NANGIA & CO LLP

CHARTERED ACCOUNTANTS

Assurance Gazette

June 2023

Foreword

We are elated to present you the Assurance Gazette for the month of June-2023.

Corporate reporting in India continues to progress, with both investors and regulators playing a vital role to configure the reporting landscape in the country by ensuring greater lucidity as corporate transparency is a win for all.

The aforesaid further necessitates additional and elaborative disclosures, needed by the stakeholders in order to assist in improved analysis and decision making of the financial as well as non-financial impact of the position of the reporting entity.

We intend to summarize the numerous orders issued by National financial reporting authority (NFRA) from the year 2020 till mid May 2023 highlighting the non-compliance of audit procedures performed by the auditors during the course of audit. Further we have encapsulated the amendments leading to the change to the Indian accounting standards (Ind AS) to be considered while preparing financial statements.

Ministry of Corporate affairs, NFRA, are continuously functioning to identify and eliminate the lags and simultaneously emphasizing to improve the regulatory requirements, as a part of the publication we attempt to accentuate few of the endeavors by the respective authorities.

Hope you will find it useful and informative. Wishing you health and happiness!!We would be delighted to receive feedback/suggestions from you on any topic that you wish us to cover in our forthcoming publications.

Orders Issued by NFRA for non-compliance of Audit Procedures

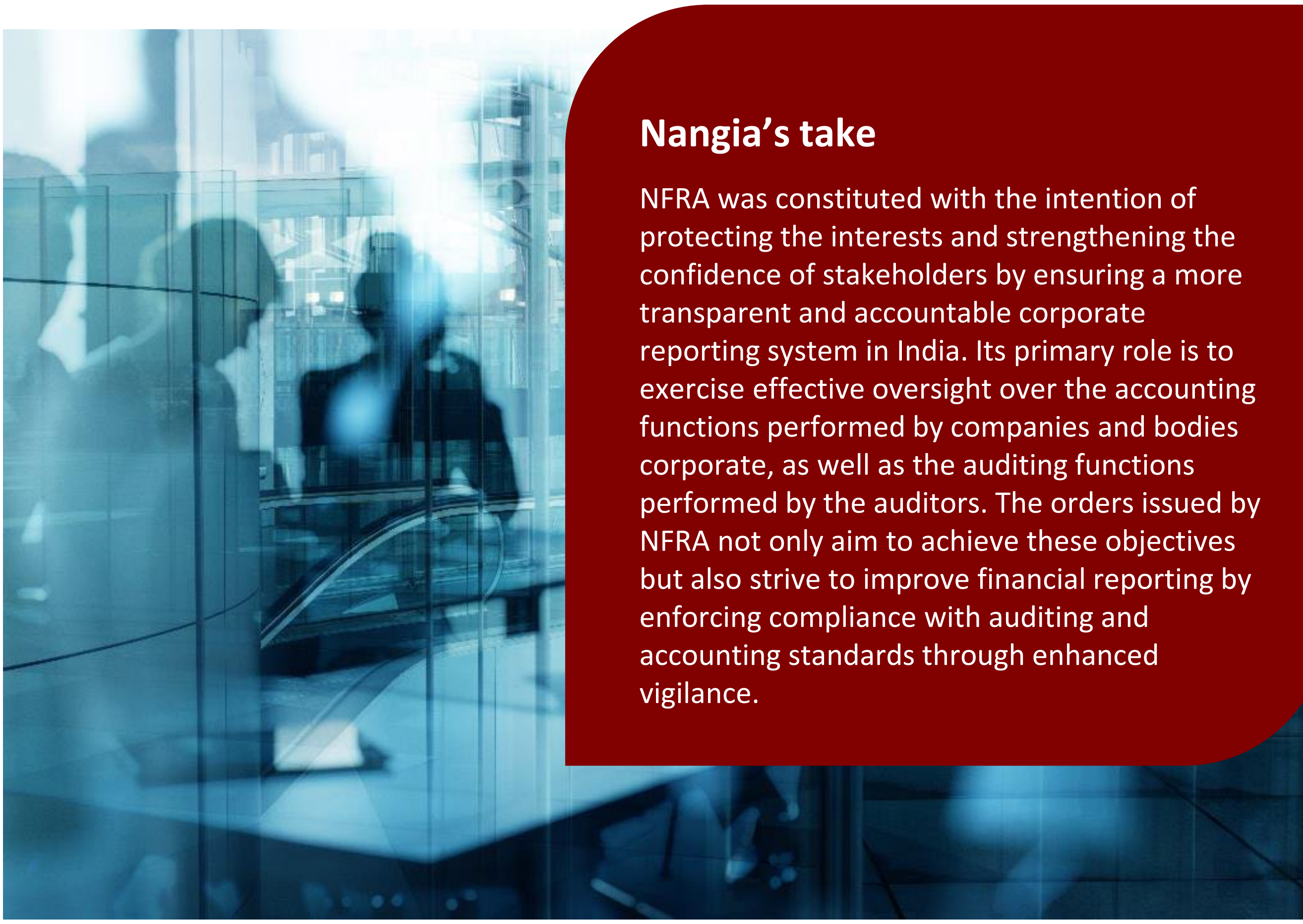
The National Financial Reporting Authority (NFRA) is a statutory authority established on October 1, 2013, by the Government of India under sub-section 1 of section 132 of the Companies Act 2013 (referred to as 'the Act'). Its mandate is to monitor the implementation and enforce compliance with auditing and accounting standards, as well as oversee the quality of services provided by the professions associated with it.

NFRA exercises powers similar to that of a civil court, as empowered to it under sub-section 4 of section 132 of the Act, to investigate the prescribed classes of companies and professionals. It has issued orders highlighting the non-compliance of audit procedures performed by the auditors.

We have encapsulated the orders issued by NFRA from the year 2020 to May 2022 as given below:

- Planning and understanding the audit - Failure to plan the audit and to understand the entity and its environment.
- Materiality- Failure to determine the materiality and performance materiality.
- Sampling strategy- Failure to document the sampling methodology adopted for substantive testing.
- Appointment of Engagement Quality Control Reviewer (EQCR)- Failure to appoint the EQCR
- Planning & Independence- Acceptance of audit engagement disregarding independence requirements.
- Communication with Those Charged with Governance (TCWG)- Non-compliance with Standards on Auditing (SA) 260, Communication with TCWG & SA 265, Communicating deficiencies in Internal Control to TCWG and Management.
- Going concern- Lapses relating to going concern basis of accounting.
- Auditor's Responsibilities- Lapses in fulfilling auditor's responsibilities.
- Joint Audit- Failure to comply with the requirements of joint audit.
- Audit Planning- Failure to comply with the requirements of SA 300 and SA 320
- Non-compliance with laws and regulations- Failure to comply with SA 250, Consideration of Laws and Regulations in an Audit of Financial Statements & Non-Compliance with AS and provisions of the Companies Act 2013.

- Inventory- Failure to obtain audit evidence regarding the existence and condition of inventory.
- Related party transactions- Failure to identify the related party and related party transactions including Non-compliance with SA 550, Related Parties.
- Balance Confirmation- Non-compliance with SA 500, Audit Evidence & SA 505, External Confirmations. Further, Failure to obtain external confirmation for the Trade Receivable & Trade Payables.
- Audit documentation- Lapses in audit documentation: Failure to comply with the requirements of SA 230 and SQC 1 including Tampering of audit file and related lapses.
- Impairment of Assets- Failure to report non-compliance with Ind AS 36- Impairment of Assets.
- Property, Plant & Equipment (PPE) - Failure in evaluation of PPE.
- Non -current asset held for sale and discontinued operations- Failure to report non-compliance with Ind AS 105.
- Finance cost - Lapses in audit of inappropriate recognition of finance cost.
- Corporate guarantee & charge- Lapses in evaluation of corporate guarantee and creation of charge on the assets of the company.
- Internal Financial Control- Lapses in audit of Internal Financial Control over Financial Reporting (IFC) resulting in violation of section 143(1)(i) of the Act.
- CARO Reporting- Inadequate disclosure under CARO 2016.
- Audit opinion - Lapses in making audit conclusions and forming Audit Opinion.



Nangia’s take

NFRA was constituted with the intention of protecting the interests and strengthening the confidence of stakeholders by ensuring a more transparent and accountable corporate reporting system in India. Its primary role is to exercise effective oversight over the accounting functions performed by companies and bodies corporate, as well as the auditing functions performed by the auditors. The orders issued by NFRA not only aim to achieve these objectives but also strive to improve financial reporting by enforcing compliance with auditing and accounting standards through enhanced vigilance.

Changes to Ind-AS

G.S.R. 242(E). — In exercise of the powers conferred by section 133 read with section 469 of the Companies Act, 2013 (18 of 2013), the Central Government, in consultation with the National Financial Reporting Authority, notified Companies (Indian Accounting Standards) Amendment Rules, 2023 to amend the Companies (Indian Accounting Standards) Rules, 2015.

This amendment made numerous changes in many standards including IND AS 1- Presentation of financial statements. While there are a few smaller changes, the following are significant change made in Ind AS:

In paragraph 10, in item (e), for the words **"significant accounting policies"**, the words **"material accounting policy information"**, shall be substituted.;

Similar reference changes have been made in para 114 and 117. Further after paragraph 117 paragraph 117A to 117E are added.

As per the guidance given under paragraph 117A of Ind AS 1, materiality depends on the nature or magnitude of information, or both. An entity is required to assess whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

The amendment also provides that "accounting policy information is expected to be material if users of an entity's financial statements would need it to understand other material information in the financial statements". The standard now provides below illustrative scenarios in para 117B under which accounting policy information will be considered material:

- The entity changed its accounting policy during the reporting period and this change resulted in a material change to the information in the financial statements
- The entity chose the accounting policy from one or more options permitted by Ind ASs
- The accounting policy was developed in accordance with Ind AS 8 in the absence of an Ind AS that specifically applies
- The accounting policy relates to an area for which an entity is required to make significant judgments or assumptions in applying an accounting policy, and the entity discloses those judgments or assumptions in accordance with paragraphs 122 and 125; or
- The accounting required for them is complex and users of the entity's financial statements would otherwise not understand those material transactions, other events or conditions - such a situation could arise if an entity applies more than one Ind AS to a class of material transactions.

Analysis of the amendment

As per the provisions of para 117C, the Company shall disclose, accounting policy information that focuses on how an entity has applied the requirements of the Ind ASs to its own circumstances, provides entity-specific information that is more useful to users of financial statements than standardized information, or information that only duplicates or summarizes the requirements of the Ind Ass.

Further as per para 117D, if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

However, an entity’s conclusion that accounting policy information is immaterial does not affect the related disclosure requirements set out in other Ind Ass. (Para 117E)

Rationale of the amendment

The amendments to Ind AS 1, seek to address the practice of disclosing significant accounting policies by giving the requirements of the standard in brief. Such disclosure did not provide any information on how the company applies the requirements of the standard. As per the existing practice, entities were disclosing uniform accounting policies that were replicating the requirement of Ind AS. It was felt that such disclosures made the accounting policies less pertinent to users.

The entities now need to balance between disclosure of accounting policy that are too expressive or uniform with the disclosure of the accounting standards that describe the way, the accounting standards are applied for the transactions entered in by a Company.

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