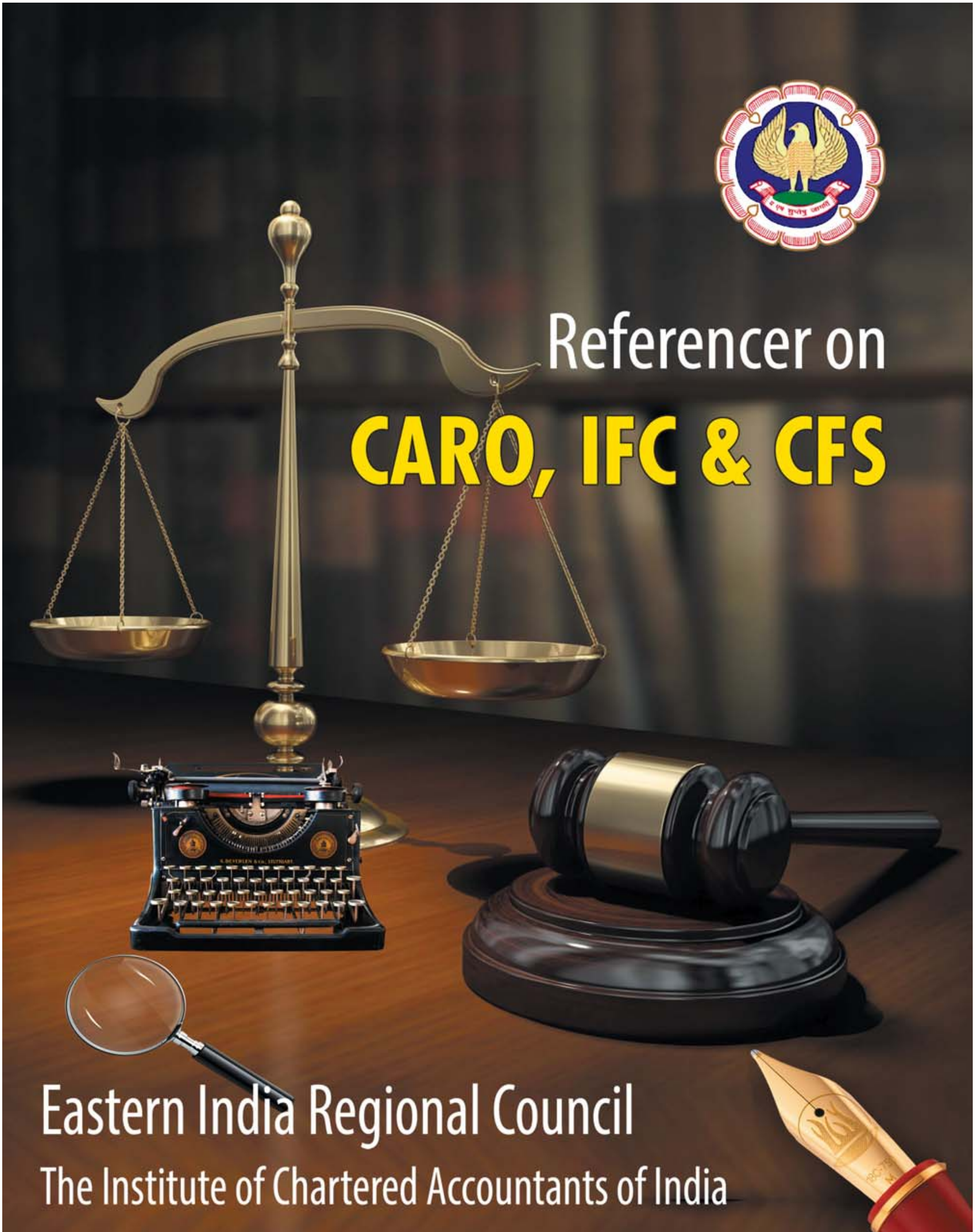


Referencer on
CARO, IFC & CFS

Eastern India Regional Council

The Institute of Chartered Accountants of India

President, Vice-President, ICAI & Team EIRC 2016 – 17

CA M. Devaraja Reddy
President, ICAI

CA Nilesh Shivji Vikamsey
Vice-President, ICAI

CA Anirban Datta
Chairman, EIRC

CA Manish Goyal
Vice Chairman, EIRC

CA Sonu Jain
Secretary, EIRC

CA Sumit Binani
Treasurer, EIRC

CA Nitesh Kumar More
Member, EIRC

CA Sanjib Sanghi
Member, EIRC

CA (Dr.) Debashis Mitra
Council Member, ICAI

CA Ranjeet Kumar Agarwal
Council Member, ICAI

CA Sushil Kumar Goyal
Council Member, ICAI

Eastern India Regional Council of The Institute of Chartered Accountants of India.

Disclaimer

(i) This publication is for the limited purpose of disseminating knowledge on the topic / subject of the publication. The views contained herein, if any, are only that of the contributors and not that of the Regional Council & Central Council of the Institute or any of its Committees;

(ii) for the authoritative views/ pronouncements of the Institute of Chartered Accountants of India on the topics covered in the publication, reference should be made to the original publications of the Institute of Chartered Accountants of India; and

(iii) this publication does not carry the authority of the Council of the Institute or any of its Committees.

(iv) All efforts have been made to ensure accuracy of the information, in this publication. The views expressed in this compilation are those of various contributors. EIRC of ICAI or ICAI do not necessarily subscribe to the same. The publishers do not hold themselves responsible for any errors that may have inadvertently occurred.

(v) EIRC of ICAI or ICAI would not be responsible for any financial loss by the Members of any kind in discharging their duties.

Published by
Eastern India Regional Council
The Institute of Chartered Accountants of India
ICAI Bhawan, 7, Anandilal Poddar Sarani (Russell Street)
Kolkata – 700 071
Phone : (91-33) 3989-3989, 3021-1140/41
Toll Free Number : 1800-3000-1019
Email : eirc@icai.in
Website : www.eirc-icai.org

Price : ₹ 100/-

Designed & printed by :
Dayglo
Suite No. 307
1 British India Street
Calcutta - 700 069
Phone : 2210-5517, 90515-33005
E.mail : dayglo.in@gmail.com

May 2016

ABOUT THE ICAI

The Institute of Chartered Accountants of India is a statutory body established by an Act of Parliament viz., The Chartered Accountants Act, 1949 in the year 1949 for regulating the profession of Chartered Accountancy in the country. The Institute, which functions under the administrative control of Ministry of Corporate Affairs, Government of India, has five Regional Councils at Mumbai, Chennai, Kanpur, Kolkata and New Delhi. It presently has 153 Branches covering the length and breadth of the country, 22 Chapters outside India and an overseas office in Dubai.

Founded 66 years ago with just seventeen hundred members, the Institute has grown to cross mark of 2,46,000 members and 9,35,000 students as of now. A significant majority of our membership is in practice and a good deal of specialisation in traditional areas of direct/indirect taxes and in emergent specialism's inter-alia, in financial services, information technology, insurance sector, joint ventures, mutual funds, exchange risk management, risk and assurance service environment/energy/quality audits, investment counseling, corporate structuring and foreign collaborations. The other half was/is in employment, many occupying senior positions such as CMDs in Banks/Financial Institutions, CEOs in leading and reputed public/private sector companies etc.

One of the important elements of the developmental role of the Institute is to make contributions to Government authorities and Regulations viz., the Ministry of Corporate Affairs, Trade Policy Division of the Ministry of Commerce, CBDT, RBI, IRDA, C&AG, SEBI etc. to name a few, on relevant matters of importance to the economy and profession.

On International front, the Institute, a permanent member of International and Regional Accounting bodies, like International Federation of Accountants(IFAC), International Accounting Standards Board(IASB), Confederation of Asian and Pacific Accountants(CAPA) and South Asian Federation of Accountants(SAFA) has made its presence felt through its effective and sustained contribution Professional bodies like American Institute of Certified Public Accountants(AICPA) in U.S.A. The Institute of Chartered Accountants in England and Wales(ICAEW) in U.K. and a host of similar bodies in many other countries have signed MOUs with our Institute for professional collaboration in areas such as education, examination, training etc. and on issues confronting the accounting profession worldwide.

The Institute, being a statutory body, is administered by a Council which is the highest policy making body of the chartered accountancy profession. The Council is comprised of 40 members of whom 32 are elected from among its members spread all over the country. The remaining eight members are nominated by the Central Government representing such authorities as the Comptroller and Auditor General of India, Ministry of Finance, Ministry of Corporate Affairs and persons of eminence from the fields of law, banking, economic, business, finance, industry, management, public affairs etc.

ABOUT EIRC

In 1952, Eastern India Regional Council (EIRC of ICAI) was constituted with its jurisdiction on West Bengal, Orissa, Assam, Tripura, Sikkim, Arunachal Pradesh, Mehalaya, Nagaland, Manipur, Mizoram and the Union Territory of Andaman & Nicobar Islands. The founder Chairman was Mr. Molay Deb and the office of EIRC was located in the 2nd Floor of 7, Hastings Street(Now renamed as Kiron Shankar Roy Road).

On 10th December, 1975, the foundation stone of the present EIRC Building at 7, Russell Street (Now renamed as Anandilal Poddar Sarani) was led by the then Chief Justice, Calcutta High Court, Hon'ble Justice Shankar Prasad Mitra. On 14th April, 1977, the building was inaugurated by the then Hon'ble Governor of West Bengal, His Excellency Shri A.L. Dias.

On 17th January, 2014, the Second State of Art Building at 382/A, Prantik Pally, Rajdanga, Kasba, Kolkata-700107 has been inaugurated and the same is in operation to cater its dedicated service to its more than 23,005 Members and 83,690 Students.

EIRC has 11 Branches, 18 Study Circles, 5 Study Circles for Members in Industry, 5 CPE Chapters and 8 Study Groups.

EIRC has the privilege and pride in presenting 10 Presidents to ICAI and each one of them has enriched and empowered the profession through their visionary leadership and innovative dynamism.

The cherished dream of EIRC is to kindle the spark within the fraternity and to make the members world class professionals as well as good human beings – to contribute as an active partner in the nation building exercise.

CHAIRMAN'S MESSAGE

Dear Professional Colleagues,

I am happy to note that the readers are finding the Referencers, brought out by us so far, as informative and of continued interest. We are pleased to bring out yet another **Referencer on CARO, IFC & CFS** which is being released on **26th May 2016** during the Workshop on the subject.

Companies Auditor's Report Order, 2016 has brought a number of substantive changes. Auditors now need to also opine on whether a company has an adequate internal financial controls (IFC) system in place and the operating effectiveness of such controls. In view of the recent changes we have organised this 3 days' intensive Workshop which would address your queries related to Consolidated Financial Statement, CARO & Internal Financial Control. We have also brought out a Referencer so that the Members can have this information handy on the subject. It has been our constant endeavour to serve our fraternity and we would continue to work in the said direction.

I wish to place on record the contribution and unstinted support by all my colleagues in the Regional Council & Central Council in bringing out this Referencer. I must make special mention of CA Nitesh Kumar More, Chairman, Research Committee & Corporate & other Allied Law & Corporate Governance Committee of EIRC for his tireless effort in preparing a comprehensive material on the subject.

We are sure that readers will find the referencer useful and will be benefitted from the same.

Let's touch base…today, tomorrow and forever!!!

Date : 26th May 2016
Place : Kolkata

CA Anirban Datta
Chairman, EIRC

CHAIRMAN RESEARCH COMMITTEE & CORPORATE & OTHER ALLIED LAW & CORPORATE GOVERNANCE COMMITTEE'S MESSAGE

Dear Professional Colleagues,

It gives me immense pleasure to present before you **Referencer on CARO, IFC & CFS**. Since inception as the Chairman of Research Committee, it was my dream to serve my fraternity with good resource materials. Working towards the fulfilment of my dream, we are here with yet another comprehensive Referencer on the subject for the benefit of our Members.

The Companies Act, 2013 has introduced many new reporting requirements for the statutory auditors of companies. Also the auditor has to state in his report whether adequate internal financial control is in place and the effectiveness of the same. Companies Auditor's Report Order, 2016 issued recently by MCA contains several changes which was not there earlier. In view of the same we have brought out this Referencer which would cover in details the various provisions related to the different topics so as to provide the readers with all insights on the same.

I would like express my gratitude to CA Anirban Datta, Chairman, EIRC for giving me the responsibility of being the Chairman of Research & Corporate & other Allied Law & Corporate Governance Committee of EIRC. I would like to thank my Central Council and other Regional Council Members for their cooperation and guidance in bringing out this Referencer. I acknowledge the sincere efforts of all the contributors to this Referencer.

I am sure that this Referencer would be well received by the Members and other interested readers. I earnestly request the readers to send their suggestions at eircreferencer@gmail.com.

Date : 26th May 2016
Place : Kolkata

CA Nitesh Kumar More
Member, EIRC
Chairman, Corporate & other Allied Law
& Corporate Governance Committee, EIRC
Chairman, Research Committee, EIRC

ACKNOWLEDGEMENT

We are thankful to all the tireless efforts in earnestly contributing for the **Referencer on CARO, IFC & CFS**. Without their kindest support this would not have been a success.

CA Vivek Newatia

CA Mohit Bhuteria

CA Manoj Chandak

CA Niketa Agarwal

EIRC Officials

Dr. Alok Ray, Joint Secretary, DCO Head

Mr. Amit Paul, Assistant Secretary, EIRC

CA Jyoti Luharuka, Executive Officer, EIRC

Mr. Santanu Bose, DEO, EIRC

INDEX

MINISTRY OF CORPORATE AFFAIRS

ORDER

New Delhi, the 29th March, 2016

S.O. 1228(E).—In exercise of the powers conferred by sub-section (11) of section 143 of the Companies Act, 2013 (18 of 2013) and in supersession of the Companies (Auditor's Report) Order, 2015 published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (ii), vide number S.O. 990 (E), dated the 10th April, 2015, except as respects things done or omitted to be done before such supersession, the Central Government, after consultation with the, committee constituted under proviso to sub-section (11) of section 143 of the Companies Act, 2013 hereby makes the following Order, namely:—

1. **Short title, application and commencement.**- (1) This Order may be called the Companies (Auditor's Report) Order, 2016.

(2) It shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013 (18 of 2013) [hereinafter referred to as the Companies Act], except-

(i) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);

(ii) an insurance company as defined under the Insurance Act, 1938 (4 of 1938);

(iii) a company licensed to operate under section 8 of the Companies Act;

(iv) a One Person Company as defined under clause (62) of section 2 of the Companies Act and a small company as defined under clause (85) of section 2 of the Companies Act; and

(v) a private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than rupees one crore as on the balance sheet date and which does not have total borrowings exceeding rupees one crore from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 (including revenue from discontinuing operations) exceeding rupees ten crore during the financial year as per the financial statements.

2. Auditor's report to contain matters specified in paragraphs 3 and 4. **-** Every report made by the auditor under section 143 of the Companies Act, 2013 on the accounts of every company audited by him, to which this Order applies, for the financial years commencing on or after 1st April, 2015, shall in addition, contain the matters specified in paragraphs 3 and 4, as may be applicable:

Provided the Order shall not apply to the auditor's report on consolidated financial statements.

3. Matters to be included in the auditor's report. - The auditor's report on the accounts of a company to which this Order applies shall include a statement on the following matters, namely:-

(i) (a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;

(b) whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;

(c) whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof;

(ii) whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account;

(iii) whether the company has granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013. If so,

(a) whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;

(b) whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

(c) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;

(iv) in respect of loans, investments, guarantees, and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof.

(v) in case, the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed thereunder, where applicable, have been complied with? If not, the nature of such contraventions be stated; If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not?

(vi) whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.

(vii) (a) whether the company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;

(b) where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not be treated as a dispute).

(viii) whether the company has defaulted in repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders? If yes, the period and the amount of default to be reported (in case of defaults to banks, financial institutions, and Government, lender wise details to be provided).

(ix) whether moneys raised by way of initial public offer or further public offer (including debt instruments) and term loans were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;

(x) whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;

(xi) whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act? If not, state the amount involved and steps taken by the company for securing refund of the same;

(xii) whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability and whether the Nidhi Company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;

(xiii) whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards;

(xiv) whether the company has made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and if so, as to whether the requirement of section 42 of the Companies Act, 2013 have been complied with and the amount raised have been used for the purposes for which the funds were raised. If not, provide the details in respect of the amount involved and nature of non-compliance;

(xv) whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act, 2013 have been complied with;

(xvi) whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.

4. Reasons to be stated for unfavourable or qualified answers.- (1) Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavourable or qualified, the auditor's report shall also state the basis for such unfavourable or qualified answer, as the case may be.

(2) Where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons as to why it is not possible for him to give his opinion on the same.

[F. No. 17/45/2015-CL-V]
AMARDEEP SINGH BHATIA, Jt. Secy.

FAQs ON CARO 2016

1. What are the class or classes of companies covered under the Order?

The Order applies to every company, including a foreign company defined in Section 2(42) of the Companies Act, 2013 except certain categories of companies specifically exempted from the application of the Order, which are as under:

i. a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);

ii. an insurance company as defined under the Insurance Act, 1938 (4 of 1938);

iii. a company licensed to operate under section 8 of the Act;

iv. a One person Company as defined under clause (62) of section 2 of the Act and a Small Company as defined under clause (85) of the section 2 of the Act; and

v. a private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than rupees one crore as on the balance sheet date and which does not have total borrowings exceeding rupees one crore from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Schedule III to the Act, (including revenue from discontinuing operations) exceeding rupees ten crores during the financial year as per the financial statements.

2. From which financial year does the reporting under CARO 2016 apply?

The Order, 2016 applies, for the financial year commencing on or after 1st April 2015. Accordingly, the reporting under this Order shall be applicable for the financial year 2015-16 and onwards.

3. A private company which has a paid up capital and reserves and surplus exceeding rupees one crore as on the balance sheet date but has not borrowed any funds from banks or financial institution during the year and has total revenue of rupees ten lacs. Is reporting under CARO, 2016 applicable?

A private company is exempt from the applicability of the Order only if it satisfies all the three criteria stipulated thereunder collectively. This is amply clear from the use of the word “and” between the specified criteria. Therefore, even if the company does not have any borrowings and the total revenue does not exceed rupees ten crores, the reporting requirements of CARO, 2016 is applicable since it has a paid up capital and reserves and surplus exceeding rupees one crore as on the balance sheet date.

4. As regards exemption to private companies, what is meant by the term “revenue”?

The term “revenue” is not defined under the Act. However, the Order refers to the total revenue as disclosed in Schedule III to the Act. Accordingly, the total revenue would by the revenue from operations and other income as disclosed in the Statement of Profit and Loss prepared as per Schedule III. Revenue would also include revenue from discontinuing operations as specified in the Order.

5. The Order specifically exempts companies licensed under Section 8 of the Companies Act, 2013 from its applicability. However, if during the financial year, the license is revoked under Section 8(6) of the Act and it ceases to operate as such, will the Order become applicable?

The determination of the applicability of the Order is to be seen with reference to the status of the company as at the balance sheet date. During the year, if a company licensed under Section 8 of the Act ceases to operate as such, the reporting requirements under CARO would be applicable unless covered by any other exemptions provided thereunder.

6. Is CARO, 2016 applicable to a small company under Section 2(85) of the Act, which has bank loan outstanding, exceeding Rs. One Crore?

The Order provides for a specific exemption to a small company as defined under Section 2(85) of the Act.

7. Is CARO, 2016 applicable to dormant companies?

The exemptions provided for the applicability of the Order is exhaustive. The Order does not provide for exemption to dormant companies, hence it is applicable.

8. **A private company has borrowed a sum exceeding Rs one crore from an NBFC during the year. Is the Order applicable?**

   The exemption does not apply to a private company which has a total borrowings exceeding rupees one crore from any bank or financial institution at any point of time during the financial year. Section 2(39) of the Act defines "financial institution" to include a scheduled bank, and any other financial institution defined or notified under the Reserve Bank of India Act, 1934. Section 45-I(c) of the Reserve Bank of India Act, 1934 defines "financial institution", and Section 45I(f) of the said Act defines an NBFC to mean a financial institution which is a company. Thus, in view of the definition under Section 2(39) of the Companies Act, 2013, financial institutions will include NBFC and hence, the Order is applicable to the private company which has a borrowing from NBFC exceeding the prescribed threshold. However if it is a small company, the Order will not be applicable.

9. **Is the Order applicable to a private company, being a subsidiary of a public company, having a paid up capital and reserves and surplus not more that rupees fifty lacs, total revenue of Rs. 10 lacs and no borrowings during the year?**

   The Order does not exempt a private company which is a subsidiary of a public company from its applicability. Also, it may be noted that the definition of "public company" under section 2(71) of the Act provides that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles.

10. **As regards exemption to private companies under the Order, what is meant by the term "paid-up capital"?**

   Section 2(64) of the Act defines the term "paid-up capital" as such aggregate amount of money credited as paid-up as is equivalent to the amount received as paid up in respect of shares issued and also includes any amount credited as paid up in respect of shares of the company, but does not include any other amount received in respect of such shares, by whatever name called. Thus, in view of the said definition, paid-up capital includes both equity and preference share capital. Share application money pending allotment does not form part of the paid-up capital.

11. **A private company having a loan outstanding from bank amounting to Rs. 75 Lacs and from an NBFC amounting to Rs. 26 lacs. Is the Order applicable to it?**

   The exemption to private company, given that the other two criteria are satisfied, is applicable if the total borrowings of the company from any bank or financial institution at any point of time during the financial year does not exceed rupees one crore. It is here pertinent to lay emphasis on the words "total borrowings". Therefore, borrowings from the bank and the NBFC considered on a cumulative basis, exceeds rupees one crore, thereby making the Order applicable to the said private company.

   However if it is a small company , the Order will not be applicable.

12. **Whether the Order would apply to a private company that has issued a bank guarantee exceeding rupees one crore but otherwise, has no borrowings and satisfies the other two criteria with respect to the paid-up capital & reserves and surplus and the total revenue for the financial year?**

   Borrowings do not include bank guarantees issued by the company unless they have been invoked or encashed. The Institute of Chartered Accountants of India at para 18 in its Guidance Note on the Companies (Auditor's Report) Order, 2016, states that non-fund based credit facilities, to the extent such facilities have devolved and have been converted into fund-based credit facilities, should be considered as outstanding borrowings. Therefore, unless the bank guarantee is invoked, the company continues to fall within the exemption for the applicability of the Order.

   However if it is a small company , the Order will not be applicable.

13. **Whether the condition for exemption laid down for borrowings by a private company include overdraft facility granted against fixed deposits with the same bank, within the meaning of borrowings?**

   The threshold limit of borrowings for a private company includes secured as well as unsecured borrowings. Hence, even if an overdraft facility availed by the company is backed up by a fixed deposit with the concerned bank, the entire overdraft facility would be included within the meaning of borrowings to determine the applicability of the Order to the said private company.

14. Is the Auditor required to report on CARO in the Audit Report on Consolidated Financial Statements?

Proviso to Para 2 of CARO 2016 clarifies that the Order shall not apply to the Audit Report on Consolidated Financial Statements.

15. Whether CARO, 2016 shall apply to an NBFC being converted into a bank with the permission of the RBI on 31.03.2016?

The exemption from CARO, 2016 is absolute for a bank as per clauses (i) to (iv) of Para 1(2), i.e for Banks, Insurance Companies, Section 8 Company, OPC and small Company. This exemption shall be available even if the criteria is fulfilled on the last day of the Financial Year. The Auditor is reporting on the accounts of a bank and not the erstwhile NBFC.

16. Is CARO, 2016 applicable to a Foreign Company ?

Para 1(2) of CARO , 2016 provides that CARO 2016 shall apply to a foreign company as defined in clause (42) of Section 2 of the Act.

17. Is CARO, 2016 applicable to a Company carrying on Charitable Activities during 2015-16 but obtained a license only on 20th February , 2016 u/s 8 of the Act?

Similar to the explanation given above, if the Company fulfils the criteria of exemption on the last day of the Financial Year, it shall be eligible for exemption and CARO 2016 is not applicable.

18. Is Para 3(I)(b) regarding physical verification applicable for intangible assets?

Its is not practically possible to physically verify intangible assets. However, they may be verified in terms of documents, i.e know how agreement , purchase agreement, etc. However, since intangible assets are evidenced by documents, it is expected that the Auditor will verify the documents and obtain a certificate from the Company's legal expert and rely on it after applying Auditing procedures.

19. Whether a "Fixed Asset held for Sale" be classified as Fixed/Current Asset?

According to Para 24 of Accounting Standard 10, Accounting for Fixed Assets, material items retired from active use and held for disposal should be stated at the lower of net book value and net realisable value and shown separately in the Financial Statements. Therefore it should be treated as a Fixed Asset and will not therefore be classified as a Current Asset.

20. Shall Para 3(i) of the Order apply to a fixed Asset which has been obtained free of cost as a Government Grant?

Yes Para 3(i) applies to fixed assets. The fact that the same has been obtained by way of a Government Grant does not make any difference.

21. A Company is engaged in the Activity of letting out its assets on operating lease to different parties. Is physical verification of these assets let out on operating lease necessary?

According to AS – 19, Leases, assets given out on operating lease will be treated as Fixed Assets of the lessor-Company. Hence, it will constitute Fixed Assets for the purpose of Para 3(i) of CARO, 2016 and will require the Auditor to report on clauses (a), (b) and (c) in respect of the assets also. Physical verification of these assets are also required to be made by the management and commented upon by the Auditors. An adverse comment may be considered to be given in the report in case the management is not doing so.

22. Is the Auditor required to Comment on Title Deeds of Immovable Properties held as Stock in Trade under Para 3(1)(c)?

The requirement regarding title deeds of Immovable properties is placed along with requirements regarding Fixed Assets. Therefore, it appears that Para 3(1)(c) would cover only those immovable properties held as Fixed Assets and not those which are held by the Company as Investments/Stock in Trade.

23. If a Company does not maintain quantitative records for inventories and determines the closing stock by year end verification, how should the Auditor determine material discrepancies for the purpose of reporting under clause 3(ii) of CARO, 2016?

a. The only way to determine closing stock in this case is by annual quantitative reconciliation of opening stock, purchases and consumption. (Opening stock (in units) + Purchases (in units) – Consumption (in units) = Closing stock (in units))

b. The above reconciliation is possible only if consumption can be co-related with Production or can be established reasonably, or if the input-output ratios are well established and there are no material variations expected in the ratio. Else, we will have two unknowns in the above equations and we will not be able to determine closing stock with reasonable accuracy. If consumption bears close co-relation with production and input output ratios are constant, closing stock can be determined with accuracy. Similarly, this reconciliation can be done for finished goods also. If this quantitative reconciliation is not possible and if the item in question is material, book stock cannot be determined and the Auditor should state the fact that it cannot be determined in his report. If it is not material, then the discrepancy also may not be material.

24. Whether Assets given under Finance Lease be covered under para 3(i) (Fixed Assets) or para 3(ii) (Inventory) of CARO, 2016?

According to AS – 19, Leases, Assets given under Finance Lease will be recognized and reflected by the lessor as receivables (net investment in the lease). In view of this, the asset is neither a fixed asset nor inventory, and thus will not be covered under clause 3(i) or under Para 3(ii).

25. For the purposes of reporting on Para 3(iii) of the Order, are loans taken or given by the Company in kind from/to the parties covered under the register maintained under Section 189 of the Act covered?

There is no stipulation in Para 3(iii) regarding the loan being given in cash/kind. In the absence of such a stipulation, Para 3(iii) shall apply to all kinds of loans given/taken in cash/kind to the parties covered under the register maintained under Section 189 of the Act.

26. If a party covered under Section has taken a loan from any other person and the Company has facilitated the Loan by giving a guarantee/security in connection with the loan, will the furnishing of such guarantee/security require reporting under this Clause?

The para only covers loans and not furnishing of guarantees and hence no reporting will be required under this para.

27. Whether the Statutory Auditor needs to conduct a detailed Audit of Cost records for the purpose of reporting under Para 3(vi) of CARO, 2016?

The Auditor is not required to conduct a detailed audit of Cost Records. This is irrespective of whether Cost Audit has been prescribed by the Central Government. The Auditor is only required to make a general view of the Cost records to ensure whether the same have been maintained. In his comment, he should clearly mention the fact that he has made a general view and not a detailed audit of the cost records.

28. What are the reporting responsibilities of an Auditor under Para 3(vii)(a) of CARO, 2016 in case a Company is required statutorily to get itself registered under the Provident Fund Act, but has not done so?

The Auditor should clearly mention that the Company was required to get registered under the Provident Fund Act and has not done so. The auditor should also ascertain the liability and state the same.

Are the following payments covered by Para 3(vii)(a) of the Order:

a. Bonus Payable under the Payment of Bonus Act, 1965

b. Turnover fees payable by brokers to SEBI

c. Gratuity Liability not funded

a. Bonus – Not covered, since it is payable to the employees and not any statutory authority.

b. Turnover fee – Covered, since SEBI is a Statutory Authority

c. Gratuity Liability not funded - Not covered

29. Does non payment of Advance Tax constitute a default in payment of Statutory dues for the purpose of reporting under Para 3(vii)(a)?

Yes, the same would constitute to be a default in payment of Statutory dues and hence would require reporting under Para 3(vii)(a).

30. If undisputed Statutory dues are outstanding as at the Balance Sheet date for less than six months, does he have any duty to report under Para 3(vii)(a)?

In this case, the Auditor is not required to indicate in the Audit Report the amount of Statutory dues in arrears. However, the regularity of deposit with the statutory authorities have to be examined and reported.

31. Having regard to materiality considerations, whether minor amounts need to be reported under Para 3(vii)(b) and whether they can be clubbed and reported in one line?

Para 3(vii)(b) specifically requires the Auditor to mention the disputed amounts. Materiality is an irrelevant consideration here. Therefore even minor amounts would have to be reported in a manner the reader is able to understand the dispute and determine the amount involved under Para 3(vii)(b).

32. Should the Statutory dues the demands for which have been set aside/referred for reassessment/ stayed be reported under Para 3(vii)(b) of the Order?

Tax demands that have been set aside are not dues and hence do not require reporting under Para 3(vii)(a)/ Para 3(vii)(b) . If a demand has been referred for reassessment and the effect of such reassessment is the cancellation of the earlier demand, it does not constitute an amount due and hence requires no reporting. If the demand is not cancelled, it will remain disputed dues. They should be disclosed along with the disclosure of the fact of stay.

33. What is the meaning of the term 'immoveable property and 'title deeds' for the purpose of reporting under para 3(i) of the Order ?

The Act does not define the term "Immovable Property".However, as per General Clauses Act, 1897, "Immovable Property" shall include land, benefits to arise out of land, and things attached to the earth, or permanently fastened to anything attached to the earth.

In general, title deeds means a legal deed or document constituting evidence of a right, especially to the legal ownership of the immovable property.

34. How should the auditor report under para 3(i)(c) when title deeds of immoveable properties have been lost?

There may be instances where the title deeds were lost accidentally or otherwise.In such cases, the certified copies of the documents, as available with the company, and details about the FIR filed, about loss of such documents needs to be obtained and documented. The auditor should also seek written representation from the management in this regard and thereafter report the said fact.

35. Will dues to electric companies or SEB's constitute statutory dues ?

Any sum payable to an electricity company as electricity bill would not constitute a statutory due despite the fact that such a company has been established under a statute. This is so because the due has arisen on account of contract of supply of goods or services between the parties.

36. What is the meaning of the term 'default' for the purpose of reporting under para 3(viii) of the Order ?

Though the word "default" has not been defined, in this regard, the word "default" would mean non-payment of dues to banks, Government, financial institutions or debenture holders on the last dates specified in loan documents or debentures trust deed, as the case may be.

For example, in the case of term loans, fixed dates are prescribed for repayment in the agreement or terms and conditions of the loans. The dates prescribed for repayments would operate as the last date of payments and any delay after this fixed date would amount to default and reporting required in case of aggregate default on account of repayment of loan.

37. What is the meaning of the term 'Government ' for the purpose of reporting under para 3(viii) of the Order ?

"Government" means the department of the Central Government, a State Government and its department and a Union Territory and its department, but shall not include any entity, whether created by a statute or otherwise, the accounts of which are not required to be kept in accordance with article 150 of the constitution or the rules made there under. (as defined u/s 65B(26A) of the Finance Act 1994). Accordingly, the term "Government" does not include Government Company/ Public Sector Undertaking/ Boards/ Authority/ Corporation and Foreign Government.

38. Whether for the purpose of reporting in respect of default in repayment of loans or borrowings to banks , financial institutions as required under para 3(viii) of the Order, interest will also be covered?

It may be noted that for the purposes of reporting of default under this clause the term "borrowings" may be construed as the principal amount since it has been used in the context of the word "repayment" and the term "dues" would mean the principal and the interest,.

39. Does reporting under para 3(xi) in respect of managerial remuneration apply in case of a private company ? What is the meaning of the term 'remuneration' ?

It may be noted that section 197 applies only to a public company. The term "public company" has been defined under section 2(77) of the Act. Thereby, section 197 of the Act is not applicable to a Private Company, and, accordingly, reporting under this clause would not be required in case of a private company.

The term "Remuneration" under section 2(78) is defined to mean any money or its equivalent given or passed to any person for services rendered by him and includes perquisites as defined under the Income Tax Act, 1961. It may be noted that for the purposes of the Act, the term remuneration would include salaries, perquisites and commission on profits but would not include:

(i) Sitting fees paid to directors in accordance with the provisions of the Act (sub-sections 2 and 5 of Section 197).

(ii) Remuneration payable to directors for services rendered by him of a professional nature (sub-section 4 of Section 197).

40. What is the duty of the auditor to report under para 3(xiii) of the Order relating to RPT's ?

The duty of the auditor, under this para is to report:

(i) Whether all transactions with the related parties are in compliance with section 177 and 188 of the Companies Act, 2013 ("Act")

(ii) Whether related party disclosures as required by relevant Accounting Standards (AS 18, as may be applicable) are disclosed in the financial statements

41. Does the scope of para 3(xiv) of the Order relating to private placement requires auditor to comment on compliance with Section 62 of the Companies Act, 2013 ?

Para 3(xiv) of the Order requires the auditor to comment on compliance with Section 42 and the scope cannot be extended to Section 62.

INTERNAL FINANCIAL CONTROLS

The Companies Act, 2013 (the "2013 Act") has stated specific responsibilities on the company's towards internal financial controls and, inter alia, requires the board to state that they have laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively. Further, Statutory auditors are also required to report on the adequacy and operating effectiveness of the company's internal financial control system. The reporting by the auditors is voluntary for the year ending 31 March 2015 and mandatory for financial years beginning on or after 1 April 2015.

Global Scenario of IFC

In June 2003, the Securities and Exchange Commission (SEC) of the United States of America adopted Rules for the implementation of Sarbanes - Oxley Act (SOX) that required certification of the Internal Controls over Financial Reporting (ICFR) by the management and by the auditors.

The Public Company Accounting Oversight Board (PCAOB) has issued its Auditing Standard (AS) 5 on: "An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements". This standard establishes requirements and provides direction that applies when an auditor is engaged to also perform an audit of the ICFR in addition to the audit of the financial statements.

In June 2006, the Financial Instruments and Exchange Act (J-SOX) was passed by the Diet, the National Legislature of Japan. The requirements of this legislation are similar to the requirements of internal controls over financial reporting under SOX.

In the United Kingdom, the UK Corporate Governance Code specifies the corporate governance requirements for the board of directors of listed companies, which, inter alia, includes matters relating to oversight and review of internal controls in the company.

Scenario of IFC in India

As per sub-clause IV.D of Clause 49 of the Equity Listing Agreement (the "ELA"), the role of the Audit Committee (the "AC") of companies whose equity shares are listed includes evaluation of IFC and risk management systems. Further, sub-clause IX.C of Clause 49 requires the CEO and CFO of such companies, to certify to the board of directors (the "board") that they accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of internal control systems of the company pertaining to financial reporting.

Globally, auditor's reporting on internal controls is together with the reporting on the financial statements and such internal controls reported upon relate to only internal controls over financial reporting. For example, in USA, Section 404 of the Sarbanes Oxley Act of 2002, prescribes that the registered public accounting firm (auditor) of the specified class of issuers (companies) shall, in addition to the attestation of the financial statements, also attest the internal controls over financial reporting. It may be noted that in India too, the Companies Act, 2013 specifies the auditor's reporting on internal financial controls only in the context of audit of financial statements. Consistent with the practice prevailing internationally, the term 'internal financial controls' stated in Clause (i) of Sub-section 3 of Section 143 would relate to 'internal financial controls over financial reporting' in accordance with the objectives of an audit stated in SA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing"/ Further, Rule 8(5)(viii) of the Companies (Accounts) Rules, 2014 requires the Board of Directors' report of all the companies to state the details in respect of adequacy of internal financial controls with reference to the "financial statements" only.

Roles and Responsibilities under IFC

Role of the Board

The Companies Act, 2013 (the "2013 Act") has stated specific responsibilities on the board of listed companies towards the company's IFCs and, inter alia, requires the board to state that they have laid down IFCs to be followed by the company and that such internal financial controls are adequate and were operating effectively. These changes are effective from the financial years beginning on or after 1 April 2014. Section 134(5)(e) of the 2013 Act requires the board of listed companies to assume responsibility of laying down "internal financial controls" and ensuring that such controls are not only adequate but are also operating effectively. Rule 8(5)(viii) of the Companies (Accounts) Rules, 2014 requires the board report of all companies to state the details in respect of adequacy of internal financial controls with reference to the financial.

The Code for Independent Directors provided in Schedule IV to the 2013 Act also emphasises that the independent directors have to satisfy themselves on the strength of financial controls, thereby placing specific responsibility on independent directors.

Role of Internal Auditors

Section 138 of the 2013 Act read with Rule 13 of the Companies (Accounts) Rules, 2014 requires every listed company and other specified class of companies to appoint an internal auditor. Internal audit can be made part of the AC's oversight mechanism on internal financial controls, inter alia, by engaging them in evaluating the adequacy and operating effectiveness of internal financial controls.

Role of Statutory Auditors

The 2013 Act requires the statutory auditors to state in their reports whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls. The reporting by the auditors is voluntary for the year ending 31 March 2015 and mandatory for financial years beginning on or after 1 April 2015.

However, unlike in section 134(5)(e), where internal financial controls have been specifically explained for purposes of that section, there is no such explanation provided in section 143(3)(i).

For example, the explanation of the term 'internal financial control' provided in the context of section 134 (5) (e) includes policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business. Orderly and efficient conduct of its business is proprietary in nature and auditors may not be able to comment on the same. SA 200 specifically excludes this as an objective of the auditor. Paragraph A1 of SA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing" states "The auditor's opinion on the financial statements deals with whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Such an opinion is common to all audits of financial statements. The auditor's opinion therefore does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.

Considering the overall objectives of an audit and the Companies (Accounts) Rules, 2014, it appears that the auditors responsibility with respect to reporting on the adequacy and operating effectiveness of internal financial controls is only limited to those pertaining to financial statements i.e., ICFR.

Impact of modified opinion by the auditors on internal financial controls over financial reporting in subsequent interim period financial reporting: Whilst the auditors apply both test of controls and substantive testing to gain assurance on the financial statements, the management relies solely on its internal financial controls when preparing financial statements. The ability of a company to accurately describe its own financial condition when it discloses unaudited financial information, as in quarterly results filed with the Stock Exchanges, is significantly dependent on the adequacy and operating effectiveness of ICFR.

Thus, while the audit opinion on a company's financial statements may be "clean", this would providelittle information on the adequacy and operating effectiveness of ICFR, unless separately reported upon. Specifically, the audit report on internal financial controls would provide the users of the financial statements with one of the criteria against which to evaluate the reliability of a company's disclosed financial information even when they are not audited.

Role of Audit committee

Section 177 of the 2013 Act requires the AC to evaluate the internal financial control systems while performing its duties. This can be achieved by the AC through increased involvement in the company's internal controls assessment process. For e.g., the AC may:

- actively participate in the risk assessment process
- understand major risks faced by the company and key controls
- define the role of internal audit and actively participate in the annual internal audit planningmeet with the internal audit head on a regular basis
- seek test results and other relevant information on internal financial control on a more real time basis
- understand how management addresses the risks highlighted by test of internal controls

For the AC to demonstrate that it has taken necessary steps to evaluate the internal financial control systems, it may call for the comments of the internal auditors and the statutory auditors about the company's internal control systems, scope of audits, etc., as this would give them additional insights on the assessment of such controls. The AC may, if required, also seek external help or expert advice and guidance for the evaluation of internal financial controls.

Constituents of IFC

What constitutes internal financial controls? The explanation of the term 'internal financial control' has been provided only in the context of section 134(5)(e). It includes policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, thereby covering not only the controls pertaining to financial statements (more commonly known as Internal Controls over Financial Reporting ("ICFR"), but also include strategic and operational controls pervasive across the entire business. For example, controls relating to strategic and operational controls could relate to those that may not have a significant impact on financial reporting objectives such as those relating to productivity, quality, environmental practices, innovation, customer and employee satisfaction, etc. The controls pertaining to information technology (IT) also fall within the definition of IFCs. IT includes both the IT applications used as well as IT infrastructure (e.g., network, operating system) used in supporting the applications. Accordingly, management is expected to consider the use of IT in the company's operational and financial transactions.

The elements of IFC are Entity Level Controls (ELCs), Process Level Controls (PLCs) and Information Technology General Controls (ITGCs).

- Entity level controls are the controls that management relies on to establish the appropriate "tone at top" relative to controls. These often have a pervasive impact on the effectiveness of controls at the process, transaction, or application level

- Process level controls are those aimed towards achieving objectives of each process within the Company. Each of these controls will usually address objectives of a particular business function, such as Finance & Accounts, Manufacturing, Procurement, Sales, Payroll, etc. and are placed within operational processes

- Information Technology General Controls are "controls that provide reasonable assurance of achieving the control objectives related to the processing of financial information within the computer processing environment". These controls ensure appropriate functioning of IT applications and systems built by the organization to enable accurate and timely processing of financial data. These controls have a 'pervasive' impact on all the processes and functions supported by those systems.

Advantages of IFC

By placing more accountability and responsibility on the board and AC with respect to internal financial controls, the 2013 Act is attempting to align the corporate governance and financial reporting standards with global best practices. With adequate and effective internal financial controls, some of the benefits that the companies would experience include:

- Senior Management Accountability
- Improved controls over financial reporting process
- Improved investor confidence in entity's operations and financial reporting process
- Promotes culture of openness and transparency within the entity
- Trickling down of accountability to operational management
- Improvements in board, AC and senior management engagement in financial reporting and financial controls
- More accurate, reliable financial statements
- Making audits more comprehensive

Internal financial controls also become important as they help derive values in the form of:

- Fresh independent look at key business processes
- Identification of potential operating process opportunities
- Updated formal, centralised, and managed financial internal controls documentation for the company
- Enhanced support to CEO/CFO certifications
- Enhanced control environment thereby mitigating risk
- Better understanding of internal controls

Misapprehensions about IFC

Some of the common misconceptions that companies have with respect to internal financial controls are as follows:

Management view	Matters to be considered
Under the Companies Act, 1956, statutory auditors have reported that the company's internal controls were adequate and therefore nothing additional needs to be done in relation to internal financial controls	Statutory auditors reporting under the Companies Act, 1956 was limited only to adequacy of internal controls and did not extend to its operating effectiveness. Further, the internal controls reported upon were limited to purchase of goods, inventory and fixed assets and sale of goods and services. As such it did not include other processes such as payroll, treasury, financial reporting, etc.
Internal controls are very important and the company needs to have controls in place for every process and account balance. We do not need to link risks with controls	The company needs to carry out a risk assessment to determine the risks in each process and then design controls to mitigate the risk. Establishing internal controls without identification of risk could result in certain risks not being addressed/mitigated or in having redundant controls. In identifying the risks that need to be mitigated, it is necessary to consider the likelihood of the occurrence of the risk and the possible magnitude of its impact on the company's operations and financial position. This analysis would also enable the company to assess the cost - benefit of establishing internal controls for the risks identified.
If the company has an ERP, the internal controls are automatically in place.	An ERP environment in itself does not ensure adequate internal controls. The company will need to establish internal controls around the ERP environment such as access controls, segregation of duties, etc. Further, assessment of those controls that reside within the ERP and those that are manually effected will also need to be considered when evaluating the adequacy and operating effectiveness of internal financial controls.
Testing of controls and remediation of deficiencies is the responsibility of auditors	The primary responsibility for establishing an adequate internal financial control system that operates effectively is with the board of the company
We understand controls. There is no need for training and development of our people.	To enable the board and auditors to report on internal controls, it is essential that the company personnel are able to demonstrate the existence of the controls as established. Further, the internal controls may need revisions due to changes in the company's business and operations. This would then require training of company personnel periodically to enable the company maintain a robust internal controls system.

Framework of IFC

The 2013 Act does not specify or recommend any framework that may be considered by companies when they establish their internal financial control system.

To state whether a set of financial statements presents a true and fair view, it is essential to benchmark and check the financial statements for compliance with a framework and the generally accepted accounting principles under which it is prepared. For example, the accounting standards specified under the 2013 Act is the framework on which companies prepare and present their financial statements and is the framework on which auditors evaluate if the financial statements present a true and fair view of the state of affairs and operations of the company in an audit of the financial statements carried out under the Companies Act. Different financial results would be obtained if different accounting frameworks were used, such as IFRS, US GAAP, etc. It is, therefore, important for users of financial statements to understand the framework used in the preparation of financial statements, and this is typically identified in both the financial statements prepared by the management and in the report of the auditors. Similarly, to assess and report on adequacy and compliance of the system of internal control, it is essential that the management adopts any one or a combination of benchmark frameworks of internal controls. Both the assessing and reporting cannot be in a vacuum without identifying a reporting framework.

In order to effectively and efficiently develop systems of internal control that also adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organisation, it is essential to adopt an appropriate internal control framework.

There are many frameworks that provide guidance to entities for developing and establishing their internal control systems. Some of the commonly applied internal control frameworks are as follows:

- Internal Control - Integrated Framework issued by Committee of the Sponsoring Organisations of the Treadway Commission (COSO Framework). The original COSO Framework issued in 1992 was available for use until 14 December 2014. Thereafter this has been superseded by the 2013 COSO Framework. The 2013 COSO Framework, inter alia, has been issued to enable organisations to also achieve operational control objectives rather than just the financial reporting objectives.
- Guidance on Assessing Control published by the Canadian Institute of Chartered Accountants (CICA).
- Report published by the Institute of Chartered Accountants in England & Wales "Internal Control:
- Guidance for Directors on the Combined Code" (known as the Turnbull Report).
- In India, a "Guide to Internal Controls over Financial Reporting" was issued by the Committee on Internal Audit of the ICAI (now the Internal Audit Standards Board) in the context of the requirements of Clause 49 of the ELA. This Guide, along with any amendments thereto could also provide the necessary framework for companies.

Accordingly, a company may adopt any of the above frameworks or establish a framework of its own. Pending issuance or recommendation of a framework by the Ministry of Corporate Affairs (MCA), in case a company chooses to establish an internal control framework of its own, it should ensure that the framework addresses the following essential components of internal control:

- Control environment: The control conscience of an organisation - the "tone at the top"
- Risk assessment: The evaluation of internal and external factors that impact an organisation's performance
- Control activities: The policies and procedures that help ensure that actions identified to manage risk are executed and timely
- Information and communication: The process that ensures relevant information is identified and communicated in a timely manner
- Monitoring activities: The process to determine whether internal control is adequately designed, executed, effective and adaptive

Testing of the internal financial controls by Management/ Auditors

Objective

- When using either statistical or non-statistical sampling methods, the auditor should design and select an audit sample, perform audit procedures thereon, and evaluate sample results so as to provide sufficient appropriate audit evidence to meet the objectives of the internal audit engagement unless otherwise specified by the client
- A deficiency in internal financial controls exists when the operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis

Test of Design

- Understand the entity, business and its environment, including the mechanism of its internal control, design of controls and examine whether they have been implemented

- The **purpose of a test of design of a relevant control** is to obtain a sufficient understanding of each control (and the related risk that the control addresses) to:
  - Conclude on the effectiveness of its design to address the risk.
  - Plan the nature, timing, and extent of the tests of operating effectiveness of the control
- A **"test of design" of a relevant control** includes:
  - Inquiry of personnel involved in the performance of the control, **Supplemented by**
  - A mix of observation of how the control is performed (e.g., demonstration by entity personnel to the auditor what they do), **and**
  - Inspection of the relevant documentation related to the performance of the control (which may include either IPE used in the performance of the control or documentation resulting from the performance of the control – **Walkthrough)**
- The test of design of a relevant control confirms the auditor's understanding of the controls (e.g., the detailed control description) and provides the basis to evaluate whether the controls are designed effectively (i.e., the auditor determines whether each risk is appropriately mitigated by the controls as designed).
- The **objective of testing the design of a control** is to determine if a deficiency in design exists. A deficiency in design exists when:
  - A control necessary to meet the control objective (i.e., a control that mitigates the risk of material misstatement) is missing
  - An existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met (i.e., the risk of material misstatement would not be mitigated)
- To appropriately evaluate the design of relevant controls, the auditor considers the following elements:
  - The nature and significance of the risks of material misstatement addressed by the control
  - The characteristics or details of the control
  - Factors to determine whether the control is appropriately designed (i.e., the precision of a control) to address the identified risk
- Illustrative Factors to consider when determining whether control is appropriately designed:
  - **Appropriateness of the purpose of the control.** A procedure that functions to prevent or detect misstatements generally is more precise than a procedure that merely identifies and explains differences
  - **Correlation to the risk/ assertion**. A control that is indirectly related to an assertion normally is less likely to prevent or detect misstatements in the assertion than a control that is directly related to an assertion
  - **Competence and authority of the person(s) performing the control**. For example, if the assistant controller performs a review of a document prepared by the controller, the assistant controller's authority in performing such a review might be questioned, given the direct reporting relationship of the assistant controller to the controller
  - **Frequency and consistency with which the control is performed.** A control that is performed routinely and consistently is generally more precise than one performed sporadically. For example, a review control that has clearly defined procedures and which is designed to be performed each quarter would be more precise than a review control that has undefined process steps and which is performed infrequently or on an ad-hoc basis. Similarly, when general IT controls are effective, an automated control is expected to operate more consistently than a manual control.
  - **Dependency on other controls or information**. If the control is dependent upon other controls (e.g., the effective operation of general IT controls) or IPE, the design of the control cannot be concluded upon without also considering the effectiveness of the other control(s) or the accuracy and completeness of the IPE.

- **Role of Walkthrough in test of design**
  - o Walkthroughs are efficient means to:
    - ▪ Obtain or update understanding of the entity's flow of transactions
    - ▪ Identify controls that are relevant to the audit and gain an understanding (evaluate design and implementation) of those controls
  - o In performing a walkthrough, the auditor generally selects a single transaction and trace it through the procedures or steps in the process, and the relevant control activities, from initiation to the transaction's ultimate recording in the general ledger. The walkthrough would generally begin with the original source document for a selected transaction (e.g., a revenue walkthrough might begin with a sales order, rather than the sales invoice).
  - o Following the transaction through the procedures or steps in the process helps validate the auditor's understanding of how transactions are initiated, authorised, recorded and processed. The procedures or steps addressed in the walkthrough would correspond to those in the process narratives or the narratives combined with process flow diagrams.

Note :

A smaller, less complex company might achieve its control objectives in a different manner from a larger, more complex organisation. For example, a smaller, less complex company might have fewer employees in the accounting function, limiting opportunities to segregate duties and leading the company to implement alternative controls to achieve its control objectives. In such circumstances, the auditor should evaluate whether those alternative controls are effective.

Test of Operative effectiveness of controls

- A deficiency in operation exists when a properly designed control does not operate as designed, or the person performing the control does not possess the necessary authority or competence to perform the control effectively. Thus, the auditor should test the operating effectiveness of a control by determining whether the control is operating as designed and whether the person performing the control possesses the necessary authority and competence to perform the control effectively
- If the control does not operate effectively (e.g., the auditor is unable to obtain sufficiently persuasive evidence that the control is operating as designed), then it is a "deficiency in operating effectiveness."
- If a control is not designed properly, it cannot operate effectively; therefore, there is no need to test the operating effectiveness of controls that are improperly designed.
- The auditor obtains audit evidence of the operating effectiveness of relevant controls at the balance-sheet date. Testing performed closer to the balance sheet date provides more evidence than testing performed earlier in the year and testing controls over a greater period of time provides more evidence of the effectiveness of controls than would be provided by testing the controls over a shorter period of time

Steps involved

- **Clearly defining the test objective, including establishing a clear understanding of what constitutes a deviation** to ensure that only those deviation that are relevant to the purpose of the test are included in the evaluation of deviation
- **Assess the risks associated with the controls.** The risk associated with the control is the risk that the control might not be effective. The assessment of risk associated with the control determines the persuasiveness of the evidence to be obtained about the effectiveness of the control. The auditor should assess the risk associated with the control as either "higher" or "not higher" and use this assessment to plan the nature, timing, and extent of the testing of each control. Factors that may be considered in assessment of the risk:
  - o Importance of the control i.e. Nature and materiality of the mis-statement that the control is intended to prevent or detect
  - o Whether the account has history of errors
  - o Nature of control and the frequency with which it operates

- o Dependency of other controls
- o Competence of the person who performs the control
- o Manual or automated controls

- **Sampling.** Identifying the population to be sampled and selecting the sample such that all items in the population have a chance of selection. For selection of sample size, method of the sample selection and evaluation of sample results, refer notes below.
- **Obtaining evidence.** Obtaining sufficient and appropriate audit evidence, including related to IPE upon which the control is dependent. For reliability of evidence obtained, refer notes below.
- Applying professional skepticism when evaluating the persuasiveness of the evidence obtained, including what constitutes a deviation or exception

Assessing findings and concluding on the operating effectiveness of controls

Considerations when assessing findings and concluding on the operating effectiveness of controls include:

- **Determining whether a deviation is identified**
- **Determining the nature and cause of the deviation(s)**
- **Evaluating whether the deviation is a control deficiency**

Based on the above considerations, deviations are evaluated and concluded upon to be either:

- Only a deviation and not a deficiency: In this case, no further consideration is necessary (this is expected to be rare, particularly when the auditor is using a sampling approach); or
- A deficiency: In this case, the deficiency is further evaluated to assess its severity and implications on the financial statements audit (i.e., risk assessment and control reliance strategy)

Identification of deviations

- Generally, any failure in the operation of a control from (1) established policy and procedure, (2) a regulatory requirement or (3) the expectation of the operation based on peer or industry comparison is likely a deviation (which is then further evaluated as described below)
- Examples of instances in which **a failure in the operation of a control may not be a deviation** may include the following circumstances:
  - o When the control operates effectively in mitigating the risk, even though the control does not operate completely in accordance with the prescribed procedure (e.g., an authorisation form was not properly completed and signed off, but there is other evidence that clearly reflects the transaction was authorised)
  - o When the departure from policy or procedure is authorised by the appropriate level of management based on particular circumstances (e.g., in an employee's absence, the normal control process was not followed; however, management is aware of this and has compensated for it)
  - o If a document is selected that has been validly cancelled prior to operation of the control (i.e., the document does not constitute a deviation), it may be excluded from the sample and an appropriately chosen replacement may be examined. However, if the deviation relates to a document that cannot be located, the auditor makes every possible effort to locate it or to ascertain, using suitable alternative procedures that the control in this specific instance was operating properly. If evidence supporting operation of the control for the selected sampling unit is not available, another sampling unit cannot be substituted for the missing unit and it is generally necessary to treat this item as a deviation from the prescribed control

Determining the nature and cause of the deviation(s)

- When investigating the nature and cause of a deviation, the auditor may consider the following questions:
  - o Is the nature of the deviation limited to certain types of transactions (e.g., infrequent exceptions as opposed to the norm)? The auditor should consider the nature and volume of the exceptions that may be subject to other deviations.

- o Has a change in roles or responsibilities of the person performing or monitoring the control contributed to the deviation? The auditor should consider the significance and breadth of the role and responsibility of the new person and the likelihood that other deviations in other controls operated by the new person could exist

- o Has a lack of competency of the person performing the control contributed to the deviation? The auditor should consider the significance and breadth of the role and responsibility of the person for which other deviations could exist

- o Was management aware of the circumstances causing the deviation? A deviation that management is not aware of and not monitoring may result in an increased likelihood that other deviations will occur

- o Have changes in volume of activity or transactions (e.g., significant seasonal fluctuations) contributed to the deviation? A deviation during a limited period of heavy volume may not be indicative of what might more typically occur during normal volume periods.

Evaluating whether the deviation is a control deficiency

- The concept of effectiveness of the operation of controls recognises that some deviations in the way controls are applied by the entity may occur. Deviations from prescribed controls may be caused by factors such as changes in key personnel, significant seasonal fluctuations in volume of transactions, and human error.

- Accordingly, **it is acknowledged that a control could still be concluded to be effective, even when some level of deviation may exist.** Because effective internal financial controls cannot, and does not, provide absolute assurance of achieving the company's control objectives, an individual control does not necessarily have to operate without any deviation to be considered effective

- Following consideration are relevant in evaluating whether the deviation is to be concluded as a control deficiency or not:

  - o Risk associated with the control. The higher the risk, the more reliable the control needs to be

  - o Extent of reliance on the control: When a risk of material misstatement is addressed solely by one control, the control generally needs to be more reliable, particularly when the risk being addressed is a significant risk

  - o Testing approach. Consider the expansion of sample size to conclude on the effectiveness of the control based on the acceptable tolerable deviation rate

  - o Acceptable deviation based on the risk associated with the control. E.g. an acceptable rate up to 5% may be concluded to be acceptable. If the deviation is below acceptable limits based on the professional judgement, the deviation may not be an indicative of control deficiency

  - o Nature of control. Following points are relevant:

    - ▪ The relative performance of the deviations to the overall performance of the control. For example, review controls typically have multiple characteristics that need to be tested; therefore, testing of such controls may result in deviations related to certain characteristics and not others. Determining whether such controls are nevertheless effective, even if some level of deviation has been identified, requires significant professional judgement.

    - ▪ Whether misstatements have actually occurred.

    - ▪ Whether the deviation has a potential effect on the effectiveness of other controls

Remediation Testing

- Auditors are required to express an opinion on the effectiveness of the entity's internal financial controls as of the balance sheet date

- **Accordingly, any issues or deficiencies either relating to design or operative effectiveness of controls if they are remediated before the period under consideration, then the auditor can still express an unqualified opinion.**

- It would be important to note that the remediation has to happen within the financial period which is under consideration and sufficient time should be allowed to evaluate and test controls
- If deficiencies are discovered, management may have the opportunity to correct and address these deficiencies prior to the reporting date. However, once a new control is in place, management should allow enough time for its operations to validate the control's operating effectiveness. The amount of time that a control should be in place and operating effectively depends on the nature of the control and how frequently it operates. The amount of time a remediation control should be in existence for placing reliance on the control by the auditor is a matter of professional judgement.
- **Under ordinary circumstances, control remediation that occurs after year-end will not mitigate an identified deficiency for reporting purposes. Auditor should not express an opinion on management's disclosure about corrective actions taken by the company after the balance sheet date.**

Reliability of evidences obtained

- The reliability of evidence depends on the nature and source of the evidence and the circumstances under which it is obtained. For example, in general:
  - Evidence obtained from a knowledgeable source that is independent of the company is more reliable than evidence obtained only from internal company sources
  - The reliability of information generated internally by the company is increased when the company's controls over that information are effective
  - Evidence obtained directly by the auditor is more reliable than evidence obtained indirectly
  - Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles, or documents that have been filmed, digitised, or otherwise converted into electronic form, the reliability of which depends on the controls over the conversion and maintenance of those documents

Selection of the Sample size

- The sample size is to be used when planning the extent of tests of operative effectiveness of controls
- Sample size is to be applied for testing of manual controls. For Automated controls, sample size has to be one
- If control deviations are not found for the sample size, the control is said to operate effectively
- The sample size is based on the frequency of the performance of the control
- The sample size is indicative and minimum i.e. Sample size other than this may also be followed based on the auditor's professional judgement. The lower the risk that the auditor is willing to accept, the greater the sample size needs to be
- The minimum sample size is based on the risk of the failure of the control (Lower/ Higher), based on the assessment of the control

Frequency of the control activity	**Lower**	**Higher**
Annual	1	1
Quarterly (including period-end i..e, +1)	1 + 1	1 + 1
Monthly	2	3
Weekly	5	8
Daily	15	25
Recurring Manual Control (Multiple times a day)	25	40

Self-Note:

- In case **no frequency is fixed for the performance of the control**, the sample size shall be lower of the following:
    - o 25% of the transactions (population)
    - o 25/40 transactions if the risk associated with the control is lower/ higher
- In no case the sample size shall be less than one
- But even the above sampling methodology is subject to professional judgement

Method of Sample selection

- Apply stratification i.e. divide the population into sub-population, each of which is a group of sampling units having similar characteristics to ensure efficient and effective design of the of the sample
- In selection of the samples, Apply statistics based formula like every 9th invoice etc. or exercise of professional judgment applied objectively to the circumstances
- Select sample items in such a way that the sample can be expected to be representative of the population. This requires that all items or sampling units in the population have an opportunity of being selected
- Commonly used sampling methods: Random Selection, Systematic selection, Haphazard Selection

Relevant Portion of Main Audit Report for Internal Financial Control Reporting

Independent Audit Report: Extract

Report on Other Legal and Regulatory Requirements

9. As required by 'the Companies (Auditor's Report) Order, 2016', issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act (hereinafter referred to as the "Order"), and on the basis of such checks of the books and records of the Company as we considered appropriate and according to the information and explanations given to us, we give in the Annexure B a statement on the matters specified in paragraphs 3 and 4 of the Order.

10. As required by Section 143 (3) of the Act, we report that:

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

    (b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books.

    (c) 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.

    (d) In our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

    (e) On the basis of the written representations received from the directors as on March 31, 2016 taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2016 from being appointed as a director in terms of Section 164 (2) of the Act.

    (f) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in Annexure A.

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

        i. The Company has disclosed the impact, if any, of pending litigations as at March 31, 2016 on its financial position in its standalone financial statements.

        ii. The Company has made provision as at March 31, 2016, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts.

        iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company during the year ended March 31, 2016.

For XYZ & Associates
Chartered Accountants
Firm Registration Number:

Lucknow, May 23, 2016

ABC
Partner
Membership Number :

ANNEXURE TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF ABC COMPANY LIMITED

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls over financial reporting of ABC Company Limited ("the Company") as of March 31, 2016 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India". These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditors' Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls over Financial Reporting (the "Guidance Note") and the Standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness.

Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence I/we have obtained is sufficient and appropriate to provide a basis for my / our audit opinion on the Company's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes inconditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2016, based on ______ [for example, "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India"].

For XYZ & ASSOCIATES
Chartered Accountants
(Firm's Registration No.______)
Signature
(Name of the Member Signing the Audit Report)
(Designation)
(Membership No. XXXXX)
Place:
Date:

ANNEXURE TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF ABC COMPANY LIMITED

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We were engaged to audit the internal financial controls over financial reporting of ABC Company Limited ("the Company") as of March 31, 20X1 in conjunction with my / our audit of the financial statements of the Company for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Company's management is responsible for establishing and maintaining internal financial controls based on "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India"]. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditors' Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on my/our audit conducted in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing, to the extent applicable to an audit of internal financial controls, both issued by the Institute of Chartered Accountants of India.

Because of the matter described in Disclaimer of Opinion paragraph below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on internal financial controls system over financial reporting of the Company.

Meaning of Internal Financial Controls Over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Disclaimer of Opinion

Scenario 1 – Framework for internal financial control over financial reporting not established but does not impact the audit opinion on financial statements

According to the information and explanation given to us, the Company has not established its internal financial control over financial reporting on criteria based on or considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. Because of this reason, we are unable to obtain sufficient appropriate audit evidence to provide a basis for our opinion whether the Company had adequate internal financial controls over financial reporting and whether such internal financial controls were operating effectively as at March 31, 20X1. I / We have considered the disclaimer reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the standalone financial statements of the Company, and the disclaimer does not affect my / our opinion on the standalone financial statements of the Company.

ANNEXURE TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE STANDALONE FINANCIAL STATEMENTS OF ABC COMPANY LIMITED

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls over financial reporting of ABC Company Limited ("the Company") as of March 31, 2016 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Company's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India"]. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditors' Responsibility

Our responsibility is to express an opinion on the Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing, to the extent applicable to an audit of internal financial controls, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that I / we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. We believe that the audit evidence I / we have obtained is sufficient and appropriate to provide a basis for my / our qualified / adverse audit opinion on the Company's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Scenario 1 - Qualified Opinion on adequacy (and therefore operating effectiveness) of Internal Financial Controls Over Financial Reporting Qualified opinion

According to the information and explanations given to me / us and based on my / our audit, the following material weakness/es has / have been identified as at March 31, 2016: a) The Company did not have an appropriate internal control system for customer acceptance, credit evaluation and establishing customer credit limits for sales, which could potentially result in the Company recognising revenue without establishing reasonable certainty of ultimate collection.

b) [list other deficiencies identified]

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

In our opinion, except for the effects/possible effects of the material weakness/es described above on the achievement of the objectives of the control criteria, the Company has maintained, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as of March 31, 2016, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

We have considered the material weakness/es identified and reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the March 31, 2016 standalone financial statements of the Company, and the / these material weakness/es does not / do not affect my / our opinion on the standalone financial statements of the Company.

Scenario 2 - Adverse Opinion on adequacy (and therefore operating effectiveness) of Internal Financial Controls Over Financial Reporting

Adverse opinion

According to the information and explanations given to us and based on our audit, the following material weakness/es has / have been identified as at March 31, 2016:

a) The Company did not have an appropriate internal control system for customer acceptance, credit evaluation and establishing customer credit limits for sales, which could potentially result in the Company recognising revenue without establishing reasonable certainty of ultimate collection.

b) The Company did not have an appropriate internal control system for inventory with regard to receipts, issue for production and physical verification. Further, the internal control system for identification and allocation of overheads to inventory was also not adequate. These could potentially result in material misstatements in the Company's trade payables, consumption, inventory and expense account balances.

c) [list other deficiencies identified]

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

In our opinion, because of the effects/ possible effects of the material weakness/es described above on the achievement of the objectives of the control criteria, the Company has not maintained adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were not operating effectively as of March 31, 2016, based on for example "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India"].

We have considered the material weakness/es identified and reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the March 31, 2016 standalone financial statements of the Company, and the / these material weakness/es does not / do not affect my / our opinion on the financial statements of the Company.

Scenario 3 - Qualified Opinion on operating effectiveness of Internal Financial Controls Over Financial Reporting and unmodified opinion on adequacy of such controls

Qualified opinion

According to the information and explanations given to me / us and based on my / our audit, the following material weakness/es has / have been identified in the operating effectiveness of the Company's internal financial controls over financial reporting as at March 31, 20X1:

a) The Company's internal financial controls over customer acceptance, credit evaluation and establishing customer credit limits for sales, were not operating effectively which could potentially result in the Company recognising revenue without establishing reasonable certainty of ultimate collection.

b) [list other deficiencies identified]

A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

In our opinion, the Company has, in all material respects, maintained adequate internal financial controls over financial reporting as of March 31, 2016, based onfor example, "the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India"], and except for the effects/possible effects of the material weakness/es described above on the achievement of the objectives of the control criteria, the Company's internal financial controls over financial reporting were operating effectively as of March 31, 2016.

We have considered the material weakness/es identified and reported above in determining the nature, timing, and extent of audit tests applied in my / our audit of the March 31, 2016 financial statements of the Company, and the / these material weakness/es does not / do not affect my / our opinion on the standalone financial statements of the Company.

CONSOLIDATED FINANCIAL STATEMENTS (CFS)

1. Introduction

Consolidated financial statements are the financial statements of a group presented as those of a single enterprise. For a wide variety of reasons such as taxation, investment laws, foreign exchange fluctuations and other business purposes, entities may choose to conduct their operations through several entities instead of a single legal entity. However, all these entities remain under the control of the ultimate parent. Hence the financial statements of the parent alone do not represent the entire economic picture of the financial position or performance of the parent. Users of the financial statements would like to know the picture of the group as a whole. Hence, there is a strong case for mandatory presentation of the consolidated financial statements so as to reflect the economic reality.

Consolidated financial statements normally include consolidated balance sheet, consolidated statement of profit and loss, and notes, otherstatements and explanatory material that form an integral part thereof.Consolidated cash flow statement is presented in case a parent presents itsown cash flow statement. The consolidated financial statements arepresented, to the extent possible, in the same format as that adopted by theparent for its separate financial statements.

Erstwhile only clause 32 of the listing agreement mandated listed companies to publish Consolidated Financial Statements. Neither the Companies Act, 1956 mandated the preparation of consolidated financial statements nor do the Accounting Standards require companies to prepare Consolidated Financial Statements.With insertion of Section 129(3) in the Companies Act 2013 ("Act"), all companies including unlisted and private companies with one or more subsidiaries will in addition to separate financial statements now have to prepare Consolidated Financial Statements ("CFS").

This Article has been prepared in line with the present Companies Act, 2013. There are certain amendments in Companies (Amendment) Bill, 2016 and Accounting Standard (AS) 21 as discussed in Appendix-IV which shall come into effect from the next FY 2016-17 and hence not applicable for the FY 2015-16.

2. Understanding of the relevant provisions of Companies Act 2013 vis-à-vis Accounting Standards

2.1. Definition of subsidiary

As per AS 21:

*A **subsidiary** is an enterprise that is controlled by another enterprise (known as the parent).*

Controlis defined as**:**

(a) the ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise;or

(b) control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtaineconomic benefits from its activities.

As per Companies Act, 2013,

Section 2 (87):

***"subsidiary company"** or **"subsidiary**", in relation to any other company (that is to say the holding company), means a company in which the holding company—*

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation.—For the purposes of this clause,—

(a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

(b) *the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;*

(c) *the expression "company" includes any body corporate;*

(d) *"layer" in relation to a holding company means its subsidiary or subsidiaries;*

Section 2(27):

"control"*shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner;*

The term **'total share capital'** is defined under the Rule 2(r) of Companies (Specification of Definition Details) Rules, 2014:

"Total Share Capital", for the purposes of sub-sections (6) and (87) of section 2, means aggregate of the:-

(a) *paid-up equity share capital- and*

(b) *convertible preference share capital.*

The following points are worth mention:

a) The definition of subsidiary as per the Companies Act is at variance with the definition as per the Accounting Standard.

b) To determine whether a parent-subsidiary relationship exists from an ownership perspective, AS 21 requires the parent to own more than 50% of the voting power of the other enterprise whereas the Companies Act requires exercise or control of more than 50% of the total share capital. The Companies Rules clarify that total share capital shall mean aggregate of paid-up share capital and convertible preference share capital. Thus there may be a situation where a company may be a subsidiary under the Companies Act 2013 merely because of a particular company is holding the entire preference share capital and is not exercising any voting power. Further the word 'convertible' may include optionally convertible, partly convertible or fully convertible.

c) With respect to **control** of composition of Board of Directors, the definition of **'control'**under the Companies Act 2013 is much wider than given in AS 21. The definition of control in the Companies Act is an inclusive definition and emphasis is given not only to composition of the Board but also to control of management or policy decisions (direct or indirect).

d) The manner in which the definition of subsidiary is worded in the Companies Act, a subsidiary can either be a company or a body corporate only. Under AS 21, a subsidiary may be any enterprise and includes a company or a body corporate.

2.2. **Requirement to prepare CFS**

Section 129(3) requires that "where a company has one or more subsidiaries, it shall, in addition to standalone financial statements, prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with the laying of its standalone financial statement."

Explanation to Section 129(3) provides that the word "subsidiary" shall include associate company and joint venture.

The first proviso provides that the Company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in Form AOC-1 as prescribed under Rule 5, Companies (Accounts) Rules, 2014.

The second proviso delegates power to the Central Government to prescribe the manner in which such consolidation shall be made. Accordingly, the Central Government has issued Rule 6 of Companies (Accounts) Rules 2014 for the purpose.

The Companies Act 2013 thus requires mandatory preparation of CFS. Further, the provisions of the Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to the CFS. [Section 129(4)].

2.3. Identification of Subsidiary for CFS

The definition of subsidiary and associate as per the Act is different and much wider than the definition under the AS 21. The combined reading of AS 21 with AS 23 clearly suggests that potential equity shares of the investee are not considered for determining voting power. Further control as per AS 21 is based on voting power as against total share capital ownership under the Act. Hence there is anomaly in law as to which definition should be considered for identification of subsidiary.

Attention is invited to the relevant provisions of the Act relating to financial statements:

- **Section 129 (1) of the Act provides that the** financial statements shall give a true and fair view of the state of affairs of the company or companies, **comply with the accounting standards notified under section 133**and shall be in the form or forms as may be provided for different class or classes of companies in Schedule III.Provided that the items contained in such financial statements **shall be in accordance with the accounting standards**.
- **Further Rule 6 of the Companies (Accounts) Rules, 2014 provides that** the consolidation of financial statements of the company shall be made **in accordance with the provisions of Schedule III of the Act and the applicable accounting standards.**

Thus, on reading the above provisions, it is impracticable to prepare CFS which comply with the accounting standards if the definition of subsidiary as per the Companies Act, 2013 is adopted.

Identification of subsidiary for consolidation purpose shall be made based on economic substance rather than mere legal form. The CFS should be prepared in accordance with the accounting standards and identification of subsidiary shall also be made in accordance with accounting standards. In case the same is not done, this will lead to absurd results and situations may arise where consolidation is an impossibility. Question will also arise as to how reporting of compliance with the accounting standards shall be made by the Company.

The definition section 2 of the Act starts with the words ***"In this Act, unless the context otherwise requires,".***The principle of law against absurdity is clearly established when the application of the definition to a term in a provision containing the term makes it unworkable and otiose,it can be said that the definition is not applicable to that provision because of contrary context.

Accordingly, for identification of subsidiary/ associates/ joint ventures for consolidation purpose, definition as per AS 21/ AS 23/ AS 27 shall be used and for other regulatory matters, definition as per Act should be used.

2.4. Manner of preparing CFS:

The second proviso to Section 129(3) delegates power to the Central Government to prescribe the manner in which such consolidation shall be made. Accordingly, the Central Government has issued Rule 6 of Companies (Accounts) Rules 2014 for the purpose.

Rule 6 of Companies (Accounts) Rule, 2014 ("Accounts Rule") deals with the manner of consolidation and provides that the CFS of the company shall be made in accordance with the provisions of Schedule III of the Act and the applicable accounting standards.

The first proviso states that in case of a company covered under section 129(3) which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with provisions on consolidated financial statements provided in Schedule III of the Act.

Further, nothing contained in Rule 6 shall apply in respect of preparation of consolidated financial statements by:

a) an intermediate wholly-owned subsidiary, other than a wholly-owned subsidiary whose immediate parent is a company incorporated outside India;

b) a company which does not have a subsidiary or subsidiaries but has one or more associate companies or joint ventures or both, for the consolidation of financial statement in respect of associate companies or joint ventures or both, as the case may be , for the financial year commencing from the **1st day of April, 2014 and ending on the 31st March, 2015**;

c) a company having subsidiary or subsidiaries incorporated outside India **only for the financial year commencing on or after 1st April, 2014**.

On the reading the above one may argue that it is the Companies Act, 2013 which decides the need to prepare CFS and the Account Rules are relevant only for the manner of consolidating entities identified as subsidiaries/ associates/ joint ventures. The Accounts Rule cannot have an effect of overriding the provisions of the Act.Hence, CFS is prepared when the company has an associate or joint venture, even though it does not have any subsidiary. The associate and joint venture are accounted for using the equity/ proportionate method in CFS.

The other view possible is that the Accounts Rules provide the manner for preparation of CFS. If the said Rule does not apply to a class of companies, there is no manner prescribed for preparation of CFS for the said class. Accordingly, in absence of manner of consolidation, there is no requirement to prepare CFS for the said class of companies. Further, the intent of the amendment in the Rule is only to mitigate the hardship on the companies. For example, there should not be any requirement of preparing CFS for intermediate wholly-owned subsidiaries if the ultimate parent company is preparing CFS.

Further, the definition of “subsidiary” for sec 129 (3) includes associates, but in case of associates, there is no such thing as consolidation. Consolidation of assets/liabilities is not done in case of associates. Merely, the valuation of investment in the associate is valued as per equity method of accounting. However, such a valuation is required only in “group accounts”. Since a company not having subsidiaries is never required to prepare group accounts, there is no question of consolidation in case of a company which merely had associates. Hence, the proponents of this view argue that that a company is not required to prepare CFS if it does not have a subsidiary but has an associate or a joint venture.

A stricter and a more conservative view may be taken by preparing CFS in all cases.However, the legislative intent of the amendment in Rule 6 by giving exemption to certain companies may not be ignored. Appropriate guidance should be provided by MCA/ ICAI.

3. Broad Principles of Consolidation

3.1. General Principle of Consolidation

Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements when they are used in preparing the consolidated financial statements.

3.2. Treatment in Case of Subsidiary

Consolidation of Subsidiaries

A parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign, other than those as discussed above.

Step 1: In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries should be combined on a line by line basis by adding together like items of assets, liabilities, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single enterprise, the following steps should be taken:

Step 2.: Find out the date of acquisition

The cost to the parent of its investment in each subsidiary and the parent’s portion of equity of each subsidiary, at the date on which investment in each subsidiary is made, should be eliminated.

Step 3: Calculate the Capital Reserve/ Goodwill:

- Any excess of the cost to the parent of its investment in a subsidiary over the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, should be described as ***goodwill*** to be recognised as an asset in the consolidated financial statements.

- When the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, the difference should be treated as a ***capital reserve*** in the consolidated financial statements.

Parent's portion of Equity means:

- Share Capital of Subsidiary - Reserve and Surplus of Subsidiary (before acquisition)	Only parent's portion shall be included

The following table will be made for the Subsidiary Company from the year in which the investment was made:

PARTICULARS	PRE ACQUISITION	POST ACQUISITION	
Opening Balance in Profit & Loss	xxx		
Opening Balance- Any other Reserves	xxx		
Profit In The Year of Acquisition	xxx	xxx	If acquired during the year then the profit may be divided on the basis of number of days
Further Years Profits :			
Year XXXX		xxx	
Year XXXX		xxx	
Total	**xxx**	**xxx**	
Minority (xx %)	**xxx**	**xxx**	
Holding (xx %)	**xxx**	**xxx (Refer Note 1 below)**	

Cost of Control for Holding Company	**(Amount in Rs.)**
Cost to the parent of its investment in subsidiary	xxx
Less: Parent's portion of equity of the subsidiary	
- Share Capital of Subsidiary Company (Holding Co's Share)	xxx
- Pre-acquisition profits/ reserves of Subsidiary Company (Holding Co.'s share)	xxx
Goodwill/(Capital Reserve)	**xxx**

Step 4: Calculation of Minority's Interest

Minority interests in the net assets of consolidated subsidiaries should be identified and presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. Minority interests in the net assets consist of:

(i) the amount of equity attributable to minorities at the date on which investment in a subsidiary is made; and

(ii) the minorities' share of movements in equity since the date the parent-subsidiary relationship came in existence.

Minority's Share **(Amount in Rs.)**

Share Capital of Subsidiary Company	xxx
Add : - Pre-acquisition profits/ reserves of Subsidiary	xxx
- Post-acquisition profits/ reserves of Subsidiary	xxx
Total	**xxx**

Minority interests should be presented in the consolidated balance sheet separately from liabilities and the equity of the parent's shareholders. Minority interests in the income of the group should also be separately presented.

Step 5: Intragroup balances/ transactions

Intragroup balances and intragroup transactions, including sales, expenses and dividends, are eliminated in full. Unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealised losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered.

NOTES:

1. The parent's share in the post-acquisition reserves of a subsidiary, forming part of the corresponding reserves in the consolidated balance sheet, is not required to be disclosed separately in the consolidated balance sheet keeping in view the objective of consolidated financial statements to present financial information of the group as a whole. In view of this, the consolidated reserves disclosed in the consolidated balance sheet are inclusive of the parent's share in the post-acquisition reserves of a subsidiary.

2. Where the carrying amount of the investment in the subsidiary is different from its cost, the carrying amount is considered for the purpose of above computations.

3. The tax expense (comprising current tax and deferred tax) to be shown in the consolidated financial statements should be the aggregate of the amounts of tax expense appearing in the separate financial statements of the parent and its subsidiaries.

4. If an enterprise makes two or more investments in another enterprise at different dates and eventually obtains control of the other enterprise, the consolidated financial statements are presented only from the date on which holding-subsidiary relationship comes in existence.

5. If a subsidiary has outstanding cumulative preference shares which are held outside the group, the parent computes its share of profits or losses after adjusting for the subsidiary's preference dividends, whether or not dividends have been declared.

6. The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

7. The results of operations of a subsidiary with which parent-subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship. The difference between the proceeds from the disposal of investment in a subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated statement of profit and loss as the profit or loss on the disposal of the investment in the subsidiary.

Disclosure in financial statements

CONSOLIDATE STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31st MARCH, 2015

(Amount in Rs.)

	NOTE NO.	31.03.2015	31.03.2014
Profit /(Loss) after Tax before Minority Interest and Share of Profit/ (Loss) of Associates		xxx	xxx
Minority Interest		xxx	xxx
Share of Profit/ (Loss) of Associate		xxx	xxx
Share of Profit / (Losss) after Tax, Minority Interest and Share of Profit/ (Loss) of Associate		**xxx**	**xxx**
Earnings per share			

CONSOLIDATE BALANCE SHEET AS AT 31st MARCH, 2015

(Amount in Rs.)

PARTICULARS	NOTE NO.	31.03.2015	31.03.2014
EQUITY AND LIABILITIES			
1) SHAREHOLDERS' FUNDS			
(a) Share Capital		xxx	xxx
(b) Reserves And Surplus		xxx	xxx
		xxx	xxx
2) MINORITY INTEREST		xxx	xxx
3) NON-CURRENT LIABILITIES			
ASSETS			
1) NON-CURRENT ASSETS			
(a) Fixed Assets			
(i) Tangible Assets		xxx	xxx
(ii) Intangible Assets		xxx	xxx
		xxx	xxx
(b) Goodwill on Consolidation		xxx	xxx
(c) Non Current Investments		xxx	xxx

NOTES TO FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH, 2015

(Amount in Rs.)

	31.03.2015	31.03.2014
Note No. - XX		
RESERVE & SURPLUS		
(a) Capital Reserve on Consolidation		
Balance as per last account	xxx	xxx
Equity accounting of associates	xxx	xxx
	xxx	xxx

3.3. Traetment in case of Associates

Associate definition

An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

Consolidation of Associates

Equity Method

The equity method is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee.

Step 1: Find out the date of acquisition

An investment in an associate is accounted for under the equity method from the date on which it falls within the definition of an associate. On acquisition of the investment any difference between the cost of acquisitionand the investor's share of the equity of the associate is described as goodwill or capital reserve, as the case may be.

Step 2: Calculate the Capital Reserve/ Goodwill:

If the cost to the investor's investment in the associate is more than the investor's portion of equity in the associate then the difference is recognised as ***Goodwill*** and if the cost to the investor's investment in the associate is less than the investor's portion of equity in the associate then the difference is recognised as ***Capital Reserve.***

Goodwill/capital reserve arising on the acquisition of an associate by an investor should be included in the carrying amount of investment in the associate but should be disclosed separately.

Investor's portion of Equity means:

- Share Capital of Associate
- Reserve and Surplus of Associate (before acquisition)

Only investor's portion shall be included

The following table will be made for the Associate from the year in which the investment was made:

PARTICULARS	PRE ACQUISITION	POST ACQUISITION
Opening Balance in Profit & Loss	xxx	
Opening Balance- Any other Reserves	xxx	
Profit In The Year of Acquisition	xxx	xxx
Further Years Profits :		
Year XXXX		xxx
Year XXXX		xxx
Total	**xxx**	**xxx**
Investor (xx %)	**xxx**	**xxx**

If acquired during the year then the profit is divided on the basis of number of days

Cost of Control for the Investor	**(Amount in Rs.)**
Cost to the Investor's investment in the associate	xxx
Less: Investor's portion of equity in the associate	
- Share Capital of Associate (Investor's Share)	xxx
- Pre-acquisition profits/ reserves of Associate (Investor's share)	xxx
Goodwill/(Capital Reserve)	**xxx**

Step 5: Intragroup balances/ transactions

In using equity method for accounting for investment in an associate,unrealised profits and losses resulting from transactions between theinvestor (or its consolidated subsidiaries) and the associate should beeliminated to the extent of the investor 's interest in the associate.Unrealised losses should not be eliminated if and to the extent the cost of the transferred asset cannot be recovered.

NOTES:

1. Investments in associates accounted for using the equity method should be classified as long-term investments and disclosed separatelyin the consolidated balance sheet. The investor's share of the profits or losses of such investments should be disclosed separately in the consolidated statement of profit and loss. The investor's share of anyextraordinary or prior period items should also be separately disclosed.

2. In considering the share ownership, the potential equity shares of the investee held by the investor are not taken into account for determining the voting power of the investor.

3. Adjustments to the carrying amount of investment in an investee arising from changes in the investee's equity that have not been included in the statement of profit and loss of the investee are directly made in the carrying amount of investment without routing it through the consolidated statement of profit and loss. The corresponding debit/credit is made in the relevant head of the equity interest in the consolidated balance sheet. For example, in case the adjustment arises because of revaluation of fixed assets by the investee, apart from adjusting the carrying amount of investment to the extent of proportionate share of the investor in the revalued amount, the corresponding amount of revaluation reserve is shown in the consolidated balance sheet.

4. If, under the equity method, an investor's share of losses of an associate equals or exceeds the carrying amount of the investment, the investor ordinarily discontinues recognising its share of further losses and the investment is reported at nil value. Additional losses are provided for to the extent that the investor has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the investor has guaranteed or to which the investor is otherwise committed. If the associate subsequently reports profits, the investor resumes including its share of those profits only after its share of the profits equals the share of net losses that have not been recognised.

5. The carrying amount of investment in an associate should be reduced to recognise a decline, other than temporary, in the value of the investment, such reduction being determined and made for each investment individually.

6. On the first occasion when investment in an associate is accounted for in consolidated financial statements in accordance with this Standard, the carrying amount of investment in the associate should be brought to the amount that would have resulted had the equity method of accounting been followed as per this Standard since the acquisition of the associate. The corresponding adjustment in this regard should be made in the retained earnings in the consolidated financial statements.

Disclosure in financial statements

CONSOLIDATE STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31st MARCH, 2015

(Amount in Rs.)

	NOTE NO.	31.03.2015	31.03.2014
Profit /(Loss) after Tax before Minority Interest and Share of Profit/ (Loss) of Associates		xxx	xxx
Minority Interest		xxx	xxx
Share of Profit/ (Loss) of Associate		xxx	xxx
Share of Profit / (Losss) after Tax, Minority Interest and Share of Profit/ (Loss) of Associate		**xxx**	**xxx**
Earnings per share			

NOTES TO FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st MARCH, 2015

(Amount in Rs.)

	31.03.2015	31.03.2014
Note No. - XX		
NON CURRENT INVESTMENTS		
(At Cost unless otherwise stated)		
Long Term, Trade Investments		
Investment in Equity Instruments		
In Associates		
XYZ Ltd		
(i) Cost of Investment xxx equity shares of Rs. XX each, fully paid up) (including Rs. XX (P.Y. Rs. XX) of goodwill arising on consolidation	xxx	xxx
(ii) Share of post acquisition profit (net of losses)	xxx	xxx
	xxx	**xxx**
PQR Ltd		
(i) Cost of Investment xxx equity shares of Rs. XX each, fully paid up) (including Rs. XX (P.Y. Rs. XX) net of capital reserve) arising on consolidation	xxx	xxx
(ii) Share of post acquisition profit (net of losses)	xxx	xxx
	xxx	**xxx**

Details of Investment in associates are as follows: **(Amount in Rs.)**

Name of the Company	Original Cost of Investment	Goodwill/ (Capital Reserve)	Accumulated profit/ (loss) as at 31.03.2015	Carrying amount of investments as on 31.03.2015
XYZ Ltd	XXX	XXX	XXX	XXX
PQR Ltd	XXX	XXX	XXX	XXX
Total	**XXX**	**XXX**	**XXX**	**XXX**

3.4. Treatment in Case of Joint Venture - Definitions

A ***joint venture*** is a contractual arrangement whereby two or moreparties undertake an economic activity, which is subject to joint control.

Joint control is the contractually agreed sharing of control over aneconomic activity.

Control is the power to govern the financial and operating policies of an economic activity so as to obtain benefits from it.

A ***venturer*** is a party to a joint venture and has joint control over thatjoint venture.

An ***investor*** in a joint venture is a party to a joint venture and does nothave joint control over that joint venture.

Consolidation of Joint Ventures - Proportionate Consolidation Method

1. Proportionate consolidation is a method of accounting and reporting whereby a venturer's share of each of the assets, liabilities, income and expenses of a jointly controlled entity is reported as separate line items in the venturer's financial statements.

2. The application of proportionate consolidation means that the consolidated balance sheet of the venturer includes its share of the assets that it controls jointly and its share of the liabilities for which it is jointly responsible. The consolidated statement of profit and loss of the venturer includes its share of the income and expenses of the jointly controlled entity.

3. Many of the procedures appropriate for the application of proportionate consolidation are similar to the procedures for the consolidation of investments in subsidiaries, which are set out in Accounting Standard (AS) 21, Consolidated Financial Statements.

4. Under proportionate consolidation, the venturer includes separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its consolidated financial statements. For example, it shows its share of the inventory of the jointly controlled entity separately as part of the inventory of the consolidated group; it shows its share of the fixed assets of the jointly controlled entity separately as part of the same items of the consolidated group.

Calculate the Capital Reserve/ Goodwill:

- Any excess of the cost to the venturer of its interest in a jointly controlled entity over its share of net assets of the jointly controlled entity, at the date on which interest in the jointly controlled entity is acquired, is recognised as ***goodwill,*** and separately disclosed in the consolidated financial statements.

- When the cost to the venturer of its interest in a jointly controlled entity is less than its share of the net assets of the jointly controlled entity, at the date on which interest in the jointly controlled entity is acquired, the difference is treated as a ***capital reserve*** in the consolidated financial statements.

- Where the carrying amount of the venturer's interest in a jointly controlled entity is different from its cost, the carrying amount is considered for the purpose of above computations.

Forms of Joint Venture

Joint ventures take many different forms and structures. This Statement identifies three broad types- 1. jointly controlled operations, 2. jointly controlled assets and3. jointly controlled entities,which are commonly described as, and meet the definition of, joint ventures. The following characteristics are common to all joint ventures:(a) two or more venturers are bound by a contractual arrangement; and (b) the contractual arrangement establishes joint control.

In respect of jointly controlled operations and jointly controlled assets, there is no separate entity which needs to be consolidated. Hence the requirement of consolidation arises only in the case of jointly controlled entities.

Jointly Controlled Entitites

A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. A jointly controlled entity controls the assets of the joint venture, incurs liabilities and expenses and earns income. It may enter into contracts in its own name and raise finance for the purposes of the joint venture activity. Each venturer is entitled to a share of the results of the jointly controlled entity, although some jointly controlled entities also involve a sharing of the output of the joint venture.

Intragroup balances/ transactions

1. While giving effect to proportionate consolidation, it is inappropriate to offset any assets or liabilities by the deduction of other liabilities or assets or any income or expenses by the deduction of other expenses or income, unless a legal right of set-off exists and the offsetting represents the expectation as to the realisation of the asset or the settlement of the liability.

2. In the separate financial statements of the venturer, the full amount of gain or loss on the transactions taking place between the venturer and the jointly controlled entity is recognised. However, while preparing the consolidated financial statements, the venturer's share of the unrealised gain or loss is eliminated. Unrealised losses are not eliminated, if and to the extent they represent a reduction in the net realisable value of current assets or an impairment loss. The venturer, in effect, recognises, in consolidated financial statements, only that portion of gain or loss which is attributable to the interests of other venturers.

NOTES:

1. In a venturer's separate financial statements, interest in a jointly controlled entity should be accounted for as an investment inaccordance with Accounting Standard (AS) 13, Accounting for Investments.

2. The losses pertaining to one or more investors in a jointly controlled entity may exceed their interests in the equity of the jointly controlled entity. Such excess, and any further losses applicable to such investors, are recognised by the venturers in the proportion of their shares in the venture, except to the extent that the investors have a binding obligation to, and are able to, make good the losses. If the jointly controlled entity subsequently reports profits, all such profits are allocated to venturers until the investors'share of losses previously absorbed by the venturers has been recovered.

3. An investor in a joint venture, which does not have joint control, should report its interest in a joint venture in its consolidated financialstatements in accordance with Accounting Standard (AS) 13, Accounting for Investments, Accounting Standard (AS) 21,Consolidated Financial Statements or Accounting Standard (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements, as appropriate.

Disclosure in financial statements

CONSOLIDATE STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31st MARCH, 2015

(Amount in Rs.)

	NOTE NO.	31.03.2015	31.03.2014
Profit before tax		xxx	xxx
Tax expenses			
Current Tax		xxx	xxx
Deferred tax credit/ (charge) [Share of joint venture Rs. XX (2013-14 Rs. XX)		xxx	xxx
Profit /(Loss) after Tax before Minority Interest and Share of Profit/ (Loss) of Associates		**xxx**	**xxx**
Minority Interest		xxx	xxx
Share of Profit/ (Loss) of Associate		xxx	xxx
Share of Profit / (Losss) after Tax, Minority Interest and Share of Profit/ (Loss) of Associate		**xxx**	**xxx**
Earnings per share			

A Screenshot for Joint Venture disclosure- HUL Annual Report 2014-15

	Note		
Purchases of stock-in-trade	33	3,549.82	3,151.63
Changes in inventories of finished goods (including stock-in-trade) and work-in-progress	34	57.04	(171.30)
Employee benefits expenses	35	1,723.87	1,572.66
Finance costs	36	17.70	40.68
Depreciation and amortisation expenses	37	322.39	295.54
Other expenses	38	8,658.52	8,045.40
TOTAL EXPENSES		26,898.55	**24,824.29**
Profit before exceptional items and tax		5,640.29	**4,979.57**
Exceptional items	39	679.22	**235.61**
Profit before tax		6,319.51	**5,215.18**
Tax expenses			
Current tax	40	(1,959.81)	(1,228.24)
Deferred tax credit/(charge) [Share of joint venture Rs. 0.15 crores, (2013-14 Rs. 0.47 crores)]	41	15.81	(31.20)
Profit after tax and before minority interest		4,375.51	**3,955.74**
Less : Minority Interest		(12.43)	(10.17)
PROFIT FOR THE YEAR		4,363.08	**3,945.57**
Earnings per equity share	42		
Basic (Face value of Re. 1 each)		Rs. 20.17	**Rs. 18.24**
Diluted (Face value of Re. 1 each)		Rs. 20.16	**Rs. 18.23**
Significant accounting policies	2		

The accompanying notes are an integral part of these consolidated financial statements

As per our report of even date — For and on behalf of Board of Directors

For B S R & Co. LLP
Firm Registration No. 101248W/W - 100022

Sanjiv Mehta
Managing Director and CEO

PB Balaji
Executive Director (Finance & IT) and CFO

NOTES

to the financial statements for the year ended 31st March, 2015 (Contd.)

(All amounts in Rs. crores, unless otherwise stated)

5) LONG-TERM BORROWINGS

	As at 31st March, 2015	As at 31st March, 2014
Secured		
Loan from Bank*		
Share of Joint Venture - Refer Note 46	7.00	8.44
	7.00	**8.44**

*Loan from bank is repayable in three yearly installments starting from February, 2018; to be secured against assets to be purchased by the joint venture.

6) DEFERRED TAX LIABILITIES (NET)

	As at 31st March, 2015	As at 31st March, 2014
Share of Joint Venture - Refer Note 46	0.37	0.22
	0.37	**0.22**

7) OTHER LONG-TERM LIABILITIES

	As at 31st March, 2015	As at 31st March, 2014
Employee and ex-employee related liabilities	158.63	119.38
Security deposits	19.61	166.17
	178.24	**285.55**

HUL.pdf - Adobe Reader

NOTES

to the financial statements for the year ended 31st March, 2015 (Contd.)

(All amounts in Rs. crores, unless otherwise stated)

9) SHORT-TERM BORROWINGS

	As at 31st March, 2015	As at 31st March, 2014
Unsecured		
Short-term Loan from Bank*		
Share of Joint Venture - Refer Note 46	36.04	37.14
	36.04	**37.14**

*Loan from bank is repayable in three yearly installments starting from February, 2018; to be secured against assets to be purchased by the joint venture.

10) TRADE PAYABLES

	As at 31st March, 2015	As at 31st March, 2014
Acceptances	439.65	889.94
Trade payables (Refer Note 11)	5,012.82	4,882.85
	5,452.47	**5,772.79**
Share of Joint Venture - Refer Note 46	54.84	52.07
	5,507.31	**5,824.86**

11) DUES TO MICRO AND SMALL ENTERPRISES

Disclosure of payable to vendors as defined under the "Micro, Small and Medium Enterprise Development Act, 2006" is based on the information available with the Group regarding the status of registration of such vendors under the said Act, as per the intimation received from them on requests made by the Group. There are no overdue principal amounts/interest payable amounts for delayed payments to such vendors at the Balance Sheet date. There are no delays in payment made to such suppliers during the year or for any earlier years and accordingly there is no interest paid or outstanding interest in this regard in respect of payments made during the year or brought forward from previous years.

HUL.pdf - Adobe Reader

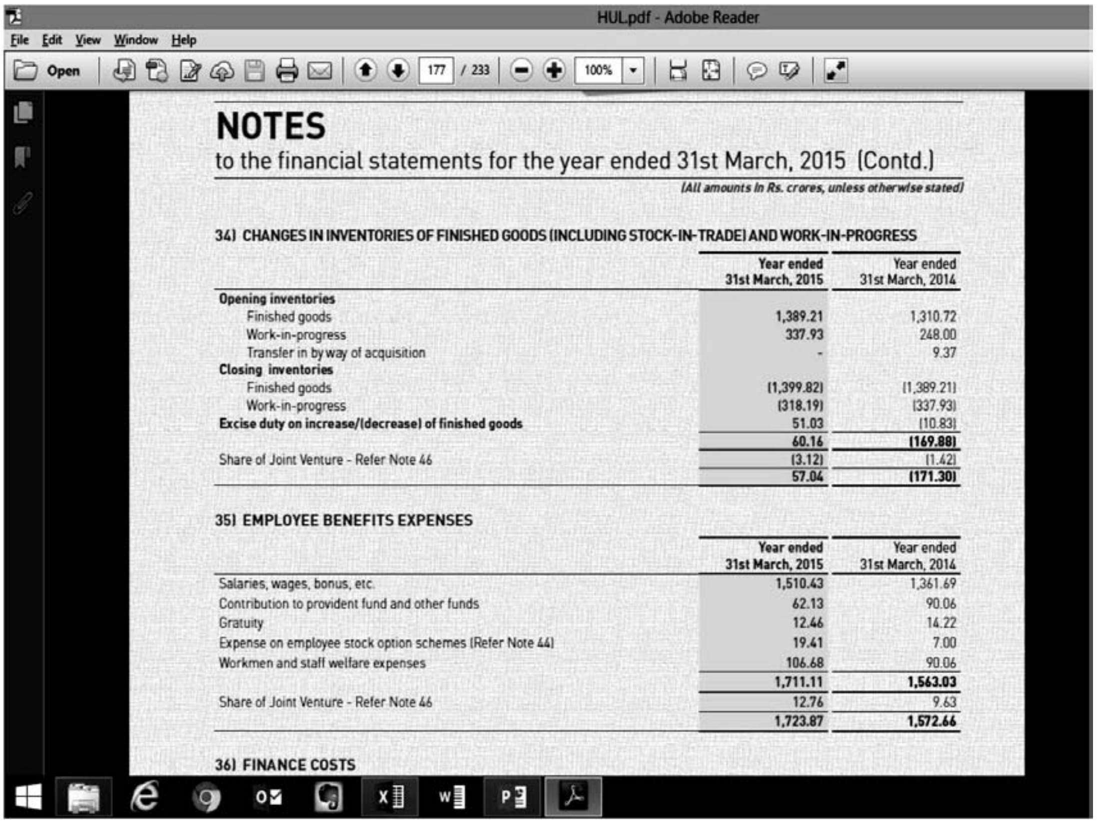
19) LONG-TERM LOANS AND ADVANCES
(Unsecured, considered good unless otherwise stated)

	As at 31st March, 2015	As at 31st March, 2014
Capital advances	9.63	11.49
Security deposits		
- Deposits with customs, port trust, excise, and other government authorities	35.21	55.47
- Deposits with others	113.28	116.00
Advance income tax (net of provision for tax)	376.35	312.58
Advance agriculture tax (net of provision for tax)	5.09	5.09
Other loans and advances (includes employee advances, advances for materials etc)		
- Considered good	7.35	13.11
- Considered doubtful	46.60	50.98
- Less : Provision for doubtful loans and advances	(46.60)	(50.98)
	546.91	**513.74**
Share of Joint Venture - Refer Note 46	40.33	32.72
	587.24	**546.46**

20) OTHER NON-CURRENT ASSETS

	As at 31st March, 2015	As at 31st March, 2014
Long term deposits with original maturity of more than twelve months	0.46	0.70
	0.46	**0.70**
Share of Joint Venture - Refer Note 46	-	-
	0.46	**0.70**

Annual Report 2014-15 **Consolidated 169**



NOTES

to the financial statements for the year ended 31st March, 2015 (Contd.)

(All amounts in Rs. crores, unless otherwise stated)

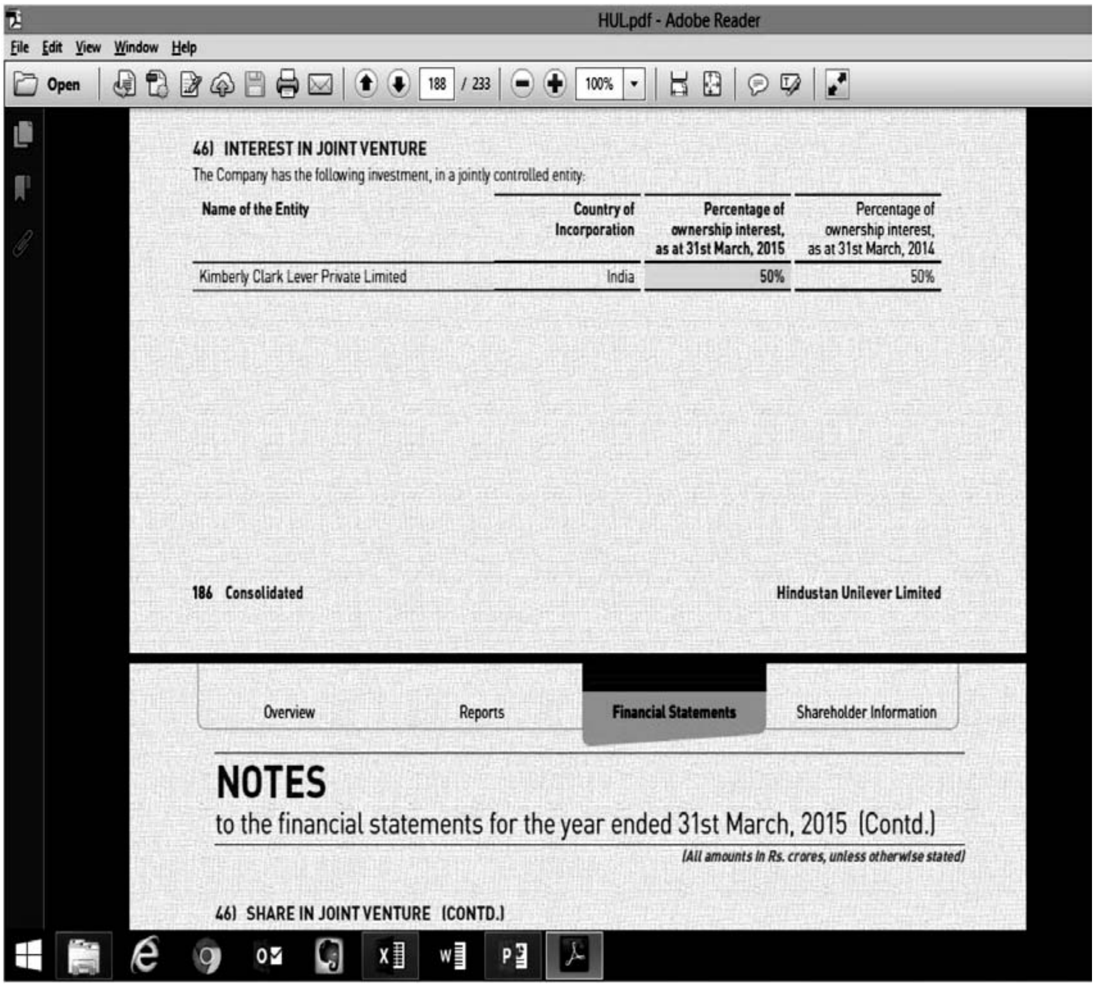
34) CHANGES IN INVENTORIES OF FINISHED GOODS (INCLUDING STOCK-IN-TRADE) AND WORK-IN-PROGRESS

	Year ended 31st March, 2015	Year ended 31st March, 2014
Opening inventories		
Finished goods	1,389.21	1,310.72
Work-in-progress	337.93	248.00
Transfer in by way of acquisition	-	9.37
Closing inventories		
Finished goods	(1,399.82)	(1,389.21)
Work-in-progress	(318.19)	(337.93)
Excise duty on increase/(decrease) of finished goods	51.03	(10.83)
	60.16	(169.88)
Share of Joint Venture - Refer Note 46	(3.12)	(1.42)
	57.04	(171.30)

35) EMPLOYEE BENEFITS EXPENSES

	Year ended 31st March, 2015	Year ended 31st March, 2014
Salaries, wages, bonus, etc.	1,510.43	1,361.69
Contribution to provident fund and other funds	62.13	90.06
Gratuity	12.46	14.22
Expense on employee stock option schemes (Refer Note 44)	19.41	7.00
Workmen and staff welfare expenses	106.68	90.06
	1,711.11	1,563.03
Share of Joint Venture - Refer Note 46	12.76	9.63
	1,723.87	1,572.66

36) FINANCE COSTS



46) INTEREST IN JOINT VENTURE

The Company has the following investment, in a jointly controlled entity:

Name of the Entity	Country of Incorporation	Percentage of ownership interest, as at 31st March, 2015	Percentage of ownership interest, as at 31st March, 2014
Kimberly Clark Lever Private Limited	India	50%	50%

186 Consolidated — Hindustan Unilever Limited

Overview | Reports | Financial Statements | Shareholder Information

NOTES

to the financial statements for the year ended 31st March, 2015 (Contd.)

(All amounts in Rs. crores, unless otherwise stated)

46) SHARE IN JOINT VENTURE (CONTD.)

HUL.pdf - Adobe Reader

to the financial statements for the year ended 31st March, 2015 (Contd.)

(All amounts in Rs. crores, unless otherwise stated)

46) SHARE IN JOINT VENTURE (CONTD.)

The Group's share of each of the assets, liabilities, income, expenses, etc. (each without elimination of the effect of transactions between the Group and the Joint Venture) related to its interests in this joint venture, based on the audited financial statement are:

	As at 31st March, 2015	As at 31st March, 2014
(a) ASSETS		
Fixed Assets (including capital work-in-progress)	43.57	28.82
Long-term loans and advances	40.33	32.72
Inventories	33.26	31.95
Trade receivables	3.36	4.82
Cash and bank balances	8.89	10.37
Short-term loans and advances	4.26	3.15
Other current assets	0.25	0.02
(b) LIABILITIES		
Long-term borrowings*	7.00	8.44
Deferred tax liability (net)	0.37	0.22
Long-term provisions	-	-
Short-term borrowings	36.04	37.14
Trade payables	54.84	52.07
Other current liabilities	14.43	5.98
Short-term provisions	0.91	0.37
* Long-term borrowings representing loan from bank repayable in three yearly installments starting from February, 2018; to be secured against assets to be purchased by the joint venture.		
(c) INCOME	177.39	156.61
(d) EXPENSES	180.01	182.46
(e) OTHER MATTERS		
Contingent liabilities	58.03	75.49
Capital commitments	0.13	0.18

4. Disclosures in CFS

For making the disclosures forming part of the notes to the consolidated financial statements, due consideration should be given to the requirements of the Companies Act and the Accounting Standards.

As per**Section 129(4) of the Companies Act, 2013, t**he provisions of the Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to the consolidated financial statements referred to in Section 129(3).

Rule 6 of Companies Accounts Rules provides that CFS shall be prepared in accordance with the Accounting Standards and Schedule III. Schedule III lays down the form and content of the Balance Sheet and Statement of Profit and Loss. The Company preparing CFS is required to comply with all the requirements as stated in the said Schedule. All the disclosures which are required to be made in the standalone financial statements of a company are also required to be made in the CFS.

4.1. Disclosures under Accounting Standards:

Below is a table wherein relevant para numbers for disclosures required as per Accounting Standard has been mentioned:

Accounting Standard (AS)	Reference to Para No. of the respective AS
AS 21	**Para 11**: The reasons for not consolidating a subsidiary should be disclosed in the CFS. **Para 20:** The fact that the uniform accounting policy has not been used should be disclosed together with the proportions of the items in the CFS to which the different accounting policies have been applied. **Para 29:** General Disclosures
AS 23	**Para 7:**The reasons for not applying the equity method in accounting for investments in an associate should be disclosed in the consolidated financial statements. **Para 12:**Goodwill/capital reserve arising on the acquisition of an associate by an investor should be included in the carrying amount of investment in the associate but should be disclosed separately. **Para 21:** Disclosure w.r.t. Contingencies and Events Occurring After Balance Sheet Date**.** **Para 22:** Listing and description of associates including the proportion of ownership interest. **Para 23, Para 24, Para 25:** Other General Disclosures.
AS 27	**Para 51:**Disclosure w.r.t. the aggregate amount of the contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities. **Para 52:**Disclosure w.r.t. the aggregate amount of the commitments in respect of its interests in joint ventures separately from other commitments. **Para 53:**List of all joint ventures and description of interests in significant joint ventures**.** **Para 54**:A venturer should disclose, in its separate financial statements, the aggregate amounts of each of the assets, liabilities, income and expenses related to its interests in the jointly controlled entities. **Para 35, 37**:Other general disclosures.

General disclosures:

a) In consolidated financial statements a list of all subsidiaries/associates/jointly controlled entities including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held;

b) In consolidated financial statements, where applicable:

(i) the nature of the relationship between the parent and a subsidiary, if the parent does not own, directly or indirectly through subsidiaries, more than one-half of the voting power of the subsidiary;

(ii) the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date, the results for the reporting period and on the corresponding amounts for the preceding period- **Refer Appendix- I** ; and

(iii) the names of the subsidiary(ies)/ associates/ jointly controlled entities of which reporting date(s) is/are different from that of the parent and the difference in reporting dates.

4.2. **Accounting Policies**

Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

Further, the notes to the consolidated financial statements should also disclose the basis of preparation and principles of consolidation. A draft of the same is given below for reference:

A. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been prepared to comply with the Generally Accepted Accounting Principles in India (Indian GAAP), including the Accounting Standards notified under the relevant provisions of the Companies Act, 2013.

B. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements relate to XYZ Ltd ('the Company') and its subsidiary companies, associates and joint ventures. The consolidated financial statements have been prepared on the following basis:

a. The financial statements of the Company and its subsidiary companies are combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances and intra-group transactions in accordance with Accounting Standard (AS) 21 - "Consolidated Financial Statements"

b. Interest in Joint Ventures have been accounted by using the proportionate consolidation method as per Accounting Standard (AS) 27 - "Financial Reporting of Interest in Joint Ventures".

c. In case of foreign subsidiaries, being non-integral foreign operations, revenue items are consolidated at the average rate prevailing during the year. All assets and liabilities are converted at rates prevailing at the end of the year. Any exchange difference arising on consolidation is recognised in the Exchange Fluctuation Reserve.

d. The difference between the cost of investment in the subsidiaries, over the net assets at the time of acquisition of shares in the subsidiaries is recognised in the financial statements as Goodwill or Capital Reserve, as the case may be.

e. The difference between the proceeds from disposal of investment in subsidiaries and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated Profit and Loss Statement being the profit or loss on disposal of investment in subsidiary.

f. Minority Interest's share of net profit of consolidated subsidiaries for the year is identified and adjusted against the income of the group in order to arrive at the net income attributable to shareholders of the Company.

g. Minority Interest's share of net assets of consolidated subsidiaries is identified and presented in the consolidated balance sheet separate from liabilities and the equity of the Company's shareholders.

h. Investment in Associate Companies has been accounted under the equity method as per Accounting Standard (AS) 23 - "Accounting for Investments in Associates in Consolidated Financial Statements".

i. The Company accounts for its share of post-acquisition changes in net assets of associates, after eliminating unrealised profits and losses resulting from transactions between the Company and its associates to the extent of its share, through its Consolidated Profit and Loss Statement, to the extent such change is attributable to the associates' Profit and Loss Statement and through its reserves for the balance based on available information.

j. The difference between the cost of investment in the associates and the share of net assets at the time of acquisition of shares in the associates is identified in the financial statements as Goodwill or Capital Reserve as the case may be.

k. As far as possible, the consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented in the same manner as the Company's separate financial statements.

b) The list of subsidiary companies, joint ventures and associates which are included in the consolidation and the Group's holdings therein are as under:

Sl. No.	Name of the Company	Ownership in % either directly or through subsidiaries		Country of Incorporation
		2014-15	2013-14	
A.	Subsidiaries: i) ii) iii)			
B.	Associates of: i) ii) iii)			
C.	Joint Ventures of: i) ii) iii			

4.3. **Notes to CFS**

General Circular No. 39/2014 dated 14th October, 2014 - Schedule III to the Act read with the applicable Accounting Standards does not envisage that a company while preparing its CFS merely repeats the disclosures made by it under stand-alone accounts being consolidated. In the CFS, the company would need to give all disclosures relevant for CFS only.

All the notes appearing in the separate financial statements of the parent enterprise and its subsidiaries need not be included in the notes to the consolidated financial statements. For preparing consolidated financial statements, the following principles may be observed in respect of notes and other explanatory material that form an integral part thereof:

a) Notes which are necessary for presenting a true and fair view of the consolidated financial statements are included inthe consolidated financial statements as an integral partthereof.

b) Only the notes involving items which are material need to be disclosed. Materiality for this purpose is assessed in relation to theinformation contained in consolidated financial statements. In viewof this, it is possible that certain notes which are disclosed inseparate financial statements of a parent or a subsidiary would notbe required to be disclosed in the consolidated financial statementswhen the test of materiality is applied in the context of consolidatedfinancial statements.

4.4. **Additional disclosures under Companies Act, 2013:**

- **Additional disclosures - % of net assets – Schedule III**

  In Consolidated Financial Statements, the following shall be disclosed by way of additional information:

Name of the entity in the	Net assets		Share in profit or loss	
	As % of consolidated net assets	Amount (Rs.)	As % of consolidated profit or loss	Amount (Rs.)
Parent **Subsidiaries** Indian 1. 2. Foreign 1. 2. Minority Interest in all subsidiaries				

Associates (Investment as per Equity method) Indian 1. 2. Foreign 1. 2. **Joint Ventures** **(as per proportionate consolidation/investment as per the equity method)** Indian 1. 2. Foreign 1. 2.				

- **Rule 5, Companies (Accounts) Rules, 2014:**

  The statement containing the salient feature of the financial statement of a company's subsidiary or subsidiaries, associate company or companies and joint venture or ventures under the first proviso to sub-section (3) of section 129 shall be in Form AOC-1 **(Appendix- II).**

- **Rule 8(1), Companies (Accounts) Rules, 2014:**

  The Board's Report shall be prepared based on the standalone financial statements of the company and the report shall contain a separate section wherein a report on the performance and financial position of each of the subsidiaries, associates and joint venture companies included in the consolidated financial statement is presented.

- **Rule 12, Companies (Accounts) Second Amendment Rules, 2015:**

  Every company shall file the financial statements with Registrar together with Form AOC-4 and the consolidated financial statement, if any, with Form AOC-4 CFS.

5. Independent Auditors Report on the Consolidated Financial Statements (CFS):

- The Independent Auditor's Report on CFS has been reproduced in **Appendix- III,**wherein major changes have been highlighted for ready reference.
- Annexure to the Independent Auditors' Report on the Consolidated Financial Statements is also attached herewith as**Appendix – IV.**
- **Other Matter Paragraph (Refer Appendix- III - Para No.)** The entire paragraph is new and needs to be incorporated in respect of such subsidiaries/ associates/ jointly controlled entities whose financial statements are not audited by the auditor certifying the CFS. Following disclosures are made:

  a) With respect to subsidiary/ jointly controlled entities details regarding their share in the Group's total assets, share in the Group's total revenues and their net cash flow are required to be reported.

  b) With respect to associates details regarding its share in the Group's net profit is required to be reported.

A basis of calculating the same has reproduced below:

Calculation for Other Matters Paragraph

XYZ Ltd.

Statutory Audit for the year ended 31 March 2015

Computation of % of revenue and assets of Subsidiaries/ Jointly controlled entities in consolidated financial statements

Particulars	**Holding Company**		**Subsidiaries/Jointly Controlled Entities**		**Total**	
	31-Mar-15	**31-Mar-14**	**31-Mar-15**	**31-Mar-14**	**31-Mar-15**	**31-Mar-14**
Total Revenue	xx	xx	xx	xx	xx	xx
Eliminations						
- Sales	xx	xx	xx	xx	xx	xx
- Other Income	xx	xx	xx	xx	xx	xx
Total Revenue (Consolidated)	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**
Total Assets Eliminations	xx	xx	xx	xx	xx	xx
Total Assets (Consolidated)	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**

Particulars	**Holding Company - Standalone**	**Subsidiaries/ Jointly Controlled Entities**	**Consolidated Financial Statements**
	31-Mar-15	**31-Mar-15**	**31-Mar-15**
Cashbalances in the beginning	**XX**	**XX**	**XX**
Total cashflow from Operating activity	XX	XX	XX
Total cashflow from Investing activity	XX	XX	XX
Total cashflow from Financing activity	XX	XX	XX
Cashbalances at the end	**XX**	**XX**	**XX**
Net cashflow during the year	**XX**	**XX**	**XX**
Inter-company eliminations			
- On account of loan given		XX	
- Refund of advances		(XX)	
Net cashflow during the year (after eliminations)		**XX**	

Percentage for consolidated audit report:

	31-Mar-15	**31-Mar-14**
Revenue	**XX**	**XX**
Revenue %	**XX%**	**XX%**
Assets	**XX**	**XX**
Assets %	**XX%**	**XX%**
Cashflow	**XX**	Note
Cashflow %	**XX%**	Note

Note

Disclosure of cashflow is requirement of revised CARO so comparative figures for 2014 are not calculated.

6. Some frequently asked questions?

Q1. Whether audit of CFS compulsory? Whether all the subsidiaries/ associates/ joint ventures consolidated in the holding company needs to be audited?

Section 129(4) of the Companies Act, 2013 -The provisions of the Companies Act, 2013in relation to the preparation, adoption and audit of the financial statements of a holding company shall, *mutatis mutandis,* apply to the consolidated financial statements referred to in Section 129(3). Hence, the CFS are required to be audited.

For purposes of audit certification of CFS, the preferred approach is to include audited financials of subsidiaries/ associates/ joint ventures**.**

Due to certain uncertainties, there may be delays in completing audit of accounts, necessitating inclusion of unaudited financials in the CFS. In such cases, the auditor may have to depend on the certification by management. In such a case, judgement needs to be exercised whether the component is material. Audit opinion may be appropriately modified if a material component has not been audited.

Q2. Whether all the subsidiaries/ associates/ JVs required to be consolidated?

In accordance to Accounting Standard (AS) 21/ 23/27:

A subsidiary/ associate/ joint venture should be excluded from consolidation when:

(a) control/ investment/ interest in jointly controlled entity is intended to be temporary because the subsidiary / investment in associate/ interest is acquired and held exclusively with a view to its subsequent disposal in the near future; or

(b) it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent/ investor.

In consolidated financial statements, investments in subsidiaries/ associates should be accounted for in accordance with Accounting Standard (AS) 13, Accounting for Investments. The reasons for not consolidating a subsidiary/ associate/ jointly controlled entity should be disclosed in the consolidated financial statements. Thus a component can be excluded from consolidation only on the above grounds and not otherwise.

Important points:

- The meaning of the words '***near future'*** should be considered as not more than twelve months from acquisition of relevant investments unless a longer period can be justified on the basis of facts and circumstances of the case. The intention with regard to disposal of the relevant investment should be considered at the time of acquisition of the investment.
- Exclusion of a subsidiary from consolidation on ***the ground that its business activities are dissimilar*** from those of the other enterprises within the group is not justified because better information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries.

Q3. Can an auditor of Standalone FS and CFS be different?

There is no bar under the Companies Act, 2013 for different auditors of standalone and consolidated financial statements. However, it must be ensured that the auditor of the consolidated financial statements is appointed in the same manner as the auditor for standalone financial statements.

The auditor of the CFS may not necessarily be the auditor of the separate financial statements. In a case where the parent's auditor is not the auditor of the components included in the consolidated financial statements, the auditor of the consolidated financial statements should also consider the requirement of SA 600.

Q4. Definition of subsidiary – BOD control / voting power more than 50%

It is possible that an enterprise is controlled by two enterprises – one controls by virtue of ownership of majority of the voting power of thatenterprise and the other controls, by virtue of an agreement or otherwise,the composition of the board of directors so as to obtain economicbenefits from its activities.

In such a rare situation, when an enterprise is controlled by two enterprises as per the definition of 'control', thefirst mentioned enterprise will be considered as subsidiary of both the controlling enterprises within the meaning of this Standard and, therefore,both the enterprises need to consolidate the financial statements of thatenterprise as per the requirements of this Standard.

Q5. What is the appropriate accounting procedure for indirect control:

(a) by an intermediate holding entity in its separate financial statements and

(b) in the consolidated financial statements of the group to which it belongs?

The identification of subsidiaries is based on existence or non-existence of control relationship. However, the proportion that is finally consolidated is arrived on basis of percentage effectively held by holding co. Example company H holds 60 % share each in company (I1) and company (I2) which in turn each holds 30 % each Company S. Effectively Company Group H (though intermediaries) holds 60% in Company S. However, effectively 36% is getting picked in line by line consolidation.

Q6. Whether a gratuity trust required to be consolidated?

Control exists when the parent owns, directly or indirectly through subsidiary(ies), more than one-half of the voting power of anenterprise. Control also exists when an enterprise controls the compositionof the board of directors (in the case of a company) or of the correspondinggoverning body (in case of an enterprise not being a company) so as to obtaineconomic benefits from its activities.

An enterprise may control thecomposition of the governing bodies of entities such as gratuity trust, providentfund trust etc. Since the objective of control over such entities is not toobtain economic benefits from their activities, these are not considered forthe purpose of preparation of consolidated financial statements.

Q7. LLP – consolidation. Associates/ subsidiary/ JV?

A company being a partner in a LLP may have subscribed to more than 50% of its share capital and yet may not have 51% voting power. Conversely, the company having contributed to only 30% of the capital of a firm may even have absolute voting power. Determination of the existence or absence of control in a LLP is to be made on the basis of terms of the LLP deed and a further evaluation of whether it could be an Associate (under AS 23) or a Joint Venture (under AS 27).

Q8. In case an enterprise owns majority of the voting power of another enterprise but all the shares are held as 'stock-in-trade', whether this will amount to temporary control within the meaning of paragraph 11(a) of AS 21.

Where an enterprise owns majority of voting power by virtue of ownership of the shares of another enterprise and all the shares held as 'stock-in-trade' are acquired and held exclusively with a view to their subsequent disposal in the near future, the control by the first mentioned enterprise should be considered to be temporary within the meaning of paragraph 11(a).

Q9. In some exceptional cases, an enterprise by a contractual arrangement establishes joint control over an entity which is a subsidiary of that enterprise within the meaning of Accounting Standard (AS) 21, Consolidated Financial Statements. In such cases, should the entity consolidated under AS 21 by the said enterprise or treated as a joint venture?

The entity is consolidated under AS 21 by the said enterprise, and is not treated as a joint venture as per this Statement.

Q10. Is goodwill required to be amortized on Consolidation?

Goodwill is an item of intangible assets. Para 2(b) of AS 26, scopes out application of the Standard. Judgment is to be exercised as to whether to depreciate goodwill arising on consolidation. Amortization of goodwill is NOT mandatory.

As 21 is silent with regard to the amortisation of goodwill in the statement of profit and loss. It would, however, be appropriate to carry goodwill at the value determined at the date of acquisition of the subsidiary, and test the same for impairment at every balance sheet date.

Q11.Is Joint Venture Agreement required to be in Writing?

The contractual arrangement may be evidenced in a number of ways, for example by a contract between the venturers or minutes of discussions between the venturers. In some cases, the arrangement is incorporated in the articles or other by-laws of the joint venture. Whatever its form, the contractual arrangement is normally in writing and deals with such matters as:

(a) the activity, duration and reporting obligations of the joint venture;

(b) the appointment of the board of directors or equivalent governing body of the joint venture and the voting rights of the venturers;

(c) capital contributions by the venturers; and

(d) the sharing by the venturers of the output, income, expenses or results of the joint venture.

The contractual arrangement establishes joint control over the joint venture. Such an arrangement ensures that no single venturer is in a position to unilaterally control the activity. The arrangement identifies those decisions in areas essential to the goals of the joint venture which require the consent of all the venturers and those decisions which may require the consent of a specified majority of the venturers.

Q12. In case of subsidiary, how do you allocate losses to minority in case of fully eroded net worth? Would your answer be different if you are consolidating an equity affiliate?

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses.

If, under the equity method, an investor's share of losses of an associate equals or exceeds the carrying amount of the investment, the investor ordinarily discontinues recognising its share of further losses and the investment is reported at nil value. Additional losses are provided for to the extent that the investor has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the investor has guaranteed or to which the investor is otherwise committed.

Q13. Can goodwill and capital reserve arising on consolidation of different subsidiaries be set off, or should they be recorded and disclosed at gross amount?

In the consolidated balance sheet, the amount of goodwill and capital reserve may be netted off to disclose a single amount. However, the gross amount of goodwill and capital reserve arising on the acquisition of various subsidiaries should be disclosed in the notes to the consolidated financial statements to reflect the excess or shortage of cost over the parent's position of the subsidiary's equity.

Q 14. Whether the comparative numbers need to be given in the first set of CFS presented by an existing group?

Schedule III states that except for the first financial statements prepared by a company after incorporation, presentation of comparative amounts is mandatory. In contrast, transitional provisions to AS 21 exempt presentation of comparative numbers in the first set of CFS prepared even by an existing group.

One view is that there is no conflict between transitional provisions of AS 21 and Schedule III. AS 21 gives one exemption that is not allowed under the Schedule III. Hence, presentation of comparative numbers is mandatory in the first set of CFS prepared by an existing company. This interpretation is taken on the basis that when there are two legislations; one of which imposes a more stringent requirement, the stringent requirement would apply.

The other view is that Schedule III is clear that in case of any conflict between Accounting Standards and Schedule III, Accounting Standards will prevail over the Schedule III. Hence, exemption given under AS 21 can be availed by an existing group which prepares CFS for the first time. In other words, an existing Group preparing CFS for the first time need not give comparative information in their first CFS prepared under AS 21.

Both the views appear acceptable.

Q15. XYZ ltd is a company comprised of the following share capital:

	Rs.
10,000 Equity shares of Rs. 10/- each fully paid	= 100,000
1000 Fully Convertible Preference Shares of Rs. 100 each/-	= 100,000
Total Share Capital	= 200,000

Whether XYZ ltd is a Subsidiary Company, under Companies Act, 2013 or Accounting Standards 21, if another company, PQR Ltd, holds the following shares under different situations:

a. 100% of the Convertible Preference shares and 1 Equity share of Rs. 10/- each

b. 51% of the Equity Capital but none of the Convertible Preference shares

c. 1,000 Convertible Preference shares of Rs. 100/- each and 10 Equity shares of Rs. 10/- each

Q 16. Treatment of Preference Sharesissued by a Subsidiary Company and held by the Holding Company:

The accounting treatment in the consolidated balance Sheet is as follows:

- Firstly the preference dividend accrued shall be deducted from the profits and the accrued preference dividend is apportioned between minority shareholders and holding company in proportion to holding. The remaining profits are divided among equity shareholders in accordance with the shares held by them. If there are losses for the current year of subsidiary company then no preference dividend is provided for.
- Secondly while calculating minority interest, the paid up value of preference shares held by them shall be added to their share.
- Thirdly the excess amount paid by the holding company for acquiring preference shares over the paid up value is treated as cost of control.

Q 17.Payment of Dividend by the Subsidiary Co.

Payment of dividend to the shareholders by the subsidiary co. is made out of pre-acquisition profits as well as post-acquisition profits. It has different accounting treatments as the source out of which the dividend is given is different. It may be noted that in the absence of information whether dividend has been declared out of pre-acquisition or post-acquisition profits, it is assumed that dividend is out of profits for the year for which the dividend is declared.

(i) *Payment of dividend from the pre-acquisition profits*: Dividends received out of capital of the subsidiary company. Dividends received by the holding Co. is credited to investment in shares of the subsidiary account thereby reducing the cost of control or increasing capital reserve. The following entry is passed by the holding company to record the receipt:

Bank A/c Dr.

To Investment A/c

(ii) *Payment of Dividend from the post-acquisition profits*: Dividends received out of revenue profits of the subsidiary company by holding co.is being treated as income. The following entry is passed by the holding to record the receipt.

Bank A/c Dr.

To Dividend from subsidiary co.

(iii) *Payment of Dividend Partly from capital profits and partly out of revenue profits:* The dividend received is divided into two parts in proportion to its declaration out of capital profits and revenue profits.

Q18. In case an associate has made a provision for proposed dividend in its financial statements, whether the investor should consider the same while computing its share of the results of operations of the associate?

In case an associate has made a provision for proposed dividend in its financial statements, the investor's share of the results of operations of the associate is computed without taking into consideration the proposed dividend.

Appendix - I

Effect of acquisition and disposal of subsidiaries during the period on the Consolidated Financial Statement is as follows:

VIDEOCON

42. The effect of acquisition and disposal of subsidiaries during the period on the Consolidated Financial Statements is as follows:

(₹ in Million)

	Name of the Company	Effect on Consolidated Profit/(Loss)	Net Assets As at 30th June, 2013
a)	Acquisitions/Incorporations		
	Videocon Mauritius Energy Limited	(6,390.99)	(7,023.52)
	Indigo Energy Private Limited	(0.29)	(0.21)
	Percept Energy Private Limited	(0.02)	(1.52)
b)	Disposals/Cessation		
	Eagle E Corp Limited	(0.08)	(1,047.08)
	Oil Services International S.A.S	0.34	-
	Emerald Copoprate Ventures Limited (formerly Videocon Energy Ventures Limited)	(0.09)	9.75
	Mercury Corporate Ventures Limited (formerly Videocon Oman 56 Limited)	0.13	(0.16)

43. As required by Accounting Standard 29 "Provisions, Contingent Liabilities and Contingent Assets" issued by the Institute of Chartered Accountants of India, the disclosure with respect to Provision for

44. a) Operating Lease:

i) Lease payments under cancellable leases are recognised as an expenses in the Consolidated Statement of Profit and Loss.

ii) The maximum obligation on long-term non-cancellable operating leases entered on or after 1st April 2001 payable as per the rentals stated in respective agreements are as follows:

(₹ in Million)

Minimum Lease Payments	As at 30th June, 2013	As at 31st Dec., 2011
Not later than 1 year	137.60	73.77
Later than 1 year and not later than 5 years	549.11	404.01
More than 5 years	269.59	397.52
Total	956.30	875.30

b) The Subsidiary Company viz. Videocon Telecommunications Limited (VTL) has entered into composite IT outsourcing agreements, wherein vendors have supplied the fixed assets and IT related services to VTL. Based on the risk and rewards incidental to the ownership, the fixed asset and liability are recorded at the fair value of the leased assets at the time of the receipt of the assets, since it is not possible for VTL to determine the extent of fixed assets and services under the contract at the inception of the contract. Such fixed assets received have been accounted for as finance lease. These assets are depreciated over the stated useful

Appendix- II -Form AOC-1

Form AOC-1

(Pursuant to first proviso to sub-section (3) of section 129 read with rule 5 of Companies (Accounts) Rules, 2014)

Statement containing salient features of the financial statement of subsidiaries / associate companies / joint ventures

Part "A": Subsidiaries

(Information in respect of each subsidiary to be presented with amounts in Rs.)

1. Sl. No.
2. Name of the subsidiary
3. Reporting period for the subsidiary concerned, if different from the holding company's reporting period
4. Reporting currency and Exchange rate as on the last date of the relevant Financial year in the case of foreign subsidiaries
5. Share capital
6. Reserves & surplus
7. Total assets
8. Total Liabilities
9. Investments
10. Turnover
11. Profit before taxation
12. Provision for taxation
13. Profit after taxation
14. Proposed Dividend
15. % of shareholding

Notes : The following information shall be furnished at the end of the statement:

1. Names of subsidiaries which are yet to commence operations
2. Names of subsidiaries which have been liquidated or sold during the year.

Part "B": Associates and Joint Ventures

Statement pursuant to Section 129 (3) of the Companies Act, 2013 related to Associate Companies and Joint Ventures

Name of associates/Joint Ventures	Name 1	Name 2	Name 3
1. Latest audited Balance Sheet Date			
2. Shares of Associate/Joint Ventures held by the company on the year end			
No.			
Amount of Investment in Associates/Joint Venture			
Extend of Holding%			
3. Description of how there is significant influence			
4. Reason why the associate/joint venture is not consolidated			
5. Net worth attributable to shareholding as per latest audited Balance Sheet			
6. Profit/Loss for the year			
i. Considered in Consolidation			
ii. Not Considered in Consolidation			

1. Names of associates or joint ventures which are yet to commence operations.
2. Names of associates or joint ventures which have been liquidated or sold during the year.

Note : This Form is to be certified in the same manner in which the Balance Sheet is to be certified

Appendix III:

Independent Auditors Report on the Consolidated Financial Statements (CFS)

The Auditors report shall comprise of the following paragraphs:

- Report on the consolidated financial statements
- Management's responsibility for the consolidated financial statements
- Auditor's responsibility
- Basis for Qualified Opinion *[if applicable]*
- Opinionor Qualified Opinion *[as applicable]*
- Emphasis of matter *[if applicable]*
- Other matters *[generally included when subsidiaries, associates and/ or joint ventures are audited by other auditors]*
- Report on other legal and regulatory requirements

Addressee:

Till the earlier year, preparation of the consolidated financial statements was required only in respect of listed companies as per the Listing Agreement. No such requirement existed in the Companies Act. The Companies Act 2013 not only requires mandatory preparation of CFS but also provides that the provisions of the Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to the CFS. [Section 129(4)].

The auditors' report on the CFS is, therefore, required to be addressed to the Members of the Parent Company.

Key Changes:

1. Para "Report on the Consolidated ~~Standalone~~ Financial Statements"

Paragraph reproduced with key changes highlighted:

> We have audited the accompanying **consolidated** financial statements of ……………. (hereinafter referred to as "the **Holding** Company") **and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities**, comprising of the **Consolidated** Balance Sheet as at 31st March, 2015, the **Consolidated** Statement of Profit and Loss, the **Consolidated** Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information (**hereinafter referred to as "the consolidated financial statements"**).

Important points:

- "Associates" refer to associates required to be consolidated as per AS 23.
- "Jointly controlled entities" refer to joint ventures of the parent company required to be consolidated as per AS 27.
- In case the Company does not have any associate/ joint venture, references to associates/ jointly controlled entities to be removed.
- The associates and jointly controlled entities are not considered part of the "Group" because of the difference in the manner of consolidation. In case of associates and joint ventures, there is no concept of minority interest. Only the parent's share is accounted for.

2. Para "Management's responsibility for the Consolidated ~~Standalone~~ Financial Statements"

Paragraph reproduced with key changes highlighted:

> **The Holding Company's Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013** (hereinafter referred to as "the Act") that give a true and fair view of the **consolidated** financial position, **consolidated** financial performance and **consolidated** cash flows of the Group **including its associates and jointly controlled entities** in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. **The respective Board of Directors of the companies included in the Group and of its associates and jointly controlled entities** are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the **Group** and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error, **which have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Holding Company, as aforesaid.**

Important points:

- Reference to Section 134(5) – "Directors Responsibility Statement" not made. The reference is only to the responsibility of the Board of Directors in respect of preparation of CFS.

3. Para "Auditor's responsibility"

Paragraph reproduced with key changes highlighted:

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

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

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

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

Important points:

- Reference to "audit evidence obtained by the other auditors" should not be made if the financial statements of the holding company and its subsidiaries are audited by the same firm of chartered accountants.

4. Para "Basis for Qualified Opinion"

Only for illustration purposes, (*if applicable)*

a) As referred to in Note XX to the consolidated financial statements, the consolidated financial statements include the unaudited financial information of 1 jointly controlled entity, whose financial information reflect total assets (net) of Rs….as at 31st March, 2015, total revenue of Rs…..and net cash out flows amounting to Rs….for the year ended on that date, as considered in the consolidated financial statements, based on their unaudited financial information. This financial information has been certified by the Management and our opinion, in so far as it relates to the amounts included in respect of this jointly controlled entity, is based solely on such Management certified financial information.

b) In case of xx jointly controlled entity, as referred to in Note XX to the consolidated financial statements, the Hon'ble Supreme Court had issued an Order dated 24th September, 2014, cancelling the coal block ("coal block") allocated to the said entity. Subsequently, Government of India has promulgated the Coal Mines (Special Provisions) Ordinance, 2014. The said entity has filed a petition with the Hon'ble Delhi High Court, disputing the amount of compensation determined including relating to purchase of leasehold land for the coal block. Pending outcome of the matter, the Group has, based on a legal opinion carried forward amounts aggregating to Rs……… (net of provision of Rs…..) as fully recoverable. Accordingly, we are unable to comment on the possible financial impact on the consolidated financial statements.

5. Para "Opinion"

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid **consolidated** financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the **consolidated** state of affairs of the **Group, its associates and jointly controlled entities** as at 31st March, 2015, and their **consolidated** profit/ loss and their **consolidated** cash flows for the year ended on that date.

OR

In our opinion and to the best of our information and accordingto the explanations given to us, **and based on the consideration of the reports of other auditors, on the financial statements/ consolidated financial statements of the subsidiaries, associates and jointly controlled entities noted below,** the aforesaid **consolidated** financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the **consolidated** state of affairs of the **Group, its associates and jointly controlled entities** as at 31st March, 2015, and their **consolidated** profit/ loss and their **consolidated** cash flows for the year ended on that date.

6. Para "Qualified Opinion"

*In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matters described in the Basis for Qualified Opinion paragraph above, the aforesaid **consolidated** financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the **consolidated** state of affairs of **the Group, its associates and jointly controlled entities** as at 31st March, 2015, and their **consolidated** profit/ loss and their **consolidated** cash flows for the year ended on that date.*

7. Para "Emphasis of Matter"

We draw attention to Note XX to the consolidated financial statements regarding accounting policy for recognition of actuarial valuation change of Rs. ....in the pension and other post-retirement benefit plans of …......,a subsidiary for the reasons specified therein. Had the Company recognised actuarial valuation changes in the Consolidated Statement of Profit and Loss, the loss after taxes, minority interest and share of profits of associates would have been higher by Rs. ….

Our opinion is not qualified in respect of this matter.

OR

Without qualifying our opinion, we draw attention to note XX to the consolidated financial statements that describes the principles of Accounting Standard (AS) 30, Financial Instruments: Recognition and Measurements, applied by the Group on certain foreign currency borrowing designated as a hedging instrument to hedge its net investment in a non-integral foreign operations. These principles of AS 30, are yet to be notified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. Had the Group not applied the principles of AS 30, the profit after taxation for the year ended March 31, 2015 would have been lower by Rs…..

OR

We draw attention to Note xx to the consolidated financial statements. As referred to in the said Note, remuneration to the Managing Director and the Whole-time Directors of the Holding Company for the previous year ended 31st March, 2014 is in excess of the limits specified under Schedule XIII to the Companies Act, 1956 by Rs…..and commission of Rs….for the previous year ended 31st March, 2014 to the Non-Executive Directors of the Holding Company is in excess, since there is absence of net profits for the previous year under section 309(4) read with section 309(5) of the Companies Act, 1956. In this regard, the Holding Company has made necessary applications to the Central Government for the waiver of the excess remuneration and commission for the previous year ended 31st March, 2014. The Holding Company is awaiting Central Government approval in respect of the said applications.Our opinion is not modified in respect of this matter.

OR

We draw attention to Note XX to the consolidated financial statements. As referred to in the said Note, remuneration to the Managing Director and a Whole-time Director of the Holding Company for the year is in excess of the limits specified under Schedule V to the Companies Act, 2013 by Rs….. In this regard, the Holding Company has made necessary applications to the Central Government for approving the amounts of maximum remuneration payable, which includes the excess amounts already paid / provided. The Holding Company is awaiting Central Government approval in respect of the said applications.Our opinion is not modified in respect of this matter.

OR

We draw attention to the following matters in the Notes to the consolidated financial statements:

(a) Note XX to the consolidated financial statements, which describe uncertainties relating to the outcome of the Appeals filed before the Hon'ble Supreme Court. Pending outcome of the Appeals filed before the Hon'ble Supreme Court, no adjustment has been made by the Holding Company in respect of the standby charges estimated at Rs….accounted for as revenue in earlier periods and its consequential effects [Note XX] for the period upto 31st March, 2015. The impact of the same on the results for the year ended 31st March, 2015 cannot presently be determined pending the ultimate outcome of the matter. Since the Holding Company is of the view, supported by legal opinion, that the Tribunal's Order can be successfully challenged, no provision/adjustment has been considered necessary by the Management.

(b) Note XX to the consolidated financial statements, which describes the key source of estimation uncertainties relating to the assessment of the recoverability of the carrying amount of the assets aggregating to Rs….of the subsidiary, its compliance with debt covenants and classification of long-term borrowings.

(c) In case of XX jointly controlled entities of the Holding Company, the component auditors have drawn attention to matters as stated in Note XX to the consolidated financial statements, regarding recoverability of Rs… (Group's share of Rs….) of value added tax and vehicle fuel tax balances and Group's share in tax claims and other contingent claims from third parties on the said jointly controlled entities, the outcome of which cannot be presently determined.

(d) In case of XX subsidiary, the component auditor has drawn attention to a matter as stated in Note XX to the consolidated financial statements, wherein no adjustment has been made by the subsidiary in respect of income estimated at Rs….as at 31st March, 2015 which includes carrying cost of Rs….for the year ended 31st March, 2015. The impact of the above as at 31st March, 2015 cannot presently be determined pending ultimate outcome of the matter. Since the Group is of the view, supported by legal opinion that the disallowance of expenses by the Delhi Electricity Regulatory Commission (DERC) pertaining to the …..plant can be successfully challenged, no adjustment has been considered necessary by the Management.

Our opinion is not qualified in respect of these matters.

8. Para "Other Matters"

We did not audit the financial statements of XX subsidiaries and XX jointly controlled entity, whose financial statements reflect the Group's share of total assets of Rs. …. as at 31st March, 2015, and the Group's share of total revenues of Rs. …. and net cash outflows amounting to Rs….. for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit of Rs….. for the year ended 31st March, 2015, as considered in the consolidated financial statements, in respect of XX associates, whose financial statements have not been audited by us. These financial statements have been audited by other auditors whose reports have been furnished to us by the management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-sections (3) and (11) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on the reports of the other auditors.

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

Important points:

- The entire paragraph is new and needs to be incorporated in respect of such subsidiaries/ associates/ jointly controlled entities whose financial statements are not audited by the auditor certifying the CFS.
- With respect to subsidiary/ jointly controlled entities details regarding their share in the Group's total assets, share in the Group's total revenues and their net cash flow are required to be reported.
- With respect to associates details regarding its share in the Group's net profit is required to be reported.

9. Para "Report on Other Legal and Regulatory Requirements"

1. As required by the Companies (Auditor's Report) Order, 2015 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of Section 143 of the Act, **based on the comments in the auditors' reports of the Holding company, subsidiary companies, associate companies and jointly controlled companies incorporated in India,** we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

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

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

   b) In our opinion,proper books of account as required by law **relating to preparation of the aforesaid consolidated financial statements** have been kept so far as it appears from our examination of those books and the reports of the other auditors.

c) The **Consolidated** Balance Sheet, the **Consolidated** Statement of Profit and Loss, and the **Consolidated** Cash Flow Statement dealt with by this Report are in agreement with the relevant books of account maintained for the purpose of **preparation of the consolidated financial statements.**

d) In our opinion, the aforesaid **consolidated** financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.

e) On the basis of the written representations received from the directors **of the Holding Company** as on 31st March, 2015 taken on record by the Board of Directors **of the Holding Company and the reports of the statutory auditors of its subsidiary companies, associate companies and jointly controlled companies incorporated in India,** none of the directors **of the Group companies, its associate companies and jointly controlled companies incorporated in India** is disqualified as on 31st March, 2015 from being appointed as a director in terms of Section 164 (2) of the Act.

f) With respect to the adequacy of the internal financial controls over financial reporting of the **Holding Company and thereports of the statutory auditors of its subsidiary companies, associate companies and jointly controlled companies incorporated in India** and the operating effectiveness of such controls, refer to our separate report in “Annexure XX”; and

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

   i. The **consolidated financial statements** disclose the impact of pending litigations on the **consolidated** financial position **of the Group, its associates and jointly controlled entities** in accordance with the generally accepted accounting practice – Refer Note XXto the consolidated financial statements.

   OR,

   There were no pending litigations which would impact the consolidated financial position of the **Group, its associates and jointly controlled entities.**

   ii. The **Group, its associates and jointly controlled entities** did not have any material foreseeable losses on long-term contracts including derivative contracts.

   OR,

   Provision has been made in the **consolidated** financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts. – Refer Note XX to the **consolidated** financial statements.

   iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the **Holding Company and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.**

   OR,

   Following are the instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the **Holding Company, and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.**

   OR,

   There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the **Holding Company, and its subsidiary companies, associate companies and jointly controlled companies incorporated in India.**

Important points:

- It may be noted that the Report on other Legal and Regulatory Requirements is required only for subsidiaries, associates and jointly controlled entities incorporated in India. The requirement stems from the provisions as contained in Sections 143(3) and 143(11) of the Companies Act 2013, which are not applicable to foreign companies and joint ventures.

- If the auditors' report is qualified, reference to the qualification may be made depending on its nature and impact. The phrase "*except for the possible effect of the matter described in sub-paragraph (a) of the Basis for Qualified Opinion above"* may be used in the clauses (a) to (f) above.
- Assessment needs to be made whether any adverse observation or emphasis of matter paragraph:
  - o Has an adverse effect on the functioning of the Group.
  - o Has any impact on the maintenance of accounts and other matters connected therewith.
- **As per the Companies (Auditor's Report) Order, 2016** the matters specified in paragraphs 3 and 4 of the Order, as may be applicable to a Company shall not apply to the auditor's report on consolidated financial statements.

Appendix IV:

AMENDMENTS WITH RESPECT TO CONSOLIDATED FINANCIAL STATEMENTS:

I. THE COMPANIES (AMENDMENT) BILL, 2016

a) In section 2 of the Companies Act, 2013 (hereinafter referred to as the principal Act),—

(i) in clause (6), for the Explanation, the following Explanation shall be substituted, namely:—

'Explanation.—For the purpose of this clause—

(a) the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement;

(b) the expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement;

(iv) in clause (41), in the first proviso, after the word "subsidiary", the words "or associate company" shall be inserted;

(x) in clause (76), for sub-clause (viii), the following sub-clause shall be substituted, namely:— "(viii) any body corporate which is— (A) a holding, subsidiary or an associate company of such company; (B) a subsidiary of a holding company to which it is also a subsidiary; or (C) an investing company or the venturer of a company;"

(xii) in clause (87),— (a) in sub-clause (ii), for the words "total share capital", the words "total voting power" shall be substituted; (b) the proviso shall be omitted; (c) in the Explanation, item (d) shall be omitted;

b) In section 129 of the principal Act, for sub-section (3), the following sub-section shall be substituted, namely:—

"(3) Where a company has one or more subsidiaries or associate companies, it shall, in addition to financial statements provided under sub-section (2), prepare a consolidated financial statement of the company and of all the subsidiaries and associate companies in the same form and manner as that of its own and in accordance with applicable accounting standards, which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under sub-section (2):

Provided that the company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in such form as may be prescribed:

Provided further that the Central Government may provide for the consolidation of accounts of companies in such manner as may be prescribed."

c) In section 143 of the principal Act, —

(i) in sub-section (1), in the proviso, for the words "its subsidiaries", at both the places, the words "its subsidiaries and associate companies" shall be substituted;

(ii) in sub-section (3), in clause (i), for the words “internal financial controls system”, the words “internal financial controls with reference to financial statements” shall be substituted;

(iii) in sub-section (14), in clause (a), for the words “cost accountant in practice”, the words “cost accountant” shall be substituted.

II. Accounting Standard (AS) 21: Consolidated Financial Statements

With reference to paragraph 9 of the Companies (Accounting Standards) Amendment Rules, 2016, the scope of AS 21, Consolidated Financial Statements has been enhanced to align it with the requirements of the Companies Act, 2013. It states that where an enterprise does not have a subsidiary but has an associate and/or a joint venture such an enterprise should also prepare consolidated financial statements in accordance with Accounting Standard (AS) 23, Accounting for Associates in Consolidated Financial Statements, and Accounting Standard (AS) 27, Financial Reporting of Interests in Joint Ventures respectively.

These amendments shall come into force from the next financial year i.e., FY 2016-17.

NOTES

NOTES

EASTERN INDIA REGIONAL COUNCIL
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA, KOLKATA

Russell Street Office: ICAI Bhawan 7, Anandilal Poddar Sarani (Russell Street), Kolkata- 700071
Kasba Office : ICAI Bhawan, 382/A, Prantik Pally, Kasba, Kolkata – 700 107

Name & Designation	Responsibility	Kasba Office	Russell Street Office	EMAIL
Dr. Alok Ray, Jt. Secretary (9330001192)	Overall Administration In Charge of Decentralized offices, EIRC & Kolkata Computer Centre	30840277	30211102	alokray@icai.in
Mr. Abhijit Basu, Dy. Secretary (98306 64225)	In charge of Members & Articles, Administration, Infrastructure	30840271		abhijit.basu@icai.in
	MEMBERS SECTION			
Mr. Pradip Sarkar, Consultant	Convocation, Disputes, Fees Enquiry, Election	30840296		eromem@icai.in
Mr. Arun Kumar Santra, Asst. Secretary	Fellow COP, Cancellation & Restoration of COP, Script Certificate and Fees enquiry, CA. Main Exam	30840287		erofellow@icai.in; eroexam@icai.in
Ms. Nandini Guha, Executive Officer	Enrollment of Associate Membership, Identity Card, Script Certificate and fees enquiry	30840299		eroenroll@icai.in
Mr. Somnath De, Executive Officer	Merger, Networking, Reconstitution of Firms	30840288		erofirm@icai.in,
Mr. Soumen Mondal, DEO (UDC)	Restoration of Name, Registration of Firms	30840289		erorestore@icai.in
	ARTICLES SECTION			
Ms. Anindita Kundu, Sr. Executive Officer	Article Re-registration, termination, Other Courses, Exam eligibility	30840265		eroart@icai.in; anindita.kundu@icai.in
CA Shreya Agarwal, Executive Officer	Registration alongwith other courses, Supplementary Registration, Post Qualification Course Exams, RTI	30840256		shreya@icai.in
Ms. Sutapa Das, Executive Officer	Article Completion & Secondment	30840263		erocompl@icai.in
Ms. Moushumi Bhadra Chatterjee, DEO (UDC)	Article Re-registration, termination & Other Course	30840266		eroterm@icai.in
Mr. Swarup Karmarar, LDC	Registration, Industrial Training, ATC	30840259		eroreg@icai.in
	BOARD OF STUDIES			
Ms. Susmita Sen, Student Counsellor (Gr. Assistant Secretary)	In Charge of BOS Section, Campus Placement	30840239		erobos@icai.in
Mr. Bivas Kanti Dasgupta, Consultant	Final & ITT Certificate, Campus Placement	30840242		erocct@icai.in
Ms. Sarmistha Biswas, Section Officer (SU)	Orientation Course, Mock Test	30840237		eircorient@icai.in
Ms. Piyali Chatterjee, DEO (UDC)	CPT, IPCC	30840238		erocpt@icai.in
Mr. Kaushik Bhattacharjee, DEO (UDC)	IPCC, CPT, Revalidation	30840241		eroipcc@icai.in
	Post Qualification Courses (PQC) CELL			
CA Debasish Sen, Asst. Secretary	Co-ordinator and Nodal Officer of all Post Qualification & Certificate Courses, Computer Centres		30211117	ero@icai.in
	CALCUTTA COMPUTER CENTRE			
CA Debasish Sen, Asst. Secretary	In Charge of Computer Centers.		30211142	ero@icai.in
Mr. Soubhanendu Paul, DEO (Gr. UDC)	ITT Classes and online registration of the same		30211143	
	REGIONAL COUNCIL			
Mr. Kabir Ghosh, Consultant	Seminar information		30211134	eircpubn@icai.in
Mr. Pradyut Chakraborty, Consultant	Seminar information		30211104	Pradyut.chakraborty@icai.in
Mr. Saibal Krishna Chakraborty, Asst. Secretary	Seminar information		30211104	schakraborty@icai.in
Mr. Amit Paul, Assistant Secretary	Seminar information		30211133	eirc@icai.in, amit.paul@icai.in,
CA Manish Agarwal, Executive Officer	GMCS		30211260	eircgmcs@icai.in, manish.agarwal@icai.in
CA Jyoti Luharuka, Executive Officer	Website(eirc-icai.org), Seminar information		30211108	jyoti.luharuka@icai.in
Mr. Santanu Bose, DEO (UDC)	Seminar information, CPE Hrs.		30211108	eircevents@icai.in; eirccpe@icai.in
	LIBRARY			
Ms. Swati Banerjee, Librarian (Gr. A.S.)	In Charge of Library Section		30211103	eirc.library@icai.in, swati.banerjee@icai.in
	SALES COUNTER / PUBLICATIONS/STUDY MATERIAL			
Mrs. Mita Sengupta, Assistant Secretary	In Charge of Sales, Publication & Study Material		30211120	msengupta@icai.in
Mr. Avijit Roy, LDC	Sale of Books		30211101/47	psc_ero@icai.in