Important Amendments relevant for audits for FY 2018-19
(Companies Act, 2013 Accounting and Auditing Standards)

Himanshu Kishnadwala
BCAS 24 April 2019
Agenda

- Companies Act, 2013 (other than those related to FS)
- Accounting Standards, Ind AS and Schedule III
- Standards of Auditing
- Other Updates
Changes in Companies Act, 2013
# Definitions

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sec 2(6) Definition of “Associate Company” (7 May 2018)</td>
<td>In the definition: the expression: “significant influence” means control of at least twenty percent of total voting power, or control of or participation in business decisions under an agreement; “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;</td>
</tr>
<tr>
<td>Sec 2(87) Definition of Subsidiary (7 May 2018)</td>
<td>the words “total share capital” in the definition have been substituted by “total voting power”</td>
</tr>
</tbody>
</table>
Company Incorporation

Companies (Authorized to Register) 2nd Amendment Rules, 2018 effective from 15 Aug 2018

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 2</td>
<td>Definitions</td>
</tr>
<tr>
<td>5th July 2018</td>
<td>Definitions of ‘Society’, ‘Trust’, ‘Register of Firms’, ‘Register of Trusts’ has been inserted</td>
</tr>
<tr>
<td>Rule 3</td>
<td>Entire Rule has been substituted</td>
</tr>
<tr>
<td>5th July 2018</td>
<td>This Rule requires that there should be 2 or more members for the purposes of registration of a company and a company with less than 7 members will register as a private company.</td>
</tr>
<tr>
<td>6th March 2019</td>
<td>No fees on filing on form Inc-32 (SPICe) upto nominal capital of 15 lakhs (earlier 10 lakhs)</td>
</tr>
</tbody>
</table>
### Companies (Incorporation) 3\textsuperscript{rd} Amendment Rules, 2018

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 3</td>
<td>One Person Company (OPC)</td>
</tr>
</tbody>
</table>
| 27\textsuperscript{th} July 2018 | - The term ‘resident in India’ would now mean a person who has stayed in India for a period of not less than 182 days during the immediately preceding financial year (FY) (earlier it was calendar year).  
- For the purposes of this Rule, while counting the number of days of stay of a director in India for the FY 2018-19, any period of stay from 1\textsuperscript{st} January 2018 till the date of notification of this Rule should also be counted. |

| Rule 15 | Declaration from Subscribers and 1st Directors |
| 27\textsuperscript{th} July 2018 | A declaration (earlier Affidavit) has to be submitted by each of the Subscribers to the Memorandum and each of the 1\textsuperscript{st} Directors named in the Articles in Form No.INC-9. |
### Companies (Incorporation) 4th Amendment Rules, 2018.

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
</table>
| Rule 23A 18th December 2018 | - These Rules require that the declaration under section 10A (as inserted by the Companies (Amendment) Ordinance, 2018) by a director should be in Form INC-20A and the contents of the said form shall be verified by a Company Secretary or a Chartered Accountant or a Cost Accountant, in practice.  
- In case of a company pursuing objects requiring registration or approval from any sectoral regulators such as RBI, SEBI etc., the registration or approval, as the case may be, from such regulator shall also be obtained and attached with the declaration. |
| Rule 41 18th December 2018 | - The company should within 60 days of passing a special resolution should file e-Form No. RD-1 along with the requisite documents.  
- At least 21 days before the date of filing of the application advertise in Form INC 25A, in a vernacular newspaper in the principal vernacular language in the district and in English language in an English newspaper, widely circulated in the State in which the registered office of the company is situated. |
## Issue of Shares and Securities

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sub-rule 3 of Rule 5</strong></td>
<td><strong>Certificate of Shares (where shares are not in demat form)</strong></td>
</tr>
<tr>
<td>10th April 2018</td>
<td>Any share certificate issued should specify the shares to which it relates and the amount paid thereon and shall be signed by 2 Directors (any 2 Directors) or by a Director (any Director) and the Company Secretary, wherever the company has appointed Company Secretary</td>
</tr>
<tr>
<td><strong>Rule 8</strong></td>
<td><strong>Issue of Sweat Equity Shares</strong></td>
</tr>
<tr>
<td>7th May 2018</td>
<td>Among other matters, ‘Employee’ means a permanent employee of the company who has been working in India or outside India. Condition of ‘at least last one year’ has been deleted.</td>
</tr>
<tr>
<td>Rule/ Date</td>
<td>Particulars / Amendment</td>
</tr>
<tr>
<td>------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Rule 9A</td>
<td>Issue of securities in demat form by unlisted public companies</td>
</tr>
</tbody>
</table>

**New Rule inserted**

<table>
<thead>
<tr>
<th>10th September 2018</th>
<th></th>
</tr>
</thead>
</table>

- **Amendment is applicable from 2nd October 2018.**
- Every unlisted public company should –
  - issue the securities only in de-materialized form; and
  - facilitate de-materialization of all its existing securities
- Every unlisted public company making any offer for issue of any securities or buyback of securities / issue of bonus shares / rights offer shall ensure that before making such offer, **entire holding of securities of promoters, directors, KMP has been de-materialized**
- Every holder of securities of an unlisted public company -
  - who intends to transfer such securities on or after 2nd October 2018 should get such securities de-materialized before the transfer; or
  - who subscribes to any securities of an unlisted public company **on or after 2nd October 2018** should ensure that **all his existing securities are held in de-materialized form before such subscription.**
## Appointment of Directors

<table>
<thead>
<tr>
<th>Rule 5</th>
<th>Dis-Qualification of Independent Director (ID)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7th May 2018</td>
<td>Sub-rule 2 inserted which states that none of the relatives of an ID for the purposes of Section 149(6)(d)(ii) and (ii)</td>
</tr>
<tr>
<td></td>
<td>➢ is indebted to the company, its holding, subsidiary or associate company or their promoters, or directors; or</td>
</tr>
<tr>
<td></td>
<td>➢ has given a guarantee or provided any security in connection with the indebtedness of any 3rd person to the company, its holding, subsidiary or associate company or their promoters / directors of such holding co for an amount of <strong>Rs. 50 lakhs</strong>, at any time during the 2 immediately preceding Financial Years (<strong>FYs</strong>) or during the current FY.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rule 16</th>
<th>Copy of resignation of Director to be forwarded by him</th>
</tr>
</thead>
<tbody>
<tr>
<td>7th May 2018</td>
<td>Where a director resigns from his office, he has an option to forward to the Registrar a copy of his resignation along with the reasons for the resignation within a period of <strong>30 days</strong> from the date of resignation.</td>
</tr>
</tbody>
</table>
# Meetings of Board of Directors

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rule 4</strong></td>
<td>Matters not to be dealt with in a meeting through video conferencing or other audio visual means</td>
</tr>
<tr>
<td>7&lt;sup&gt;th&lt;/sup&gt; May 2018</td>
<td>A proviso inserted that where there is a quorum through physical presence of directors, any other director can participate through video conferencing or other audio visual means and discuss the matters.</td>
</tr>
<tr>
<td><strong>Rule 6</strong></td>
<td>Committees of the Board</td>
</tr>
<tr>
<td>7&lt;sup&gt;th&lt;/sup&gt; May 2018</td>
<td>The Board of Directors of <strong>every listed public company</strong> (<em>earlier every listed company</em>) is required to constitute an ‘Audit Committee’ and a ‘Nomination and Remuneration Committee of the Board’</td>
</tr>
<tr>
<td><strong>Rule 13</strong></td>
<td>Special Resolution (SR)</td>
</tr>
<tr>
<td>7&lt;sup&gt;th&lt;/sup&gt; May 2018</td>
<td>SR passed at a general meeting to give any loan or guarantee or investment or providing any security or the acquisition should specify the total amount up to which the BoDs are authorised to give such loan or guarantee, to provide such security or make such acquisition and the full particulars should be disclosed in the Financial Statements</td>
</tr>
</tbody>
</table>
**Significant Beneficial Ownership**

**Companies (Significant Beneficial Owners) Rules, 2018 (13th June 2018)**

Rules notified to meet requirements under Section 90 (Investigation of Beneficial Ownership of shares in certain cases) of the Act.

- The Rules states that “significant beneficial owner” (SBO) means an individual referred to in Section 90 holding ultimate beneficial interest of not less than 10% but whose name is not entered in the register of members of a company as the holder of such shares.

- The Rules provide procedure for filing declaration of beneficial interest by the significant owner, for filing of return and maintenance of register of companies on such declaration.

- The Rules provide forms for filing the declaration and return.
Significant Beneficial Ownership ...

Companies (Significant Beneficial Owners) Amendment Rules, 2019
Effective from 8th Feb 2019

Rules have been amended to bring more clarity, instill transparency and accountability in corporate set up.

- Definition of **SBO** revised. The determination of individual as SBO is now based on direct and indirect holding of right or entitlement in the reporting entity. The Rules lays down the explanations where an individual can be said to have direct or indirect holding of any right or entitlement in the reporting company.

- Definitions such as reporting company, control, majority stake have been inserted.

- Every reporting company has to take necessary steps to find out if there is any individual who is a SBO and identify him and cause him to make a declaration in Form BEN-1 within 90 days from the date of commencement of the Amendment Rules and within 30 days in case of fresh acquisition or change in SBO.

- The reporting company should report the disclosure of SBO received from SBO to Registrar in Form BEN-2, within 30 days of receipt of the said declaration.
**Significant Beneficial Ownership ...**

**Companies (Significant Beneficial Owners) Amendment Rules, 2019 8th Feb 2019**

<table>
<thead>
<tr>
<th>Exemptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Investor Education and Protection Fund</td>
</tr>
<tr>
<td>➢ Its Holding reporting company (as per details reported in Form BEN-2)</td>
</tr>
<tr>
<td>➢ CG, SG or any local Authority;</td>
</tr>
<tr>
<td>➢ reporting company, or a body corporate, or an entity, controlled by the CG or by any SG or partly by the CG and partly by one or more SGs;</td>
</tr>
<tr>
<td>➢ SEBI registered Investment Vehicles such as mutual funds, AIF, REITs, InVITs regulated by the SEBI</td>
</tr>
<tr>
<td>➢ Investment Vehicles regulated by RBI or IRDAI or PFRDAI</td>
</tr>
</tbody>
</table>
**KYC of Directors**

- Every Director who has been allotted DIN on or before 31st March, 2018 and whose DIN is in ‘Approved’ status would be mandatorily required to file form DIR-3 KYC **on or before 31st August 2018**.

- While filing the form, the **Unique Personal Mobile Number and Personal Email ID** would have to be mandatorily indicated and would be duly verified by **OTP**.

- Form to be filed by every Director and certified by practicing professional (CA/CS/CMA).

- Filing of DIR-3 KYC would be **mandatory for Disqualified Directors also**.

- After expiry of the due date by which the KYC form is to be filed, the MCA21 system will mark all approved DINs (allotted on or before 31st March 2018) against which DIR-3 KYC form has not been filed as ‘**Deactivated**’ with reason as ‘Non-filing of DIR-3 KYC’.

- After the due date filing of DIR-3 KYC in respect of such deactivated DINs shall be allowed upon payment of a specified fee only, without prejudice to any other action that may be taken.
## Registration of Charges

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 8</td>
<td><strong>Satisfaction of charge</strong></td>
</tr>
<tr>
<td>5&lt;sup&gt;th&lt;/sup&gt; July 2018</td>
<td>A company or charge holder should within a period of 300 days <em>(earlier 30 days)</em> from the date of the payment or satisfaction in full of any charge registered under Chapter VI, give intimation of the same to the Registrar in Form No.CHG-4 along with the fee.</td>
</tr>
<tr>
<td>Rule 12</td>
<td><strong>Condonation of delay and rectification of register of charges</strong></td>
</tr>
<tr>
<td>5&lt;sup&gt;th&lt;/sup&gt; July 2018</td>
<td>Where the satisfaction of the charge is not filed within a period of 300 days <em>(earlier 30 days)</em> from the date on which such payment of satisfaction, the Registrar will not register the same unless the delay is condoned by the Central Government.</td>
</tr>
</tbody>
</table>
## Valuations under Companies Act

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rule 19</strong></td>
<td>Committee to advise on valuation matters.</td>
</tr>
<tr>
<td>13th June 2018</td>
<td>The Committee formed to advise on valuation matters will also include the Presidents of the Institute of Chartered Accountants of India, the Institute of Company Secretaries of India, the Institute of Cost Accountants of India as ex-officio members.</td>
</tr>
<tr>
<td><strong>Rule 11</strong></td>
<td>Transitional Arrangement</td>
</tr>
<tr>
<td>25th September 2018</td>
<td>On the commencement of these Rules, if any person may be rendering valuation services under the Act, <strong>can continue to render valuation services without a certificate of registration up to 31st January 2019 (earlier 30th September, 2018).</strong></td>
</tr>
</tbody>
</table>
## Valuations under Companies Act ...

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rule 1</strong></td>
<td><strong>Short title and commencement</strong></td>
</tr>
</tbody>
</table>
| 13<sup>th</sup> November 2018 | ➢ Heading changed to ‘Short title, commencement and application.’.  
➢ These Rules will apply for valuation in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a company or its liabilities under the provision of the Act or these Rules.  
➢ It has also been clarified that the conduct of valuation under any other laws including Income Tax, FEMA, SEBI etc. will not be affected by virtue of these Rules. |
| **Rule 4**       | **Qualifications and experience**                                                                                                                                                                                     |
| 13<sup>th</sup> November 2018 | The requirement that a person, apart from being a Professional (Chartered Accountant/ Company Secretary/ Cost Accountant) should also be a graduate has been done away with.                                                   |
## Indian Valuation standards (Ind VS)

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
</tr>
</thead>
<tbody>
<tr>
<td>10th June, 2018</td>
<td>ICAI issued the 8 Ind VS applicable for all valuation engagement under 2013 act.</td>
</tr>
<tr>
<td>1st July, 2018</td>
<td>Ind VS is effective from 1st July, 2018 till the Valuation standards are notified by the Central government.</td>
</tr>
<tr>
<td>Ind VS</td>
<td>In respect of valuation engagements under other statutes like the Income-tax Act, 1961 (IT Act), Securities and Exchange Board of India (SEBI), Foreign Exchange and Management (FEMA), Reserve Bank of India (RBI) etc., these Ind VS are recommendatory in nature.</td>
</tr>
</tbody>
</table>
# Indian Valuation Standards (Ind VS)

<table>
<thead>
<tr>
<th>Standard</th>
<th>Dealing with</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ind VS 101</td>
<td>Definitions</td>
</tr>
<tr>
<td>Ind VS 102</td>
<td>Valuation Bases</td>
</tr>
<tr>
<td>Ind VS 103</td>
<td>Valuation Approaches and Methods</td>
</tr>
<tr>
<td>Ind VS 201</td>
<td>Scope of Work, Analyses and Evaluation</td>
</tr>
<tr>
<td>Ind VS 202</td>
<td>Valuation Report and Documentation</td>
</tr>
<tr>
<td>Ind VS 301</td>
<td>Business valuation</td>
</tr>
<tr>
<td>Ind VS 302</td>
<td>Intangible assets</td>
</tr>
<tr>
<td>Ind VS 303</td>
<td>Financial Instruments</td>
</tr>
</tbody>
</table>
Companies Deposits (Acceptance) Rules

Companies (Acceptance of Deposits) Amendment Rules, 2018
Effective from 15\textsuperscript{th} August 2018.

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 4</td>
<td><strong>Form and particulars of advertisements or circulars.</strong></td>
</tr>
<tr>
<td></td>
<td>A certificate of the statutory auditor of the company is required to be attached in Form DPT-1, stating that the company has not committed default in the repayment of deposits or in the payment of interest on deposits accepted either before or after payment of interest on deposits accepted and In case a company had committed a default in the repayment of deposits accepted or in the payment of interest on such deposits, a certificate of the statutory auditor of the company is required to be attached in Form DPT-1, stating that the company had made good the default and a period of 5 years has lapsed since the date of making good the default as the case may be.</td>
</tr>
<tr>
<td>Rule / Date</td>
<td>Particulars / Amendment</td>
</tr>
<tr>
<td>------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Rule 5</td>
<td>Manner and extent of deposit insurance</td>
</tr>
<tr>
<td></td>
<td>This Rule has been omitted</td>
</tr>
<tr>
<td>Rule 13</td>
<td>Maintenance of liquid assets and creation of Deposit Repayment Reserve (DRR) Account.</td>
</tr>
<tr>
<td></td>
<td>The amount in DRR cannot below 20%, of the amount of deposits maturing during the FY</td>
</tr>
</tbody>
</table>
## Companies Deposits (Acceptance) Rules...

### Companies (Acceptance of Deposits) Amendment Rules, 2019.

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 2</td>
<td>Definitions</td>
</tr>
<tr>
<td>27th January 2019</td>
<td>Any amount received by a company from ‘Real Estate Investment Trusts’ will not be treated as Deposits.</td>
</tr>
<tr>
<td>Rule 16</td>
<td>Return of deposits to be filed with the Registrar</td>
</tr>
<tr>
<td>27th January 2019</td>
<td>It has clarified that, every Company other than Government company must report 'Deposit or particulars of Transaction not considered as deposit or both' in e-form DPT-3</td>
</tr>
<tr>
<td>Rule 16A</td>
<td>Disclosures in the Financial Statement (FS)</td>
</tr>
<tr>
<td>27th January 2019</td>
<td></td>
</tr>
</tbody>
</table>
  - Every Company other than Government Company, is required to file a “onetime return” of outstanding receipt of money or loan by a Company which are not considered as Deposits, from 1st April 2014 till the date of publication of Amendment Rules in the Official Gazette.  
  - Reporting should be done within 90 days from 22 Jan 2019 (revised to 31 March 2019) in e-form DPT-3 i.e. by 21st April 2019 (revised to within 30 days of deployment of DPT 3) |
## Filing for ‘ACTIVE COMPANIES’

**Companies (Incorporation) Amendment Rules, 2019 Effective 25th February 2019**

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 25A</td>
<td>Active Company Tagging Identities and Verification (ACTIVE)</td>
</tr>
</tbody>
</table>
| 19th February 2019| - This Rule requires **every company** incorporated on or before the 31st December 2017 to file the particulars of the company and its registered office in e-Form ACTIVE **on or before 25th April 2019**  
  - If company files e-Form ACTIVE on or after 25th April 2019, company will be marked ‘ACTIVE Compliant’ on payment of fees of Rs. 10,000.  
  - Any company which has **not filed its due financial statements** under Section 137 or due Annual Returns under Section 92 or both with the RoC, it will be restricted from filing e-Form-ACTIVE, unless such company is under management dispute and RoC has recorded the same on the register.  
  - Exempted: Companies incorporated after 31st December, 2017; or Companies which have been struck off or are under process of striking off; or Companies under liquidation or amalgamated or dissolved.  
  *Public Company*(whether listed or not), **Private Company, Government Company, One Person Company. Every Entity which is incorporated under previous applicable laws is also required to file the above Form*
# Financial Statements

## Companies (Accounts) Amendment Rules, 2018

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 8</td>
<td>Approval of Financial Statements</td>
</tr>
</tbody>
</table>
| 31<sup>st</sup> July 2018 | To be signed by:  
- Chairperson or 2 directors (incl 1 MD)  
- **CEO** (even if he is not a director)  
- CFO  
- CS |
# Report of Board of Directors

## Companies (Accounts) Amendment Rules, 2018

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 8</td>
<td><strong>To be included in Board's Report (BR) (other than OPC and small Co)</strong></td>
</tr>
</tbody>
</table>
| 31\textsuperscript{st} July 2018 | ➢ A disclosure, as to whether maintenance of cost records as specified by the CG under Section 148(1) is required by the company and whether such accounts and records are made and maintained;  
➤ A Statement that the company has complied with provision relating to the Sexual Harassment of Women at Workplace(Prevention, Prohibition and Redressal) Act, 2013. |

## Rule 8A

<table>
<thead>
<tr>
<th>Rule 8A</th>
<th>Matters to be included in the BR for OPC and Small Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>31\textsuperscript{st} July 2018</td>
<td>The BR of OPC and Small Company should be in abridged form and should, include the web address where Annual Return has been placed, number of Board Meetings, Directors Responsibility Statement, state of company’s affairs, financial summary or highlights, details of frauds reported by the auditors etc. The BR should contain particulars of contracts or arrangements with related parties in Form AOC-2</td>
</tr>
</tbody>
</table>
## Managerial Remuneration

**Companies (Appointment and Remuneration of Managerial Personnel) Amendment Rules, 2018**

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Particulars / Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rule 6</td>
<td>Application to the CG</td>
</tr>
<tr>
<td>12&lt;sup&gt;th&lt;/sup&gt; September 2018</td>
<td>The heading has been substituted and it now reads as ‘Parameters for consideration of remuneration’</td>
</tr>
<tr>
<td>Rule 7</td>
<td>Fees</td>
</tr>
<tr>
<td>12&lt;sup&gt;th&lt;/sup&gt; September 2018</td>
<td>Sub-rule (2) pertains to conditions for companies (other than listed companies and subsidiary of a listed company) to pay remuneration to its managerial personnel, in the event of no profit or inadequate profit beyond ceiling specified in Section II, Part II of Schedule V (i.e. 11 %) without the approval of CG approval. <em>This sub-rule has been deleted</em></td>
</tr>
<tr>
<td>Form MR-2</td>
<td></td>
</tr>
<tr>
<td>12&lt;sup&gt;th&lt;/sup&gt; September 2018</td>
<td>Application to the CG for approval of appointment or reappointment and remuneration or increase in remuneration or waiver for excess or over payment to managing director or whole time director or manager and commission or remuneration to directors under the provisions of Chapter XIII <em>has been substituted</em></td>
</tr>
</tbody>
</table>
Managerial Remuneration ...

### Amendment to Schedule V

Schedule V pertains to conditions to be fulfilled for the appointment of a Managing Director (MD) or Whole-time Director (WTD) or a manager without the approval of the CG. Among other matters, amendment to Schedule V pertains to –

- Offence under the various Acts to be considered for disqualification of appointment now includes the following Acts-
  - Insolvency and Bankruptcy Code, 2016
  - Goods and Services Tax Act, 2017
  - Fugitive Economic Offenders Act, 2018

- If any person is a managerial person in more than one company he will be eligible to be appointed as a MD, WTD or Manager in the company.

- If any special resolution has been passed by the shareholder, they can fix any remuneration (*earlier double*) in excess of the limit prescribed in Section II of part II of Schedule V
Managerial Remuneration ...

<table>
<thead>
<tr>
<th>Amendment to Schedule V</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ If any company makes any default in repayment of its debt, then the company should obtain prior approval from secured creditors before obtaining the approval in the general meeting.</td>
</tr>
<tr>
<td>➢ A sick company for whom a scheme of revival or rehabilitation has been ordered by the Board for Industrial and Financial Reconstruction or National Company Law Tribunal, may for a period of 5 years from the date of sanction of scheme of revival, may pay any remuneration to its managerial persons.</td>
</tr>
<tr>
<td>➢ A company in a Special Economic Zone can pay any amount of remuneration to its managerial person.</td>
</tr>
<tr>
<td>➢ Calculation of ‘Net Profits’ should additionally exclude any amount representing unrealized gains, notional gains or revaluation of assets.</td>
</tr>
<tr>
<td>➢ As per 197(16), to mention in Audit report whether provisions of sec 197 are complied with</td>
</tr>
</tbody>
</table>

CNK
Corporation Social Responsibility

Companies (Corporate Social Responsibility Policy) Amendment Rules, 2018

Amendment

Where a company is not required to appoint an independent director, it should have its CSR Committee without such director.

Clarification under Section 135 (5) of the Companies Act, 2013.

Circular No. 06/2018 dated 28th May 2018

135 (5)

➢ The first proviso to Section 135(5) of the Companies Act, 2013, requires that the company will give preference to the local areas around which it operates, for spending the amount earmarked for Corporate Social Responsibilities (CSR) activities.
➢ The MCA has reiterated that these provisions have to be followed in letter and spirit.
## Audit Committee

### Amendment to Sec 177 effective 7 May 2018

- Board of every Listed **Public** Company and such other classes should constitute an Audit Committee (AC)

- Transaction (involving an amount upto Rs. 1 crore is voidable at the option of the AC, if entered without its approval and not ratified subsequently.

- AC could give recommendations to Board for transactions not covered u/s 188 in case it does not approve the transaction

- No approval of AC in case of RPTs between Holding Company and Wholly Owned Subsidiary (other than those referred to in u/s 188)
Loans to Directors

Amendment to Sec 185 effective 7 May 2018

- Companies can give loan to any person in whom director is interested, subject to:
  - Prior approval by Special Resolution
  - Loans to be utilized by the borrowing company for its principal business activities
## Audit and Auditors

<table>
<thead>
<tr>
<th>Rule / Date</th>
<th>Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rule 3</strong></td>
<td>Manner and procedure of selection and appointment of auditors etc.</td>
</tr>
<tr>
<td>7&lt;sup&gt;th&lt;/sup&gt; May 2018</td>
<td>The requirement of ratification of appointment of statutory auditors at every Annual General Meeting (AGM) till the 6&lt;sup&gt;th&lt;/sup&gt; meeting has been done away with.</td>
</tr>
<tr>
<td><strong>Rule 9</strong></td>
<td>Liability to devolve on concerned partners only</td>
</tr>
<tr>
<td>7&lt;sup&gt;th&lt;/sup&gt; May 2018</td>
<td>This Rule has been omitted</td>
</tr>
<tr>
<td><strong>Rule 10A</strong></td>
<td></td>
</tr>
<tr>
<td>7&lt;sup&gt;th&lt;/sup&gt; May 2018</td>
<td>Statutory Auditors Report should, instead of 'adequate internal financial control systems', state about the existence of 'internal financial controls with reference to FS'</td>
</tr>
<tr>
<td><strong>Rule 14</strong></td>
<td>Remuneration of the Cost Auditor</td>
</tr>
<tr>
<td>7&lt;sup&gt;th&lt;/sup&gt; May 2018</td>
<td>Instead “Cost accountant in practice”, the words “Cost accountant” has been substituted</td>
</tr>
</tbody>
</table>
Auditor Resignation

- Appointment of an ‘auditor;’ is for a period of 5 years

- Several cases of auditor resignations before end of term – In many cases, resignations were given after year end and towards conclusion of the audit

- MCA has issued notices in several such cases to audit firms

- ICAI has in Dec 2018 issued “Implementation Guide on resignation or withdrawal from an engagement to perform audit of FS”

- In case of resignation, specific reasons to be communicated
Auditor Resignation...

Implementation Guide on resignation or withdrawal from an engagement to perform audit of FS – ICAI (Dec 2018)

➤ May depend on stage of completion of the audit

➤ If the audit is substantially completed, he may decide to disclaim an opinion and explain the scope of limitation

➤ The auditor should describe the circumstances while giving the reasons for resignation suitably, instead of mentioning ambiguous reasons such as other pre-occupation or personal reasons or administrative reasons or health reasons or mutual consent or unavoidable reasons.
Auditor Resignation...

As per IG of ICAI, some valid reasons could be:

- Non payment of fees
- Inability to obtain sufficient appropriate audit evidence;
- Possible effects on the FS of undetected misstatements, if any, could be both material and pervasive;
- If the matter is related to a material misstatement of the FS that relates to specific amounts in the FS (including quantitative disclosures), the auditor should include a description and quantification of the financial effects of the misstatement, unless impracticable
- Cannot legally continue as auditor

- Legal advice maybe sought, if required
Compliance for payments to MSMEs

Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Order, 2019.

- As per notification dated 2nd November 2018, the CG had directed all companies, who get supplies of goods or services from micro and small enterprises and whose payments to micro and small enterprise suppliers exceed 45 days from the date of acceptance or the date of deemed acceptance of the goods or services as per the Section 9 of the Micro, Small and Medium Enterprises Development Act, 2006 should submit a half yearly return to the MCA.

- Every specified company should file in MSME Form I details of all outstanding dues to Micro or small enterprises suppliers existing on the date of notification of this order within 30 days from the date of publication of this notification. (As per General Circular No. 01/19 dated 21st February 2019, 30 days are to be reckoned from the date the said e-form is deployed on MCA 21 portal)

- Every specified company should file a return as per MSME Form I, by 31st October for the period from April to September and by 30th April for the period from October to March.
National Financial Reporting Authority – Sec 132 of the Act

- Notified on 21\textsuperscript{st} March 2018, 1\textsuperscript{st} Oct 2018, 24\textsuperscript{th} Oct 2018
- Rules notified on 13\textsuperscript{th} Nov 2018

\textbf{Functions:}
- Make recommendations on Accounting / Auditing Policies and Standards (after receiving ICAI recommendations)
- Monitor / enforce compliance with Accounting and Auditing Standards
- Oversee quality of service of the profession associated with ensuring compliance with such standards and suggest measures for improvement in quality of service
- Other functions – as maybe prescribed
Powers to investigate:
- Either suo-moto or
- On reference made by CG (for prescribed class of companies / persons) into matters of Professional or Other misconduct by any CA or firm of CAs
- Professional Misconduct: as per sec 22 of CA Act
- Other misconduct: unrelated to profession which can bring disrepute to the profession

Punishment for both types of misconduct:

<table>
<thead>
<tr>
<th>Type</th>
<th>Penalty (Rs.)</th>
<th>Other penal actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>- Not less than 1 lakh</td>
<td>Debarring member or firm from practice for minimum 6 months and not exceeding 10 years</td>
</tr>
<tr>
<td></td>
<td>- Upto 5 times the fees</td>
<td></td>
</tr>
<tr>
<td>Firm</td>
<td>Not less than 10 lakhs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Upto 10 times the fees</td>
<td></td>
</tr>
</tbody>
</table>
Applicability (as per Rules)

- Companies whose securities are listed in India or outside

- Unlisted public companies: (if as on 31st March of preceding year)
  - paid-up capital of not less than Rs. 500 crs or
  - annual turnover of not less than Rs. 1,000 crs or
  - Aggregate o/s loans, debentures, deposits of not less than Rs. 500 crs

- Insurance companies, banking companies, etc.

- A body corporate outside India, which is a subsidiary or associate company, if the income or net worth of such subsidiary or associate company exceeds 20% of the consolidated income or consolidated net worth of the Indian Co.
Functions: (in addition to those mentioned in sec 132)

**Rule 4:**
- Maintenance of details of Auditors of companies covered (annual return to be filed by auditors by 30th April) (1st such return within 30 days from deployment at MCA website)
- Promote awareness on compliance of accounting and auditing standards (to constitute advisory committees, study groups, task force, etc.)
- Co-operate with national and international organisations of independent audit regulations

**Rule 7:**
- Review FS of companies
- Direct such companies or its auditor to provide further information, explanation or documents
- May require personal presence of the officers of the company and its auditor
National Financial Reporting Authority ...

Functions: ...

Rule 8:
- Review working papers (including audit plan and other documents and communications related to audit)
- Evaluate sufficiency of quality control system and manner of documentation
- Perform other testing of audit supervisory and quality control procedures
- Require an auditor to report on: its own governance practices and internal processes to promote audit quality, protect its reputation and reduce risk

Rule 9:
- On basis of review, direct an auditor to take measures for improvement of audit quality;
- Monitor improvements made by the auditor and take such action as deemed fit;
- Refer cases to QRB for overseeing quality of service
Functions: ...

Rule 10: Power to investigate

- If authority has received reference for investigation from CG or
- Has decided to investigate on the basis of its compliance or oversight activities
- Has decided to undertake suo-moto investigation after recording reasons in writing;

It SHALL forward the matter to its Investigation Division

If during investigation there is evidence that there is any non-compliance of the Act / Rules which may involve Fraud of Rs. 1 crores or more, it shall report to the CG
Changes in Schedule III, AS and IndAS
Formats for FS

- **For Non Ind AS Companies**
  - Division I of Schedule III

- **Format for Ind AS FS**
  - Division II of Schedule III of Companies Act 2013
    - Amendment *(see subsequent slide)*

- **Format for Ind AS NBFCs**
  - Division III of Schedule III of Companies Act 2013 *(newly notified)*
Proposed Changes to Division I (non IndAS companies)

- Recommended disclosure on Companies’ Operating Cycle
- Reiterates that ‘contractual payments’ cannot be included as “Trade Payables” (e.g. PF dues, payable for PPE, etc.) – such amounts are to be disclosed as “Others”
- Payments to MSMEs
- Market value of Mutual Funds which are not quoted but NAV available on regular basis (to disclose NAV as additional information)
- Disclosure u/s 186(4)
- Presentation of Revenue – NET of GST
- Disclosure of Share of profit/loss from a partnership firm or LLP
- Finance company may disclose the following as a separate line item:
  - (i) Dividend
  - (ii) Rental Income
  - (iii) Fees and commission Income
Amendment in Schedule III (for companies under Ind AS)

Additional disclosure for amounts due to MSMEs

‘Trade Receivables’ and ‘Loans & Advances’ to be classified as

Trade Receivables / Loans and Advances:
- Considered Good – secured
- Considered Good – Unsecured
- With significant increase in credit risk
- Which are credit impaired

Equity
- Description of the Purposes of each reserve included within ‘Other Equity” to be disclosed in the Notes to Statement of PL
Proposed Changes to Division II (IndAS companies)

- In case, a company is presenting condensed interim Financial Statements, its format should also conform to that used in the company’s most recent annual Financial Statements (as per IndAS 34)
- Disclosure for MSMEs
- Detailed discussion on revised disclosure under “Trade Receivables” and “Loans and Advances” – IndAS 109 to be followed – disclosure as under:
  - *In disclosing ‘Trade Receivables which have significant increase in credit risk’, disclose the amount of trade receivables that have experienced significant increase in credit risk since initial recognition but are not credit-impaired;*
  - *In disclosing ‘Trade Receivables – credit impaired’, disclose the amount of trade receivables for which it has experienced a credit default event;*
  - *The balance amount of trade receivables which have neither experienced significant increase in credit risk nor have experienced a credit default event, shall be disclosed as ‘good’;*
  - *The corresponding amount of provision for impairment on all the three categories of trade receivables viz., considered good, considered as significant increase in credit risk and considered credit impaired would be aggregated and presented as a separate line item.*
Accounting Standards in India (applicable for FY 2018-19)

Notified Ind AS (39)
- All listed companies and NBFCs (Phase I)
- Other companies above a threshold
- Subsidiaries, Associates of above

Notified AS (27)
- For all companies not covered under IndAS
- These standards would be soon upgraded

ICAI notified AS (27)
- For Partnership firms, LLPs, etc.
Ind AS – applicability to NBFCs

- For accounting periods beginning from 1 April 2018 onwards:
  - NBFCs with having net worth of > 500 crores or more;
  - Their holding, subsidiary, joint venture or associate companies

- MCA's notification covers all NBFCs as defined in sec 45-I(f) of RBI Act, 1934:
  - Housing Finance Companies (HFCs),
  - Merchant Banking Companies,
  - Micro Finance Companies, Mutual Benefit Companies,
  - Venture Capital Fund Companies,
  - Stock Broker or Sub-Broker Companies,
  - Nidhi Companies, Chit Companies,
  - Securitisation and Reconstruction Companies,
  - Mortgage Guarantee Companies,
  - Pension Fund Companies,
  - Asset Management Companies and
  - Core Investment Companies.

- NBFCs not covered in Phase I of Ind AS will not need to follow Division III of Schedule III (except for comparative purposes).
Accounting Standards (non IndAS)


Substitution of Paragraph 32 of AS 11

- The MCA has amended the Companies (Accounting Standards) Rules, 2006. It has substituted paragraph 32 of AS 11 *The effects of changes in foreign exchange rates*.

- The amendment states that remittance from a non-integral foreign operation by way of repatriation of accumulated profits does not form part of a disposal unless it constitutes return of the investment.

- The amendment is effective from 1st April 2018 i.e. for FY 2018-19 onwards.
Accounting Standards (IndAS)

Companies (Indian Accounting Standards) Amendment Rules, 2018. (effective 1st April 2018 i.e. FY 2018-19)

Amendments in
- Ind AS 40
- Ind AS 21
- Ind AS 12
- Ind AS 28
- Ind AS 20
- Ind AS 112

- Ind AS 115 notified and following withdrawn:
  - Ind AS 11
  - Ind AS 18
  - GN on Real Estate transactions (for IndAS)
ACCOUNTING STANDARDS

CAN YOU DO ANOTHER DRAFT OF THIS?
THERE'S STILL A COUPLE OF SENTENCES
PEOPLE MIGHT UNDERSTAND...
Ind AS 40: Investment Property

The amendment lays down the principle regarding when a company should transfer asset to, or from, investment property

The amendment clarifies that a transfer is made when and only when:

- *There is an actual change of use i.e. an asset meets or ceases to meet the definition of investment property*

- *There is evidence of the change in use*
Ind AS 21: The Effects of Changes in Foreign Exchange Rates

When foreign currency consideration is paid or received in advance of the item it relates to which may be an asset, an expense or income, Ind AS 21 is not clear on how to determine the date of the transaction.

To address this issue, Ind AS 21 is amended to include Appendix B:

*The date of the transaction which is required to determine the spot exchange rate for translation would be the earlier of:*

- The date of initial recognition of the non-monetary prepayment asset or deferred income liability, and
- The date that the related item is recognised in the financial statements.

*If transaction is recognised in stages, then transaction date would be established for each stage. The spot exchange rate for each date would be applied to translate each part of the transaction.*

**Illustration**

- 100 % Advance recd @ 65, BS date @ 68, Point of revenue @ 70
- Ind AS 21 post amendment – no restatement on BS date. Revenue @ 65
- Ind AS 21 till March 2018 – restatement BS date @ 68. Revenue @ 70.
Ind AS 12: Income taxes

The amendment considers that

- *Tax law determines which deductions are offset against taxable income in determining taxable profits*
- *No deferred tax asset is recognised if the reversal of the deductible temporary difference will not lead to tax deductions.*

Consequently, if tax law offsets a deduction against taxable income on an entity basis, without segregating deductions from different sources, an entity carries out a combined assessment of all its deductible temporary differences relating to the same taxation authority and the same taxable entity.

However, if tax law offsets specific types of losses only against a particular type of income (e.g. if tax law limits the offset of capital losses to capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type(s), but separately from other deductible temporary differences.

Segregating deductible temporary differences in accordance with tax law and assessing them on such a basis is necessary to determine whether taxable profits are sufficient to utilise deductible temporary differences.
Ind AS 28: Investments in Associate or Joint venture

When an investment in an associate or joint venture is held by, or is held indirectly through, a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect, in accordance with Ind AS 28, to measure that investment at fair value through profit or loss. However, it was not clear whether the entity is able to choose between applying the equity method or measuring the investment at fair value for each investment, or whether instead the entity applies the same accounting to all of its investments in associates and joint ventures.

Amended to include

That the choice is available to the entity at the time of initial recognition for each investment entity associate or joint venture and not necessarily jointly
Ind AS 112: Disclosure of Interest in other entities

The amendments clarify that

Disclosure requirements for interests in other entities also apply to interests that are classified (or included in a disposal group that is classified) as held for sale or as discontinued operations in accordance with Ind AS 105, Non-current Assets Held for Sale and Discontinued Operations.
## Ind AS 20: Accounting for Government grants

**Companies (Indian Accounting Standards) 2\textsuperscript{nd} Amendment Rules, 2018**

<table>
<thead>
<tr>
<th><strong>Option available to record non-monetary government grant and asset at a nominal amount.</strong></th>
</tr>
</thead>
</table>

### Presentation

In addition to the above manner of presentation of the government grants related to assets, another method of presentation of such grants is available. It permits the amount of grant to be deducted in arriving at the carrying amount of the asset. Additionally, the grant would be recognised in the Statement of Profit And Loss over the useful life of a depreciable asset as a reduced depreciation expense.

### Repayment of government grants

Repayment of a grant related to an asset should be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation which would have been recognised in the PL to date in the absence of the grant should be recognised immediately in PL.

*Consequential changes to Ind AS 12,16 and 38 have also been carried out*
## Ind AS 115: Old Vs. New

<table>
<thead>
<tr>
<th>Current guidance (Ind AS 11/18)</th>
<th>New Standard (Ind AS 115)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk &amp; Rewards based Model</td>
<td>Control based model- R &amp; R is retained as indicator</td>
</tr>
<tr>
<td>Fair Value of the consideration received or receivables</td>
<td>Consideration measured as the amount the entity expects to be entitled to</td>
</tr>
<tr>
<td>Limited guidance on identifying Performance obligation in a contract</td>
<td>Specific guidance on identifying performance obligation in a contract</td>
</tr>
<tr>
<td>Revenue over time may apply in different situations (e.g. Construction Contract)</td>
<td>Specific guidance on identifying performance obligation in a contract</td>
</tr>
</tbody>
</table>
Core Principle

Recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity *expects to be entitled* in exchange for those goods or services.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation
Step-1: Identify the contract

- **Collection of Consideration is considered probable**
- **Right to goods or services and payment terms can be identified**
- **It is approved and the parties are committed to their obligation**
- **It has commercial substance**

A contract is an agreement between two or more parties that creates enforceable rights and obligation. It can be **written, oral or implied by an entity’s customary business practice.**
A performance obligation is a promise (explicit or implicit) to transfer to a customer either:

- A **distinct good or service**
- A series of distinct goods or services that are substantially the same and have the same pattern of transfer

Performance obligations are identified at **contract inception** and determined based on:

- Contractual terms
- Customary business practices

Incidental obligations or marketing incentives may be **performance obligations** (e.g., “free” maintenance provided by automotive manufacturers, loyalty points provided by a hotel)
**Step-3- Determine Transaction Price**

*Transaction Price* is the total amount of consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer (excluding amounts collected on behalf of third parties) including or excluding:

- **Variable consideration**: Estimate using EV or MLA but along with constrained
- **Significant Financing**: Adjust promised consideration if timing provides customer or entity with significant benefit of financing
- **Non-Cash Consideration**: Measure at Fair Value unless FV cannot be reasonably estimated
- **Consideration payable**: Reduction of TP unless in exchange for a distinct goods or services
Step-4- Allocate the Transaction Price

Transaction price is *allocated* to each separate performance obligation in “an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer”

Allocate based on relative *stand-alone selling price*

- Performance Obligation 1
- Performance Obligation 2
- Performance Obligation 3

**Stand-alone selling price** - *The price at which an entity would sell a promised good or services separately to a customer.*
Step-5- Recognise Revenue- PO satisfied

Model is based on *transfer of control*

- Control is the ability to **direct the use** of, and obtain substantially all of the remaining benefits from, the asset;

- Control includes the **ability to prevent** other entities from directing the use of, and obtaining the benefits from, an asset;

- The benefits of an asset are the potential cash flows that can be obtained directly or indirectly in many ways, such as by:
  - *Use the asset to produce goods or provide services;*
  - *Using the asset to enhance the value of other asset;*
  - *Using the asset to settle liabilities or reduce expenses;*
  - *Selling or enhancing the asset;*
  - *Pledging the asset to secure a loan;*
  - *Holding the asset*
Step-5- Recognise Revenue- PO satisfied

- As goods or service is transferred
- Test: when does customer obtains control?

When is PO Satisfied?

- Percentage of completion
- Select single measure of performance that reflects progress

Satisfied over time?

- If fail criteria for POT then recognise point in time
- When entire PO is satisfied

If not then point in time
Step-5- PO satisfied over time

Control of goods and services is transferred over time if one of the following three criteria is met:

- The entity creates or enhances an asset that the customer controls as it is created or enhanced;
- The entity’s performance does not create an asset with alternative use and the entity has an enforceable right to payment for performance completed to date [with margin];
- The customer is receiving and consuming the benefit of the entity’s performance as the entity performs.

Pure Service Contract
Principal versus agent

Who are you?
I am a ‘principal’. I control the good or service before the customer gets it. My performance obligation is to provide the good or service...

Who are you?
I am an ‘agent’. I don’t control the good or service before the customer gets it. My performance obligation is to arrange for the good or service to be provided...
Disclosures

To enable users to understand the nature, amount, timing and uncertainty of the revenue and cash flow arising from contracts with customers

Revenue
- Disaggregation of revenue
- Amounts recognised relating to performance in previous period

Contracts
- Information about contract balances and changes
- Information about performance obligation
- Amounts allocated to remaining performance obligation

Significant judgements
- Timing of an methods for recognising revenue
- Determining the transaction price and amounts allocated to performance obligation
## Transition Roadmap

<table>
<thead>
<tr>
<th></th>
<th>PY 2017-18</th>
<th>FY 2018-19</th>
<th>FY 2018-19 Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full Retrospective</strong></td>
<td>Cumulative catch-up</td>
<td>Contracts under new Standards</td>
<td></td>
</tr>
<tr>
<td><strong>Modified retrospective</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cumulative catch-up</td>
<td>Contracts not restated</td>
<td>Contracts under new standard</td>
</tr>
</tbody>
</table>
### Transition method summary

<table>
<thead>
<tr>
<th>Key considerations</th>
<th>Full retrospective approach</th>
<th>Modified retrospective approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apply to which periods presented?</td>
<td>All periods presented</td>
<td>Only the most current period presented</td>
</tr>
<tr>
<td>Apply to which contracts?</td>
<td>All contracts that would have existed during all periods presented (except for practical expedients)</td>
<td>Any contracts existing as of effective date as well as any new contracts from that date forward</td>
</tr>
<tr>
<td>Effects in the financial statement</td>
<td>in opening balance of retained earnings</td>
<td>in opening balance of retained earnings</td>
</tr>
<tr>
<td>Adoption disclosure requirements?</td>
<td>reason for the change and the method of applying the change</td>
<td>disclose the amount each financial statement line item was affected as a result of applying the new standard</td>
</tr>
</tbody>
</table>
Additional Ind AS material

- Ind AS – An overview (2018 edition)
- ICAI GN specific for IndAS
  - GN on Accounting for Real Estate Transactions *(withdrawn from FY 2018-19 on IndAS 115 becoming effective)*
  - GN on Accounting for Oil and Gas
  - GN on Division II of Schedule III
- Ind AS Transition Facilitation Group (IFTG) – 18 IFTG issued so far
- Ind AS Educational Material
- Ind AS Disclosure Checklist
- Ind AS – Impact Analysis and Industry Experience
- Compendium of Ind AS (Vol I / II) *(issued Feb 2019)*
Changes in Standards on Auditing related to Audit Reporting
How many Standards of Auditing are issued by ICAI?

- Standards on Quality Control (SQCs) – SQC 1
- SA 100- SA 199 Introductory Matters
- SA 200-SA 299 General Principles and Responsibilities
- SA 300- SA 499 Risk Assessment and Response to Assessed Risks
- SA 500-SA 599 Audit Evidence
- SA 600- SA 699 Using Work of Others
- **SA 700-SA 799 Audit Conclusions and Reporting**
- SA 800- SA 899 Specialized Areas
- SREs 2000-SREs 2699 Standards on Review Engagements (SREs)
- SAEs 3000- SAEs 3699 Standards on Assurance Engagements (SAEs)
- SAEs 3000-SAEs 3399 Applicable to All Assurance Engagements
- SAEs 3400- SAEs 3699 Subject Specific Standards
- SRSs 4000-SRSs 4699 Standards on Related Services (SRSs)
## List of Standards on Auditing on Reporting

### S.A. 700-799 “Audit Conclusions and Reporting”

<table>
<thead>
<tr>
<th>Standard</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>700 (R)</td>
<td>Forming an Opinion and Reporting on Financial Statements</td>
</tr>
<tr>
<td>701</td>
<td>Communicating Key Audit Matters in the Independent Auditors Report</td>
</tr>
<tr>
<td>705 (R)</td>
<td>Modifications to the Opinion in the Independent Auditor’s Report</td>
</tr>
<tr>
<td>706 (R)</td>
<td>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report</td>
</tr>
<tr>
<td>710</td>
<td>Comparative Information—Corresponding Figures and Comparative Financial Statements</td>
</tr>
<tr>
<td>720 (R)</td>
<td>The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements</td>
</tr>
</tbody>
</table>

**Effective for audits of FS for periods beginning on or after 1st April 2018. (ICAI has issued Implementation Guide for 700, 701, 705, 706)**

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CNK
Should the Role of Auditors be this? …

Someone who does precision guesswork based on unreliable data provided by those of questionable knowledge
Should the role of Auditors be this? ...
Why Amendments were needed?

IAASB has stated that:
“The auditor’s opinion on the financial statements is valued; however, in the wake of the global financial crisis, many have called for the auditor’s report to be more informative – in particular, for auditors to provide more relevant information to users based on the audit that was performed.

The new and revised Auditor Reporting standards and related conforming amendments respond to that call.”
New and Revised Auditor’s Reporting Standards

Umbrella Standard for Audit Reporting – SA 700 (Revised)

- New Key Audit Matters section SA 701
- Modifications to auditor’s opinions SA 705 (revised)
- Enhanced auditor reporting related to going concern SA 570 revised
- New auditor reporting on other information SA 720 (revised)

Revisions to SAs 260 and 706 as a result of SA 701, and related conforming amendments to SAs 210, 220, 230, 510, 540, 600, 710
Key Amendments

- Prominent placement of the “Auditor’s Opinion” towards the beginning of the Auditor’s Report.

- New descriptions of responsibilities relating to Going Concern to be included in the respective sections for Management Responsibility Paragraph and Auditors Responsibilities Paragraph

- Key Audit Matters

- Under para “Basis of Opinion”; a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit.

- Management Responsibility [new clauses]

- Auditors’ Responsibility [new clauses]

SA 700 Revised also applies to audits for which SA 800 or SA 805 apply.
## Presentation of Auditor’s Report

### SA 700 Revised (w.e.f. 1-4-2018)
- Title
- Addressee
- **Auditor’s Opinion**
- Basis for Opinion
- **Going Concern**
- **Key Audit Matters**
- **Management’s Responsibility**
- **Auditor’s Responsibility**
- Other Reporting Responsibilities
- Date, Place of Signature

### SA 700 (existing)
- Title
- Addressee
- Introductory Paragraph
- Management’s Responsibility
- Auditor’s Responsibility
- Auditor’s Opinion-
- Other Reporting Responsibilities
- Date, Place of Signature
Auditor’s Report

**Basis of Opinion**: *(earlier under auditor’s responsibility statement)*

The auditor’s report shall include a section, directly following the Opinion section, with the heading “Basis for Opinion”, that:

a) States that the audit was conducted in accordance with SAs
b) Refers to the section of the auditor’s report that describes the auditor’s responsibilities under the SAs;

c) *Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements. The statement shall refer to the Code of Ethics issued by ICAI*

d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s opinion.
Responsibilities of Management for the Financial Statements
This section of the auditor’s report shall describe management’s responsibility for:

a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

b) Assessing the entity’s ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management’s responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate.

➢ This section shall also identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfill the responsibilities described as above.
Auditors’ Responsibilities

- Shall state that the objectives of the auditor are to:
  (a) obtain reasonable assurance about whether the financial statement as a whole are free from material misstatement, whether due to fraud or error.
  (b) Issue an auditor’s report that includes the auditor’s opinion.

- State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement if it exists.

- State that misstatements can arise from fraud or error, and either
  - describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users or
  - provide a definition or description of materiality in accordance with the applicable financial reporting framework.

- When SA 600 applies, further describe the auditor’s responsibilities in a group audit engagement by stating:
  “The division of responsibility for the financial information of the entity by indicating the extent to which the financial information of components is audited by the other auditors have been included in the financial information of the entity, e.g., the number of divisions/branches/subsidiaries or other components audited by other auditors”
Auditors’ Responsibilities

- Shall state that the auditor exercises professional judgment and maintains **professional skepticism** throughout the audit.

- The auditor shall describe that the auditor’s responsibilities are:
  - To identify and assess the risk of material misstatement
  - To design and perform audit procedures responsive to those risks
  - To obtain audit evidence that is sufficient and appropriate to provide basis for the auditor's opinion.
  - To obtain an understanding of internal control relevant to the audit
  - To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - To conclude on the appropriateness of management’s use of the going concern basis of accounting
  - To evaluate the overall presentation, structure and content of the financial statements, including the disclosures.
Auditor’s Responsibilities

- State that the auditor communicates with those charged with governance regarding the planned scope and timing of the audit and significant audit findings, including any significant deficiencies identified in internal control.

- State that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements.

- For all such entities for which key audit matters are communicated in accordance with SA 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit.

Note: The description of the auditor’s responsibilities shall be located:

- within the body of the auditor’s report.
- Within an appendix to the auditor’s report
- By a specific reference within the auditor’s report to the location of such a description on a website of an appropriate authority.
Applicability of SA 701

- Applicable in case of audits of complete sets of general purpose Financial Statement. **w.e.f. 1st April, 2018.** The FS should be general purpose Financial Statements and complete set of Financial Statement.

- SA 701 is **mandatorily** applicable in case of audits of listed entities.

- Also applicable in case of audits of unlisted entities in following situations:
  - Where auditor decides to communicate KAM voluntarily or at the request of TCWG / Management;
  - Where auditor is required by law or regulation to communicate KAM
Intended Benefits

Benefits of ISA 701

- Increased transparency
- Provide a basis for users to further engage with management and those charged with governance
- Renew auditor focus
- Increased attention to disclosure

Enhance communicative value of auditor’s report
What are Key Audit Matters (KAM)

**Definition:**
- Those matters which in the auditor's Professional Judgement, were of most significance in the audit of FS of the current period
- KAMs are selected from the matters communicated with TCWG

**Determining KAMs:**
- Those matters which required significant auditor attention in performing the audit
- Areas of higher RMM assessed or significant risks identified as per SA 315
- Effect of significant events/transactions on audit
- Significant auditor judgments relating to areas that involved significant management judgments
Decision – making framework for KAM

- Matters communicated to TCWG
- Matters that required significant auditors attention
- Matters of most significance in the audit KAM
What are KAM ...

**Step 1:**
- Matters communicated with those charged with governance
  [SA 260-265]

**Step 2:**
- Matters that required significant auditor attention
  [SA 315]

**Step 3:**
- Matters that were of most significance in the audit of the current period.
What are KAMs ...

**Communicating KAM not a substitute for:**

- Disclosures required in the FS as per the applicable financial reporting framework.
- Disclosures necessary to achieve fair presentation of the FS.
- Requirement of expressing modified opinion in accordance with revised SA 705.
- Requirement of reporting about material uncertainty relating to going concern in accordance with revised SA 570.
What are KAMs ...

How to Communicate KAM

- Using an appropriate sub-heading “KAM the auditor shall describe each KAM with reference to the related disclosures and explain:

  - Why the matter was considered to be one of the most significant; and

  - How the matter was addressed in the audit

Illustrative paragraph of key audit matters:

“Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.”

[Description of each key audit matter in accordance with SA 701]
What are KAMs ...

**Description of Individual KAM:**
- Key Audit Matters – Manner in which described in the Audit Report
- Adequacy of description of a KAM is matter of Professional judgement

- Description of each KAM should cover following 3 aspects:
  - reference to the related disclosures (if any) in FS
  - Why matter was considered to be one of most significance in audit and therefore determined as KAM
  - How the matter was addressed in the audit

- In description of how the matter was addressed, auditor may cover following aspects:
  - auditor’s response or approach to address the matter
  - A brief overview of procedures performed
  - An indication of the outcome of the auditor’s procedures
  - Auditor’s Key observations with respect to the matter
Illustrations of KAM

Subject matter covered by KAMs
Illustrations of KAM ...

<table>
<thead>
<tr>
<th>Subject matters covered by KAMs</th>
<th>No. of Companies Reported KAM</th>
<th>Percentage to Total 180 companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets Impairments (other than goodwill)</td>
<td>162</td>
<td>90%</td>
</tr>
<tr>
<td>Revenue (not mentioning fraud)</td>
<td>102</td>
<td>57%</td>
</tr>
<tr>
<td>Allowance for doubtful debts</td>
<td>95</td>
<td>53%</td>
</tr>
<tr>
<td>Goodwill impairment</td>
<td>90</td>
<td>50%</td>
</tr>
<tr>
<td>Taxation, including deferred tax</td>
<td>88</td>
<td>49%</td>
</tr>
<tr>
<td>Investments</td>
<td>87</td>
<td>48%</td>
</tr>
<tr>
<td>Financial instruments</td>
<td>84</td>
<td>47%</td>
</tr>
<tr>
<td>Valuation of inventories</td>
<td>80</td>
<td>44%</td>
</tr>
<tr>
<td>Property valuation</td>
<td>79</td>
<td>44%</td>
</tr>
<tr>
<td>Insurance</td>
<td>55</td>
<td>31%</td>
</tr>
<tr>
<td>Fixed assets, including depreciation</td>
<td>41</td>
<td>23%</td>
</tr>
<tr>
<td>Acquisitions and disposals</td>
<td>39</td>
<td>22%</td>
</tr>
</tbody>
</table>
## Illustrations of KAM ...

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Going Concern</td>
<td>34</td>
<td>19%</td>
</tr>
<tr>
<td>Legal Provisions</td>
<td>31</td>
<td>17%</td>
</tr>
<tr>
<td>IT-related issues</td>
<td>29</td>
<td>16%</td>
</tr>
<tr>
<td>Provisions other than legal</td>
<td>29</td>
<td>16%</td>
</tr>
<tr>
<td>Accounting for long-term contracts</td>
<td>26</td>
<td>14%</td>
</tr>
<tr>
<td>Mining/Oil &amp; Gas accounting</td>
<td>18</td>
<td>10%</td>
</tr>
<tr>
<td>Equity and capital</td>
<td>17</td>
<td>9%</td>
</tr>
<tr>
<td>Management override / related parties</td>
<td>17</td>
<td>9%</td>
</tr>
<tr>
<td>Fraud in revenue recognition</td>
<td>16</td>
<td>9%</td>
</tr>
<tr>
<td>Development Costs</td>
<td>12</td>
<td>7%</td>
</tr>
<tr>
<td>Pensions</td>
<td>12</td>
<td>7%</td>
</tr>
<tr>
<td>Biological assets</td>
<td>10</td>
<td>6%</td>
</tr>
</tbody>
</table>
## Illustrations of KAM ...

<table>
<thead>
<tr>
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<th>No. of Companies Reported KAM</th>
<th>Percentage to Total 180 companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leases</td>
<td>10</td>
<td>6%</td>
</tr>
<tr>
<td>Consolidation Issues</td>
<td>9</td>
<td>5%</td>
</tr>
<tr>
<td>Assets held for sale</td>
<td>8</td>
<td>4%</td>
</tr>
<tr>
<td>Contingent liabilities</td>
<td>8</td>
<td>4%</td>
</tr>
<tr>
<td>Hyper inflation</td>
<td>6</td>
<td>3%</td>
</tr>
<tr>
<td>Restatement / re-presentation</td>
<td>5</td>
<td>3%</td>
</tr>
<tr>
<td>Share-based payments</td>
<td>5</td>
<td>3%</td>
</tr>
<tr>
<td>Controls / Regulations</td>
<td>4</td>
<td>2%</td>
</tr>
<tr>
<td>Change in accounting policy</td>
<td>4</td>
<td>2%</td>
</tr>
<tr>
<td>Supplier Rebates, discounts, incentives</td>
<td>4</td>
<td>2%</td>
</tr>
<tr>
<td>Exceptional</td>
<td>3</td>
<td>2%</td>
</tr>
<tr>
<td>Accruals</td>
<td>3</td>
<td>2%</td>
</tr>
</tbody>
</table>
KAM in Audit Report of Infosys FY 2018-19

- Accuracy of recognition, measurement, presentation and disclosures of revenues and other related balances in view of adoption of Ind AS 115 “Revenue from Contracts with Customers” (new revenue accounting standards)

- Accuracy of revenues and onerous obligations in respect of fixed price contracts involves critical estimates

- Evaluation of uncertain tax positions

- Recoverability of Indirect Tax receivables
Can Auditors play a role like this??
Other Updates

SC ruling on PF
UDIN
SC ruling on applicability of Provident Fund (PF) contributions on allowances

- Applicable to employers having more than 20 employees
- As per EPF Act, 12% contribution to PF has to be paid on ‘basic pay’, ‘DA’, ‘retaining allowance’ and ‘cash value of any food concession’.
- Entities normally exclude certain allowances like OT, bonus, commission, etc. for calculating PF
- On a petition filed, SC observed that “if any amount is to be excluded from basic wages, it has to be shown that employee became eligible to get the extra amount beyond normal work”.
- The SC finally ruled that:
  - “The wage structure and components of salary had been examined and all allowances were essentially part of the basic wage”

- As per the above SC ruling, there could be additional liability for PF in most entities and appropriate provisioning would need to be done.
Applicability of UDIN (1\textsuperscript{st} Feb 2019 onwards)

(i) Certificates issued on the basis of Financial books of accounts and annual financial statements-Capital Contribution Certificate/net worth certificate
(ii) Certificates issued on the basis of Financial books of accounts and annual financial statements - Turnover Certificate
(iii) Certificates issued on the basis of Financial books of accounts and annual financial statements - Working Capital Certificate/Net Working Capital Certificate
(iv) Certificates issued on the basis of Statutory records being maintained under Indian Companies Act, 2013 and applicable provisions
(v) Certification of Fair Values of Shares of Company for the scope of merger / de-merger, Buy Back, Allotment of further shares and transfer of shares from resident to non-resident.
(vi) Certificates for Foreign Remittance outside India in form 15CB.
(vii) Net worth Certificates for Bank finances,
(viii) Net worth Certificates for Bank Guarantee
(ix) Net worth Certificates for Student Study Loan
(x) Net worth Certificates for Issuance of Visa by Foreign Embassy
<table>
<thead>
<tr>
<th>UDIN Applicability ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Certificate in respect of Liquid Asset under Section 45-IB of RBI Act, 1945</td>
</tr>
<tr>
<td>(iii) Certificates for funds/Grants utilisation for NGO’s</td>
</tr>
<tr>
<td>(iv) Certificates for funds/Grants utilisation for Statutory Authority</td>
</tr>
<tr>
<td>(v) Certificates for funds/Grants utilisation Under FERA/FEMA/other Laws</td>
</tr>
<tr>
<td>(vi) Certificates for funds/Grants utilisation Charitable trust/institution</td>
</tr>
<tr>
<td>(vii) Certification under the Income-Tax laws for various Deductions, etc.</td>
</tr>
<tr>
<td>(viii) Certification for claim of refund under GST Act and other Indirect Taxes.</td>
</tr>
<tr>
<td>(ix) Certification under Exchange Control legislation for imports, remittances, ECB,DGFT,EOU, etc</td>
</tr>
<tr>
<td>(x) Certificates in relation to initial Public Issue/compliances under ICDR and LODR.</td>
</tr>
<tr>
<td>(xi) Certificate issued by Statutory Auditors of Banks</td>
</tr>
<tr>
<td>(xii) Certificate issued by Statutory Auditors of Insurance Companies</td>
</tr>
</tbody>
</table>
UDIN Applicability ...

(i) Additional Certification by Concurrent Auditors of Banks not forming part of the concurrent audit assignment
(ii) Certificate of Short Sale of securities issued by Concurrent Auditors of Treasury Department of Banks
(iii) Certificate of physical verification of securities issued by Concurrent Auditors of Treasury Department of Banks
(iv) Certificate issued for KYC purpose to banks confirming sole proprietorship
(v) Certificate Regarding Sources of Income
(vi) Certificates for Claiming Deductions and Exemptions under various Rules and Regulations
(vii) Certificates issued under LLP Act
(viii) RBI Statutory Auditor Certificate for NBFCs
(ix) Certificate issued under RERA
(x) Others* Certificates includes Reports issued in lieu of a Certificate in terms of Guidance Note on Reports or Certificates for Special Purposes
UDIN Non-Applicability

(i) Auditor's Opinion/Reports issued by the Practicing Chartered Accountant under any Statute w.r.t. any entity or any person (e.g.: Tax Audit *, Transfer Price Audit, VAT Audit, GST Audit *, Company Audit, Trust Audit, Society Audit, etc.,
(ii) Valuation Reports
(iii) Quarterly Review Reports
(iv) Limited Review Report
(v) Information System Audit
(vi) Forensic Audit
(vii) Revenue / Credit / Stock Audit
(viii) Borrower Monitoring Assignments
(ix) Concurrent / Internal Audit and the like

*APPLICABLE FROM 1ST APRIL 2019
To conclude …

*It's not just how informed you are now,*

*It's how informed you ought to be that really matters*
Thank You

himanshu@cnkindia.com