FINANCIAL REPORTING PRACTICES

SIRC CHENNAI
11TH JANUARY 2025

WHY?

- Everyone is looking at the work we do!

WHAT DO WE FOLLOW?

- Companies Act, 2013
- Auditing Standards
- AS
- Ind AS
- SEBI
- RBI
- IRDAI
- NFRA

FRRB

- Set up in 2002
- Suo-moto or by reference
- Material or serious non-compliance- Director (Discipline)
- Else, bring it to the attention of the auditor

WHAT DO WE HAVE?

- Peer Review
- QRB
- FRRB reports
- NFRA
- SEBI
- RBI

FRRB

- 23-24
- 105 reviews
- Referred to Director (Discipline) – 18
- Referred to regulators - 16
- Advisories issued to auditors-53

FRRB

- @FRRBICAI

FRRB

- **Publication & Articles**
  - Study on Compliance of Financial Reporting Requirements (Ind AS Framework) Volume II
  - Study on Compliance of Financial Reporting Requirements (IND AS Framework)
  - Study on Compliance of Financial Reporting Requirements Volume III
  - Study on Compliance of Financial Reporting Requirements Volume II
  - Study on Compliance of Financial Reporting Requirements
  - Articles in Journal 'The Chartered Accountants'
  - Other Articles

WHY DO ERRORS OCCUR?

- Too many things to do, too little time
- Lack of guidance on complicated items
- The tax factor

Commonly Found Errors in Reporting Practices



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

ERRORS

- Financial Information
- Non-financial information
- Industry-specific observations

S. No.	Particulars		View of the TR	View of the FRRG
1	**To be Considered for Auto Analysis :** Yes		The use of the word 'materiality' is not in line with reporting requirement under CARO. It requires reporting of all frauds by the company or on the company by its officers or employees.	
	Title : CARO			
	Category : Manual Observation-Ind AS			
	System generated Obs. : N/A			
	Matter contained in the Annual Report	**Exact Technical requirement (s)**		
	Page number 131 of Annual report **CARO Clause (xi) (a):** Based on examination of the books and records of the Company and according to the information and explanations given to us, considering the principles of **materiality** outlined in Standards on Auditing, we report that no fraud by the Company or on the Company has been noticed or reported during the course of the audit.	CARO clause (xi) (a) requires reporting of all frauds by the company or on the company by its officers or employees.		

10	**To be Considered for Auto Analysis :** Yes		Payments to auditors includes internal audit fee of Rs.0.33 Mn. The statutory auditor cannot provide any internal audit services and hence it is not clear how is this amount disclosed. If there is separate internal auditor, their fee should be shown under Payment to Auditors	
	Title : Schedule III, Companies Act, 2013			
	Category : Manual Observation-Ind AS			
	System generated Obs. : N/A			
	Matter contained in the Annual Report	**Exact Technical requirement (s)**		
	Payments to auditors includes internal audit fee of Rs.0.33 Mn. The statutory auditor cannot provide any internal audit services and hence it is not clear how is this amount disclosed. If there is separate internal auditor, their fee should be shown under Payment to Auditors. refer page 170 of annual report.	Payments to auditors to be disclosed should be relating to statutory auditors only.		

ACCEPTABLE ACCOUNTING POLICY?

- Impairment Losses if any on Fixed Assets (including Revalued Assets) are recognised in accordance with AS 28-Impairment of Assets issued by the Institute of Chartered Accountants of India

ACCEPTABLE?

- Increase(Decrease) in Loans and Advances and current liabilities and provisions were classified under cash flow from financing activities

ACCOUNTING POLICY/REVENUE RECOGNITION

- Construction Contracts POC Method
- Onerous Contracts

REVENUE ACCOUNTING POLICY

- Revenues is recognised when significant risks and rewards are transferred to the customer

QUESTION

- How complete is your excel format of Schedule III?

ACCEPTABLE ACCOUNTING POLICY?

- Company's liability towards gratuity in respect of Directors on full time employment has been provided for and not funded. Company's liability towards Gratuity in respect of all other employees is worked out on an actuarial basis.

- Who checks if the actuarial valuation reports discloses all that it is supposed to disclose?

SPOT THE MISTAKE

- Costs in connection with the borrowing of funds to the extent not directly related to the acquisition of qualifying assets are charged to the Statement of Profit or Loss over the tenure of the loan

RELATED PARTY DISCLOSURES

- Why are these so important?

MATHEMATICAL QUESTION

- Can the Auditors' Remuneration in both Standalone and Consol be the same?

DEFERRED TAX

- Deferred tax liability consists of deferred tax on fixed assets and provision for gratuity

AUDITING STANDARDS



AUDITING STANDARDS

- There are 46 Auditing Standards issued by the ICAI
- Would become 47 of SQC 1 is replaced by SQM -1 and SQM -2
- One in draft stage by NFRA

WHICH STANDARDS WOULD APPLY TO OUR CLIENTS ?

- SA 230
- SA 240
- SA 520
- SA 550
- SA 570

WHICH STANDARDS WOULD APPLY TO OUR CLIENTS?

- SA 700
- SA 701
- SA 705
- SA 706

AUDIT DOCUMENTATION

Section
Audit Engagement Information
Audit Plan and Strategy
Audit Team Information
Client Understanding and Agreements
Risk Assessment
Working Papers
Significant Matters and Issues
Trial Balance and Financial Statements
Audit Report
Completion and Review
Management Letter and Communications

DOCUMENTATION

- Description of issue
- Audit procedures performed
- Findings
- Disposition of issue
- Audit Conclusion

THE WORLD OF IND AS



FEATURES OF IND AS

- Full of assumptions and judgements
- Substance over form in letter and spirit
- Detailed Disclosures
- Lengthy Standards

IND AS

- No unrealised gain or loss recognised on foreign exchange forwards

IND AS

- Entity states that it follows Ind AS but many disclosures made as per AS
- SOCIE not presented
- ECL model not properly disclosed
- Ind AS 19 disclosures not given
- Depreciation not provided on PPE?

IND AS

- The OCI temptation

IND AS

- Provision for diminution other than temporary diminution in long-term investments?

IND AS

- MAT Credit entitlement
- Other non-current assets or Deferred tax assets?

CAPITALISATION

- Subsequent expenditure related to an item of PPE is added to its carrying value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance

USEFUL LIFE

- Depreciation of Leasehold improvements is provided over the primary period of lease or over the useful lives of the respective fixed assets, whichever is shorter.

NATURE OF ASSET?



PPE

Intangible

Investment Property

BORROWING COSTS

- Borrowing costs directly attributed to the acquisition of fixed assets are capitalised as a part of the cost of asset up to the date is put to use. Other Borrowing costs are charged to the statement of profit and loss account in the year in which they are incurred.

CONCEPTUAL CONFUSION

- Compound Financial Instruments
- Significant Financing Component
- Bill and Hold Sales
- Definition of control

CONTINGENT LIABILITIES/LIABILITIES?

- Letters of Comfort
- Bank Guarantees
- Fair value

DISCLOSURES?

?

AUDIT REPORT



AUDIT REPORT

- KAM
- EOM
- Other Matter
- Qualified Report
- Adverse Opinion

WHERE IN AUDIT REPORT?

- Inventory of metal not sold for many years
- Subsidiary not consolidated

AUDIT REPORT

- Increase in provision for bad and doubtful debts by 2583%
- Company defaulted on loans from Banks
- Transactions with parties even after provision
- Disclaimer in Audit report

AUDIT REPORTS

SA	Summary	Content
701	KAM	Most significant matters concerning the audit
706	EOM	Disclosed in financials and is important
706	Other Matter	Other than those disclosed in the financials
705	Qualified Opinion	Material misstatement but not pervasive
705	Adverse Opinion	Material misstatement pervasive

HOW DO WE AVOID ERRORS?

- Can we avoid errors or minimize them?
- Self-review of financials by management

THANK YOU!

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