

Depreciation & Audit of Financial Statements for FY 2014-15



LUNAWAT & CO.

Chartered Accountants

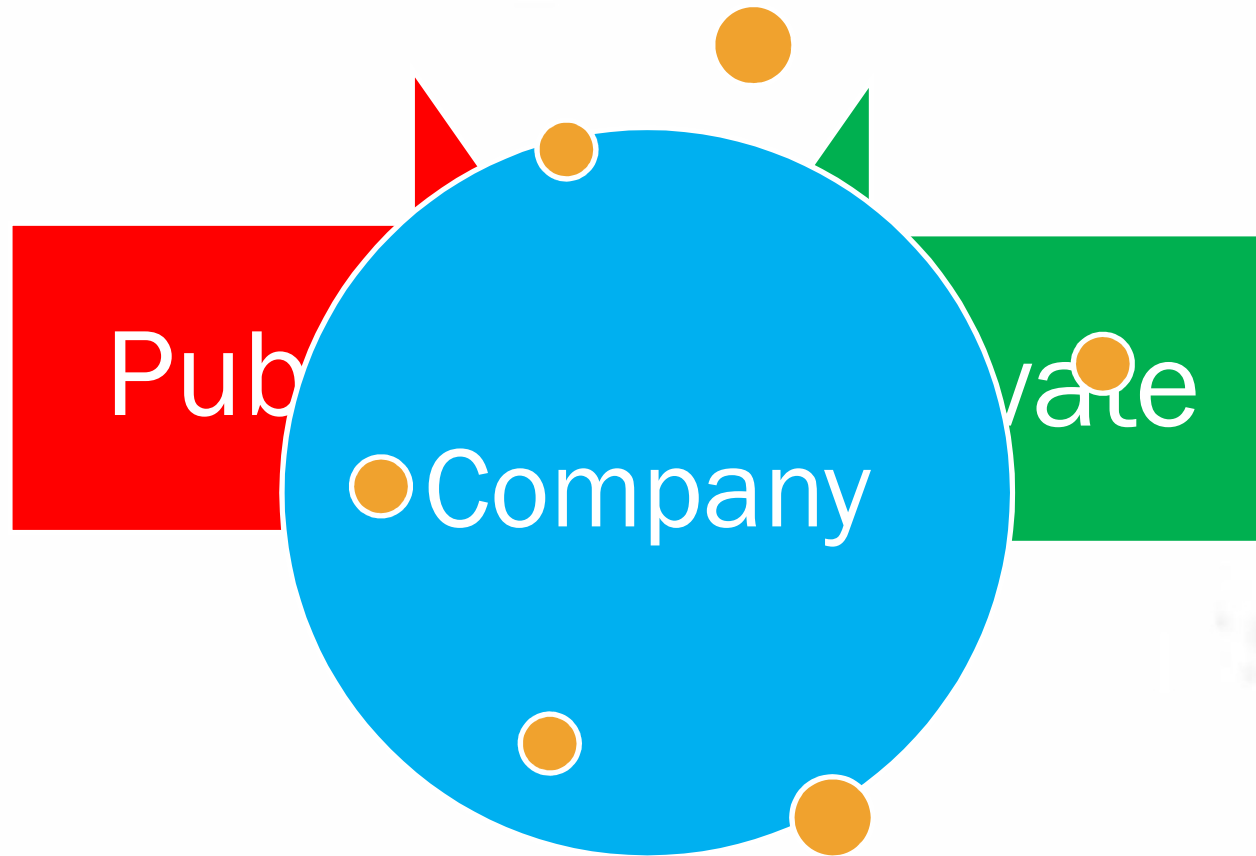
9th May 2015

CA. PRAMOD JAIN

FCA, FCS, FCMA, LL.B, MIMA, DISA



- × **Why so many Seminars on Companies Act 2013?**
- × **What has changed so drastically?**
- × **Why is management not worried but Professionals are a feared lot?**
- × **How to overcome the fear?**
- × **What should Auditors take care of while finalising Audits of Companies for FY 2014-15**





AUDITOR'S ROLE

- 1. In order to certify that Financial Statements are true and fair and in compliance with AS**
- 2. Provisions, auditor need to take care of in case of depreciation:**
 - + Section 123 - Declaration of dividend.**
 - + Section 198 - Computation of net profit for purpose of calculation of overall maximum managerial remuneration u/s 197.**
 - + AS 6 - Depreciation Accounting.**
 - + AS-26 - Intangible Assets.**

CLASSIFICATION OF ASSETS

- 1. Buildings**
- 2. Bridges, Culverts, bunders, etc.**
- 3. Roads**
- 4. Plant & Machinery**
- 5. Furniture & Fixture**
- 6. Motor Vehicles**
- 7. Ships**
- 8. Aircrafts & Helicopters**
- 9. Railway sidings, Locomotives, Rolling Stocks, Tramways...**

CLASSIFICATION OF ASSETS

10. Ropeway Structures

11. Office Equipment

12. Computers and Data Processing Units

13. Laboratory Equipment

14. Electrical Installations and Equipment

15. Hydraulic Works, Pipelines & Sluices

× 12 Industry Specific Rates

× Double shift – increase by 50%, triple shift – 100% - reduction in useful life

× 100% on assets below 5K – ??? – Co Policy

USEFUL LIVES

- ✘ **The useful live of asset is period over which an asset is expected to be available for use or the no of production unit expected to be obtained**
- ✘ **No rate for Intangible assets (except toll) – AS**
- ✘ **Useful lives changed Eg:–**
 - + **Factory Building from 58 Yrs to 30 Yrs:**
 - + **General FF– 15 to 10; Motor Car - 10 to 8**
 - + **Plant & Mach. General – 20 to 15;**
 - + **Laptop, computer - 6 app to 3**
- ✘ **On commencement – would be depreciated over remaining useful life; Where - Nil –trf to Surplus**

SCHEDULE II – [29.8.2014]

- ✘ **A Company can adopt different useful life; or**
- ✘ **Different Residual Value**
- ✘ **In such case**
 - + **Disclose difference in FS and**
 - + **Provide justification duly supported by technical advice.**
- ✘ **If asset's useful life as on 31.3.2015 is Nil, Co. has an option to transfer the balance to Surplus. Earlier it was mandatory.**
- ✘ **In case of transfer to surplus give effect to Tax effect of expenses/income adjusted directly against the reserves**

RATES OF DEPRECIATION

× **SLM**

× **WDV**

× **$R = \{1 - (s/c)^{1/n}\} \times 100$**

+ **Where R = Rate of Depreciation (in %)**

+ **n = Remaining useful life of asset (in years)**

+ **s = Scrap value at the end of useful life of the asset**

+ **c = Cost of the asset/Written down value of the asset**

COMPONENT ACCOUNTING

- ✘ **Component accounting voluntary w.e.f. 1.4.14 & mandatory w.e.f. 1.4.15. When to account?**
 - + **Significant cost; and**
 - + **Different useful lives from remaining parts of asset.**
- ✘ **Materiality is important. Say - 10% of original cost of the asset as a threshold.**
- ✘ **Also to consider impact on retained earnings, current yr PL & future PL (when part replaced)**
- ✘ **If a component may have material impact from either perspective, said component will be material and require separate identification**

COMPONENT ACCOUNTING

✘ How to determine??

- + Break up cost provided by the vendor**
- + Cost break up given by technical expert**
- + Current replacement cost of component of related asset & applying same basis on historical cost**

✘ Example - A Building may be split up into -

- + Structural design**
- + Elevators**
- + Heating system**
- + Water system**
- + Electrical system**

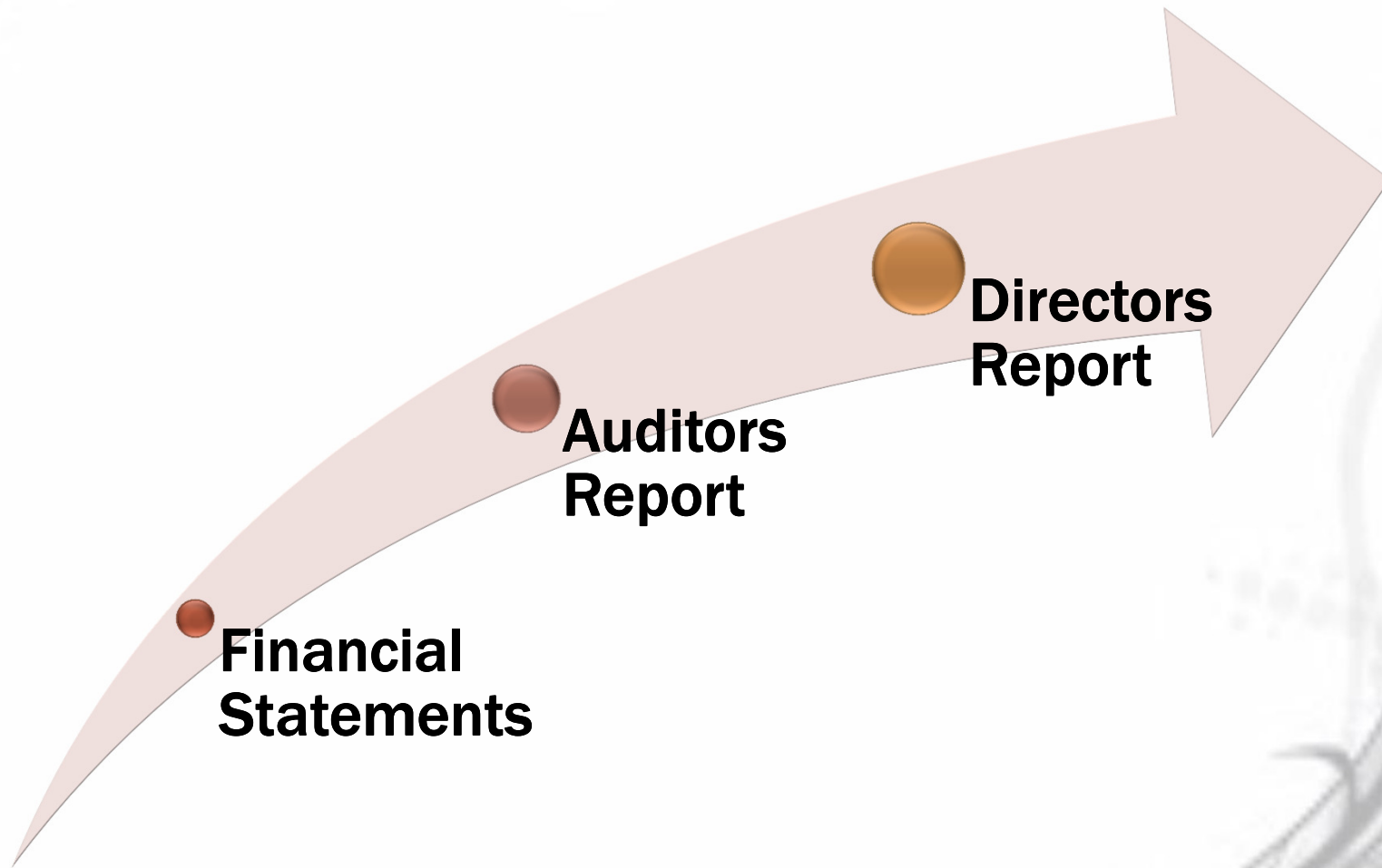
CHANGE IN METHOD

- ✘ **If required by statute; or**
- ✘ **For compliance of AS; or**
- ✘ **If change would result in a more appropriate presentation of FS**
- ✘ **If change is made – recalculate it from date of asset put to use.**
- ✘ **It is a change in Accounting Policy.**
- ✘ **As per AS-6, if change in method results in surplus / deficit to be transferred to PL– effect to be quantified and disclosed.**

REVALUED ASSET

- × **1956 - on historical cost only.**
- × **ICAI guidance note - Treatment of Reserve Created on Revaluation of Fixed Assets**
- × **2013 - on historical cost or the amount substituted for the historical cost**
- × **ICAI guidance note not applicable now.**
- × **AS 10 allows amount standing to the credit of revaluation reserve to be transferred directly to the general reserve on retirement or disposal of revalued asset**

AUDIT





FINANCIAL STATEMENTS

- **Financial Year – 31/3**
- **Financial Statement includes -notes on B/s, Profit & Loss statement, Cash Flow**
- **Cash Flow for all except OPC, SC, DC.**
- **Small Company Definition - Clarified**
- **Shall give true and fair view.**
- **Shall be in form of Schedule III.**
- **To disclose impact of pending litigation on its financial position**

FINANCIAL STATEMENTS

- × **Has to be AS compliant:**

- + **FS to disclose deviation from AS**
- + **Reason for deviation**
- + **Financial effect arising of deviation**

- × **Non- compliance**

- + **MD,**
- + **WTD incharge of finance**
- + **CFO**
- + **Any other person charged by Board**
- + **If no one – all directors**
- + **Imprisonment upto 1 yr or F – 50 k to 500 k or both**

FINANCIAL STATEMENTS

- ✘ **To disclose in FS full particulars of:**
 - + **Loan given;**
 - + **Investment made;**
 - + **Guarantee given; or**
 - + **Security Provided.**
 - + **Purpose for which loan or guarantee or security is proposed to be utilised by recipient of loan or guarantee or security [186(4)]**

- ✘ **Non- Compliance – Fine on company**
 - + **Min Rs.25 K; Max. Rs.500K**
 - + **On OI D - Imp up to 2 yrs; or Fine -Min. Rs.25 K; Max. Rs.1 L; or both**

APPLICABILITY OF ACCOUNTING STANDARDS

- ✘ **Companies (Indian Accounting Standards) Rules 2015**
- ✘ **Two Standards:**
 - + **Indian Accounting Standards (Ind As)**
 - + **Companies (Accounting Standards) Rules 2006**
- ✘ **Ind AS Optional for all w.e.f. 1st April 2015**
- ✘ **If prepare then for comparison for 31st March 2015 too.**
- ✘ **If prepared voluntary, then mandatory thereafter**
- ✘ **Not mandatory for insurance, banking & NBFC**

FILING OF FS

- ✘ **To be filed with ROC in Form AOC -4 within 30 days of AGM – To be certified by CA only**
- ✘ **Notified Companies in XBRL**
- ✘ **After 300 days –**
- ✘ **Fine on**
 - + **Company – 1k p. d > 10 L;**
 - + **MD, etc in charge by Board- if no one – all directors**
 - ✘ **Imp. upto 6mnths or**
 - ✘ **Fine – 1L k to 5L or Both**



OTHER SERVICES BY AUDITOR

✘ Auditor not to provide other services directly or indirectly to the company or its holding company or subsidiary company:

- + Accounting and book keeping services;
- + Internal audit;
- + Design and implementation of any financial IS;

OTHER SERVICES BY AUDITOR

- + **Actuarial services;**
- + **Investment advisory services;**
- + **Investment banking services;**
- + **Rendering of outsourced financial services;**
- + **Management services;**
- + **Others Prescribed**

OTHER SERVICES BY AUDITOR

- ✘ **Other services restriction in case of firm applies to:**
 - + **Audit firm itself**
 - + **Any of its partners**
 - + **Its parent, subsidiary or associate entity**
 - + **Any other entity in which the firm or any of its partners has significant influence / control , or whose name / trade mark / brand, is used by firm or any of its partners**
- ✘ **Compliance to be made by 31.03.2015**

OTHER SERVICES BY AUDITOR

- ✘ **Other services restriction in case of individual applies to:**
 - + himself or
 - + through his relatives or
 - + any other person connected or associated with such individual or
 - + through any other entity whosoever, in which such individual has significant influence or control or whose name, trade mark, or brand is used by such individual.

APPOINTMENT

- ✘ **1st appointment to be within 30 days by Board, if not then members in 90 days in EGM**
- ✘ **Appointment of auditor at 1st AGM. To hold office till conclusion of its 6th AGM. To appoint:**
 - + **An individual, or**
 - + **A firm including LLP**
- ✘ **Co to inform auditor & ROC in 15 days - ADT-1**
- ✘ **Appointment for 5 Years - to be ratified annually at AGM – Non Ratification – Board to appoint**

ROTATION OF AUDITORS

- ✘ **Rotation mandatory if auditor is an individual after 1 term of 5 consecutive yrs; and**
- ✘ **If auditor is firm – 2 terms of 5 consecutive yrs.**
- ✘ **Mandatory for**
 - + **All listed companies**
 - + **Unlisted Public Cos. having capital \geq Rs.10 Crs.**
 - + **Pvt. Ltd. Cos. having capital \geq Rs. 20 Crs.**
 - + **All companies having public borrowings from financial institutions, banks or public deposits of Rs. 50 Crs. or more**
- ✘ **Compliance to be made by 31.03.2017**

AUDITOR TO INQUIRE – 143(1)

- ✘ **Only to be reported when any comments required**
- ✘ **Whether loans and advances made by co. on basis of security have been properly secured and whether terms on which they have been made are prejudicial to the interests of the company or its members;**
- ✘ **Whether transactions of co. which are represented merely by book entries are prejudicial to interests of co.;**
- ✘ **Where Co. not being an investment company or a banking company, whether so much of the assets of Co. as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;**

AUDITOR TO INQUIRE – 143(1)

- ✘ **Whether loans and advances made by the company have been shown as deposits;**
- ✘ **Whether personal expenses have been charged to revenue account;**
- ✘ **Where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading:**

AUDIT REPORT

- ✘ **Report to state that to the best of auditor's information and knowledge, the said accounts, financial statements give a true and fair view of the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year**
- ✘ **Report to include:**
 - + **Matters specified u/s 143(3)**
 - + **Matters specified in Rules**
 - + **Any order made u/s 143(3) for specified Companies in consultation with NFRA – CARO 2015**

AUDIT REPORT – 143(3)

- ✘ Whether he has **sought and obtained** all the information.....
- ✘ Whether, proper books of a/c as required by law have been kept ...& proper returns adequate for purposes of his audit have been received from branches not visited by him
- ✘ Whether the report on a/cs of any branch office audited by a person other than the company's auditor has been sent to him and the manner in which he has dealt with it in preparing his report

AUDIT REPORT – 143(3)

- ✘ **Whether B/S & PL are in agreement with books of accounts and returns**
- ✘ **Whether FS comply with Ass**
- ✘ **Observation or comments on financial transactions or matters which may have adverse effect on functioning of the company**
- ✘ **Whether any director is disqualified u/s 164(2)**
- ✘ **Any qualification, reservation or adverse remark relating to maintenance of accounts and other matters connected therewith.**
- ✘ **Reasons for negative or qualified report**

INTERNAL FINANCIAL CONTROL- IFC

- × Voluntary for Auditor to report on adequacy of **IFC** & operating effectiveness of such controls – for 2014-15 but **mandatory for Director Report**
- × IFC means policies & procedures adopted by co. for ensuring orderly & efficient conduct of its business, including:
 - × Adherence to company's policies,
 - × Safeguarding of its assets,
 - × Prevention and detection of frauds and errors,
 - × Accuracy and completeness of the accounting records,
 - × Timely preparation of reliable financial information

AUDIT REPORT – RULE 11

- ✘ **Whether Company has disclosed effect, if any, of pending litigations on its financial position in its FS**
- ✘ **Whether Provision has been made for foreseeable losses, if any, on long term contracts including derivative contracts**
- ✘ **Is there any delay in transferring amounts, required to be transferred, to IEPF by company**

CARO 2015

× Applicable to all companies including Foreign Companies. Exception:

+ Banking Co.

+ Insurance Co.

+ Section 8 Co.

+ OPC

+ Small Co.

+ Pvt. Co whose:

× Paid up capital & reserves < 50 L; and

× Outstanding Loans from bank or Fis < 25 L; and

× Turnover < 5 crores

× At any point of time during FY

AMENDMENT IN AUDIT REPORT

Report on other Legal and Regulatory requirements

- ✘ 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 Companies Act, 2015, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.**
- ✘ As required by Section 143 (3) of the Act, we report that:**
 - +**

CARO 2015 VS. CARO 2003

- × **12 clauses as compared to 21.**
- × **Major clauses not to be reported includes:**
 - + **Going concern reporting in case of disposal of substantial part of asset.**
 - + **Reporting on taking of Loans.**
 - + **Reporting of transactions with parties under 301 (old Act) at market price**
 - + **Reporting on use of short term funds for long term**

CARO 2015 VS. CARO 2003

✘ Major clauses not to be reported

includes:

- + Preferential allotment to parties u/s 301.**
- + Securities in respect to debentures issued**
- + End use of public issue**

✘ Other changes

- + On giving loan - prejudicial to interest & no. of parties etc. not to be reported**
- + In deposit of taxes – service tax & IEPF included**

ICAI CLARIFICATIONS

- ✘ **Auditor's Report on Financial Statements of Co. for accounting year beginning before 1st April 2014**
- ✘ **Guidance Note on reporting u/s 143(3)(f)& (h):**
 - + **Financial transactions or matters having adverse effect on functioning of Company**
 - + **Maintenance of accounts by Co. in Auditor's Report**
 - ✘ **Reporting u/s 143(3) (h) will be required if auditor makes any observation u/s 143(3)(b) relating to whether proper books of account as required by law have been kept by company**

ICAI GUIDANCE NOTE – 143(3)(F)

- ✘ Financial transactions or matters having adverse effect on functioning of Company**
 - + To evaluate subject matters leading to modification of audit report or emphasis of matter in auditor's report to make judgement as to which of them has an adverse effect on functioning of company.**
 - + Only such matters which, in opinion of the auditor, have an adverse effect on functioning of company should be reported under this clause.**
 - + Conversely such qualifications / adverse opinions or disclaimer ..etc , which do not deal with matters that have adverse effect on the functioning of company, need not be reported under this clause**

ICAI GUIDANCE NOTE – 143(3)(F)

- ✘ **Examples of adverse effect on functioning**
 - + **Going concern assumption is appropriate but there are several factors leading to a material uncertainty that may cast a significant doubt about Co.'s ability to continue as a going concern;**
 - + **Material uncertainty regarding outcome of a litigation wherein an unfavourable decision could result in a significant outflow of resources.**

ICAI GUIDANCE NOTE – 143(3)(F)

- × **Examples of not having adverse effect**
 - + **Managerial remuneration which is subject to CG approval ;**
 - + **Accrual of contractual receivable claim based on management estimate where ultimate realisation could be different;**
 - + **Frauds that have been dealt with in FS of the company and would not have any continuing effect on FS**
- × **If any observations or comments in any other clause .. say reporting on IFC contain such matters, which, may have any adverse effect on the functioning of company, should also be reported in this clause. For example in report:**
 - + **Company did not have an appropriate internal control system for inventory with regard to receipts, issue for production and physical verification**

AUDITING STANDARDS

- ✘ Auditor to comply with auditing standards
- ✘ NFRA to notify auditing standards. Till NFRA does – as by ICAI
- ✘ Total 37 SAs

SA. No.	Sub-division	No.
100-199	Introductory Matters	0
200-299	General Principles & Responsibilities	9
300-499	Risk Assessment and Response to Assessed Risks	6
500-599	Audit Evidence	11
600-699	Using Work of Others	3
700-799	Audit Conclusions and Reporting	5
800-899	Specialized Areas	3

DOCUMENTATION

- ✘ **Have checklists, tell articles to cross verify**
- ✘ **Seniors to cross verify**
- ✘ **Take necessary certificates / representation from management**
- ✘ **External Confirmations**
- ✘ **Ensure Compliance of ASs**
- ✘ **Ensure all applicable regulatory compliances including Companies Act, 2013**
- ✘ **Comply with SAs**
- ✘ **Work not documented is work not done.**



RESIGNATION

- ✘ Auditor may resign before his term.
- ✘ To file a statement with ROC in ADT-3 as well as the Co. within 30 days, indicating reasons
- ✘ In case of Government companies to be filed with CAG too.
- ✘ Non compliance – fine on auditor:
 - + Minimum – 50K
 - + Maximum - 500K

REMOVAL BEFORE TERM

- ✘ **Removal before term**
 - + **Special Resolution; and**
 - + **Prior CG approval – application in ADT-2 within 30 days of Board resolution & filing fee to be paid:**
 - ✘ **OPC & small - < 25 L – 1000; 25 – 50 L – 2500**
 - ✘ **Others - < 25 – 2000; 25 to 50 L – 5000; 50L to 5 Cr – 10000; 5 Cr to 10 Cr – 15000; above 10 Cr - 20000**
 - + **Reasonable opportunity of hearing to be given**
 - + **Co. to hold GM within 60 days of CG approval for SR**
- ✘ **Special notice required at AGM to appoint other auditor than the retiring auditor except in case of rotation**

REMOVAL BY TRIBUNAL

- ✘ **Tribunal suo moto or on application of CG or any person concerned may change auditor if it is satisfied, that auditor has directly or indirectly:
 - + **Acted in fraudulent manner, or**
 - + **Abetted, or**
 - + **Colluded in any fraud by or in relation to, Co. or its directors or officers****
- ✘ **If on CG application – Tribunal on satisfaction change in 15 days. CG to appoint another auditor**
- ✘ **On final order - shall not be appointed for 5 yrs in any other Co. and shall be liable u/s 447**

RIGHTS, POWER & DUTIES

- ✘ **To have access to books of accounts & vouchers**
- ✘ **Sign Audit report**
- ✘ **Has to attend AGM unless otherwise exempted**
- ✘ **Has to attend EGM unless otherwise exempted**
- ✘ **To report fraud (in course of audit) being or has been committed against co. by officers or employees – to CG in ADT-4 (on his letter head with address, e-mail, Phn) within 60 days after following procedure.**
- ✘ **Non- compliance fine - Rs. 1 Lac to Rs. 25 Lacs**

FRAUD REPORTING PROCEDURE

Send Report to Board / AC immediately on knowledge give 45 days time

On receipt of reply send report to CG in 15 days – ADT 4

If no receipt – send the report within 15 days

Send by Regd. Post AD or Speed post followed by e-mail



PENALTIES (147)

- ✘ **General – Co - Fine 25 K to Rs. 500K;
OID – imp upto 1 yr or fine 10k to 100k
or both**
- ✘ **Auditor – Fine - 25k to 500 k if**
 - + **Wrong appointment (139);**
 - + **Incorrect contents of audit report & non-compliance of auditing standards (143);**
 - + **Rendering prohibited services (144); or**
 - + **Fail to sign audit report (145)**

PENALTIES (147)

- ✘ **Imprisonment up to 1 yr and fine from 1 L to 25 L in case there is intention to deceive:**
 - + **Company; or**
 - + **Shareholders; or**
 - + **Creditors; or**
 - + **Tax authorities.**

- ✘ **Where he is convicted for above, then liable to:**
 - + **Refund the remuneration received to the company;**
 - + **Pay damages to co, statutory bodies or authorities or to any other persons for loss arising out of incorrect or misleading statements of particulars made in his report.**

PENALTIES (147)

- ✘ **When it is proved that partner or partners of the audit firm has or have acted in fraudulent manner or abetted or colluded in any fraud by, or in relation to or by, the co. or its directors or officers, then liability of the firm jointly and severally for civil as well as criminal liability**
- ✘ **Penalties by NFRA**
- ✘ **Can ABC & Co. being statutory auditors issue Form 15CB certificate related to co?**
- ✘ **If yes, what is to be done?**

PENALTIES (147) – THE SAVING GRACE

- ✘ **In case of criminal liability of any audit firm, the liability other than fine, shall devolve only on the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud (Rule 9)**

FRAUD



DEFINED (447)

- ✘ Any act or omission,
- ✘ Concealment of fact or
- ✘ Abuse of position of any person (by him or herself or by any other person in connivance in any manner).
- ✘ With the intent to deceive or to gain undue advantage to injure the interest of
 - + Company, or
 - + Shareholders, or
 - + Creditors, or
 - + Any other person (whether or not there is any wrongful gain or loss).

PUNISHMENT

- ✘ Imprisonment not less than 6 months to 10 years**
- ✘ + Fine not be less than amount involved in the fraud which may extend to 3 times.**
- ✘ If fraud in question involves public interest then the imprisonment shall not be less than 3 years.**

FALSE STATEMENT (448)

✘ **If any person makes a false statement in any:**

+ **Return**

+ **Report**

+ **Certificate**

+ **FS**

+ **Prospectus**

+ **Other document under this Act**

✘ **Is false in any material particulars, knowing it to be false**

✘ **Omits any material fact knowing it to be material**

✘ **Action u/s 447**

FRAUDULENTLY INDUCING PERSON TO INVEST MONEY

- ✘ Any person who, either knowingly or recklessly makes any **statement, promise or forecast** which is false, deceptive or misleading, or deliberately conceals any material facts, to induce another person to enter into:
 - + any agreement for, or with a view to, acquiring, disposing of, subscribing for, or underwriting securities;
 - + any agreement, purpose / pretended purpose of which is to secure a profit to any of parties from yield of securities or by reference to fluctuations in value of securities; or
 - + any agreement for, or with a view to **obtaining credit facilities** from any bank or financial institution,
- ✘ shall be liable for action u/s 447. (36)

SUMMARIZE..

- ✘ **Resolutions**
- ✘ **Share Capital, Deposits, Loans**
- ✘ **Committees including CSR**
- ✘ **Financial Statements**
- ✘ **Schedule II**
- ✘ **Internal Auditor**
- ✘ **AS and SA Compliances**
- ✘ **New Engagement Letter**
- ✘ **New Audit Report**
- ✘ **Documentation**





**INCREASE YOUR
VALUE**

THANK YOU!

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