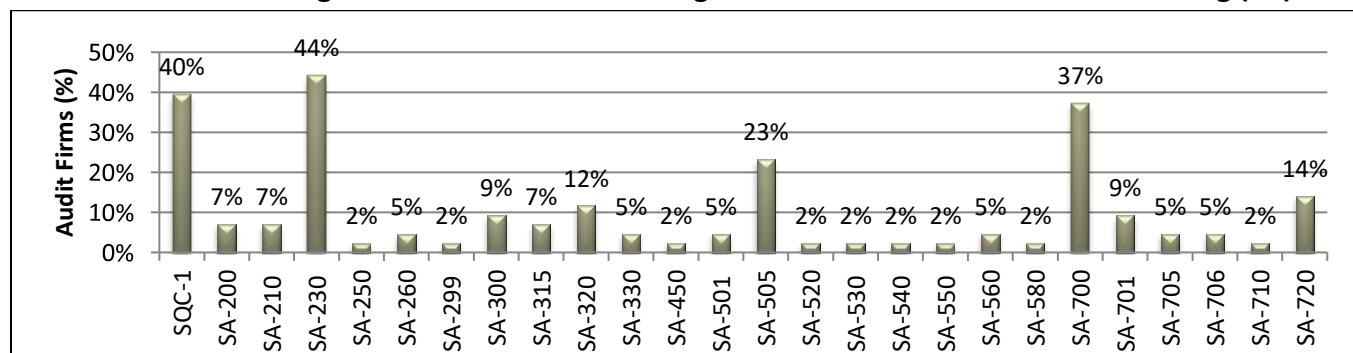
### c) Analysis of Reviewed Audit Files

The following charts represent the analysis of reviewed AFURs in respect of audits of aforesated private limited companies under different categories:-

#### ❖ Percentage of reviewed AFURs having observations on various Standards on Auditing (SA)

The following chart represents the percentages of reviewed AFURs having observations under various SAs as noted during audit quality reviews. It can be seen that maximum AFURs had observations on SA 230 Audit Documentation (44percent) and Standard on Quality Control (SQC)-1 (40percent) followed by SA 700 Forming an Opinion and Reporting on Financial Statements (37percent) and so on.

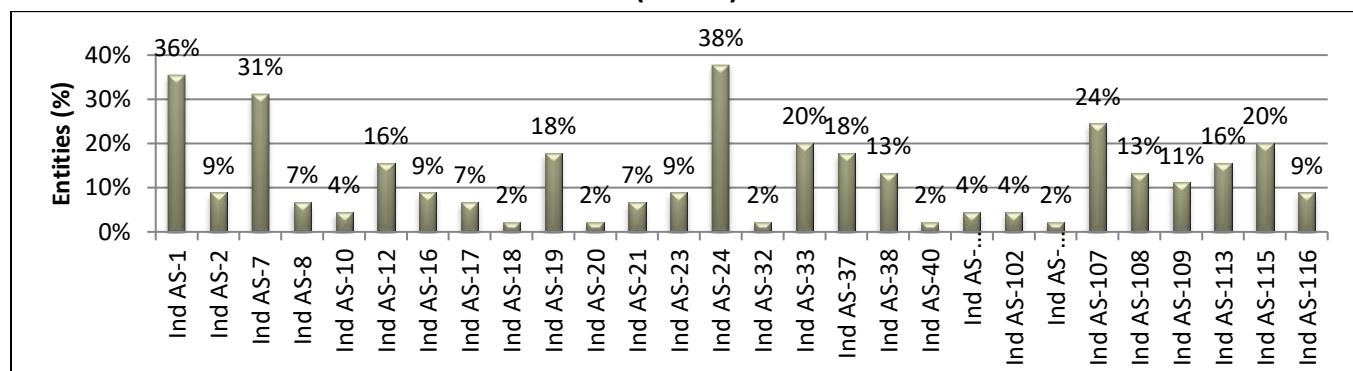
**Chart 8 : Percentage of Reviewed AFURs having observations on Standards on Auditing (SA)**



#### ❖ Percentage of reviewed Entities having observations on Indian Accounting Standards (Ind AS)

The following chart represents the percentages of reviewed entities having observations under various Ind AS as noted during audit quality reviews. It can be seen that maximum entities had observations on Ind AS 24 Related Party Disclosures (38percent) and Ind AS 1 Presentation of Financial Statements (36percent).

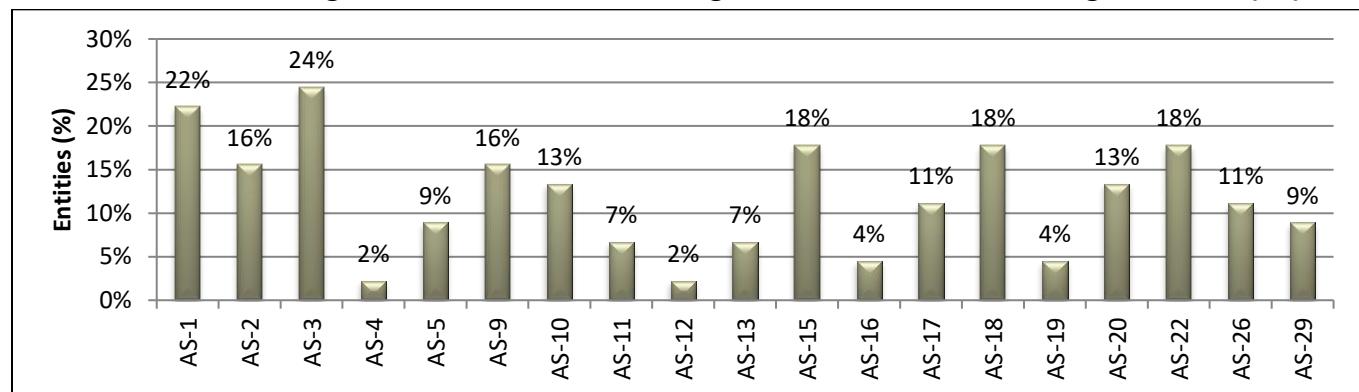
**Chart 9 : Percentage of reviewed Entities having observations on Indian Accounting Standards (Ind AS)**



❖ Percentage of reviewed Entities having observations on Accounting Standards (AS)

The following chart represents the percentages of reviewed entities having observations under various AS as noted during audit quality reviews. It can be seen that maximum entities had observations on AS 3 Cash Flow Statements (24percent) and AS 1 Disclosure of Accounting Policies (22percent) followed by AS 15 Employee Benefits (18percent), AS 18 Related Party Disclosures (18percent), AS 22 Accounting for taxes on Income (18percent) and so on.

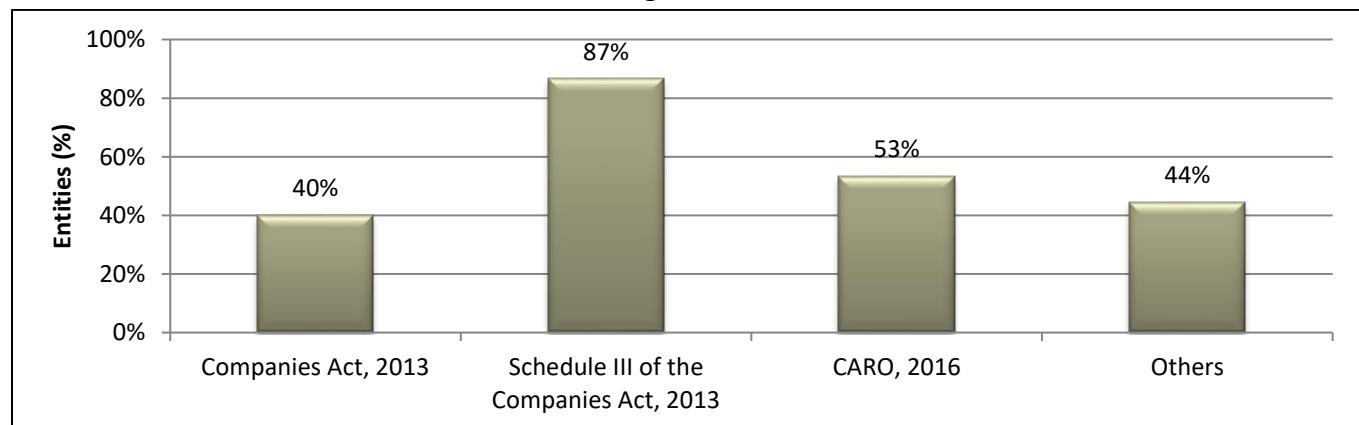
**Chart 10 : Percentage of reviewed Entities having observations on Accounting Standards (AS)**



❖ Percentage of reviewed Entities having observations on Other Relevant Laws and Regulations

The following chart represents the percentages of reviewed entities having observations under Other Relevant Laws and Regulations as noted during audit quality reviews. It can be seen that maximum Entities had observations on Division I & II under Schedule III of the Companies Act, 2013 (87percent) followed by CARO 2016 (53percent), Companies Act, 2013 (40percent) and Others (44percent).

**Chart 11 : Percentage of Reviewed Entities having observations on Other Relevant Laws and Regulations**



## Summary of Observations

### Engagement and Quality Control Standards

#### Standard on Quality Control (SQC) - 1

The following major observations in respect of **Standard on Quality Control (SQC) – 1: Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements** were noticed during the course of Quality Reviews undertaken during the year: -

#### Introduction & Elements of a System of Quality Control

- Not including & documenting comprehensive quality control policies and procedures at firm level. (*Para 7 and 8*).
- Not documenting and communicating to the firm's personnel its quality control policies and procedures (*Para 8*).
- Not documenting the procedures to be implemented suitable to the size and nature of audit firm (*Para 8*).
- Not documenting the communication to the firm's personnel on a regular basis of its quality control policies and procedures (*Para 8*).

#### Leadership Responsibilities for Quality within the Firm

- Not maintaining documentation about leadership's efforts in developing the internal culture on quality and for not maintaining documentation regarding training programmes for the staff (*Para 9 and 10*).
- Not documenting the policies and procedures to establish quality oriented internal culture within the firm (*Para 9 and 10*).
- Not documenting that the Firm's leadership sets examples influencing promotion of a quality oriented internal culture of the firm (*Para 10*).
- Not documenting that the firm's leadership takes frequent actions/ issue messages for emphasizing the firm's quality control policies and procedures for complying with professional standards and regulatory and legal requirements and issuing appropriate reports (*Para 10*).

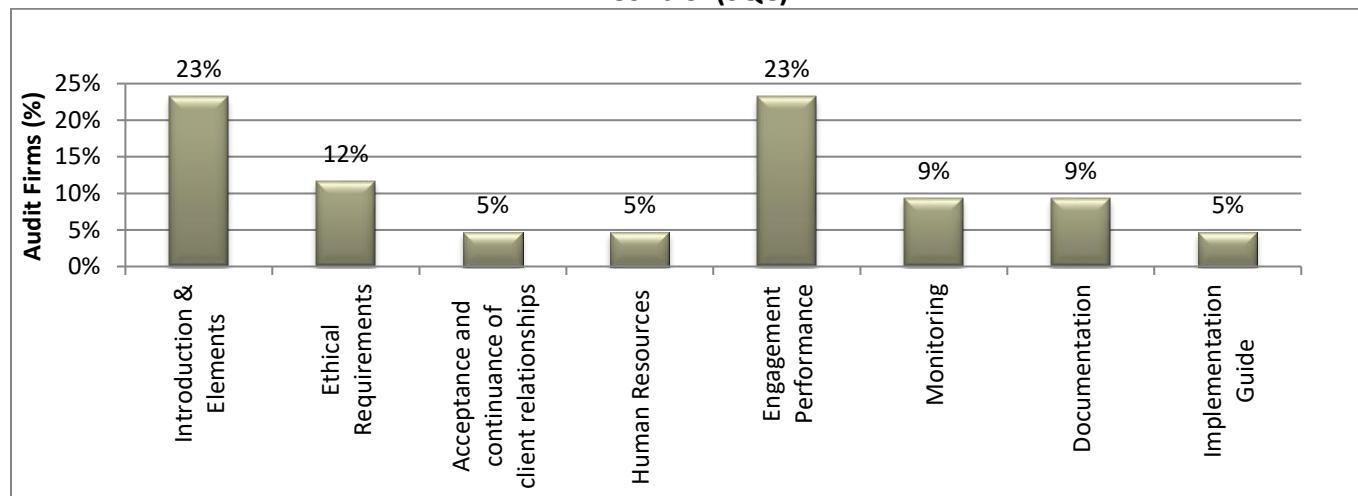
#### Ethical Requirements

- Not addressing the two fundamental principles viz. confidentiality & professional behaviour in the firm's documented policies & procedures (*Para 15*).

## Independence

- Not establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel maintain independence where required by the Code (*Para 18*).
- Not obtaining written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent in terms of the requirements of the Code (*Para 23*), at least annually.
- Not documenting the policy with respect to rotation of personnel after a pre-defined period (*Para 25(a) read with Para 106*).

**Chart 12 : Percentage of Reviewed Audit Firms based on observations on Standard on Quality Control (SQC) 1**



## Acceptance and Continuance of Client Relationships and Specific Engagements

- Not having documentation regarding the acceptance or continuance of the client or engagement relating to the following: -
  - The engagement partner completes a client acceptance form and submits it to the managing partner for approval.
  - Specifying conditions that trigger the requirement to re-evaluate a specific client or engagement.
  - Establishing procedures for dealing with information that would have caused the firm to decline the engagement if the information had been available earlier (*Para 28 of SQC 1 read with Policy 2, Para 3.4 of Implementation Guide to SQC 1*).
- Not establishing policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide it with reasonable assurance that it will undertake or continue relationships and engagements only where it: (a) Is competent to perform the engagement and has the capabilities, time and resources to do so and (b) Can comply with the ethical requirements (*Para 28*).

### Human Resources

- Not having any recognition or rewarding policies for the team (*Para 40*).
- Not documenting policies and procedures addressing performance evaluation, compensation, and promotion (including incentive systems) regarding its personnel (*Para 11(b), 37 and 40*).

### Engagement Performance

- Not maintaining the documentation regarding policy on supervision, tracking progress of engagement, of the audits (*Para 49*)
- Not keeping the documents regarding performance of supervision functions described in *para 49*.
- Not having policies to evaluate reason for engagements delays and how delays were addressed and resolved (*Para 50 & Para 5.5 of Implementation Guide to SQC 1*).

### Consultation

- Not establishing policies and procedures designed to provide it with reasonable assurance that:
  - Appropriate consultation takes place on difficult or contentious matters
  - Sufficient resources are available to enable appropriate consultation to take place
  - The nature and scope of such consultations are documented
  - Conclusions resulting from consultations are documented and implemented (*Para 51*).
- Not maintaining appropriate documentation of firm's policy for ensuring appropriate consultation takes place in the respective fields (*Para 51, 52 and 56*).

### Differences of Opinion

- Not establishing and documenting quality control policies and procedures for dealing and resolving difference of opinion with the engagement team, firm quality control, inspection / review, planned risk assessment procedure etc (*Para 3 read with para 57*).

### Engagement Quality Control Review

- Not establishing policies and procedures setting out the criteria against which all other audits and reviews of historical financial information, and other assurance and related services engagements should be evaluated to determine whether an engagement quality control review should be performed (*Para 60(b)*).
- Not establishing any criteria for EQCR in case of unlisted entities (*Para 60(b)*).
- Not maintaining the objectivity of the engagement quality control review as the proprietor is involved both in the engagement as well as in the engagement quality control review (*Para 70(b)*).
- Not engaging suitably qualified external person as EQCR who may be contracted where sole practitioners or small firms identify engagements requiring engagement quality control reviews (*Para 70, 71 & 72*).

### Engagement Documentation

- Not documenting the policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation (*Para 77*).
- Not determining when and by whom engagement documentation was created, changed, or reviewed (*Para 79 of SQC1*).
- Not protecting the integrity of the information as the confidential data of client was shared on personal email IDs of employees and other working personnel of the firm (*Para 79(b)*).
- Not having password protection over the electronic files (*Para 79 & 80*).
- Not implementing appropriate procedures requiring engagement teams to generate scanned copies that reflect the entire content of the original paper documentation, including manual signatures, cross references and annotations (*Para 81*).

### Monitoring

- Not including an ongoing consideration and evaluation of the firm's system of quality control policies & procedure (*Para 86*).
- Not having basis of firm's selection of individual engagements for inspection (*Para 90 & 91*).
- Not updating Policy Manual—SQC 1 (*Para 95(C)*).

### Complaints and Allegations

- Not establishing policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:
  - Complaints and allegations that the work performed by the firm fails to comply with professional standards and regulatory and legal requirements.
  - Allegations of non-compliance with the firm's system of quality control (*Para 101*).
- Not indicating the action taken w.r.t deficiency found in design or operation of the firm's quality control policy and procedures or non-compliance with firm's system of quality control by individual/s (*Para 105*).

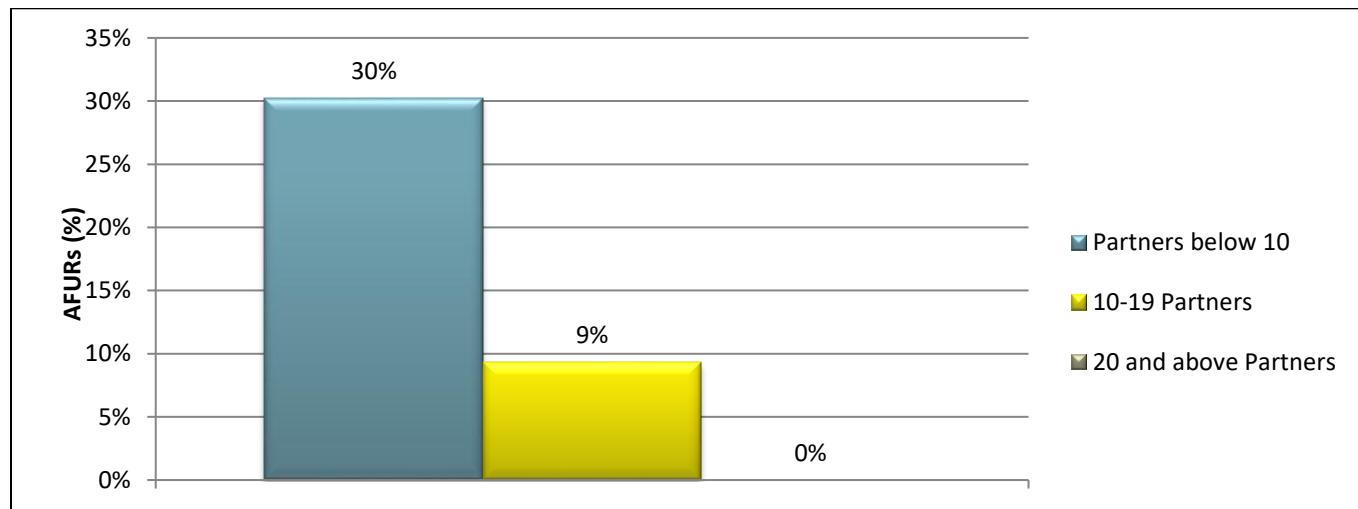
### Documentation

- Not documenting the policy with respect to rotation of personnel after a pre-defined period (*Para 106*).
- Not maintaining the records of the periodical meetings or training sessions showing the details of staff attendance and topics of discussion (*Para 106*).
- Not establishing policies and procedures for providing evidence of operation of each element of its system of quality control (*Para 106*).

### Implementation Guide

- Not having the criteria for selecting engagements relating to engagements in which there were significant disagreements between the quality review partner and the engagement partner (*Para 6.3 of Implementation Guide to SQC 1*).
- Not including in the summary monitoring report, the procedure for selecting completed engagement to be inspected (*Para 6.6 of Implementation Guide to SQC 1*).

**Chart 13 : Percentage of Reviewed Audit Firms having observations on SQC-1**



## Standards on Auditing

The following major observations in respect of Standards on Auditing (SA) were noticed in the Audit files reviewed in respect of audits of reviews undertaken during the year: -

### General Principles and Responsibilities (SA 200, 210, 230, 250, 260 and 299)

#### SA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing

- Not taking confidentiality undertakings from the audit team members (*Para 14 of SA 200 & Para 310.8 of Code of Ethics*).
- Not planning and performing an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated (*Para 15*).
- Not keeping adequate working papers regarding exercise of professional skepticism and judgement (*Para 15 read with Para A18-A22 and Para 16 read with Para A23-A27*).

#### SA 210 - Agreeing the Terms of Audit Engagements

- Not taking separate engagement letter for IFCFR reporting (*Para 9 & 10 of SA 210 read with Appendix I of Guidance note*).
- Not recording the responsibility of management and auditor's responsibility in engagement letter (*Para 10*).
- Not providing reference to the auditor's responsibility in the engagement letter (*Para 10(b)*).

#### SA 230 - Audit Documentation

- Not maintaining complete and clear trail of checking notes as part of audit documentation (*Para 2(a) read with para 8*).
- Not documenting the external balance confirmation w.r.t debtors, creditors and contractors. Further, confirmation w.r.t fixed assets lying with the third-party contractors were also not documented (*Para 8*).
- Not filling the checklist for application and disclosure requirements of accounting standards, correctly (*Para 8*).
- Not keeping sufficient audit documentation for recording audit procedure performed and audit evidence obtained in respect of trade payables (*Para 8*).
- Not keeping sufficient audit documentation of the audit procedures performed with respect to the transactions with related parties other than imports (*Para 8*).
- Not complying with the requirements for assembling and indexing audit files with proper references, thereby hindering the ability of an independent person to easily check the documents (*Para 8 of SA 230 read with Para 5.8 of the Implementation Guide on SQC*).

- Not documenting/ keeping sufficient audit documentation for recording audit procedure performed and audit evidence obtained for obtaining external confirmation w.r.t Borrowings (*Para 8*).
- Not documenting/ keeping sufficient audit documentation for recording audit procedure performed and audit evidence obtained for obtaining external confirmation w.r.t bank balances (*Para 8*).
- Not documenting/ keeping sufficient audit documentation for recording audit procedure performed and audit evidence obtained for physical verification of inventory (*Para 8 of SA 230 read with Para 4(a) & 7 of SA 501*).
- Not documenting/ keeping sufficient audit documentation for recording audit procedure performed and audit evidence obtained for obtaining external confirmation w.r.t loan given to its wholly owned subsidiaries (*Para 8 of SA 230 read with Para 7 of SA 505*).
- Not documenting/ keeping sufficient audit documentation related to any agreements which have been executed for the loans advanced & for specific terms such as period, whether secured or not, repayment schedule, interest rate (*Para 8*).
- Not documenting the workings/conclusion of workings done in respect of impairment testing (*Para 8(c)*).
- Not documenting procedures performed to verify the assertions made under CARO report for interest free loans to related parties not being *prima facie* prejudicial to the interest of the company (*Para 8*).
- Not documenting audit procedure performed and audit evidence obtained w.r.t profit/loss from foreign exchange transactions (*Para 8*).
- Not documenting abnormal variance of repair and maintenance-office equipment, repair and maintenance-vehicles, printing and stationary expenses, electricity & water charges, vehicle running expenses, travelling expenses etc. as outcome of analytical procedure (*Para 8 and A3*).
- Not documenting description about applicability and non-applicability of accounting Standards in checklist (*Para 8*).
- Not documenting sufficient audit documentation for planning of audit, materiality assessment, discussion of sample size, evaluation of audit, discussion with team members etc. (*Para 8*).
- Not documenting manner of determination of sample size (*Para 8*).
- Not obtaining appropriate audit evidence regarding the existence and valuation of investments in jewellery and gold, with no sufficient documentation to support the auditor's conclusions (*Para 8*).
- Not documenting the audit procedures performed w.r.t audit of (a) Long-term and Short-term Borrowings, Deferred Tax Assets / Liabilities, Trade Payables, Other Current Liabilities, Short-term Provisions, Property, Plant & Equipment, Non-current Investments, Long-term Loans and Advances, Inventories, Trade Receivables, Cash & Cash Equivalents, Short-term Loans and Advances, Other Current Assets, and (b) Revenue, Other Income, Cost of Material Consumed, Purchase of Traded Goods, Employee Benefits Expenses, Finance Costs, Other Expenses, Tax Expenses (*Para 8*).
- Not preparing audit documentation that is sufficient to understand the nature, timing, and extent of the audit procedures performed & not making cross reference to the supporting working papers (*Para 8 read with Para A17 of SA 230*).
- Not documenting the audit procedures performed (evidence obtained) in support of the reporting under clause 3(ii)(b) of CARO, 2020 (*Para 8 and 9*).

- Not mentioning the date when audit work was completed and the date when such audit work was reviewed while documenting the nature, timing and extent of audit procedures performed (*Para 9*).
- Not maintaining the documentation regarding names of persons who performed audit work, date on which audit work was done and for filling incorrect information in various checklists (*Para 9*).
- Not documenting the methodology of sampling & coverage considering the total population (*Para 9 read with Para A12 of SA 230*).
- Not recording the detail about who performed the audit work & who reviewed the audit work performed, while documenting the nature, timing, and extent of the audit procedures performed (*Para 9 (b) and (c) of SA 230*).
- Not recording the dates of enquiries with the personnel in the audit working papers (*Para 9 read with para A12*).
- Not recording the nature, timing and extent of audit procedures performed and for not documenting the significant matters discussed with those charged with the governance (*Para 9 and 10*).
- Not maintaining documentation for minutes of the discussion of significant matters in the meeting held with the management (*Para 10*).
- Not documenting final discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place (*Para 10*).
- Not mentioning in the policy regarding appropriate time limit within which to complete the assembly of the final audit file which is ordinarily not more than 60 days after the date of the auditor's report (*Para 14: Ref-Para A21*).
- Not having dates of audit checklist and working (*Para 2.14 of Implementation Guide to SA 230*).

#### **SA 250 - Consideration of Laws and Regulations in an Audit of Financial Statements**

- Not obtaining sufficient and appropriate audit evidence regarding compliance with the provisions of those laws and regulations which have direct effect on financial statements (*Para 13*).

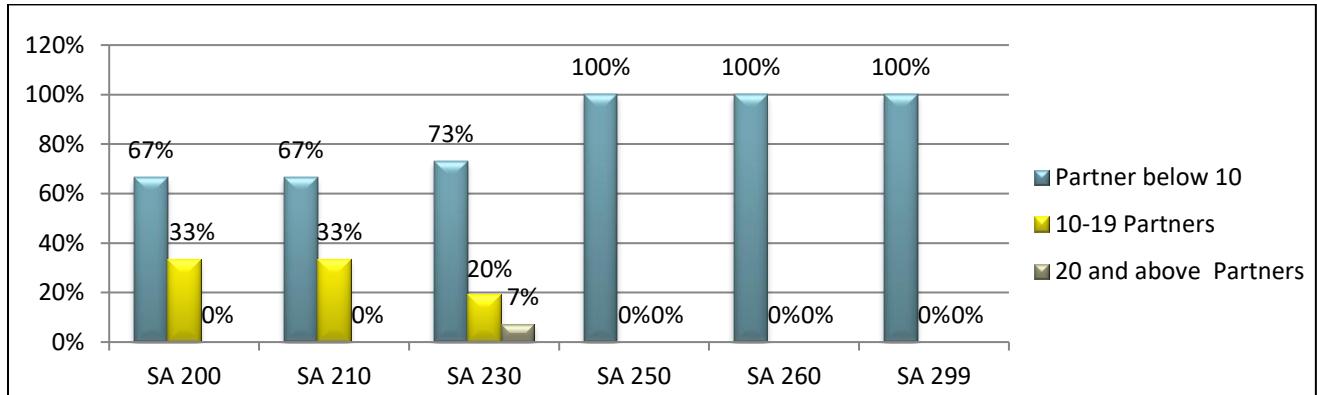
#### **SA 260 - Communication with Those Charged with Governance**

- Not documenting response received from those charged with governance w.r.t matters communicated to them (*Para 23*).
- Not keeping documentation of matters communicated orally such as when and whom such matters were communicated (*Para 23*).

#### **SA 299 - Joint Audit of Financial Statements**

- Not identifying the joint audit responsibilities (*Para 13*).

**Chart 14 : Segregation of AFURs based on observations on General Principles and Responsibilities (SA 200,210,230,250,260,299)**



#### **Risk Assessment and Response to Assessed Risks (SA 300, 315, 320, 330 and 450)**

##### **SA 300 - Planning an Audit of Financial Statements**

- Not including in audit plan a comprehensive description of: -
  - a) The nature, timing, and extent of planned risk assessment procedures
  - b) The nature, timing, and extent of planned further audit procedures at the assertion level
  - c) Other planned audit procedures (*Para 8*).
- Not keeping the documentation of overall audit strategy, audit plan, significant changes in audit strategy / plan and reasons thereof (*Para 11*).

##### **SA 315 - Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment**

- Not maintaining any documents/work papers for identifying and assessing the risk of material misstatement through understanding the entity and its environment (*Para 32*).
- Not documenting the risk assessment procedures performed (*Para 32(b)*).

##### **SA 320 - Materiality in Planning and Performing an Audit**

- Not determining performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures (*Para 11*).
- Not documenting factors considered in determination of materiality for the financial statements as a whole (*Para 14*).
- Not documenting the materiality of the financial statements as a whole, materiality level for particular class of transactions and balances etc., performance materiality, and any revision of the above (*Para 14*).

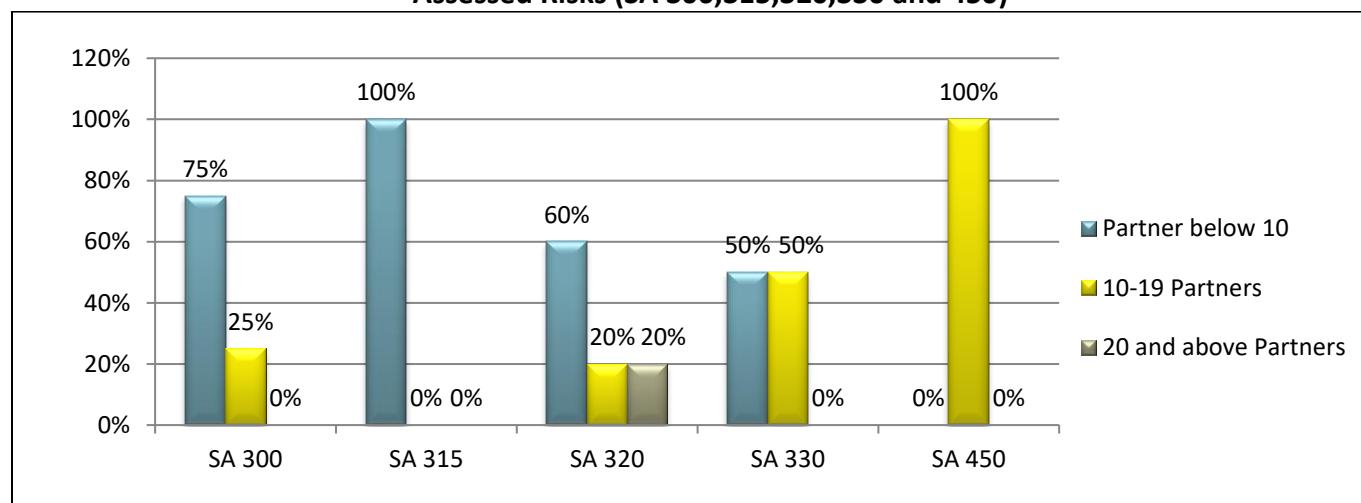
**SA 330 - The Auditor's Responses to Assessed Risks**

- Not keeping the documentation to demonstrate that financial statements agree or reconcile with the underlying records and also, not keeping the documentation regarding performance of substantive audit procedures (*Para 20*).
- Not documenting the nature, timing and extent of the further audit procedures performed (*Para 28*).

**SA 450 - Evaluation of Misstatements Identified During the Audit**

- Not obtaining written representation from management and where appropriate those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole (*Para 14*).
- Not documenting the classification of audit observations into corrected, uncorrected, and trivial, and not identifying what constitutes material uncorrected misstatements (*Para 15*).

**Chart 15 : Segregation of AFURs based on observation on Risk Assessment and Response to Assessed Risks (SA 300,315,320,330 and 450)**

**Audit Evidence (SA 501, 505, 520, 530, 540, 550, 560 and 580)****SA 501 - Audit Evidence – Specific Considerations for Selected Items**

- Not obtaining written representation from management that all known, actual or possible, litigations and claims have been disclosed (*Para 12*).

**SA 505 - External Confirmations**

- Not obtaining external confirmations directly from the parties and not maintaining control over external confirmation requests (*Para 2 and Para 7*).
- Not obtaining direct confirmation w.r.t receivables instead performing alternate procedures only (*Para 2 read with paragraph 6(e) and 12 of SA 505*).

- Not maintaining control over external confirmation requests in respect of vendor and customer balances as at Balance Sheet date by the AFUR (*Para 7*).
- Not maintaining audit evidence in documentary form with respect to:
  - Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and
  - Sending the requests, including follow-up requests when applicable, to the confirming party (*Para 7(c) and (d) of SA 505*).
- Not determining the information to be confirmed/ requested, not selecting appropriate confirming party, designing confirmation requests, sending of requests etc. and performing only alternative procedures (*Para 7*).
- Not obtaining confirmations from creditors (*Para 7*).
- Not obtaining bank balance confirmation with respect to current account balances and FD's (*Para 7*).
- Not carrying out the process of obtaining external confirmations (*Para 7*).
- Not documenting the reasons for management's refusal and the alternative procedures performed (*Para 8*).
- Not maintaining audit evidence in documentary form with respect to statistics on percentage of sample selected for confirmations out of total population (*Para 9 read with Para A12*).
- Not performing alternative audit procedures to obtain relevant and reliable audit evidence in case of each non-response (*Para 12*).

#### **SA 520 - Analytical Procedures**

- Not maintaining the documentation of performance of analytical procedures in the audit file (*Para 6*).

#### **SA 530 - Audit Sampling**

- Not documenting the basis for determination of sample size and sampling procedure performed (*Para 7*).

#### **SA 540 - Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures**

- Not obtaining sufficient appropriate audit evidence regarding management's decision relating to accounting estimates, the selected measurement basis for these estimates, and the adequacy of related disclosures in the financial statements (*Para 6*).
- Not documenting the basis for conclusions about the reasonableness of accounting estimates, their disclosures, and any indicators of possible management bias (*Para 23*).

#### **SA 550 - Related Parties**

- Not including the specific procedures to address the identification, assessment, and response to risks for related party transactions in the documents maintained for risk assessment procedures, including the checklist, detailing the general risk assessment steps and required documentation (*Para 3*).

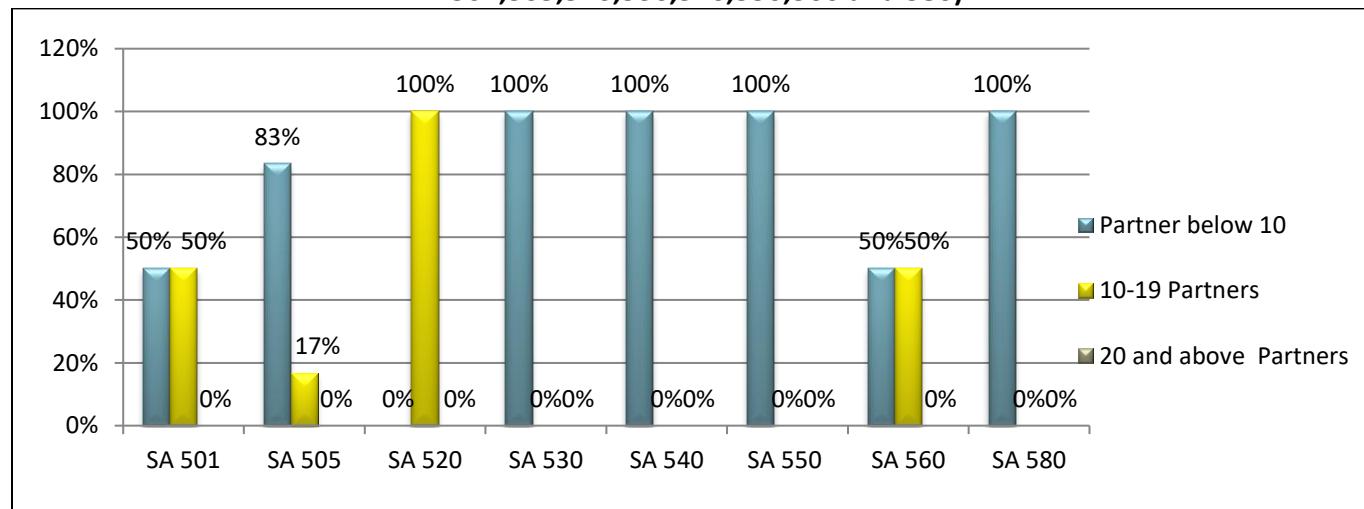
### SA 560 - Subsequent Events

- Not maintaining audit documentation regarding audit procedure performed between the date of financial statement and the date of audit report (*Para 6 and 7 of SA 560 read with Para 7 of SA 230*).
- Not following a formal process of documenting the confirmations for subsequent events from the management (*Para 9 of SA 560*).

### SA 580 - Written Representations

- Not obtaining written representation from the management with respect to discussions with the management regarding the existence of contingent liabilities (*Para 12*).

**Chart 16 : Segregation of AFURs based on observation on Audit Evidence (SA 501,505,520,530,540,550,560 and 580)**



### Audit Conclusions and Reporting (SA 700, 701, 705, 706, 710 and 720)

#### SA 700 - Forming an Opinion and Reporting on Financial Statements

- Not placing the opinion paragraph as the first paragraph in the auditor's report (*Para 23 of SA 700 read with Illustration 3*).
- Not mentioning the SOCIE along-with the other components of the financial statements mentioned in the opinion paragraph (*Para 24(c) read with the Illustration 3*).
- Making incorrect reference of 'loss' under Opinion paragraph of audit report although in the financials the company has profits (*Para 24 read with illustration no. 3*)
- Not including the 'notes to the accounts' in opinion paragraph of Independent Auditor's Report. The format of audit report gives reference to both 'notes to the accounts' as well as 'other explanatory information' (*Para 24(d) read with Illustration 3*).

- Not mentioning the term cash flows in opinion paragraph in the independent auditor's report (*Para 26 read with Para A22 of SA 700*).
- Not including the followings sections while reporting under 'Basis for opinion' section of the audit report:
  - i) Reference to the section of the auditor's report that describes the auditor's responsibilities under the SAs;
  - ii) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI; (*Ref: Para. A29-A34*)
  - iii) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion (*Para 28 (b to d) read with Illustration No. 3*).
- Not giving the description of materiality in the audit report (*Para 38(c)(ii)*).
- Not reporting any of the matter under 'Auditor's Responsibility for the Audit of the Financial Statements' paragraph as required under stated paragraphs (*Para 39 (a & b) read with Illustration No. 3*).
- Not giving requisite description regarding audit and auditor's responsibilities for audit of Financial Statements in the Independent Auditor's report (*Para 39 (b) and 40 of SA 700*).
- Not stating in auditor's responsibility paragraph that "we are also responsible for expressing our opinion on whether the Company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls" while reporting on auditor's responsibilities for the audit of the standalone financial statements (*Para 39(b)(ii)*).
- Erroneously reporting under Auditor's responsibility para regarding use of work of another auditor even though SA 600 Using the Work of Another Auditor is not applicable in the given case (*Para 39 (c)*).
- Not disclosing the Auditor's Responsibilities for the Audit of the Financial Statements (*Para 37 to 42*).
- Mentioning that the remuneration paid by the company to its directors during the year is in accordance with the provisions of section 197 of the Companies Act 2013 whereas the provisions of section 197 are not applicable in the given case being a Private Company (*Para 42 SA 700*).
- Omission of the term "Cash Flow Statement" in the specified line under the "Report on Other Legal and Regulatory Requirements" section which is required to be included. The appropriate phrasing should be: "The Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement dealt with by this Report are in agreement with the books of account" (*Para 43 of SA 700, read with Illustration 3*).
- Not reporting on "Information other than Financial Statements and Auditor's Report thereon" in auditor's report (*Para 32 and 52 of SA 700 (Revised) read with Para 6 of SA 720*).
- Not giving reference to the relevant notes to the accounts, while reporting under Rule 11(a) of Companies (Audit and Auditors) Rules, 2014 (*Illustration 3*).
- Wrong reference of notes to the financial statements mentioned under 'Report on Other Legal and Regulatory Requirements' para in the 'Independent Auditor's Report' (*Illustration 3*).

- Not mentioning the heading 'Opinion' for the opinion paragraph of Independent Auditor's Report (*Illustration 3*).
- Using the word 'qualified opinion' although the opinion was not modified and there was not matter stated as basis for qualification (*Appendix: Illustration 4*).
- Not mentioning the reference of annexure no. while reporting on para (f) of Report on Other Legal and Regulatory Requirements under Independent Auditor's Report.
- Mentioning incorrect reference to the note number, while reporting on impact of pending litigations under Rule 11(a) of Companies (Audit and Auditors) Rules 2014.
- Not mentioning reference to the note number, while reporting on the provision for foreseeable losses under Rule 11(b) of Companies (Audit and Auditors) Rules 2014.
- Not giving the reference of the relevant Note to the financial statements while reporting under Rule 11(a) of Company (Audit & Auditors) Rule, 2014, as amended.
- Including incorrect reference of other documents such as Corporate Governance and Shareholders information report, Management Discussion and Analysis reports, Business Responsibility Report, etc. under the para related to Other Information in the Auditor's report which were not obtained by the AFUR.
- Mentioning incorrect heading right before opinion paragraph, instead of stating 'Report on the Audit of Financial Statement'.

#### **SA 701 - Communicating Key Audit Matters in the Independent Auditor's Report**

- Not concluding the Key Audit Matter para by either including the matter or a statement that no key audit matters to communicate under key audit matters para are there (*Para 16*).

#### **SA 705 - Modifications to the Opinion in the Independent Auditor's Report**

- It was noted that although the auditor has qualified the report on matter related to (i) external confirmations, and (ii) compliance of AS 15, however, the qualification was not given in a manner as required by SA 705 (*Para 16, 20, 21, read with Illustration 1 of Appendix to SA 705*).
- Not modifying the opinion on financial statements despite having inappropriate accounting policies (*Para 6 read with Para A3 & A4*).
- Not modifying opinion in the independent auditor's report w.r.t wrongly adjusting deferred tax related to prior period items from reserve and surplus instead of statement of profit and loss, which is material to the financial statements (*Para 6 read with Para A3 & A4*).

#### **SA 706 - Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report**

- Making incorrect reference, under the emphasis of matter paragraph, to a note that does not contain the relevant information on the matter being emphasised (*Para 9(b)*).
- Not including under other matter paragraphs in the auditor's report that reliance has been placed on work done by other auditors w.r.t the foreign branches (*Para 10*).

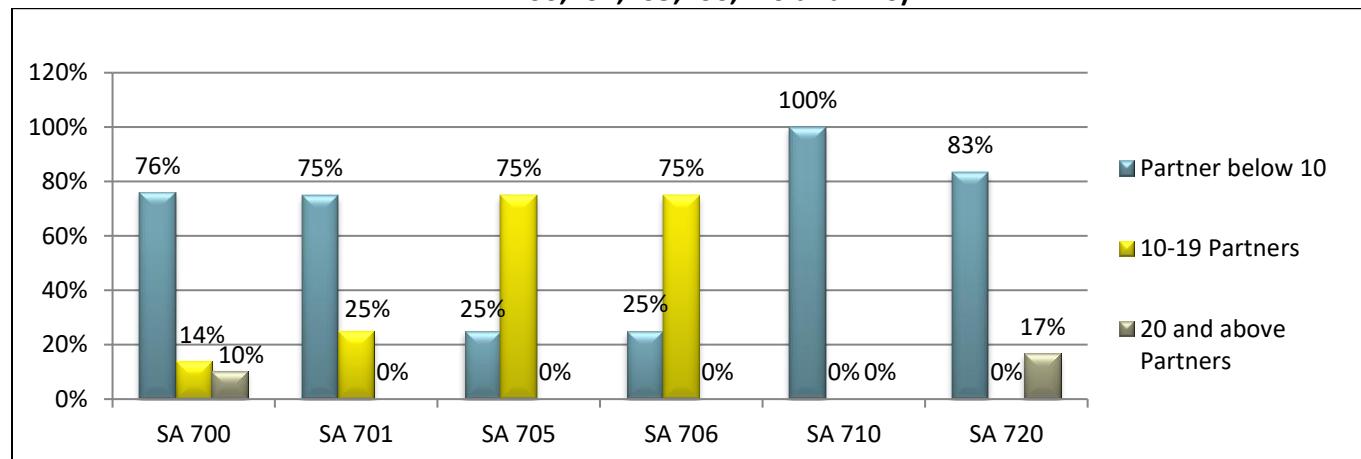
**SA 710 - Comparative Information – Corresponding Figures and Comparative Financial Statements**

- Not reporting the fact, that prior period financial statements were audited by predecessor auditor, by giving 'Other Matter Paragraph' in Independent Auditor's Report (*Para 17*).

**SA 720 - The Auditor's Responsibilities Relating to Other Information**

- Wrongly reporting in independent auditor's report that the director's report was not made available to the auditor at the date of auditor's report. However, it has been noted from the Board's report as well as the independent auditor's report that both were signed on the same date (*Para 21 and 22*).
- Not including in the auditor's report, a separate section with a heading "Other Information" when, at the date of the auditor's report, for an audit of financial statements of an unlisted corporate entity, the auditor has obtained some or all the other information (*Para 21 of SA 720 read with Illustration 3*).
- Not providing a specific description of the other information, such as the management report and chairman's statement (*Para A53 read with footnote given under Illustration 1 of SA 720*).

**Chart 17 : Segregation of AFURs based on observation on Audit Conclusions and Reporting (SA 700,701,705,706,710 and 720)**



## Indian Accounting Standards (Ind AS)

The following major observations in respect of Indian Accounting Standards (Ind AS) were noticed in the Audit files reviewed in respect of audits undertaken during the year: -

### Ind AS 1 - Presentation of Financial Statements

- Disclosing the current portion of prepaid lease expenses under non-current assets instead of Other Current Assets (*Para 6*).
- Not mentioning nature of items other than building on which expenses are being incurred in the accounting policy for capital work-in-progress (*Para 17(b)*).
- Not disclosing the fact, under the basis of preparation, that the financial statements are prepared on the historical cost basis of accounting except for certain financial instruments that are required to be measured at fair value as per Ind AS 109. (*Para 27*).
- Disclosing under Notes to the financial statements that related party relationships are identified by the management and relied upon by the auditor (*Para 30A, 31 and 112*).
- It was noted that although the previous year's figures were disclosed to have been regrouped and rearranged, however disclosures required under Para 45 read with Para 41 of Ind AS 1 had not been made. If no material regrouping is made such disclosure that previous year's figures have been regrouped and rearranged should not be made considering definition given under para 7 (e) of Ind AS 1 (*Para 41 read with Para 45*).
- Not disclosing the effect of reclassification of figures. It was noted that the previous year's figures were disclosed to have been reclassified. Further, it was also noted that the closing balance of inventory of finished goods for previous year and the opening balance of current year was different. Accordingly, it was viewed that the effect of reclassification of figures of inventory as well as other items of the financial statements should have been disclosed (*Para 41 read with para 45*).
- Not presenting the current and non-current liability w.r.t provision for employee benefits separately (*Para 60*).
- Recognizing deferred tax relating to items that were recognized in other comprehensive income in the statement of profit & loss, under Tax Expense instead of other comprehensive income (*Para 61A of Ind AS 12 read with Para 91 of Ind AS 1*).
- Not disclosing descriptions about the purpose of reserves in line with *paragraph 79(b)*.
- Disclosing the accounting policy on exceptional and extraordinary items while as per Ind AS 1, an entity shall not present any items of income or expense as extraordinary item (*Para 87*).
- Disclosing provision for impairment in value of investments under head exceptional items in statement of profit and loss without the same being material (*Para 97 & 98*).
- Disclosing information relating to payment of cost audit under note on payment to auditors. It was noted that disclosure is required regarding payment made to statutory auditors only under Notes to the financial statements as per paragraph 7(i) of General Instructions for Preparation of Statement of Profit and Loss, Part II, Division I of Schedule III to the Companies Act, 2013. Such irrelevant

disclosure may cause confusion in the mind of the readers of the financial statements that cost audit, also, has been performed by the statutory auditor (*Para 112*).

- Not disclosing accounting policy related to interest income, even though the amount was material, under significant accounting policy (*Para 117*).
- Not disclosing accounting policy with respect to leases (*Para 117*).
- Not disclosing policy regarding cessation of capitalization in respect of borrowing costs, when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete, under the significant accounting policies (*Para 117*).
- Not disclosing accounting policies in respect of the effects of changes in foreign exchange rates under significant accounting policies (*Para 117(b)*).
- Incorrectly mentioning under significant accounting policies that "For all periods up to and including the year ended of the current FY, the Company prepared its financial statements in accordance with accounting standards". Rather, these were prepared in accordance with Ind AS for previous 3 years as well (*Para 117(b)*).
- Not disclosing in the policy of Property Plant & Equipment, the policies relating to derecognition of PPE, measurement of cost and recognition of depreciation when the asset is available for use (*Para 117 of Ind AS 1 read with Para 15, 55 and 67 of Ind AS 16*).
- Disclosing revenue policy in terms of Ind AS 18 and 11 which were replaced by Ind AS 115 for the given Financial Year (*Para 117 (a) of Ind AS 1 read with Para 110 and 119 of Ind AS 115*).
- Not disclosing revenue recognition policy w.r.t sale of power and construction contract although revenue is disclosed under Note of revenue from operations (*Para 117 (b)*).
- Not clearly disclosing the accounting policies relating to use of estimates and critical accounting judgments (*Para 125*).
- Not disclosing information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital (*Para 134*).
- Not providing quantitative disclosures which include summary data on what the entity manages as capital (*Para 135(b)*).
- Not disclosing the following: -
  - the domicile and legal form of the entity, its country of incorporation and the address of its registered office
  - a description of the nature of the entity's operations and its principal activities
  - name of the parent and the ultimate parent of the group (*Para 138*).

## Ind AS 2 - Inventories

- Inconsistency in disclosure w.r.t valuation of finished goods. As per accounting policy finished goods are measured at lower of cost or NRV whereas as per disclosure given in notes to the financial statements finished goods are measured at lower of cost or Market Value. It may be noted that both the terms NRV as defined under Ind AS 2 and Market Value as defined under Ind AS 113 Fair Value Measurement cannot be used interchangeably (*Para 9*).

- Not including amount paid towards custom duty in cost of purchase of inventory instead showing it as other expenses in notes to the financial statements (*Para 11*).
- Mentioning in the accounting policy for inventories that raw materials are stated at lower of cost and net realizable value without considering conditions given under Para 32 of Ind AS 2. It was viewed that as per Ind AS 2 Inventories, materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realizable value, the materials are written down to net realizable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realizable value (*Para 32*).
- Not mentioning the accounting policies adopted in measuring inventories including the cost formula used under significant accounting policies (*Para 36(a)*).

#### **Ind AS 7 - Statement of Cash Flows**

- Including, in cash and cash equivalents, deposits with original maturity of more than 12 months as well as pledged FDRs (*Para 6*).
- Incorrect reporting of cash flows from receivables while determining cash flows from operating activities under Consolidated Cash Flow Statement (*Para 14*).
- Disclosing proceeds from sale of investment in financing activity instead of investing activity under cash flow statement (*Para 16*).
- Reporting OCI portion of 'cash flow hedge' and 'defined benefits plans' under Cash Flow Statements while determining 'cash flows from operating activities'. Adjusting OCI portion of cashflow hedge and defined benefit plan from Profit Before Tax (PBT) while arriving at 'cash flow from operating activities' is not correct (*Para 18(b)*).
- Not reporting the gross inflow / outflow of cash from borrowings separately (*Para 21*).
- Reporting incorrect amount of sale of current investments in the cash flow from investing activities (*Para 21*).
- Reporting inter corporate deposits (ICD) given to subsidiaries on net basis instead of disclosing on gross basis (*Para 21 read with Para 22*).
- Netting off the cash flow from dividend received with non-cash item i.e. loss on partnership firm, instead of reporting gross amount of cash flow from dividend received (*Para 31*).
- Reporting incorrect amount of cash flows from interest income and cash outflow for interest expenditures by not adjusting the accrued interest income and interest payable under the respective categories in the statement of cash flows (*Para 31*).
- Deducting provision for income taxes instead of income tax paid under cash flows from operating activities in the statement of cash flows (*Para 35*).
- Not disclosing separately cash flows arising from taxes on income as cash flows from operating activities in the Statement of Cash Flows (*Para 35*).

- Not disclosing separately and classifying cash flows arising from taxes on income related to investment activity under cash flows from investing activity, when it can be specifically identified with investing activities (*Para 35 and Para 36*).
- Considering the non-cash item, of conversion of loan in securities, in determination of cash flows from financing activities (*Para 43*).
- Not providing requisite disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (*Para 44A*).
- Not disclosing the policy which it adopts in determining the composition of cash and cash equivalents (*Para 46*).
- Not disclosing the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group, together with a commentary by management (*Para 48*).
- Disclosing the cash inflow from interest under 'cash flow from investing activities' in Cash Flow Statement, with the same amount as it was disclosed in the Statement of Profit and Loss as interest income', without considering accrued interest component disclosed in the financial statements.

#### **Ind AS 8 - Accounting Policies, Changes in Accounting Estimates and Errors**

- Not stating the accounting policy with respect to Inventory in consonance with the accounting methods followed by the entity while preparing the financial statements. The excise duty, which is not applicable on the Balance Sheet date as well as in previous year, the treatment of the same has been elaborated under the stated policy (*Para 5*).

#### **Ind AS 10 - Events after the Reporting Period**

- Not disclosing the date of approval of financial statements by the board of directors (*Para 17*).
- Not disclosing the amount of dividends proposed or declared during the year (*Para 8.2.14.7 of division II of Schedule III read with para 13 of IND AS 10*).

#### **Ind AS 12 - Income Taxes**

- Not disclosing the MAT credit under the head 'deferred tax assets' in notes to the financial statements (*Para 35 of Ind AS 12 read with Para 9.7.2 of Guidance Note on Division – II Ind AS Schedule III to the Companies Act, 2013*).
- Not providing either the tax reconciliation of tax expense and accounting profit multiplied by the applicable tax rate or a reconciliation between the average effective tax rate and the applicable tax rate (*Para 81(c)(i) and (ii)*).
- Not including an explanation or numerical reconciliation of the relationship between tax expense and accounting profit to help users to understand significant factors that impact the relationship, such as tax-exempt revenue or non-deductible expenses (*Para 81(c)*).
- Not disclosing separately, the amount (and expiry date, if any) of deductible temporary differences for which no deferred tax asset is recognized in the balance sheet (*Para 81(e)*).

**Ind AS 16 - Property, Plant and Equipment**

- Omitting to mention in the policy that cost of an item of property, plant and equipment shall be recognised as an asset if, and only if the cost of the item can be measured reliably (*Para 7(b)*).
- Not charging the depreciation on stand-by (idle) assets, which resulted in the overstatement of the profits of the company to the extent of depreciation not charged (*Para 55*).
- Useful lives/ depreciation rates of assets acquired after a certain year have not been disclosed in line with *Para 73(c) of Ind AS 16 read with Sub-note 3 of Schedule II to the Companies Act, 2013*.
- Not disclosing amount of expenditure recognized in the carrying amount of an item of property, plant and equipment in the course of its construction in the financial statements (*Para 74(b)*).

**Ind AS 17 - Leases (Substituted by Ind AS 116 vide G.S.R. 273(E) dated 30 March 2019)**

- Not providing disclosures for finance leases although the leasehold land has been disclosed under the Note of PPE (*Para 31*).
- It was noted from Notes to the financial statements that certain assets have been given on lease and rental income was received to the company. However, disclosure required under para 47 of Ind AS 17 has not been made in the financial statements (*Para 47*).
- Although prepaid lease expenses are disclosed under Other Non-Current Assets in Notes to the financial statements, there is no detailed disclosure regarding operating leases. Even if the leases are short-term, proper classification and detailed disclosure, including non-cash components, need to be provided to comply with Ind AS 17 requirements (*Para 47*).

**Ind AS 18 – Revenue Recognition (Substituted by Ind AS 115 vide G.S.R. 310(E) dated 28th March 2018)**

- Incorrect grouping of discounts on turnover under "Other Expenses" in Note to accounts. As per para 10 of Ind AS 18, such discounts should be netted off against sales for proper revenue recognition (*Para 10*).

**Ind AS 19 - Employee Benefits**

- Not making any provision for gratuity liability under financial statements and for misstating the fact under accounting policy that provision have been made for gratuity (*Objectives of Ind AS 19 Employee Benefits read with Para 72 of Ind AS 19 & Section 4(1) of Payment of Gratuity Act, 1972*).
- Not giving disclosures as required by Para 135 in the Accounting Policy and notes to accounts w.r.t the following (a) explaining the characteristics of its defined benefit plans and risks associated with them; (b) identifying and explaining the amounts in its financial statements arising from its defined benefit plans and (c) describing how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows (*Para 135*).
- Not disclosing the description of the defined benefit scheme and the method of valuation for the defined benefit plans (*Para 139*).
- Not disclosing significant demographic actuarial assumptions related to mortality rate for determining the defined benefit obligation under significant accounting policy (*Para 144*).

- Not disclosing the sensitivity analysis and other mandatory disclosures for the defined benefit plan (*Para 145*).
- Not giving various disclosures like significant actuarial assumptions, sensitivity analysis of actuarial assumptions, maturity profile of the defined benefit obligation etc (*Para 144, 145 and 147*).
- Not disclosing the expected contribution to defined benefit plan in next reporting period (*Para 147(b)*).
- Not disclosing the policy on long-term employee benefits (*Para 155 of Ind AS 19 read with the paragraph 117 of Ind AS 1*).
- Not considering the amount of (a) net interest on the net defined benefit liability (asset), and (b) remeasurements of the net defined benefit liability (asset) in profit & loss instead considering current service cost only (*Para 156*).

#### **Ind AS 20 - Accounting for Government Grants and Disclosure of Government Assistance**

- Not disclosing the accounting policy adopted for government grants, including the method of presentation adopted in the financial statements (*Para 39(a)*).

#### **Ind AS 21 - The Effects of Changes in Foreign Exchange Rates**

- Not recognizing and disclosing the foreign exchange difference in the statement of profit and loss rather recognizing it as part of cost of inventory (*Para 30 read with Para 7(h) of General Instructions for Preparation of Statement of Profit and Loss, Part II, Division II of the Schedule III to the Companies Act, 2013*).
- Not disclosing gain/loss on exchange differences transactions in the financial statements (*Para 52(a)*).
- Giving incorrect reference to AS 11 for the effect of changes in foreign exchange rates in Notes to the financial statements while the company is preparing financial statements under Ind AS framework.

#### **Ind AS 23 – Borrowing Costs**

- Not classifying and disclosing the ‘foreign currency translation difference on account of borrowing cost’ separately under the Note on Finance Cost (*Para 6(e) of Ind AS 23, read with paragraph 4(c) of General Instructions for Preparation of Statement of Profit and Loss, Part I, Division II of Schedule III to the Companies Act, 2013*).
- Not disclosing the accounting policy on borrowing cost in accordance with Para 8 of Ind AS 23, as it does not clearly state that interest cost has been recognized in the Statement of Profit and Loss (*Para 8*).
- Not disclosing the interest capitalized during the year as well as the rate of capitalization (*Para 26*).

#### **Ind AS 24 - Related Party Disclosures**

- Not disclosing the details of subsidiaries under note relating to related party transactions (RPT) instead a statement has been given under RPT Note that ‘Relationships between a parent and its

subsidiaries shall be disclosed irrespective of whether there have been transactions between them' (*Para 13*).

- Not disclosing the name of the related party and the nature of the related party relationship in respect of some related parties (*Para 14*).
- Not disclosing key management personnel compensation in categories of (a) short-term employee benefits (b) post-employment benefits (c) other long-term benefits (d) termination benefits and (e) share-based payment (*Para 17*).
- Not disclosing the name of the company secretary and details of transactions with the company secretary in the related party disclosures (*Para 17*).
- Not disclosing the corporate guarantee for loans taken by subsidiary company under related party disclosures (*Para 18*).
- Not disclosing the loans taken and repaid to related parties and disclosing incorrect names of related parties (*Para 18*).
- Making wrong disclosure of related party transaction with relative of KMP and for not disclosing the description of transaction with relatives of KMP (*Para 18*).
- Not disclosing the information including transaction amounts, outstanding balances, guarantees provided or received, and other commitments related to the loan from the holding company, the short-term advance to the subsidiary, and the corporate guarantee provided to subsidiaries (*Para 18*).
- Not disclosing transactions w.r.t donations given to related parties under notes to the financial statements (*Para 18*).
- Not disclosing the bank guarantee for loans taken by subsidiary company under related party disclosures in both standalone and consolidated financial statements (*Para 18*).
- Not disclosing remuneration paid to company secretary under related party disclosure in both standalone and consolidated financial statements (*Para 18*).
- Disclosing incorrect description of transaction with relatives of KMP (*Para 18*).
- Incorrectly stating that related party disclosures comply with Ind AS 18, while the financial statements are prepared in accordance with Ind AS framework.

#### **Ind AS 32 - Financial Instruments: Presentation**

- Stating that financial assets comprise of only cash and cash equivalents and not providing complete description of the financial assets held by the company under significant accounting policies (*Para 11*).

#### **Ind AS 33 - Earnings per Share**

- Incorrectly calculating basic and diluted earnings per share, in current year as well as in previous year, by considering Total Comprehensive Income instead of Earnings i.e. profit after tax amount (as attributable to ordinary equity holders) (*Para 10*).
- Not considering the effect of movement in ESOP granted (dilutive potential equity shares) while calculating the diluted EPS (*Para 31 of Ind AS 33*).

- Using incorrect number of shares for calculating earnings per share (*Para 36*).
- Not disclosing the reconciliation of denominator (equity share capital). As there were potential equity shares which have been considered for calculating EPS, reconciliation of equity shares should have been disclosed (*Para 70*).

### **Ind AS 37 - Provisions, Contingent Liabilities and Contingent Assets**

- Wrongly recognizing and disclosing the insurance claim receivable in the financial statements, solely on the company's historical experience of receiving claims from the insurance company, despite lack of virtual certainty that the reimbursement would indeed be received by the company (*Para 53*).
- Not disclosing the estimate of financial effect of pending litigations under the Note on Contingent Liabilities (*Para 86*).
- Not disclosing contingent liability with respect to disputed statutory dues in notes to the financial statements although various disputed statutory dues have been reported under clause vii(b) of CARO (*Para 86*).
- Not disclosing the contingent liability pertaining to the excise duty in the financial statements (*Para 86*).
- Not making disclosure regarding indication of the uncertainties relating to the amount or timing of any outflow, and the possibility of any reimbursement (*Para 86(b) & (c)*).
- Not disclosing brief description of certain class of contingent liability which has been disclosed as "other" in the notes to accounts (*Para 86*).

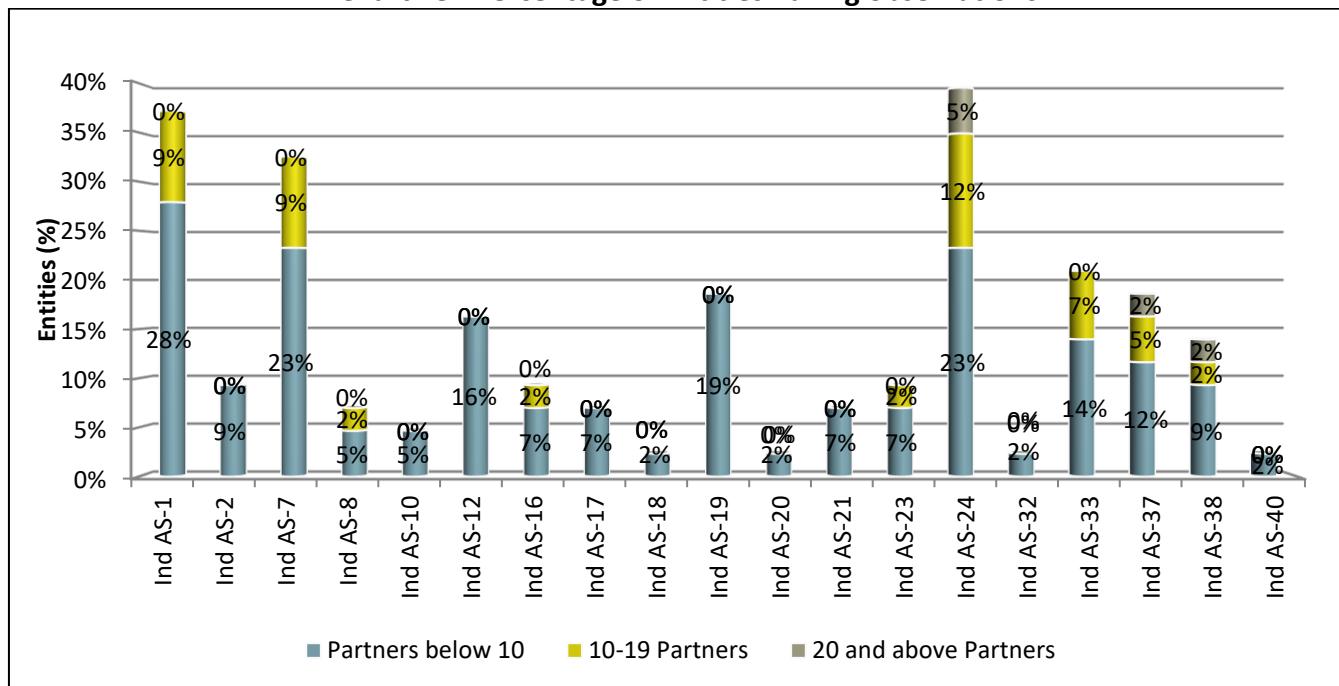
### **Ind AS 38 - Intangible Assets**

- Not complying with the requirements of *Para 73(v) of Ind AS 16* which requires impairment loss on PPE to be disclosed separately.
- Not disclosing the capital commitment regarding PPE and Intangible Assets separately. The requirements to disclose capital commitment regarding PPE and Intangible Assets comes from two different Ind AS i.e. Ind AS 16 and Ind AS 38, therefore, a non-compliance of *Para 74(c) of Ind AS 16 read with para 122 of Ind AS 38*.
- Not disclosing the useful life of the intangible asset (computer software) (*Para 118(a)*).
- Not elaborating the method of amortization in significant accounting policy of Depreciation and amortization (*Para 118(b)*).
- Not classifying and disclosing the SAP software as intangible assets (*Para 4, 8 and 118 of Ind AS 38 'Intangible Assets', read with Para 6(IV) of General Instructions for Preparation of Balance Sheet, Part I, Division II of the Schedule III to the Companies Act, 2013*).

### **Ind AS 40 – Investment Property**

- Not disclosing the depreciation method used and useful lives or depreciation rates used for investment property (*Para 79(a) & (b)*).

Chart 18 : Percentage of Entities having observations



### Ind AS 101 - First-time Adoption of Indian Accounting Standards

- Not disclosing the fact of having availed the deemed cost exemption option & related accounting policy while adopting the first-time exemption option (*Para 27AA*).
- Not disclosing the deemed cost of PPE as the new gross value in notes to the financial statements (*Para D7AA*).

### Ind AS 102 – Share Based Payment

- Not reporting the following information, which is required to be disclosed by the entities that have a single reportable segment: -
  - revenues from external customers for each product and service, or each group of similar products and services
  - revenues from external customers (i) attributed to the entity's country of domicile and (ii) attributed to all foreign countries in total from which the entity derives revenues
  - non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts (i) located in the entity's country of domicile and (ii) located in all foreign countries in total in which the entity holds assets.
  - extent of its reliance on its major customers (*Para 31,32,33 & 34*).
- Not disclosing weighted average remaining contractual life of the share option outstanding at the end (*Para 45(d)*).

- Not disclosing the following details: -
  - a) Description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement
  - b) Range of exercise prices and weighted average remaining contractual life for share options outstanding at the end of the period
  - c) Information that enables users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined (*Para 44 read with Para 45*).

### **Ind AS 103 – Business Combinations**

- Not complying with Para 18 of Ind AS 103 which requires the use of the acquisition method in accounting policy for mergers and amalgamation.  
As per the given policy the company records assets and liabilities at their book values from the transferor entity as of the merger/amalgamation date, which is not in compliance with the requirement to measure identifiable assets and liabilities at their acquisition-date fair values (*Para 18*).

### **Ind AS 107 – Financial Instruments: Disclosures**

- Not disclosing the carrying amount of:
  - Financial assets measured at fair value through profit or loss, fair value through other comprehensive income and amortized cost
  - Financial liabilities measured at fair value through profit or loss and amortized cost (*Para 8*).
- Not complying with *para 11B* which states that if an entity derecognized investment in equity instruments measured at FVOCI, it shall disclose a) reason for disposing off the investments b) Fair Value of instruments at the date of derecognition c) cumulative gain or loss on disposal.
- Not disclosing the items of income, expenses, gains and losses from financial assets and liabilities measured at Amortized Cost, FVTOCI and FVTPL in line with *Para 20*.
- Not disclosing the detailed breakdown of the timing of the nominal amount of the hedging instrument, which clarifies when the hedge will impact cash flows along with average price or rate, such as strike or forward prices, to offer a clearer understanding of the terms associated with the hedging instrument (*Para 23B*).
- Not disclosing the nature and extent of risks arising from financial instruments to which entity is exposed at the end of the reporting period. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk of which qualitative and quantitative disclosures are not given (*Para 31 and 32*).
- Not appropriately disclosing interest rate risk exposure of the company.  
As per the disclosure given in Financial Statements under Notes to the financial statements, the company has exposure to the risk of changes in interest rates, however, from AFUR's reply it was noted that 95percent of the entity's borrowings are at a fixed rate (*Para 31 & 40 of Ind AS 107*).

- Not disclosing the information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period (*Para 33-42*).
- Not disclosing the qualitative and quantitative disclosures regarding risk associated with the financial instruments (*Para 33 and 34*).
- Not disclosing quantitative information about the expected credit losses under notes to financial statements (*Para 35H*).
- Not disclosing maturity analysis of financial liabilities, while disclosing liquidity risk (*Para 39*).
- Not disclosing the maturity analysis for non-derivative financial liabilities, including financial guarantees, showing the remaining contractual maturities (*Para 39*).
- Not disclosing the sensitivity analysis w.r.t market risk (*Para 40*).

### Ind AS 108 - Operating Segments

- Disclosing the segment information as per Indian GAAP, whereas, there is no such requirement under Ind AS 108 to disclose the segment information by classifying them between primary segment and secondary segment that has been disclosed. (*Paragraph 5-10 and 20-21*).
- Not disclosing reconciliations of the totals of segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material segment items to corresponding entity amounts.  
Reconciliations of the amounts in the balance sheet for reportable segments to the amounts in the entity's balance sheet are required for each date at which a balance sheet is presented (*Para 21(c)*).
- Not disclosing the factors used to identify reportable segments, the judgements involved in segment aggregation, and the types of products or services generating revenue for each reportable segment (*Para 22*).
- Not disclosing the segment profit or loss, total assets, and liabilities for each reportable segment. This includes revenues from external customers, interest expenses, income tax expenses, depreciation, and other material items regularly reviewed by the chief operating decision maker (CODM) (*Para 23*).
- Not netting off segment's interest revenue with its interest expense for reportable segment (*Para 23*).
- Not disclosing the segment assets such as investments in associates, joint ventures, and non-current assets (excluding financial instruments and deferred tax) (*Para 24*).
- Not disclosing about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by the chief operating decision maker or are otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment assets:
  - (a) amount of investment in associates and joint ventures accounted for by the equity method, and
  - (b) the amounts of additions to non-current assets other than financial instruments, deferred tax assets, net defined benefit assets and rights arising under insurance contracts (*Para 24*).
- Not complying with *Para 31 of Ind AS 108*, which mandates that even entities with a single reportable segment must provide disclosures required under paragraphs 32-34 (Information about products and services, geographical areas and major customers) regardless of how business activities are organized (whether by product/service variations or geographical locations).

- Not disclosing the revenues from external customers attributed to an individual foreign country, which is material and the basis for attributing revenues from external customers to individual countries (*Para 33*).

### Ind AS 109 – Financial Instruments

- Classifying investment in ‘mutual fund units (quoted)’ as measured under FVOCI and not measured at FVTPL which is not in line with para 4.1.4 of Ind AS 109. It may be noted that irrevocable election for valuation as per FVOCI is only available for investment in Equity Instruments as defined under Ind AS 32 (*Para 4.1.4*).
- Not measuring investment in mutual fund instruments at fair value as required by, although the fair value was disclosed in the Financial Statements (*Para 4.1.4*).
- Not disclosing the accounting treatment of initial and subsequent recognition of financial guarantees (*Para 4.2.1 (c)*).
- It was noted from Notes to the financial statements that the company has provided guarantee for the loans taken by its subsidiary company. It was viewed that such guarantees should be recognized as financial guarantees in line with the requirements of Ind AS 109 (*Paragraph 4.2.1(c), B2.5 and B5.5.32*).
- Not disclosing in the summary of significant accounting policies the policies relating to initial & subsequent recognition of financial liabilities (*Para 4.2.1 & 4.2.2 of Ind AS 109 read with Para 117 (a) of Ind AS 1*).
- Not disclosing interest income recognition policy in compliance with the stated requirement. Further, the policy lacks detail on how financial assets are categorized, and the bifurcation between Fair Value Through Profit or Loss (FVTPL) and Fair Value Through Other Comprehensive Income (FVOCI) is not elaborated (*Para 5.4.1*).
- Disclosing the interest recognition policy which is not in line with the requirements of *Para 5.4.1 of Ind AS 109*. It may be noted that para 5.4.1 specifies that interest revenue shall be calculated by using the effective interest method.
- Not recognizing loss allowance for credit impaired trade receivable (*Para 5.5.1*).
- Not measuring expected credit losses (ECL) for financial instruments as per the applicable requirement. While the amount may not be material for the given financial year, however, the accounting procedure must align with the requirements of Ind AS 109 (*Para 5.5.17*).

### Ind AS 113 – Fair value Measurement

- Not providing disclosures w.r.t Fair value hierarchy for financial assets and financial liabilities (*Para 72*).
- Not disclosing the inputs used for valuation of financial statements (*Para 91*).
- Not making disclosure w.r.t Investments under level 3 of the fair value hierarchy (*Para 91 and 93(h)(i)*).
- Not disclosing assets and liabilities measured at fair value, the level of the fair value hierarchy (Level 1, 2, or 3) used for the measurement, along with other relevant details (*Para 93(b)*).

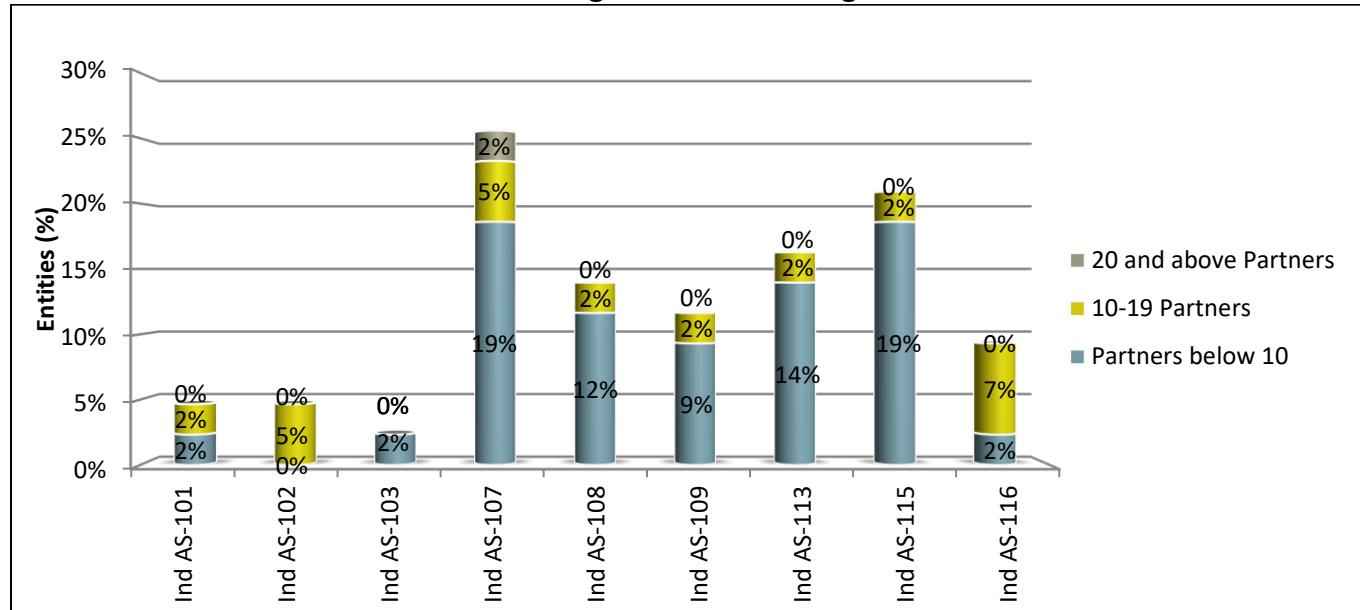
**Ind AS 115 - Revenue from Contracts with Customers**

- Disclosing inadequate accounting policy relating to revenue recognition. The given policy does not describe the measurement principles and revenue recognition criteria as required by *Para 22 read with Para 47 of Ind AS 115*.
- Not providing description in policy for revenue recognition regarding when the entity typically satisfies its performance obligations, for example upon shipment, upon delivery etc (*Para 31 read with Para 119*).
- It was noted from the disclosed policy on revenue recognition that the company recognized the revenue initially at fair value of the consideration. However, as per Ind AS 115 the revenue shall be recognized at the transaction price (*Para 46*).
- Wrongly including amount of GST in the revenue from sale of goods, resulting into overstatement of total income. As per paragraph 47 of Ind AS 115 the amount received on behalf of third party shall not be included in transaction price. (*Para 47 of Ind AS 115 read with paragraph 9.1.2 and 9.1.6 of Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013*).
- Not providing disclosure relating to disaggregation of revenue in the financial statements (*Para 114 read with Appendix B Para B87-B89*).
- Not disclosing the revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period in the financial statements (*Para 116(b)*).
- Not disclosing the reconciliation of revenue recognized in Statement of Profit and Loss with contracted price (*Para 126AA*).
- Even though the company had variable consideration (accounting policy says revenue is recognized net of discount), it failed to disclose the reconciliation of revenue recognized in the statement of profit and loss with the contracted price, as required by *Para 126AA of Ind AS 115*.

**Ind AS 116 - Leases**

- Not classifying, in the Statement of Cash Flows, cash paid for the interest portion of lease liability separately instead of merging it with other interest paid under financing activities (*Para 50(b)*).
- Not classifying in the statement of Cash Flows, short-term lease payments, payments for leases of low-value assets and variable lease payments which are not included in the measurement of the lease liability within operating activities (*Para 50 (c)*).
- Not disclosing maturity analysis of lease liabilities (*Para 58*).
- Not disclosing the fact that the entity has accounted for short term leases/ leases of low value assets applying Para 6 of Ind AS 116. This disclosure of fact is required by *Para 60 of Ind AS 116*.

Chart 19 : Percentage of Entities having observations



## Division II, Schedule III of Companies Act, 2013 & Guidance Note on Division II Ind AS Schedule III to the Companies Act, 2013

### General Instructions

- Not providing disaggregation of amount of loans in notes to the financial statements for loan amount sanctioned, availed etc (Para 4(i)(a)).
- Not providing correct narrative description of amount received for services rendered in notes to the financial statements (Para 4(i)(a)).
- Relevant note of CWIP has not been given on the face of the Balance Sheet (Para 4(ii)).
- Not giving references to the corresponding note for earning per share and diluted earnings per share disclosures (Para 4(ii)).
- Mentioning wrong amount of term loan sanctioned by the bank in notes to the financial statements (Para 4(ii)).
- There is a difference in breakup of total revenue in terms of domestic and export between notes to financial statements relating to revenue and segment reporting (Para 4 (ii)).
- Not rounding off figures to the nearest lakhs, millions, crores or decimals despite the total turnover exceeding Rs. 100 crores (Para 5(ii)).
- Using different unit of measurements in note relating to Financial Risk Management with respect to Credit Risk given in the financial statements (Para 5).
- Not reporting the corresponding amounts (comparatives) for the immediately preceding reporting period with respect to addition, deletion, depreciation etc. for property, plant & equipment in notes to the financial statements (Para 6).

- The company has provided the import information under *Para 5(viii)(a)* of Part-II of Schedule III, which applies to Division I (non-Ind AS companies). Since Division II Schedule III is applicable in this case, such disclosures are not required. This is not in line with *Para 7* which mandates that only relevant material disclosures should be made in the financial statements to avoid unnecessary complexity.
- Not complying with *Para 7* of the General Instructions for Ind AS which mandates that only relevant material disclosures should be made in the financial statements to avoid unnecessary complexity. The company has provided the expenditure in foreign currency under *Para 5(viii)(b)* of Part-II of Schedule III, which applies to Division I (non-Ind AS companies). Since Division II Schedule III is applicable in this case, such disclosures are not required.
- Not complying with *Para 7* of the General Instructions for Ind AS which mandates that only relevant material disclosures should be made in the financial statements to avoid unnecessary complexity. The company has provided the information on the total value of imported and indigenous raw materials, spare parts, and components consumed, as required by *Para 5(viii)(c)* of Part-II of Schedule III, which applies to Division I (non-Ind AS companies). Since Division II Schedule III is applicable in this case, such disclosures are not required.
- Not complying with *Para 7* of the General Instructions for Ind AS which mandates that only relevant material disclosures should be made in the financial statements to avoid unnecessary complexity. The company has provided information on the amount remitted in foreign currencies for dividends, including the number of non-resident shareholders, total shares held, and the year to which the dividends relate, as required by *Para 5(viii)(d)* of Part-II of Schedule III, which applies to Division I (non-Ind AS companies). Since Division II Schedule III is applicable in this case, such disclosures are not required.
- Not complying with *Para 7* of the General Instructions for Ind AS which mandates that only relevant material disclosures should be made in the financial statements to avoid unnecessary complexity. The company has provided information on earnings in foreign exchange as required by *Para 5(viii)(e)* of Part-II of Schedule III, which applies to Division I (non-Ind AS companies). Since Division II Schedule III is applicable in this case, such disclosures are not required.

## Part I – Balance Sheet

- Not providing bifurcation of trade payables as (A) total outstanding dues of MSME and (B) total outstanding dues of creditors other than MSME on the face of balance sheet (*Part I -Balance Sheet*)
- Not disclosing separately non-current & current investments on the face of the Balance Sheet (*Part I – Balance Sheet*).
- Using nomenclature ‘consolidated’ statement of changes in equity instead of statement of changes in equity in notes to the standalone financial statements (*Part I – Balance Sheet*).
- Disclosing income tax (net) for current year as well as previous year under the head other liabilities instead of current tax liabilities (Net) after the head provisions (*Part I – Balance Sheet*).
- Wrongly disclosing the current tax assets under other non-current assets instead of disclosing as separate line item under current assets (*Part – Balance Sheet*).

- Disclosing Component of other equity on the face of balance sheet in both standalone and consolidated financial statements (*Part I – Balance Sheet*).
- Disclosing refund liabilities separately under current liabilities in both standalone and consolidated financial statements (*Part I – Balance Sheet*).

### Non-Current Assets

- Using different nomenclature of assets in accounting policy (R&D Centre) viz a viz schedule of Property, Plant and Equipment (Lab equipment) (*Para 6A(I)(i)*)
- Using the term plant and machinery instead of using plant and equipment in notes to the financial statements (*Para 6A(I)(i)(c)*).
- Not disclosing nature of other intangible assets (*Para 6A(IV)*).
- Not disclosing the details of partners and total capital in the firms under Note w.r.t Investments in the financial statements (*Para 6(A)(VI)*).
- Not disclosing the carrying value and provision made toward diminution in the value of investments (*Para 6(A)(VI)*).
- Not disclosing the Non-Current Investments under various categories such as equity shares, fully or partly paid-up, quoted or unquote (*Para 6(A)(VI) read with para 8.1.14 of the Guidance Note on Division II - Ind AS Schedule III (2017 edition)*).
- Not disclosing in Note w.r.t trade receivables and trade payables regarding related party transactions for sales/purchases with entities where a director is a related party despite the fact that these transactions are disclosed in Related Party Disclosures in the notes to accounts (*Para 6(A)(VII)*).
- Loans not classified as loans to related party in the notes to financial statements (*Para 6A(VIII)(b)*).
- Not disclosing the nature of securities against borrowings by way of debentures as well as for not disclosing loss allowance separately (*Para 6(VIII)(iii)*).
- Not disclosing the 'other non-current assets' by classifying it as 'capital advance', 'advances other than capital advances' and 'others' (*Para 6(X)*).

### Current Assets

- Not specifying mode of valuation of inventories in notes to the financial statements (*Para 6(B)(I)(iii)*).
- Not sub-classifying trade receivables into secured or unsecured (*Para 6B(III)*).
- Not disclosing the nature of liquid investments classified as cash & cash equivalents (*Para 6(B)(IV)*).
- Not disclosing the nature of 'others' disclosed under Current Loans (*Para 6(B)(V)*).
- Not disclosing the advance given towards supply of goods or expenses under the head 'Advances' (*Para 6(B)(VI)*).

### Equity

- Disclosing incorrect percentage change in shareholding during the year in notes to the standalone and consolidated financial statements (*Para 6(D)(I)(m)*).

### Non-Current Liabilities

- Not sub-classifying borrowings as secured and unsecured under non-current liabilities in notes to the financial statements (*Para 6E(I)(ii)*).
- Not sub-classifying the term loans as 'from other parties' under head non-current borrowings in notes to financial statements (*Para 6E I(i)*).
- Not disclosing the nature of non-current provisions disclosed as 'Others' (*Para 6(E)(III)*).
- Not specifying the nature of Income received in advance under Other Non-Current Liabilities & Other Current Liabilities (*Para 6(E)(IV)(b) & 6(F)(III)(c)*).
- Not disclosing the terms of repayment of long-term borrowings from related parties and other parties as well as the non-convertible cumulative preference shares (*Para 6(E)(VI)*).

### Current Liabilities

- Not sub-classifying borrowings as secured and unsecured under current liabilities in notes to the financial statements (*Para 6F(I)(ii)*).
- Disclosing creditors for accrued wages and salaries under the head trade payables instead of head other financial liabilities in current liabilities (*Para 6F(II)*).
- Classifying current maturities of long-term borrowings in other current liabilities instead of other financial liabilities under current liabilities (*Para 6F(II)(a)*).
- Disclosing regular business operating expense payable (other current payables) in provisions head instead of other current liabilities head (*Para 6F(III)*).
- Not specifying the nature of other current liabilities in notes to the financial statements (*Para 6(F)(iii)(c)*).
- Not disclosing the nature of provision disclosed in notes to the financial statements (*Para 6(F)IV*).
- Not disclosing the principal and interest payable to MSME, separately (*Para 6(FA)*).

### Others

- Not disclosing the 'commitment' and 'contingent liabilities' (*Para 6(H)*).
- Not specifying the nature of other commitments under contingent liabilities and commitments (*Para 6H (ii)(c) & Para 8.2.14.3 of Guidance Note on Div. II*).
- Disclosing incorrect percentage change of ratios in notes to the standalone financial statements (*Para 6(L)(xiv)*).

### Statement of Changes in Equity

- Not classifying other comprehensive income under other equity into (1) Debt instrument through other comprehensive income (2) Equity instrument through other comprehensive income (3) Other items of other comprehensive income (specify nature) in the statement of changes in equity (*Statement of Changes in Equity*).
- Not preparing and disclosing the 'Statement of Changes in Equity', in the financial statements (*Statement of Changes in Equity*).

- Not including Statement of Changes in Equity despite of it being an integral part of the financial statements (*Statement of Changes in Equity*).
- Disclosing incorrect total comprehensive income by including value of change in CCPS and securities premium in total comprehensive income in notes to the standalone and consolidated financial statements (*Statement of changes in equity – other equity*).

## Part II – Statement of Profit & Loss

- Using the term extraordinary items on the face of statement of profit and loss (*Part II – Statement of Profit and Loss*).
- Clubbing cost of purchases of stock in trade under cost of raw material consumed, whereas company is engaged in the business of manufacturing and trading of certain goods and having its own manufacturing facility (*Part II – Statement of Profit and Loss*).
- Using the term total revenue instead of total income on the face of statement of profit and loss (*Part II – Statement of Profit and Loss*).
- Not disclosing deferred tax on the face of statement of profit and loss (*Part II – Statement of Profit and Loss*).
- Using the term administrative and selling expenses instead of other expenses on the face of statement of profit and loss (*Part II - Statement of Profit and Loss*).
- Not classifying the figures in Other Comprehensive Income under items that will not be reclassified subsequently profit and loss as net of taxes in remeasurement of defined benefit liability / assets (*Part II - Statement of Profit and Loss*).
- Wrongly disclosing other income under the head revenue from operations (*Para 3*).
- Using nomenclature profit on sale of fixed assets & capital gain instead of gain on sale of property, plant and equipment & net gain or loss on sale of investments respectively in notes to the financial statements (*Para 5*).
- Not using the correct head - 'other non-operating income' rather using the term 'miscellaneous incomes' (*Para 5(c)*).
- Not disclosing the separate line item for contract labour and clubbing the same with miscellaneous expenses (*Para 7(c)*).
- Using nomenclature capital gain instead of net gain or loss on sale of investments in notes to financial statements (*Para 7(g)*).
- Not disclosing by way of notes, additional information regarding aggregate expenditure and income on net gain or loss on foreign currency transaction and translation (other than considered as finance cost) in notes to the financial statements (*Para 7(h)*).
- Not disclosing the payment made to statutory auditor (*Para 7(i)*).
- Not disclosing in the financial statements, the amount recognized towards CSR expenditures and for not bifurcating the CSR expenditures (*Para 7(j) read with paragraph 11.5 of Guidance Note on Division II*).
- Not making disclosure w.r.t total of previous year shortfall, shortfall at the end of the year and reason of shortfall w.r.t the CSR expenditure (*Para 7(m)*).

## Guidance Note on Div. II Ind AS Schedule III to the Companies Act, 2013

- Not disclosing previous year's figures for related party transactions, including dividends paid. It may be noted that as per stated requirement comparative figures for the immediately preceding reporting period for all items shown in the financial statements including Notes should be disclosed (*Para 6 of Annexure A to the Guidance Note on Division II – Ind AS Schedule III (2017 Edition)*).
- Not disclosing goodwill as a separate line item on the face of the balance sheet, distinct from other intangible assets (*Para 8.1.4 of GN on Ind AS Schedule III (2017 edition)*).
- Not disclosing the names, number of equity instruments held and the face value of such instruments for which they have designated the investments in equity instruments at FVOCI, under non-current & current investments (*Para 8.1.8.1 and para 11A of Ind AS 107*).
- Disclosing investment in subsidiary companies separately under non-current assets instead of disclosing it under the heading financial assets in non-current assets (*Para 8.1.8.4*).
- Not sub-classifying loans as secured, unsecured, or doubtful, and loans to related parties (including subsidiaries) (*Para 8.1.10*).
- Not classifying advances for properties and advances to suppliers appropriately under other non-current assets (*Para 8.1.12*).
- Not separately disclosing earmarked balances under "Bank Balances Other than Cash and Cash Equivalents" (*Para 8.1.16*).
- Not disclosing debit balance of Cash Credit account as borrowing under Financial Liabilities in the Balance Sheet (*Para 8.1.16*).
- Incorrect classification of advances to employees under Other Financial Assets instead of Other Current Assets (*Para 6(B)(VI) of Annexure A to the guidance note on Division II - Ind AS Schedule III read with para 8.1.19 of the guidance note on Division II - Ind AS Schedule III*).
- Not disclosing remeasurement gain on defined benefit plan under retained earnings in Other Equity (*Para 8.2.2.3*).
- Not making the disclosure of rate of interest on borrowing in respect of loans from the holding company (*Para 8.2.3.18 of Guidance Note on Division II - Ind AS Schedule III (July 2017 Edition)*).
- Incorrectly grouping the liabilities for expenses and other payables under other financial liabilities instead of "Trade Payables" whereas such payables are related to goods or services received in the normal course of business (*Para 8.2.4.2*).
- Not making the disclosures as required by Section 22 of the MSMED Act, 2006 regarding delayed payments to micro and small enterprises. Additionally, bifurcation has been incorrectly classified as SME and others instead of MSME and others (*Para 8.2.4.4 of the guidance note on Division II - Ind AS Schedule III (2017 edition)*).
- Not disclosing terms and conditions related to the debit balance of Cash Credit Account (*Para 8.2.8*).
- Classifying the export incentive receivable under Other Current Financial Assets instead of Other Current Assets (*Para 8.2.10*).
- Not disclosing the Indirect tax matters under Contingent Liabilities, specifically under the heading "Claims against the company not acknowledged as debt" (*Para 8.2.14*).
- Disclosing performance guarantee as contingent liability (*Para 8.2.14.1*).

- Not disclosing the categories of contingent liabilities (Claims against the company not acknowledged as debt, Guarantees provided by the company, Other money for which the company is contingently liable) (*Para 8.2.14 of Guidance note on Division II - Ind AS Schedule III (2017 Edition)*).
- Not disclosing the amount of dividends proposed or declared (*Para 8.2.14.7 of Division II of Schedule III read with Para 13 of IND AS 10*).
- Not disclosing the exceptional item on the face of statement of profit and loss (*Para 9.6*).
- Not disclosing the expenditure incurred on corporate social responsibility (*Para 11.5*).
- Not making the disclosure of Corporate Social Responsibility (CSR) expenditure. As per the given requirement the companies covered under Section 135 are required to disclose CSR expenditure as a separate line item in the financial statements, with a detailed break up of amounts spent on asset creation and other purposes. The disclosure should be made in the notes to the accounts also and not only in the Board of Directors' report (*Para 11.5*).

## Accounting Standards

The following major observations in respect of Accounting Standards (AS) were noticed in the Audit files reviewed in respect of reviews undertaken during the year: -

### AS 1 - Disclosure of Accounting Policies

- Following cash basis of accounting instead of accrual basis for accounting for gratuity (*Para 10(c)*).
- Not disclosing accounting on leave encashment under notes to financial statements (*Para 18*).
- Disclosing note regarding secured loans under significant accounting policies which is not in line with the definition of accounting policies (*Para 11*).
- Not disclosing the policy w.r.t recognition and measurement of interest and dividend income and whether the same is in line with Para 13 of AS 9 (*Para 24 of AS 1 read with para 13(i) & (ii) of AS 9*).
- Disclosing incomplete policy on revenue recognition. The disclosed policy does not spell out the two important conditions stipulated in para 11, viz. seller not retaining the effective control on goods transferred and existence of no significant uncertainty regarding derivation of amount of the consideration (*Para 24 of AS 1 read with Para 11 of AS 9*).
- Not disclosing the policy relating to recognition and amortization of goodwill (*Para 24*).
- Not disclosing the policy relating to accounting for factoring arrangements (*Para 24*).
- Not disclosing the policy relating to recognition of claims received (*Para 24*).
- Not disclosing revenue recognition policy for rental income under significant accounting policy in notes to financial statements (*Para 24*).
- Not disclosing accounting policy of investments under significant accounting (*Para 24*).
- Mentioning in the policy that amortization is provided on a written down value basis whereas, straight line basis was used for providing amortization. (*Para 24*).
- Not disclosing accounting policy adopted for adjustment of deferred tax related to earlier year and the justification for the same that relates to earlier year on account of Schedule II (*Para 24*).
- Not disclosing accounting policies on Government Grant and Borrowing Costs (*Para 24*).

### AS 2 - Valuation of Inventories

- Using the term market value instead of net realizable value under significant accounting policies in the financial statements and wrongly disclosing that valuation of inventories is at cost in notes to financial statements (*Para 5*).
- Not using systematic method for allocation of cost of work-in-progress and including interest expenses in the cost of inventory. Further, auditor has solely relied on the cost auditor regarding valuation of inventories without carrying out adequate procedures to satisfy himself regarding valuation of inventories as per accepted accounting principles, also, he has not examined the method of applying the basis of inventory valuation (*Para 8 and 12 of AS 2 read with Para 25 and 26 of Guidance note on audit of inventories*).
- Not disclosing Cost formula used in valuation of finished goods in significant accounting policies on Inventories (*Para 26*).

- Disclosing FIFO/Weighted average basis as the method of valuation of inventories in significant accounting policy whereas it has followed FIFO method for valuation (*Para 26*).

### AS 3 - Cash Flow Statements

- Wrongly reporting cash inflow from short-term borrowing under operating activities (*Para 5.6 read with para 17(b) of AS 3*) and for not deducting profits from sale of PPE while determining operating cash flows (*Para 5.6 read with para 17(b) of AS 3*), resulting in overstatement of the cash flow from operating activities and consequently, understatement of the cash flow from financing activities.
- Reporting the fixed deposit, having maturity period of more than 3 months, as cash and cash equivalents (*Para 6*).
- Not reporting the cash flows from short-term borrowings under the head 'cash flows from financing activities' (*Para 8*).
- Non-reporting of cash outflow from payment of taxes by the company while determining cash flows from operating activities (*Para 12(f)*).
- Reporting cash flows from interest received on income tax refund as interest received on fixed deposit (*Para 15*).
- Reporting incorrect amount of cash outflow from purchase of Property Plant and Equipment (*Para 15*).
- Not reporting cash inflow and outflow from sale and purchase of Property Plant and Equipment under investing activities (*Para 15(a) and (b)*).
- Reporting cash flows from short-term borrowings under the head 'cash flows from operating activities' instead of 'cash flows from financing activities' (*Para 17*)
- Adding back prior period items to the net profit or loss while preparing cash flow statement using indirect method (*Para 18b*)
- Not reporting the cash flow from capital advances under the head 'cash flows from investing activities' (*Para 18(e)*).
- Wrongly adjusting amount, that was charged to Reserves and Surplus, while computing operating profit before working capital changes. Since the amount was not routed through Statement of Profit & Loss such adjustment was not required (*Para 20*).
- Not adjusting non-cash item i.e., unrealized foreign exchange gain and losses while determining cash flows from operating activities (*Para 20(b) read with para 27 of AS 3*).
- Not adjusting non-cash item "Bad debts written off as shown under miscellaneous expenses" in determining net cash flow from operating activities (*Para 20(b)*).
- Not adjusting interest cost while determining 'cash flows from operating activities' (*Para 20(c) read with Illustration I & II of AS 3*).
- Not reporting separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities (*Para 21*).
- Not disclosing separately forex gain/loss in respective heads viz. operating activities, investing activities and financing activities, according to their nature (*Para 27*).
- Reporting cash flow from interest income under the head 'cash flows from financing activities' rather than 'cash flows from investing activities' (*Para 30*).

- Not disclosing tax deducted from interest income receipt by the company under investing activities (*Para 34*).
- Not disclosing the accounting policy for determining cash and cash equivalents (*Para 43*).
- Not disclosing the restrictions associated with the fixed deposit given as margin money (*Para 45*).

#### **AS 4 - Contingencies and Events Occurring After the Balance Sheet Date**

- Not recognizing the provision for doubtful debts, which resulted in the overstatement of the profits of the company to the extent of the amount of provision (*Para 10*).

#### **AS 5 - Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies**

- Not recognizing the prior-period item of income taxes in the statement of profit and loss and to that extent the profits of the company are overstated. Further, the computation of cash flow from operating activities is not correct since the effect of item which was not recognized in statement of profit and loss was taken while determining cash flow from operating activities (*Para 15 of AS 5 read with Para 20 of AS 3*).
- Adjusting the deferred tax for prior period items in reserve and surplus instead of separately disclosing the amount and nature of prior period items in the statement of profit and loss (*Para 15*).
- Not disclosing the changes in accounting estimates w.r.t change in useful life of commercial vehicle (*Para 22 & 27*).

#### **AS 9 – Revenue Recognition**

- Omitting to mention in the accounting policy that while recognising revenue “the existence of significant uncertainty regarding the amount of the consideration” that will be received from the sale of the goods is also considered (*Para 11*).
- Not recognizing accounting policy on revenue recognition w.r.t export sales in line with *Para 10 & 11 of AS 9 Revenue Recognition*.
- Not disclosing the policy on dividend income (*Para 13 read with para 24 of AS 1*).
- Disclosing that interest income is recognized on accrual basis instead of time proportion basis under significant accounting policies (*Para 13*).

#### **AS 10 - Property, Plant and Equipment**

- Accounting policy on depreciation stated that expenses are capitalized up to the date the asset is put to use. Stated policy is not in line with paragraph 17(b) and 21 of AS 10 which require cost of PPE to include costs that are necessary to bring the asset to location and condition necessary for use (in other words when PPE is available for use) (*Para 17(b) and 21 of AS 10*).
- Not disclosing the method of depreciation on PPE (*Para 81(b)*).
- Using the term fixed assets instead of Property Plant and Equipment under significant accounting policy.

**AS 11 - The Effects of Changes in Foreign Exchange Rates**

- Recording the transactions at a rate prevailing on the date of realization and not considering the date of transaction (*Para 9*).
- Not specifying in the accounting policy as to how foreign currency monetary items and non-monetary items are reported at subsequent balance sheet dates (*Para 11*).

**AS 12 - Accounting for Government Grants**

- Not stating in the accounting policy that grants are recognized only when there is a reasonable assurance that the enterprise will comply with the conditions attached to them. The disclosed policy only speaks about receipt of the grant (*Para 13*).

**AS 13 - Accounting for Investments**

- Not considering fair value while arriving at carrying amount for current investments, as was noted from the policy on Investments given under significant accounting policies (*Para 14*).
- Disclosing the dividend received under Cash flow from operating activities instead of investing activities (*Para 30*).
- Omitting to specify in the accounting policy w.r.t non-current Investments, that provision for diminution shall be made to recognise a decline, other than temporary, in the value of the investments (*Para 32*).

**AS 15 - Employee Benefits**

- Not disclosing the amount recognized as an expense for the defined contribution plan (*Para 47*).
- Not making provision for gratuity on actuarial basis (*Para 51*).
- Not recognizing the provision for gratuity and to the extent of the amount of provision for gratuity, the profits of the company are overstated, further to the extent of accumulated gratuity liability, the liabilities of the company are understated (*Para 70*).
- Not using the projected unit method, for determination of gratuity liability, also the demographic and financial assumption, discount rates, other applicable assumptions were not used for determination of gratuity liability (*Para 65, 73, 74, 78 and 83*).
- Not disclosing defined benefit obligation, current service cost, past service cost, expected return on plan assets, actuarial gains and losses and the effect of actuarial valuation done (*Para 120*).

**AS 16 - Borrowing Costs**

- Capitalising the financing costs related to borrowed funds attributable to acquisition and construction of assets till such assets are 'put to use' instead of including financing costs till such assets are 'ready to use' (*Para 19*).
- Not disclosing the policy on borrowing costs instead mere statement that borrowing costs are recognized as per AS 16, was given under the accounting policy for borrowing costs. Para 11 of AS 1 describes the accounting policy as specific accounting principles and the methods of applying those principles (*Para 23*).

### AS 17 - Segment Reporting

- Wrongly disclosing that AS 17 is not applicable, although the company has total earnings in foreign exchange which is more than 10 percent of total revenue of the company. Accordingly, geographical segment becomes the reportable segment (*Para 27(a) read with paragraph 39*).
- Not disclosing that the company has only one business segment (*Explanation to Para 38*).
- Not disclosing: -
  - Total carrying amount of segment assets
  - Total amount of segment liabilities
  - Total cost incurred during the period to acquire segment assets that are expected to be used during more than one period (tangible and intangible fixed assets)
  - Total amount of expense included in the segment result for depreciation and amortization in respect of segment assets for the period (*Para 40*).

### AS 18 - Related Party Disclosures

- Not disclosing the nature of relationship with one of the associate/group companies as “Enterprises in which the KMP has significant influence” under disclosure of related party transactions (*Para 20*).
- Not disclosing name of the individual holding more than 67 percent of the capital of the company, thus having control of the company, under RPD (*Para 21*).
- Not disclosing the nature of relationship and material transactions with individual parties in notes to the financial statements (*Para 23 read with Para 27 (a)*).
- Not disclosing outstanding amounts pertaining to related parties as at the balance sheet date under note w.r.t related party transactions.

It may be noted that under notes to the financial statements, long term borrowing (unsecured) from related party has been disclosed, however, disclosure relating to the same has not been made under the related party disclosures (*Para 23 (vi)*).

- Not disclosing the loan from related party under relevant notes on borrowings (*Para 23(iii) & (vi)*).
- Incorrectly disclosing loan from related parties under the head ‘payables’ (*Para 23(iii) & (vi)*).

### AS 19 - Leases

- Not recognizing lease expense on a straight-line basis over the lease term (*Para 23*).
- Not disclosing a general description of the lessee’s significant leasing arrangements including, but not limited to, the following: (ii) the existence and terms of renewal or purchase options and escalation clauses (*Para 25(e)*).

### AS 20 - Earnings Per Share

- Not disclosing the net profit or loss for the period over the different classes of shares in accordance with their dividend rights (*Para 14*).
- Not disclosing basic and diluted earnings per share on the face of the statement of profit and loss (*Para 48*).

- Not disclosing amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period, weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other and the nominal value of shares (*Para 48*).

### AS 22 - Accounting for Taxes on Income

- Recognizing the deferred tax considering the net block of assets, instead of timing difference (*Para 4.6 and Para 13 of AS 22*).
- Disclosing incorrect accounting policy on deferred tax, that “The Deferred Tax Assets is recognised and carried forward only to the extent that there is virtual certainty that the asset will be realised in future” instead the accounting policy should state that “the deferred tax assets should be recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized” (*Para 15*).
- Not disclosing break-up of deferred tax assets into major components of the respective balances in notes to financial statements (*Para 31*).
- Wrongly disclosing deferred tax assets created during the previous year as brought forward balance of deferred tax assets in current year instead of disclosing closing balance of deferred tax assets of last year as brought forward balance, in notes to the financial statements (*Para 31*).
- Not disclosing the evidence supporting recognition of Deferred tax assets (*Para 32*).
- Not disclosing the evidence supporting the virtual certainty regarding realization of Deferred tax assets (*Para 32*).
- Erroneously shown negative figure of DTL instead of DTL in the balance sheet, which resulted in understatement of liabilities.

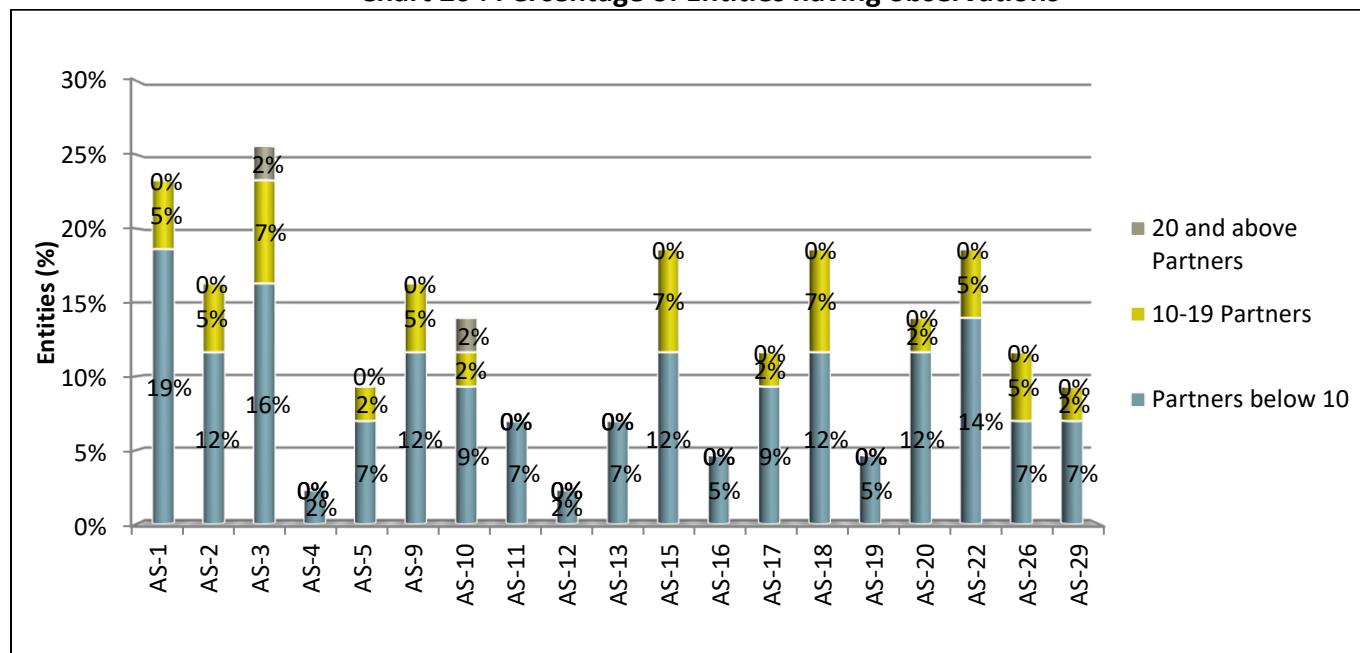
### AS 26 - Intangible Assets

- Accounting Policy on Research and Development does not state the following: (i) Expenses on the research phase are recognized only in the statement of profit and loss, and (ii) Intangible assets under development are recognized, if and only if enterprise can demonstrate the condition stipulated in para 44 w.r.t technical feasibility of completing the intangible asset so that it will be available for use or sale, intention, ability to use, generation of probable future economic benefits, availability of resources and ability to measure the expenditure attributable to intangible assets during development phase (*Para 41 and 44*).
- Not disclosing the following w.r.t each class of intangible assets:
  - a) useful lives or the amortisation rates used
  - b) amortisation methods used (*Para 90(a) & (b) of AS 26*).
- Not disclosing the description of transactions w.r.t recognition of goodwill (*Para 94b*).
- Using incorrect terms for ‘amortization’. It was noted that the term ‘depreciation’ was used to refer to the systematic allocation of depreciable amount of intangible assets, instead of ‘amortization’ (*Para 6.7 of AS 26 read with para 5(i)(b) of General Instructions for Preparation of Statement of Profit and Loss*).

### AS 29 - Provision, Contingent Liabilities and Contingent Assets

- Disclosing the contingent assets in the financial statements (*Para 30 read with para 33*).
- Not disclosing the addition made, amount used etc. w.r.t provisions (*Para 66*).
- Not disclosing the contingent liabilities w.r.t disputed income tax and to that extent the contingent liabilities are underreported (*Para 68*).
- Not creating provision on Disputed trade receivable considered outstanding for more than 3 years, as on the date of Balance Sheet (*Para 9.3 of AS 9 read with para 14 of AS 29*).

Chart 20 : Percentage of Entities having observations



### Division I, Schedule III of Companies Act, 2013 & Guidance Note on Division I – Non Ind AS Schedule III of Companies Act, 2013

#### General Instructions

- Not disclosing pending litigations in the financial statements as contingent liability even though the same have been reported in the Annexure-B (CARO, 2016) of the independent auditor's report (*Para 3(i)*).
- Giving wrong description of the nature of services rendered in notes to the financial statements (*Para 3(i)(a)*).
- Mismatch in the decimal figures in the following cases:
  - Total of long-term and short-term provisions for gratuity and defined benefit plan (Gratuity) in notes to the financial statements.
  - Contribution to provident and other funds and defined contribution plan in notes to the financial statements.

- Net profit as per segment reporting in notes to the financial statements and net profit as per statement of profit and loss
- Net profit after tax and EPS as per statement of profit & loss and net profit after tax and EPS in notes to the financial statements (*Para 3(ii)*).

➤ Mismatch in the figure of deferred tax assets during the year as per Statement of profit and loss and notes to the financial statements (*Para 3(ii)*).

➤ Not giving the cross-reference of 'revenue from operation' disclosed in Statement of Profit and Loss, with the relevant notes to the account (*Para 3(ii)*).

➤ Not cross-referencing the line items viz. capital work-in-progress, tax expenses, and earning per share, with the relevant notes to the accounts (*Para 3(ii)*).

➤ Not cross-referencing with the relevant notes to the accounts, the line items given in Balance Sheet viz. 'Property, Plant & Equipment,' 'Deferred Tax', and in Statement of Profit and Loss the line item on 'Earnings Per Share.' (*Para 3(ii)*).

➤ Wrongly cross-referencing note number of earnings per share between Statement of Profit and loss and note on EPS given in the financial statements (*Para 3(ii)*).

➤ Not using the same unit of measurement uniformly in the financial statements (*Para 4(ii)*).

➤ Inconsistency within comparative information of current year financial statements with prior year financial statements w.r.t long-term borrowing, other current liabilities and other non-current assets (*Para 5*).

➤ Not disclosing the corresponding figures (comparatives) for previous year w.r.t fixed assets, outstanding forward contract and fixed deposit under lien (*Para 5*).

➤ Not reporting the corresponding amounts (comparatives) for the immediately preceding reporting period with respect to addition, deletion, depreciation etc. for property, plant & equipment in notes to the financial statements (*Para 5*).

➤ Not disclosing the comparative figures in Notes for CSR expenditures {Gross amount required to be spent, amount spent during the year and shortfall (if any)} (*Para 5*).

### Part – I – Balance Sheet

- Not disclosing trade payables as i) total outstanding dues of micro enterprises and small enterprises ii) total outstanding dues of creditors other than micro enterprises and small enterprises on the face of the balance sheet (*Part I – Balance sheet*).
- Not maintaining the order of disclosure of 'long-term provisions' and 'other long-term liabilities' (*Part I – Balance sheet*).
- Not using the nomenclature Property, plant & equipment in place of 'fixed assets' & 'tangible assets' (*Part I – Balance sheet*).
- Mentioning Assessment Year on the face of the Balance Sheet and Statement of Profit & Loss Account (*Part I - Balance Sheet & Part II - Statement of Profit and Loss*).
- Disclosing statutory dues under trade payables instead of other current liabilities (*Para 5*).
- Not disclosing the rights, preferences and restrictions attached to each class of shares including restrictions on the distribution of dividends and the repayment of capital in the notes related to share capital (*Para 6(A)(e)*).

- Not disclosing shares by holding company or ultimate holding company, for each class of share capital (*Para 6(A)(f)*).
- Not disclosing the details of number of shares held by one of the shareholders who holds more than 5 percent of the total shares under the note on 'Share Capital' (*Para 6A(g)*).
- Making incorrect disclosure about shareholding of the promoter (*Para 6(A)(m)*).
- Using the term securities premium reserve instead of using securities premium in notes to the financial statements (*Para 6B(c)*).
- Not making further sub-classification of long-term borrowings from related parties into secured, unsecured and other disclosures (*Para 6(C)*).
- Not making disclosure of terms of repayment viz. period of maturity, number of instalments, applicable interest rates etc. of long-term borrowings (*Para 6(C)(vi) read with Para 8.3.1.18 of GN on Division*).
- Not disclosing the defined benefit obligation (Provision for employee benefits) in Long-term Provision. Same is disclosed under other long-term liabilities in the financial statements (*Para 6(E)*).
- Not classifying short-term borrowings into secured and unsecured and not disclosing nature of security (*Para 6(F)(ii)*).
- Not disclosing bifurcation of trade payable from MSME and other than MSME (*Para No. 6F(v)*).
- Not disclosing maturity analysis of trade payables for 2-3 years and more than 3 years (*Para 6(FB)*).
- Netting off the advance received from customer from trade receivables and not disclosing it under the head 'Other Current Liabilities' (*Para 6(G) of General Instructions for Preparation of Balance Sheet, Part – I, Division I of Schedule III to the Companies Act, 2013 read with paragraph 8.7.7 of Guidance Note on Division I – Non Ind AS Schedule III to the Companies Act, 2013*).
- Not disclosing the nature of dues payable to employees (i.e. salary payable) separately (*Para 6(G)*).
- Classifying audit fees payable, electricity charges payable, and telephone expenses payable under short term provisions instead of classifying them as other payables under other current liabilities (*Para 6G(j)*).
- Not specifying the nature of other expenses, statutory dues and payable to bank under note – Other Current Liabilities (*Para 6(G)(j)*).
- Not disclosing the nature of provision for expenses in notes to the financial statements (*Para 6H(b)*).
- Using the term fixed assets instead of property, plant & equipment on the face of the Balance Sheet (*Para 6I*).
- Not disclosing the nature of intangible assets (*Para 6 J*).
- Not classifying non-current investments as quoted and unquoted investments (*Para K*).
- Disclosing the non-current investments as trade investments and other investments (*Para K(i) read with Para 8.7.5.1 of Guidance Note on Division I Schedule III*).
- Not bifurcating long-term loans and advances between 'Capital Advance' and 'Other than Capital Advances' and further bifurcation into 'Secured' and 'Unsecured' (*Para 6(L)*).
- Wrongly mentioning capital advances under short term loans and advances instead of long-term loans and advances (*Para 6(L)(i)(a)*).

- Disclosing Advance to Creditors – Capital (Capital Advance) under Other Current Assets instead of classifying them as Non-Currents Assets (*Para 6(L) read with Para 8.7.6 of Guidance Note on Division I*).
- Not disclosing the Security Deposits under the heading “Security Deposits - Secured, considered good’ (*Para 6(L)(b)*).
- Not disclosing inter-corporate borrowing under the head ‘Long-term Loans’ (*Para 6(L)*).
- Not disclosing investments in equity instruments, preference shares, government or trust securities, debentures or bonds, mutual funds, partnership firms and others (*Para 6(N)(i)*).
- Not disclosing the basis of valuation of individual investments; (ii) Aggregate amount of quoted investment and market value thereof; (iii) Aggregate amount of unquoted investment: and (iv) Aggregate amount of provision made for diminution in value of investment (*Para 6 (N)(ii)*).
- Not disclosing the breakup of inventories (*Para 6(O)*).
- Not stating the method of valuation of inventories for raw materials under Note of Inventories (*Para 6(O)(iii)*).
- Not disclosing the ‘stores and spares’ as separate line item under Notes on Inventories (*Para 6(O)(e)*).
- Not providing separate sub-classification of trade receivables into (a) Secured, considered good; (b) Unsecured, considered good (c) Doubtful (*Para 6(P)(ii)*).
- Not disclosing the allowance for bad and doubtful receivables, separately (*Para 6(P)(iii)*).
- Not disclosing the nature of ‘other current liabilities’ (*Para 6(P)(iii)*).
- Disclosing Fixed deposits with maturities exceeding three months under Cash and Cash Equivalents rather than being classified as Other Bank Balances (*Para 6(Q) read with Paragraph 8.8.4 of the Guidance Note on Division I*).
- Not disclosing nature of Advances recoverable in cash or in kind under Note w.r.t Short Term Loans and Advance (*Para 6(R)(i)*)
- Disclosing advances given to employees under the line item ‘Advances to Vendors’ (*Para 6(R)*).
- Not disclosing short term loans & advances as (a) Secured, considered good; (b) Unsecured, considered good (c) Doubtful (*Para 6(R)(i)*).
- Not disclosing the nature of balance with statutory authority under other current assets (*Para No. 6(S)*).
- Wrongly disclosing the GST input tax credit, Service tax input and Sales tax receivable under Short-term loans and advances instead of disclosing under Other current assets (*Para 6(S)*).
- Not disclosing the details of capital commitments and other commitments in the notes to accounts (*Para No. 6T(ii)*).
- Not specifying whether loans have been granted to promoters, Directors, KMPs and the related parties, under the note related to loans and advances (*Para 6(Y)(iii)*).
- Not disclosing in the note of “Additional regulatory information required by Schedule III of Companies Act 2013”, the following, where the company has borrowings from banks or financial institutions on the basis of security of current assets: - a.) Whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions are in agreement with the books of accounts. b.) If not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed (*Para 6Y(vii)*).

## Part – II – Statement of Profit and Loss

- Not mentioning the note number on some notes to the financial statements (*Part I - Balance Sheet & Part II - Statement of Profit and Loss*).
- Using the term administrative and selling expenses instead of other expenses on the face of the Statement of Profit and Loss (*Part II - Statement of Profit and Loss*).
- Disclosing on the face of Profit and Loss, the sale of service and other operating income, instead of disclosing in notes showing revenue from (a) Sale of products (b) Sale of services (c) Other operating revenues (d) Less: Excise duty (*Para 2(A)*).
- Incorrect disclosure of 'revenue from sale of chemicals' under 'revenue from services' (*Para 2(A)*).
- Disclosing insurance and tax charges as finance cost (*Para 3*).
- Not including the bank charges in finance cost (*Para 3*).
- Disclosing 'duty drawback' as 'other income' and not as 'other operating revenue' (*Para 4*).
- Disclosing director remuneration under other expenses instead of employee benefits expenses in notes to financial statements (*Para 5(i)(a) read with Para No. 9.5.4.1 of Guidance Note on Division I*).
- Using the nomenclature STCG on securities instead of net gain on sale of investments under note on "Other Income" (*Para 5(i)(g)*).
- Clubbing the expenses pertaining to tax consultancy and representation matter paid to other consultant under the heading payment to auditors in notes to the financial statements (*Para 5(i)(j)*).
- Not giving breakup of payments made to auditor under various sub-heads in the notes to the financial statements (*Para. 5(i)(j)*).
- Disclosing payment made to cost auditor and internal auditor towards cost audit and internal audit, respectively, together with the payment made to statutory audit (*Para 5(i)(j)*).
- Not disclosing the nature of raw material and WIP under broad heads (*Para 5(ii)(a) & (iii)*).
- Disclosing Rent, Rates & Tax as a single line item instead of disclosing Rent and Rates and Taxes as separate line items under Other Expenses (*Para 5(vi)*).
- Not giving additional disclosure related to value of imports calculated on C.I.F basis by the company during the financial year in respect of – I. Raw materials; II. Components and spare parts; III. Capital goods (*Para 5(viii)(a)*).
- Not making the disclosure of percent of total value of imported item to total consumption (*Para 5(viii)(c)*).
- Not disclosing the earnings in foreign exchange classified into appropriate heads (*Para 5(viii)(e)*).

## Guidance Note on Div. I Non-Ind AS Schedule III to the Companies Act, 2013

- Wrongly using the term 'Cash and cash equivalents' instead of 'Cash and bank balances' where there are FDs with maturity of more than 3 months (*Para 6.4*).
- Disclosing payables w.r.t capital items as 'trade-payables'. Trade payables can be only those which are due in respect of goods purchased or services received (*Para 8.4.1*).

- Current maturity of Long-Term debts is required to be classified as short-term borrowings and presented as a separate line item. The company has classified it under Other Current Liabilities (*Para 8.6.1.2*).
- Not disclosing statutory dues of PF and ESI under the head 'other current liability' (*Para 8.6.3*).
- Using the term share application money pending allotment instead of application money paid towards securities under non-current investments in notes to the financial statements and for not disclosing when the allotment is expected to be completed, although the same amount is appearing in the Notes to the financial statements since previous year (*Para 8.7.5.10*).
- Classifying GST receivable under Other Current Assets instead of classifying under short-term loans and advances (*Para 8.8.5 read with 8.7.6*).
- Not disclosing the break-up of various heads of expenses included in the line-item CSR expenditure and other disclosures such as gross amount required to be spent and the amount spent during the year on CSR activities, details of related party transactions (*Para 10.13*).

## Other Relevant Laws and Regulations

The following major observations in respect of Other Relevant Laws and Regulations were noticed in the Audit files reviewed in respect of reviews undertaken during the year: -

### **Companies Act, 2013**

- Wrongly reporting company as holding company at several places in Independent Auditor's Report of consolidated financial statements (*Section 2(46)*).
- Not mentioning CIN no. and other details in the financial statements (*Section 12*).
- Signing the financial statements of the company by the director in individual capacity instead of signing on behalf of board of directors (*Section 134(1)*).
- Not obtaining the extract of resolution of board of directors for approval of financial statements before signing and issuing auditor's report thereon (*Section 134(1) read with Para A60 of SA 700*).
- Contravention of the provisions of *Section 134(2)* which requires auditor's report to be attached with financial statements that are to be approved by the BOD.
- Not debiting the correct amount required to be spent during the year as CSR expenditure, as disclosed in the note for CSR, in the statement of P/L (*Section 135*).
- Not providing the amount of CSR required to be spent during the year in the statement of Profit and Loss. As per Section 135 (5) the entity is required to transfer any unspent amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year (*Section 135 of the Companies Act 2013 read with note no. 5 (x) of general Instructions for the preparation of the Profit and Loss*).
- Not providing detailed disclosures related to CSR Expenditure (*Section 135 of the Companies Act, 2013 read with Para 11.5 of GN of Division II, Schedule III*).
- Not disclosing the fact that "the Company does not have any pending litigations which would impact its financial position" in Report on Other Legal and Regulatory Requirements Para under Independent Auditor's Report (*Section 143(3) of Companies Act 2013 read with Illustration 3 of SA 700*).
- Using incorrect terminology in the auditor's report on standalone as well as consolidated financial statements, for 'internal financial control with reference to financial statements' as mentioned u/s 143(3)(i) of the Companies Act, 2013.
- Not reporting on IFCoFR by the auditor even though the provisions of reporting on the same are applicable on the company (*Section 143(3)(i) of the Companies Act, 2013 and Notification GSR 583(E) dated 13-06-2017 read with GSR 2218(E) dated 13-07-2017*).
- Not reporting correctly under report on other legal and regulatory requirements section of the Audit report in respect of consideration of books of accounts and proper returns received from branches (*Section 143(3)(b)*).
- Incorrect reporting on Para (d) of the Report on Other Legal and Regulatory Requirements under the Independent Auditor's Report, the correct reference should have been made to the Companies

(Indian Accounting Standards) Rules, 2015, instead of referring to the Companies (Accounts) Rules, 2015 (*Sec. 143(3)(e) read with illustration no. 3 under appendix to SA 700*).

- Not mentioning the Director Identification Number (DIN) on the face of financial statements (*Section 158*).
- Not disclosing the fact that the provision of section 177 is not applicable to the company since it is a Pvt. Ltd. company (*Section 177*).
- Loans disclosed in notes to the financial statements do not include the full particulars required by Section 186(4), such as the purpose for which the loans, guarantees, or securities are to be utilized by the recipient (*Section 186(4)*).
- Incorrectly stating that Section 197 of Companies Act 2013 has been complied with even though it is not applicable to a private limited company. The company should ensure that reporting is aligned with the applicable provisions of the Companies Act 2013 (*Section 197 read with Schedule V of the Companies Act, 2013*).
- Incorrectly reporting on remuneration of directors, even though the same is not applicable on private limited companies (*Section 197(16)*).
- Mentioning in the independent auditor's report under para-Report on Other Legal and Regulatory Requirements that there have been no delays in transferring amounts required to be transferred to the Investor Education and Protection Fund (IEPF), without the same being applicable to the company (*Rule 11(c) of Companies (Audit and Auditors) Rules, 2014*).
- Wrongly reporting under report on other legal and regulatory requirements para in the independent auditor's report that the company made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts whereas there were no material foreseeable losses on long term contracts including derivative contracts and no provision was made during the year (*Rule 11 of The Companies (Audit and Auditors) Rules, 2014*).
- Wrongly reporting that 'The company does not have any pending litigations which would impact its financial position', even though the company has disclosed contingent liabilities w.r.t Income tax disputes in notes to the financial statements. (*Clause(a) of Rule 11 of Companies (Audit & Auditors) Rules, 2014*).

### **Companies Auditor's Report Order (CARO), 2016 and 2020/ Guidance Note on CARO, 2016 and 2020**

#### **Companies Auditor's Report Order (CARO), 2020**

- Not stating the discrepancy level w.r.t inventory while reporting under CARO (*Clause 3(ii)(a) read with Para 46(l) of Guidance note on CARO, 2020*).
- Reporting contradictory information w.r.t granting of loan to associates and others by firstly reporting that during the year company has not provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured to companies, firms, Limited Liability Partnerships or any other parties, and then again reported that unsecured loan and advances in

nature of loan was granted to companies and other parties (*Clause 3(iii) of Companies (Auditor's Report) Order, 2020*).

- Not reporting whether reasonable steps have been taken by the company for recovery of overdue interest while reporting on overdue interest as per *Clause 3(iii)(d) of CARO, 2020*.
- Making incorrect reporting that the provisions of sec 186 was not applicable on the company, although the same is applicable. (*Clause 3(iv) of Companies (Auditor's Report) Order, 2020*).
- Making incorrect reporting on *Clause 3(iv) of CARO, 2020*, that company has not, directly or indirectly, given any loan to directors or any other person in whom director is interested and therefore the provision of clause 3(iv) of CARO, 2020 are not applicable whereas loans were given to parties covered in section 185. Accordingly, the reporting done by the auditor is incorrect.
- Not stating the fact of deposit having been made under protest w.r.t sales tax and service tax while reporting under CARO (*Clause 3(vii)(b) read with Para 58(i) of Guidance note on CARO, 2020*).
- Inaccurately reporting that the company has no loans or borrowings and has not made repayments to lenders during the year, despite the existence of both long-term and short-term borrowings in its financials (*Clause 3(ix) of Companies (Auditor's Report) Order, 2020*).
- Making incorrect reporting on *clause 3(ix)(d) of CARO, 2020*, since the auditor has reported under above paragraph that 'no funds were raised on short term basis and therefore clause 3(ix)(d) of the order is not applicable to the company.' However, it was noted from the Financial Statements that short-term funds were raised. (*Clause 3(ix)(d) of CARO, 2020*).
- Making incorrect reporting that no funds raised on short-term basis have been used for long-term purposes by the company (*Clause 3(ix)(d) of CARO, 2020*).
- Not reporting the following details in the Audit Report: -
  - a. Relevant Financial year (for Current year and for the previous year/(s) for which the amount remains unspent).
  - b. Amount identified for spending on Corporate Social Responsibility activities "other than Ongoing Projects".
  - c. Unspent amount of (b).
  - d. Amount Transferred to Fund specified in Schedule VII to the Act.
  - e. Due date of transfer to the specified fund.
  - f. Actual date of transfer to the specified fund.
  - g. Number of days of delay if any (*Para 86(a)(o) of Guidance Note on CARO, 2020*).

#### **Companies Auditor's Report Order (CARO), 2016**

- Not reporting on the material discrepancies noted during the physical verification of fixed assets (*Clause 3(i)(b) of CARO, 2016*).
- Not reporting on the reasonableness of the interval in which physical verification of PPE was done (*Clause 3(i)(b) of CARO, 2016 read with Para 35(e) of Guidance Note on CARO, 2016*).
- Not reporting whether the physical verification of PPE was done in reasonable intervals and not reporting anything regarding material discrepancies noticed, if any (*Clause 3(i)(b) of CARO, 2016 read with para 35(e) & (f) of GN on CARO, 2016*).

- Not reporting on fact whether the title deeds of immovable properties are held in the name of the Company (*Clause 3(i)(c) of CARO 2016*).
- Not obtaining confirmation from the bank for the immovable property mortgaged with them (*Clause 3 (i)(c) of CARO, 2016 read with Para 36(g) of GN on CARO, 2016*).
- Not reporting on the loans granted to parties covered u/s 189 of the Companies Act, 2013 (*Clause 3(iii) of CARO, 2016*).
- Wrongly reporting in *Clause 3(iii) of Companies (Auditor's Report) Order, 2016* that no loan has been granted, despite loans given to related parties as disclosed in Notes to the financial statements.
- Mentioning incorrect amount of guarantee given to wholly owned subsidiary while reporting the details of loans and guarantees provided by the company under CARO (*Clause 3(iii)(a)(A) of CARO, 2016*).
- Not reporting undisputed statutory dues in respect of "Sales Tax" as required under CARO, 2016 (*Clause 3(vii)(a) of CARO, 2016*).
- Mentioning the term other material Statutory dues instead of any other statutory dues while reporting under CARO (*Clause 3(vii)(a) read with Para 57(b) of Guidance note on CARO, 2020*).
- Not including PF and ESI while reporting on "Whether the company is regular in depositing undisputed statutory dues...." (*Clause 3(vii)(a) of CARO, 2016*).
- Wrongly mentioning the term 'Goods and Service Tax' while reporting the statutory dues which have not been deposited on account of any dispute. However, there are no matters related to Goods and Service Tax which are required to be reported (*Clause 3(vii)(b) of CARO, 2016*).
- Wrongly reporting the rejection of refund as amount not deposited under dispute, while reporting under *clause 3(vii)(b) of CARO 2016*.
- Incorrectly reporting that there are no dues of ESI. However as per note on Contingent Liabilities given in the financial statements there is a dispute pending with the office of ESI corporation (*Clause 3(vii)(b) of CARO, 2016*).
- Not reporting under CARO report regarding arrear of disputed dues for a period of less than six months and reporting for more than 6 months only (*Clause 3(vii)(b) of CARO 2016*).
- Not reporting the disputed income tax liabilities as per CARO, 2016 (*Clause 3(vii)(b) of CARO, 2016*).
- Mentioning incorrect forum where dispute is pending, w.r.t dues of Income Tax, under CARO 2016 reporting in independent auditor's report (CIT Appeals) viz a viz Contingent liability disclosure (ITAT) (*Clause 3 (vii)(b) of CARO, 2016*).
- Reporting irrelevant line that 'based on 'auditor's report' in respect of statutory dues, whereas there is no other auditor except Audit firm itself (*Clause 3(vii) of CARO, 2016*).
- Not reporting the default in payment of government dues and debenture holders (*Clause 3(viii) of CARO, 2016*).
- Not reporting whether the company has loans or borrowings from the government or dues to debenture holders (*Clause 3(viii) of the Companies (Auditor's Report) Order, 2016*).
- Incorrect reporting that company had not raised any money from term loan, despite having obtained a loan from the government (*Clause 3(ix) of CARO, 2016 read with para 45(j) of GN on CARO, 2016*). According to *Paragraph 45(j) of the Guidance Note*, all term loans, regardless of whether they are from banks, financial institutions, or other entities/persons, must be reported under this clause.

- Not reporting whether any fraud on the company by its officers or employees has been noticed or reported during the year (*Clause 3(x) of CARO, 2016*).
- Mentioning that the company has paid/provided the managerial remuneration in accordance with the requisite approvals mandated by the provisions of Section 197 read with Schedule V of the Companies Act. However, the provisions of the section 197 are not applicable to a private company (*Clause 3(xi) of CARO, 2016*).
- Incorrectly reporting about the compliance of Sec. 177 of the Companies Act, 2013 whereas Sec. 177 is not applicable to the company since it is a private company (*Clause 3(xiii) of CARO, 2016*).
- Incorrectly reporting about issuance of convertible debentures, whereas no such debentures were issued by the company during the year (*Clause 3(xiv) of CARO, 2016*).
- Incorrectly reporting that the company has made a private placement of shares by way of increase in paid up share capital during the year though no such private placement of shares by way of increase in paid up share capital during the year has occurred (*Clause 3(xiv) of CARO, 2016*).
- Not stating the amount of cash losses while reporting “whether the company has incurred cash losses in the financial year and in the immediately preceding financial year” under CARO (*Clause 3(xvii) of CARO, 2016*).
- Not following the prescribed audit procedure for verifying the title deeds of immovable properties as provided under *Para 36 (c to j) of Guidance Note on CARO, 2016* for reporting on Clause 3(i)(c) of CARO, 2016.
- Deposit under protest have not been reported separately in line with the *Para 43(g) of Guidance Note on CARO, 2016*.
- Not giving the opinion and merely stating the facts in respect of physical verification based on management certificate (*Para 60 of Guidance Note on the Companies (Auditor's Report) Order, 2016*).

## Others

- Considering CSR amount spent for acquisition of asset viz Solar Power Project as addition to Property Plant and Equipment (PPE) of the entity in contravention with the requirements of Rule 2(d) and 7(4). It may be noted that as per rule 7(4) CSR amount may be spent on creation of a capital asset which shall be held in the name of Section 8 company/ beneficiary/ public authority (*Companies (Corporate Social Responsibility Policy) Rules, 2014*).
- Accounting the expenses of less than INR 50,000 on cash basis instead of accrual basis of accounting (*Para 22 of Framework for the Preparation and Presentation of Financial Statements read with section 128(1) of the Companies Act 2013*).
- Using the expression ‘As valued and certified by the management’ while disclosing inventories in the financial statements (*Clarification issued by the council of ICAI - Auditor's Duties where Inventories are Stated to be “As Valued and Certified by the Management” in Financial Statements - Guidance Note on Audit of Inventories*).
- Not attending the physical inventory verification conducted by the management and where it is impracticable to do so the alternate audit procedures were also not performed (*Para B.3 of Guidance Note on Physical Inventory Verification – Key Audit Considerations amid COVID-19 read with Para 7 of SA-501 Audit Evidence - Specific Considerations for Selected Items*).

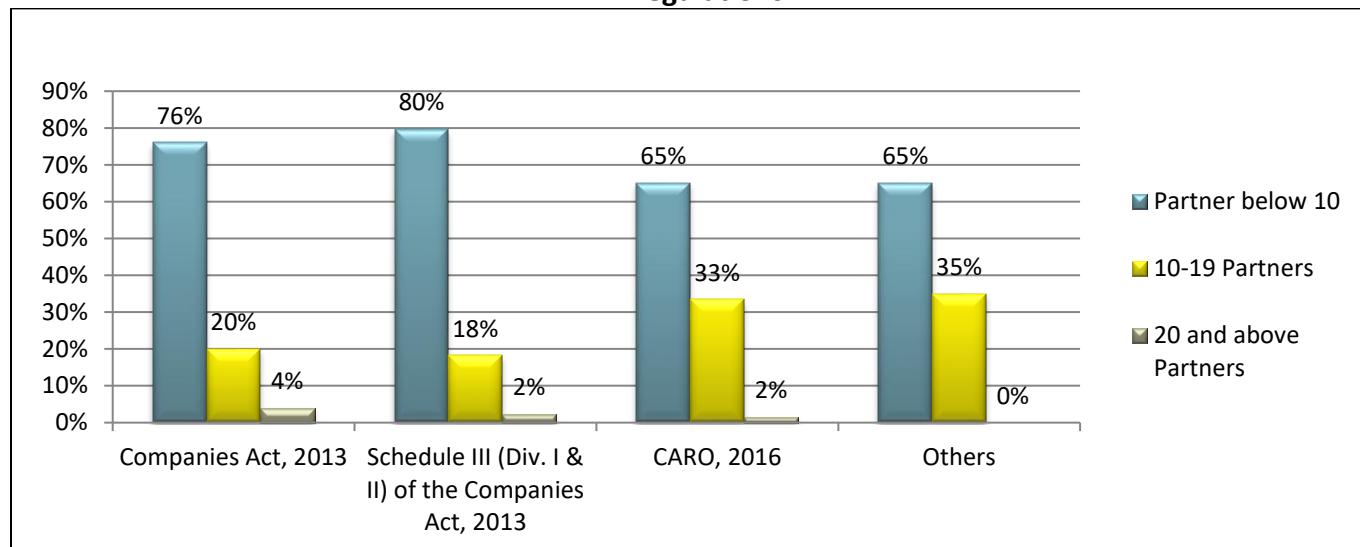
- Not providing appropriate disclosure in the Financial Statements regarding impact of COVID 19 (*Guidance Note on Auditor's Reporting Key Audit Considerations and COVID-19*).
- Mentioning incorrect UDIN in the Audit report (*Guidelines issued by the Council of ICAI regarding UDIN*).
- Not documenting the working papers w.r.t work performed on internal financial controls over financial reporting (*Para 165 of Guidance Note on Audit of internal financial control*).
- Not obtaining relevant working papers regarding relevant receipts and certificates duly supported by bank advise, regarding fixed deposits (*Paragraph 21 of Guidance Note on audit of Cash and Bank Balances*)

The Audit Firm Under Review did not have the information regarding start and maturity date of FD and whether the same were pledged or not, and has not obtained the relevant working papers as mentioned in *paragraph 21 of Guidance Note on audit of Cash and Bank Balances* i.e., relevant receipts and certificates duly supported by bank advise, regarding such fixed deposits.

- Not disclosing the forex exposures from borrowings taken (*Paragraph 69 read with Appendix I of GN on Accounting of Derivative Contract*).
- Not disclosing the MAT credit separately as 'Loans and Advances' under Balance Sheet of the company (*Paragraph 13 of Guidance Note on Accounting for Credit Available in respect of Minimum Alternative Tax under the Income-tax Act, 1961*).
- Not applying the safeguards that may eliminate or reduce the threat of undue dependence on a client's fees and hence concerns about losing the engagement, to an acceptable level (*Section 100.10 and 200.4 of Code of Ethics*).
- Not complying with the requirements of *Section 22 of The Micro, Small and Medium Enterprises Development Act 2006* for not disclosing –
  - (i) principal and interest due on amount unpaid to any supplier at the end of accounting period.
  - (ii) amount of interest paid along with amount of delayed payment.
  - (iii) amount of interest due and payable for delayed period,
  - (iv) amount of interest accrued and remaining unpaid at the end of the reporting period.
  - (v) amount of further interest remaining due and payable amount of interest required to be given.
- Mismatch in surplus brought forward from previous year and balance available for appropriation within the Boards Report.
- Mismatch in figures disclosed under different notes to Financial Statements pertaining to fair value measurement.
- Disclosure of auditor's remuneration for current year as 'Nil' under Notes to the financial statements, also disclosure of contradictory information w.r.t amount of depreciation recognized in statement of profit and loss and Notes to the financial statements.
- Disclosure of contradictory information w.r.t amount of fixed assets in Balance Sheet and in Notes to the financial statements.
- Stating incorrectly that the figures rounded off to nearest rupees instead of stating figures rounded off to nearest rupees lakhs in notes to the financial statements which is contradictory to reporting done in the Balance Sheet and Statement of Profit and Loss.

- Not appropriately disclosing the unit of measurement for EPS. It may be noted that EPS is measured and disclosed in 'Rs.' and not 'Rs. in Lakhs'.
- Including the terms such as vat/ excise and service tax in policy for revenue recognition, though these were not applicable to the company.
- It was noted that along with the financial statements, the company has included copies of some details which are not part of the audited financial statements of the company.
- Under the cash flow statement, the net profit is adjusted with profit from the sale of fixed assets whereas inadvertently the term loss on sale of fixed assets was used.
- Reporting incorrect operating cycle of 2-4 months in significant accounting policies in the financial statements.

**Chart 21 : Segregation of Entities based on Observations on Other Relevant Laws and Regulations**



## Matters of General Guidance for Audit Firms

1. Standards on Auditing		
a.	<b>Standard on Quality Control (SQC)-1</b>	<ul style="list-style-type: none"> <li>While reviewing and updating the audit firm's policies and procedures, reference to the Implementation guide to SQC-1 issued by ICAI may be referred at: <a href="https://resource.cdn.icai.org/20913frpubcd_aasb1.pdf">https://resource.cdn.icai.org/20913frpubcd_aasb1.pdf</a></li> </ul>
b.	<b>Planning, Risk Assessment and Response to Assessed Risks</b>	<ul style="list-style-type: none"> <li>Checklist on Standards on Auditing issued by ICAI may be referred at: <a href="https://resource.cdn.icai.org/74466aasb60406.pdf">https://resource.cdn.icai.org/74466aasb60406.pdf</a></li> </ul>
c.	<b>Audit Documentation</b>	<ul style="list-style-type: none"> <li>Audit Working Paper Templates issued by ICAI may be referred at: <a href="https://resource.cdn.icai.org/75000aasb60542a.pdf">https://resource.cdn.icai.org/75000aasb60542a.pdf</a></li> <li>Implementation Guide to Standard on Auditing (SA) 230, Audit Documentation issued by ICAI may be referred at: <a href="https://resource.cdn.icai.org/72414aasb58321.pdf">https://resource.cdn.icai.org/72414aasb58321.pdf</a></li> <li>Checklist on Standards on Auditing issued by ICAI may be referred at: <a href="https://resource.cdn.icai.org/74466aasb60406.pdf">https://resource.cdn.icai.org/74466aasb60406.pdf</a></li> </ul>
d.	<b>Audit Evidence</b>	<ul style="list-style-type: none"> <li>Checklist on Standards on Auditing issued by ICAI may be referred at: <a href="https://resource.cdn.icai.org/74466aasb60406.pdf">https://resource.cdn.icai.org/74466aasb60406.pdf</a></li> </ul>
e.	<b>Audit Conclusions and Reporting</b>	<ul style="list-style-type: none"> <li>Implementation Guide on Reporting Standards (Revised SA 700, Revised SA 705 and Revised SA 706) issued by ICAI may be referred at: <a href="https://resource.cdn.icai.org/50035aasb39630.pdf">https://resource.cdn.icai.org/50035aasb39630.pdf</a></li> <li>Checklist on Standards on Auditing issued by ICAI may be referred at: <a href="https://resource.cdn.icai.org/74466aasb60406.pdf">https://resource.cdn.icai.org/74466aasb60406.pdf</a></li> </ul>
2. Accounting Standards/Ind ASs		
a.	<b>Accounting Standards/ Ind ASs</b>	<ul style="list-style-type: none"> <li>Various disclosure requirements of the applicable accounting framework viz. AS/ Ind AS, should be appropriately complied with. Ind AS disclosure checklist issued by ICAI may be referred at: <a href="https://www.icai.org/post/technical-guides-and-other-materials">https://www.icai.org/post/technical-guides-and-other-materials</a></li> </ul>

### 3. Other Relevant Laws & Regulations

a.	<b>CARO</b>	<ul style="list-style-type: none"><li>Guidance Note on the Companies (Auditor's Report) Order, 2020 (Revised 2022 Edition) issued by ICAI may be referred at: <a href="https://resource.cdn.icai.org/70956aasb56965.pdf">https://resource.cdn.icai.org/70956aasb56965.pdf</a></li></ul>
b.	<b>Schedule III of the Companies Act, 2013</b>	<ul style="list-style-type: none"><li>Guidance Note on Division I - Non Ind AS Schedule III to the Companies Act 2013/ Guidance Note on Division II - Ind AS Schedule III to the Companies Act 2013 issued by ICAI may be referred at: <a href="https://resource.cdn.icai.org/68981clcgc55147-gnd1.pdf">https://resource.cdn.icai.org/68981clcgc55147-gnd1.pdf</a> <a href="https://resource.cdn.icai.org/68982clcgc55147-gnd2.pdf">https://resource.cdn.icai.org/68982clcgc55147-gnd2.pdf</a></li><li>Guidance Note on Accounting for Expenditure on Corporate Social Responsibility Activities issued by ICAI may be referred at: <a href="https://resource.cdn.icai.org/38254asb27888csr.pdf">https://resource.cdn.icai.org/38254asb27888csr.pdf</a></li></ul>

## Annex A

**Number of observations and percent of AFURs having observations on Engagement and Quality control standards in reviews conducted:**

Engagement and Quality control standards	Number of Observations	Number of AFURs having Observations	Percent of AFURs to Total AFURs (Total AFURs =43)
SQC-1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements	56	17	40
SA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing	3	3	7
SA-210 Agreeing the Terms of Audit Engagements	3	3	7
SA-230 Audit Documentation	41	19	44
SA-250 Consideration of Laws and Regulations in an Audit of Financial Statements	1	1	2
SA-260 Communication with Those Charged with Governance	2	2	5
SA 299 Joint Audit of Financial Statements	2	1	2
SA-300 Planning an Audit of Financial Statements	4	4	9
SA-315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment	3	3	7
SA-320 Materiality in Planning and Performing an Audit	5	5	12
SA-330 The Auditor's Responses to Assessed Risks	2	2	5

SA 450 Evaluation of Misstatements Identified During the Audit	2	1	2
SA-501 Audit Evidence – Specific Considerations for Selected Items	2	2	5
SA-505 External Confirmations	12	10	23
SA 520 Analytical Procedures	1	1	2
SA-530 Audit Sampling	1	1	2
SA-540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	2	1	2
SA-550 Related Parties	1	1	2
SA 560 Subsequent Events	2	2	5
SA-580 Written Representations	1	1	2
SA-700 Forming an Opinion and Reporting on Financial Statements	29	16	37
SA 701 Communicating Key Audit Matters in the Independent Auditor's Report	4	4	9
SA-705 Modifications to the Opinion in the Independent Auditor's Report	4	2	5
SA-706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	4	2	5
SA-710 Comparative Information – Corresponding Figures and Comparative Financial Statements	1	1	2
SA-720 The Auditor's Responsibilities in Relation to Other Information in Documents containing Audited Financial Statements	6	6	14

## Annex B

**Number of observations and percent of Entities having observations on Accounting Standards (AS) and Indian Accounting Standards (Ind AS) in reviews conducted:**

Accounting Standards	Number of Observations	Number of Entities Having Observations	Percent of Engagements to Total Audit Engagements (Total = 45)
AS-1 Disclosure of Accounting Policies	14	10	22
AS-2 Valuation of Inventories	8	7	16
AS-3 Cash Flow Statements	30	11	24
AS-4 Contingencies and Events Occurring After the Balance Sheet Date	1	1	2
AS-5 Net Profit or Loss for the Period, Prior Period Items, and Changes in Accounting Policies	4	4	9
AS-9 Revenue Recognition	9	7	16
AS-10 Property, Plant and Equipment	6	6	13
AS-11 The Effects of Changes in Foreign Exchange Rates	3	3	7
AS-12 Accounting for Government Grants	1	1	2
AS-13 Accounting for Investments	4	3	7
AS-15 Employee Benefits	9	8	18
AS-16 Borrowing Cost	2	2	4
AS-17 Segment Reporting	5	5	11
AS-18 Related Party Disclosures	12	8	18
AS-19 Leases	2	2	4

AS-20 Earnings Per Share	7	6	13
AS-22 Accounting for Taxes on Income	13	8	18
AS-26 Intangible Assets	5	5	11
AS-29 Provision, Contingent Liabilities and Contingent Assets	4	4	9

Indian Accounting Standards (Ind AS)	Number of Observations	Number of Entities Having Observations	Percent of Engagements to Total Audit Engagements (Total = 45)
Ind AS-1 Presentation of Financial Statements	34	16	36
Ind AS-2 Inventories	4	4	9
Ind AS-7 Statement of Cash Flows	24	14	31
Ind AS-8 Accounting Policies, Changes in Accounting Estimates and Errors	4	3	7
Ind AS-10 Events after the Reporting Period	2	2	4
Ind AS-12 Income Taxes	9	7	16
Ind AS-16 Property, Plant and Equipment	6	4	9
Ind AS-17 Leases	3	3	7
Ind AS-18 Revenue Recognition	1	1	2
Ind AS-19 Employee Benefits	11	8	18
Ind AS-20 Accounting for Government Grants & Disclosure of Government Assistance	1	1	2
Ind AS 21 The Effects of Changes in Foreign Exchange Rates	4	3	7
Ind AS 23 Borrowing Costs	4	4	9

Ind AS-24 Related Party Disclosures	26	17	38
Ind AS-32 Financial Instruments: Presentation	1	1	2
Ind AS-33 Earnings per Share	9	9	20
Ind AS-37 Provisions, Contingent Liabilities and Contingent Assets	10	8	18
Ind AS-38 Intangible Assets	7	6	13
Ind AS-40 Investment Property	1	1	2
Ind AS-101 First-time Adoption of Indian Accounting Standards	2	2	4
Ind AS-102 Share-based Payment	3	2	4
Ind AS-103 Business Combinations	1	1	2
Ind AS-107 Financial Instruments: Disclosures	21	11	24
Ind AS-108 Operating Segments	9	6	13
Ind AS 109 Financial Instruments	11	5	11
Ind AS 113 Fair Value Measurement	7	7	16
Ind AS-115 Revenue from Contracts with Customers	16	9	20
Ind AS-116 Leases	6	4	9

## Annex C

**Number of observations and percent of Entities having observations on Other Relevant Laws and Regulations in reviews conducted:**

Other Relevant Laws and Regulations	Number of Observations	Number of Entities Having Observations	Percent of Engagements to Total Audit Engagements (Total = 45)
Companies Act, 2013	25	18	40
Schedule III (Div. I & II) of the Companies Act, 2013	270	39	87
CARO, 2016	63	24	53
Others	43	20	44

## Annex D

### **Meetings Organised during FY 2024-25**

The details of meetings held during the financial year 2024-25 of the Quality Review Board, constituted by the Government of India u/s 28A of the Chartered Accountants Act, 1949, and various Groups/Sub-Committees constituted by the Board are as follows: -

#### **Quality Review Board**

1. 76th meeting of the Quality Review Board held on 9th May, 2024 via video-conferencing.
2. 77th meeting of the Quality Review Board held on 23rd August, 2024 via video-conferencing.
3. 78th meeting of the Quality Review Board held on 23rd September, 2024 via video-conferencing.
4. 79th meeting of the Quality Review Board held on 26th November, 2024 via video-conferencing.

#### **Quality Review Group-I**

5. 64th meeting of the Quality Review Group-I, constituted by the QRB, held on 2nd May, 2024 via video-conferencing.
6. 65th meeting of the Quality Review Group-I, constituted by the QRB, held on 16th July, 2024 via video-conferencing.
7. 66th meeting of the Quality Review Group-I, constituted by the QRB, held on 17th October, 2024 via video-conferencing.

#### **Quality Review Group-II**

8. 2nd meeting of the Quality Review Group-II, constituted by the QRB, held on 6th May, 2024 via video-conferencing.
9. 3rd meeting of the Quality Review Group-II, constituted by the QRB, held on 31st July, 2024 via video-conferencing.
10. 4th meeting of the Quality Review Group-II, constituted by the QRB, held on 14th November, 2024 via video-conferencing.
11. 5th meeting of the Quality Review Group-II, constituted by the QRB, held on 30th January, 2025 via video-conferencing.

#### **Sub-Committee-I**

12. 28th meeting of the Sub-Committee-I, constituted by the QRB, held on 23rd October, 2024 via video-conferencing.

### Audit Committee of QRB

13. 13th meeting of Audit Committee of QRB held on 20th September, 2024 via video-conferencing.

## Annexure I

### Composition of the Board during the Year 2024 - 25

The composition of the Quality Review Board during the year 2024-25, established under the Chartered Accountants Act, 1949 consists of the following:-

#### **Nominees of the Central Government**

1. Ms. Shefali Shah, IRS (Retd.), New Delhi - Chairperson (w.e.f. 01.12.2021)
2. Mr. Inder Deep Singh Dhariwal, Joint Secretary, Ministry of Corporate Affairs, Government of India, New Delhi – Member (w.e.f. 30.09.2022)
3. Mr. Deep Mani Shah, Chief General Manager, Securities and Exchange Board of India, Mumbai - Member (w.e.f. 12.10.2023)
4. Mr. Deepak Kapoor, Director General (Commercial-II), Office of the Comptroller & Auditor General of India, New Delhi – Member (w.e.f. 29.11.2022)
5. Mr. Rajesh Kumar Bhoot, Joint Secretary (FT&TR)-II, CBDT, Ministry of Finance, Government of India, New Delhi - Member (w.e.f. 12.10.2023)

#### **Nominees of the Council of the ICAI**

6. CA. Chandrashekhar V. Chitale, Central Council Member, ICAI, Pune – Member (w.e.f. 24.08.2023)
7. CA. Durgesh Kumar Kabra, Central Council Member, ICAI, Mumbai – Member (w.e.f. 24.08.2023)
8. CA. Dayaniwas Sharma, Central Council Member, ICAI, Hyderabad – Member (w.e.f. 24.08.2023)
9. CA. Abhay Kumar Chhajed, Central Council Member, ICAI, Bhopal – Member (w.e.f. 24.08.2023)
10. CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Member (w.e.f. 24.08.2023)

#### **Special Invitees**

- Mr. Chandra Wadhwa, Council Member, ICAI, New Delhi – Special invitee (nominated by the Central Government w.e.f. 10.06.2016)
- CA. (Dr.) Jai Kumar Batra, Secretary, ICAI – Special invitee

#### **Secretary to the Board**

- CA. Aakanksha Kapoor, Joint Director, ICAI

**Annexure II****Composition of Sub-Committees/Groups of the Quality Review Board during the Year 2024 - 25**

The composition along with terms of reference of various Sub-committees/Groups constituted by the Quality Review Board during the year 2024-25 is as follows:-

**A. Quality Review Group -I (QRG-I)****Terms of Reference:**

QRG-I may perform, inter alia, the following functions and submit its recommendations, from time to time, to the Quality Review Board (QRB) for its further consideration:-

- Review the quality of audit services of audit firms, selected by the QRB, with assistance of Technical Reviewers in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB, as well as suggest various other necessary requirements, procedures, reporting and other formats, as it may deem fit, for conducting reviews of the quality of audit services of audit firms and submit its recommendations to the QRB.
- Perform such other functions as may be requested by the QRB from time to time.

**Composition:**

- Mr. Deepak Kapoor, Director General (Commercial-II), Office of the C&AG, New Delhi – Convenor
- Mr. Deep Mani Shah, Chief General Manager, Securities and Exchange Board of India, Mumbai – Member
- CA. Durgesh Kumar Kabra, Central Council Member, ICAI, Mumbai – Member
- CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Member
- Secretary, QRB to provide necessary secretarial support.

**B. Quality Review Group -II (QRG-II)****Terms of Reference:**

- QRG-II may perform, inter alia, the following functions and submit its recommendations, from time to time, to the Quality Review Board (QRB) for its further consideration:-
- Review the quality of audit services of audit firms, selected by the QRB, in respect of the cases placed before QRG-II, with assistance of Technical Reviewers in terms of the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB, as well as suggest various other necessary requirements, procedures, reporting and other formats, as it may deem fit, for conducting reviews of the quality of audit services of audit firms and submit its recommendations to the QRB.
- Perform such other functions as may be requested by the QRB from time to time.

**Composition:**

- Mr. Rajesh Kumar Bhoot, Pr. Commissioner of Income Tax (OSD) APA-2, Ministry of Finance, New Delhi – Convenor
- CA. Dayaniwas Sharma, Central Council Member, ICAI, Hyderabad – Member
- CA. Abhay Kumar Chhajed, Central Council Member, ICAI, Bhopal – Member
- Secretary, QRB to provide necessary secretarial support.

**C. Sub-Committee-I****Terms of Reference:**

Sub-Committee-I may perform, inter alia, the following functions and submit its recommendations, from time to time, to the Quality Review Board for its further consideration:-

- Recommend selection of Audit firms for quality review of their audit services and allotment of quality review work to the Technical Reviewers.
- Recommend Technical Reviewer/s that may be empanelled with the Quality Review Board and suggest measures as may be considered appropriate to further broaden the panel and issues connected therewith.
- Recommend industry specific experts, if required, for associating with the Quality Review Board.
- Look into all the issues arising from time to time relating to eligibility of Technical Reviewers to perform Quality Review assignments and the Sub-Committee could take appropriate decisions which may later on be informed to the Board for noting.
- Perform such other functions as may be prescribed from time to time.

**Composition:**

- CA. Dayaniwas Sharma, Central Council Member, ICAI, Hyderabad – Convenor
- CA. Abhay Kumar Chhajed, Central Council Member, ICAI, Bhopal – Member
- Mr. Deep Mani Shah, Chief General Manager, Securities and Exchange Board of India, Mumbai – Member
- Secretary, QRB to provide necessary secretarial support.

**D. Audit Committee of QRB****Terms of Reference:**

- To consider audit report and financial statements of Quality Review Board (QRB) and recommend to QRB adoption of the financial statements.
- To recommend to QRB appointment /re-appointment of Auditors of the QRB and their audit fees.

**Composition:**

- Mr. Deepak Kapoor, Director General (Commercial-II), Office of the C&AG, New Delhi – Convenor
- CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Member
- The Audit Committee is further authorized to invite Auditor of the QRB
- Secretary, QRB to provide necessary secretarial support.

## **E. Expert Group to examine QRB Procedure for Quality Review of Audit Services of Audit Firms and other matters**

### **Terms of Reference:**

Group may perform, inter alia, the following functions and submit its recommendations for further consideration by the Quality Review Board:-

- Keeping in view the experience gained during the process of reviews being carried out by the QRB, changes to the domestic regulatory framework for audit oversight as well as international practices and requirements for audit oversight, undertake holistic examination of the various aspects of reviews and make recommendations to the Quality Review Board, from time to time, for suggesting appropriate amendments, if required, to the Procedure for Quality Review of Audit Services of Audit Firms issued by the QRB.
- Update, from time to time, the Technical Guide on Conducting Quality Reviews for the guidance of Technical Reviewers.
- Perform such other functions as may be prescribed from time to time.

### **Composition:**

- CA. Pramod Jain, Central Council Member, ICAI, New Delhi – Convenor
- CA. Chandrashekhar V. Chitale, Central Council Member, ICAI, Pune – Member
- Mr. Rajesh Kumar Bhoot, Joint Secretary (FT&TR)-II, Central Board of Direct Taxes, Ministry of Finance, New Delhi - Member
- Secretary, QRB to provide necessary secretarial support.

## Glossary

AFUR	Audit Firm Under Review
AGM	Annual General Meeting
AS	Accounting Standard
CA	Chartered Accountant
C&AG	Comptroller & Auditor General of India
CARO	Companies Auditor's Report Order
CCM	Central Council Member
CIF	Cost, Insurance and Freight
CSR	Corporate Social Responsibility
CS	Company Secretary
EOM	Emphasis of Matter
EPS	Earnings Per Share
EQCR	Engagement Quality Control Review
ESOP	Employees Stock Ownership Plan
FCNR	Foreign Currency Non-Resident
FMCG	Fast Moving Consumer Goods
FOB	Free On Board
FRRB	Financial Reporting Review Board
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value through Profit and Loss
FY	Financial Year
GAAP	Generally Accepted Accounting Principles
GST	Goods and Services Tax
HR	Human Resources
ICAI	Institute of Chartered Accountants of India
ICSI	Institute of Company Secretaries of India
IEPF	Investor Education and Protection Fund
Ind AS	Indian Accounting Standards
IRS	Indian Revenue Services
IT	Information Technology
MAT	Minimum Alternate Tax
MSMED Act	Micro, Small and Medium Enterprises Development Act
NFRA	National Financial Reporting Authority
OCI	Other Comprehensive Income
PIE	Public Interest Entity
QRB	Quality Review Board
QRG	Quality Review Group

RBI	Reserve Bank of India
SA	Standard on Auditing
SEBI	Securities and Exchange Board of India
SOP	Standard Operating Procedure
SQC	Standard on Quality Control
TCWG	Those Charged With Governance
TR	Technical Reviewer
UCBs	Urban Cooperative Banks
UDIN	Unique Document Identification Number
W.e.f.	With effect from
W.r.t	With respect to

## **क्यूआरबी के बारे में**

चार्टर्ड एकाउंटेंट्स अधिनियम, १९४९ की धारा २८ए के अंतर्गत प्रदत्त शक्तियों का प्रयोग करते हुए, भारत की केंद्र सरकार ने २८ जून, २००७ की अधिसूचना संख्या जीएसआर ४४८ (ई) द्वारा एक कालिटी पुनर्विलोकन बोर्ड (क्यूआरबी) का, देश में चार्टर्ड एकाउंटेंट्स द्वारा प्रदान की जाने वाली सेवाओं की गुणवत्ता की समीक्षा करने के लिए, एक स्वतंत्र निकाय के रूप में अध्यक्ष और दस अन्य सदस्य सहित गठन किया। यह एक मजबूत व्यवस्था है जहां केंद्र सरकार अध्यक्ष और पांच सदस्यों को नामित करती है। सदस्यों को कानून, अर्थशास्त्र, व्यवसाय, वित्त या लेखा के क्षेत्र में अनुभव रखने वाले प्रतिष्ठित व्यक्तियों में से नामित किया जाता है। आईसीएआई अन्य पांच सदस्यों को नामित करता है। क्यूआरबी के अधिकांश सदस्य पेशे से स्वतंत्र हैं। वित्त वर्ष 2012-13 से, क्यूआरबी ने भारत में ऑडिट फर्मों की वैधानिक ऑडिट सेवाओं की स्वतंत्र समीक्षा की एक अलग और मजबूत प्रणाली को औपचारिक रूप दिया है। अधिक जानकारी के लिए, कृपया देखें [www.qrbca.in](http://www.qrbca.in)।

## **About QRB**

In exercise of the powers conferred u/s 28A of the Chartered Accountants Act, 1949, the Central Government of India, by Notification No. GSR 448 (E) dated 28th June, 2007, constituted a Quality Review Board (QRB) consisting of a Chairperson and ten other members as an independent body to review the quality of services rendered by chartered accountants in the country. It is a robust set-up where the Central Government nominates the Chairperson and five members. Members are nominated from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy. ICAI nominates the other five members. Majority of members of QRB are independent of the profession. Since FY 2012-13, QRB has formalised a distinct and strong system of independent review of statutory audit services of the audit firms in India. For more details, please visit [www.qrbca.in](http://www.qrbca.in)