

## Important Note

Hello Everyone, we have compiled amendments notes and also recorded videos for Nov 18. These are applicable for new as well as old course. These amendments are issued early so that students can start preparations well in advance. We will make additional video after ICAI announces applicable syllabus and guiding students if there are further changes.

Below is link of YouTube playlist for corresponding videos.

<http://bit.ly/2KiG9rU>

Words in bold with underline & different font is amended portion of that sections or definition.

CA Ravi Taori

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**COMPANY AUDIT AMENDMENT NOV 18 EXAM****SEC 2 CLAUSE (6) – ASSOCIATE COMPANY****BARE ACT**

"associate company", in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

Explanation. —For the purpose of this clause, —

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

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

**In Short & Simplified**

*Sec 2 Clause (6) – Associate Company (In Short)*

- *Not a Subsidiary*
- *Under Significant Influence from another company*
- *Significant Influence: - At least 20% of Voting Power or Participation in business decisions under an agreement*
- *Includes Joint Venture Company*
- *JV: - Arrangement where there is Joint Control & Right to Net Assets by Parties*

**SEC 2 CLAUSE (28) – COST ACCOUNTANT****BARE ACT**

"Cost Accountant" means a cost accountant as defined in clause (b) of sub-section (1) of section 264 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under sub-section (1) of section 6 of that Act;

**In Short & Simplified**

Cost Accountant + Having COP as per CWA Act 1959.

**SEC 2 CLAUSE (41) – FINANCIAL YEAR****BARE ACT**

"financial year", in relation to any company or body corporate, means the period ending on the 31st day of March every year, and where it has been incorporated on or after the 1st day of January of a year, the

period ending on the 31st day of March of the following year, in respect whereof financial statement of the company or body corporate is made up:

Provided that on an application made by a company or body corporate, which is a holding company, or a subsidiary or associate company of a company incorporated outside India and is required to follow a different financial year for consolidation of its accounts outside India, the Tribunal may, if it is satisfied, allow any period as its financial year, whether or not that period is a year:

Provided further that a company or body corporate, existing on the commencement of this Act, shall, within a period of two years from such commencement, align its financial year as per the provisions of this clause;

### **In Short & Simplified**

#### **Sec 2 Clause (41) – Financial Year**

1. *FY = 1<sup>st</sup> Apr to 31<sup>st</sup> Mar*
2. *DOI from 1<sup>st</sup> Jan to 31<sup>st</sup> March then FY = DOI to next 31<sup>st</sup> Mar*
3. *2 Years as transition period, that means FY 14-15 & FY 15-16 which have already passed.*
4. *Companies / Body Corporates can apply for different FY year to Tribunal, if holding / subsidiary / associate / JV of company is incorporated outside India with different FY and there is problem in consolidation. If tribunal is satisfied it was grant different FY*

### **SEC 2 CLAUSE (46) – HOLDING COMPANY**

#### **BARE ACT**

"holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies.

**Explanation.** –*For the purposes of this clause, the expression "company" includes any body corporate;*

#### **In Short & Simplified**

1. *Holding Co = Co which has subsidiaries*
2. *Co includes body corporate i.e foreign companies which are body corporates will be considered as holding also LLP can become holding.*

### **SEC 2 CLAUSE (51) – KEY MANAGEMENT PERSON**

#### **BARE ACT**

"key managerial personnel", in relation to a company, means—

- (i) the Chief Executive Officer or the managing director or the manager;
- (ii) the company secretary;
- (iii) the whole-time director;
- (iv) the Chief Financial Officer;

(v) *such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and*

(vi) such other officer as may be prescribed;

### **Sec 2 Clause (51) – Key Management Person**

#### **In Short & Simplified**

*KMP = (In sequence of power)*

- *Managing Director / Whole Time Director / Manager*
- *CEO*
- *CFO*
- *CS*
- *One level below Director + Full Time Employee + Designated KMP by Board*

## **SEC 2 CLAUSE (57) – NET WORTH**

#### **BARE ACT**

"net worth" means the aggregate value of the paid-up share capital and all reserves created out of the profits [*securities premium account and debit or credit balance of profit and loss account*], after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;

#### **In Short & Simplified**

### **Sec 2 Clause (57) – Net worth (In Short)**

*Net worth = Paid up Share Capital + All Reserves + Securities Premium + P&L (Debit / Credit) – Accumulated Losses – Deferred Expenditure not w/off – Revaluation Reserves – Capital Reserve (Amalgamation) – Reserves on Write back of Depreciation*

## **SEC 2 CLAUSE (76) –RELATED PARTY**

#### **BARE ACT**

"related party", with reference to a company, means—

- (i) a director or his relative;
- (ii) key managerial personnel or his relative;
- (iii) a firm, in which a director, manager or his relative is a partner;
- (iv) a private company in which a director or manager [or his relative] is a member or director;
- (v) a public company in which a director or manager is a director [and] holds along with his relatives, more than two per cent of its paid-up share capital;

(vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;

(vii) any person on whose advice, directions or instructions a director or manager is accustomed to act:

Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

(viii) any body corporate which is—

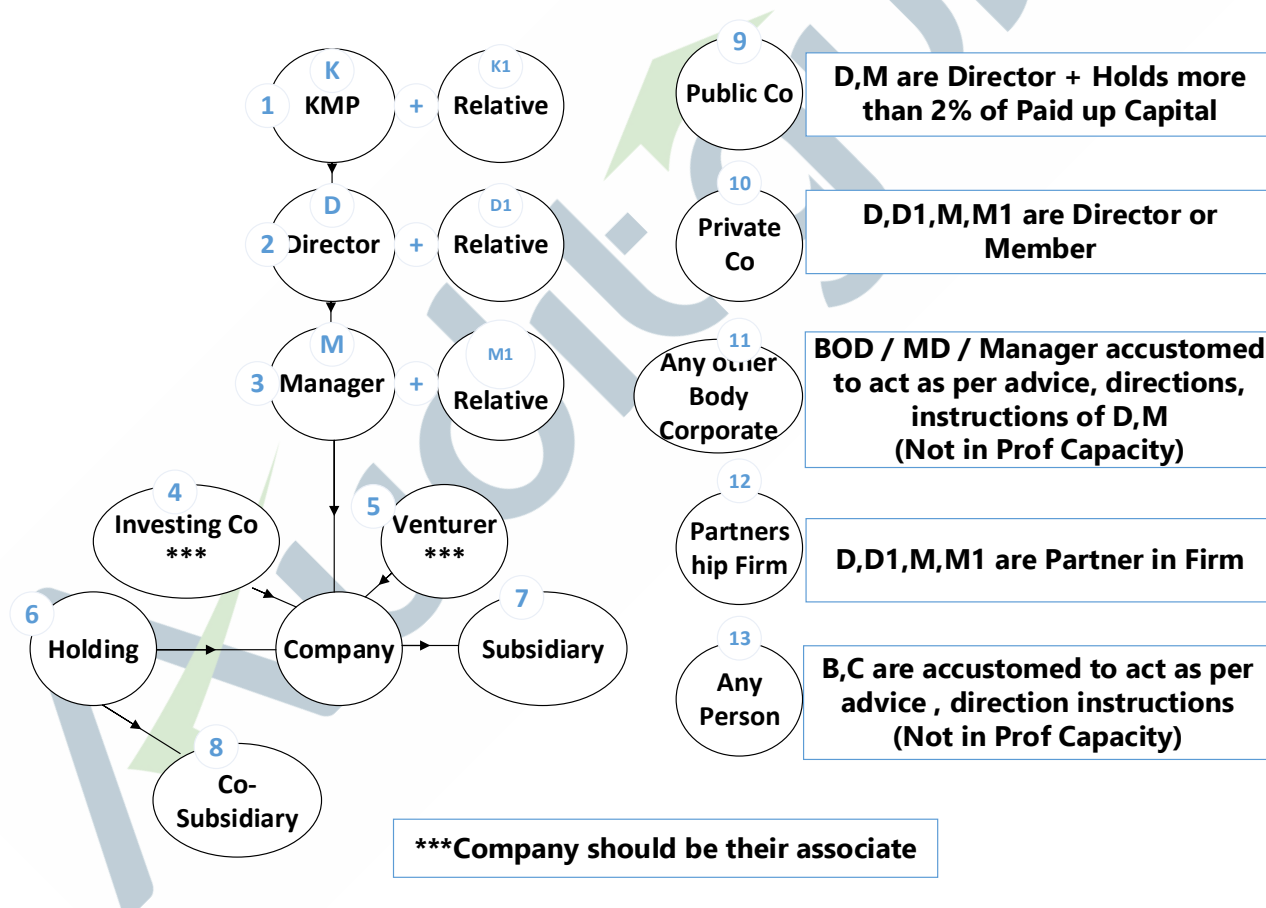
(A) a holding, subsidiary or an associate company of such company;

(B) a subsidiary of a holding company to which it is also a subsidiary; or

(C) an investing company or the venturer of the company.

Explanation. —For the purpose of this clause, "the investing company or the venturer of a company" means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.

**In Short & Simplified**



**SEC 2 CLAUSE (85) – SMALL COMPANY**

**BARE ACT**

"small company" means a company, other than a public company, —

(i) paid-up share capital of which does not exceed fifty lakh rupees, or such higher amount as may be prescribed which shall not be more than **ten crore rupees**; and

(ii) turnover of which **as per profit and loss account for the immediately preceding financial year** does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than **one hundred crore rupees**:

Provided that nothing in this clause shall apply to—

(A) a holding company or a subsidiary company;

(B) a company registered under section 8; or

(C) a company or body corporate governed by any special Act;

### **In Short & Simplified**

#### ***Sec 2 Clause (85) – Small Company (In Short)***

##### Nature

- Not a Public Company
- Not having Holding or Subsidiary
- Not governed by Special Act
- Not a Sec 8 Co

##### Limits

- Paid up Capital not exceeding 50 lakhs (higher amount can be prescribed not exceeding **10 crores**) &
- Turnover of PFY not exceeding 2 crores (higher amount can be prescribed not exceeding **100 crore**)

### **SEC 2 CLAUSE (87) – SUBSIDIARY COMPANY**

#### **BARE ACT**

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

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

(ii) exercises or controls more **than one-half of the [total voting power]** either at its **own or together with one or more of its subsidiary** companies:

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

Explanation. —For the purposes of this clause, —

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

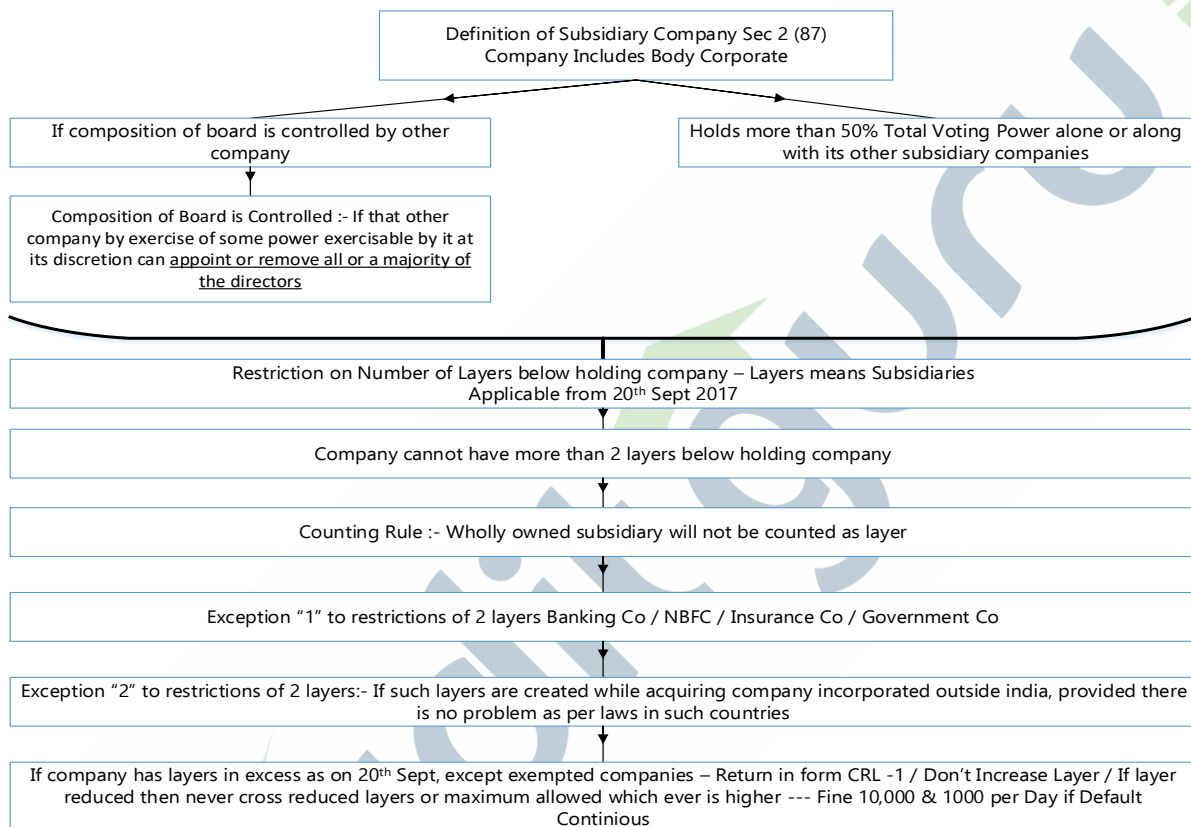
(b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;

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

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

**In Short & Simplified**

**Sec 2 Clause (87) – Subsidiary Company (In Short)**



**SEC 2 CLAUSE (91) – TURNOVER**

**BARE ACT**

"turnover" means the gross amount of revenue recognised in the profit and loss account from the sale, supply, or distribution of goods or on account of services rendered, or both, by a company during a financial year;

**In Short & Simplified**

*Turnover = Revenue recognised in P&L from sale of goods & services*



**SEC 139 (1) RATIFICATION**

Concept of ratification removed – 7<sup>th</sup> May 2018

# Ratification

**SEC 139(1)**

~~• Ratification means to confirm act / decision which has happened before.~~

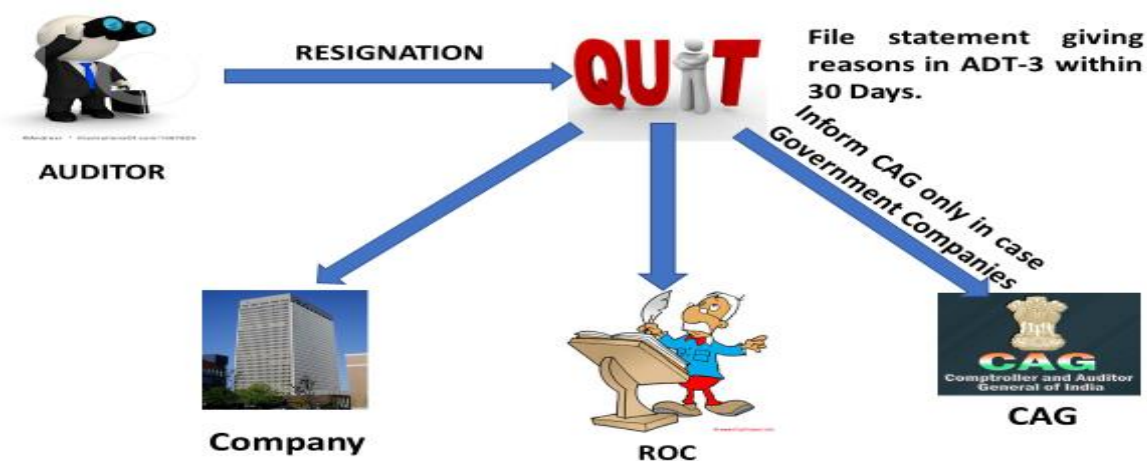
~~• Appointment shall be subject to ratification in every annual general meeting till the sixth such meeting by way of passing of an ordinary resolution.~~

~~• Clarified that, if the appointment is not ratified by the members of the company, the Board of Directors shall appoint another individual or firm as its auditor or auditors after following the procedure laid down in this behalf under the Act. (That means it will be treated as casual vacancy)~~

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**RESIGNATION SEC 140(2)**

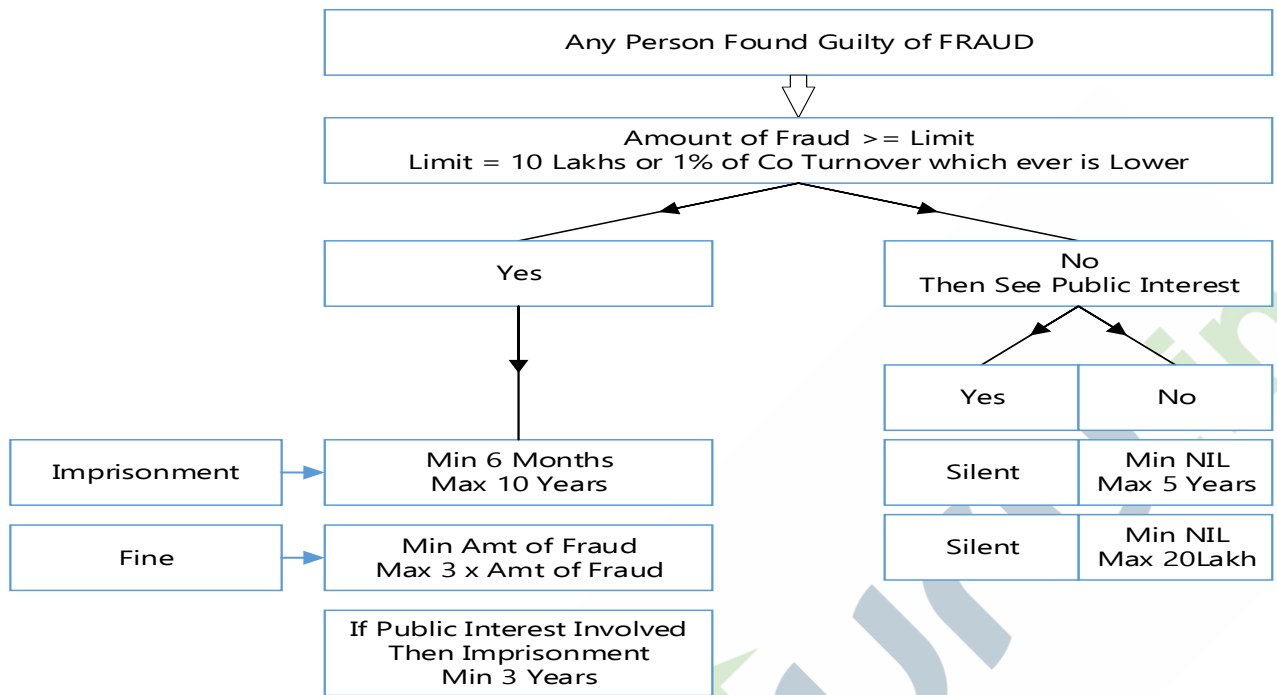
# Resignation Sec 140(2)



Non Compliance will lead to fine of 50,000 or remuneration whichever is less to 5,00,000  
 Sec 140 (3)



**SEC 447 PUNISHMENT FOR FRAUD (Sec 140 Refers to Sec 447)**



**SEC 143 (1) BOOKS OF ACCOUNTS & VOUCHERS RECENT AMENDMENT**

**BARE ACT**

Provided that the auditor of a company which is a holding company shall **also have the right of access to the records of all its subsidiaries and associate companies in so far as it relates to the consolidation of its financial statements** with that of its subsidiaries and associate companies.

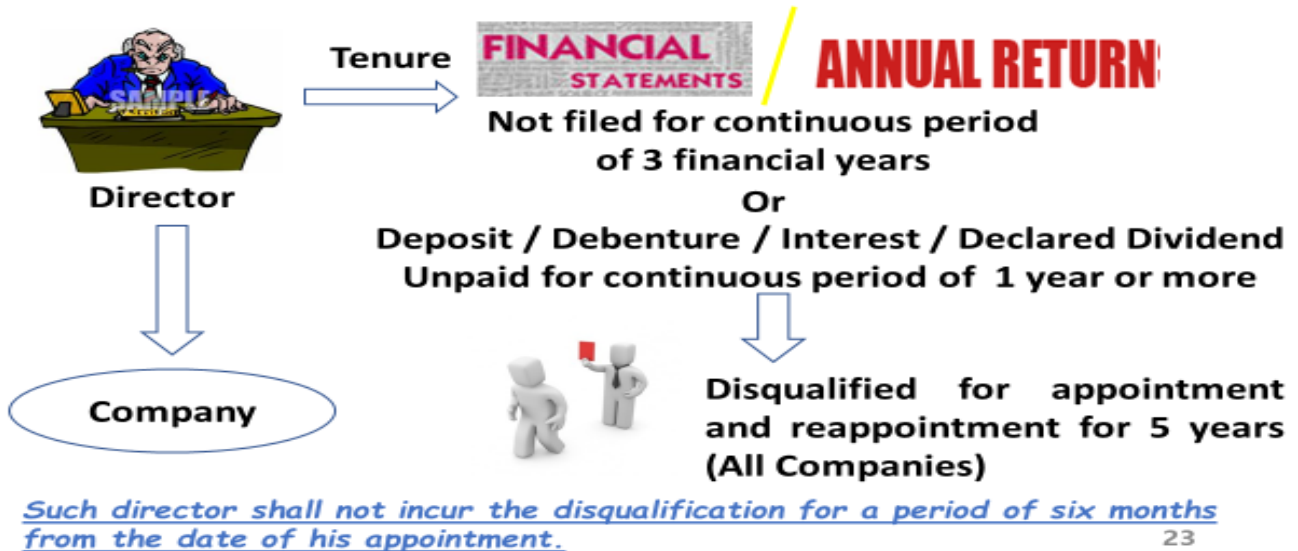
**In Short & Simplified**

**Auditor can access books of Subsidiaries & Associates (Including JV) which are related to consolidation of these companies with holding company**

**SEC 143 (3) DUTY TO REPORT**

Duty to report 143 (3)

KOI DIRECTOR DISQUALIFIED TOH NAHI HAI 164 (2) Covered in Sec 143( 3) 164(2) is for financial irregularity.



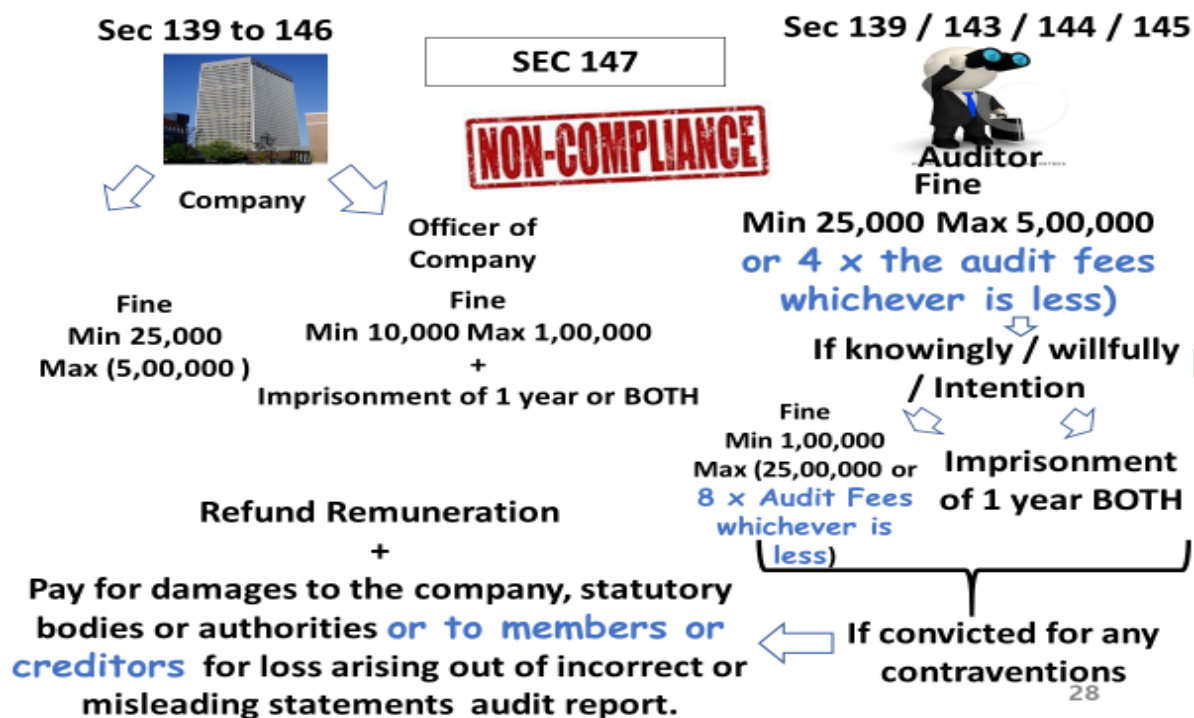
**ORIGIN OF CARO-SEC 143(11)**

Origin of CARO-Sec 143(11)



As NFRA is not yet formed. CG will constitute committee for consultation.  
Chair Person → Joint Secretary or equivalent  
Representatives from ICAI / Industry Chambers  
Special Invites from NACAS / CAG

## SEC 139 TO 146 (Sec 139 / 143 / 144 / 145)



## SEC 129--EXEMPTION TO GOVERNMENT COMPANIES

**BARE ACT**

→AS 17 / Ind AS 108 Segment Reporting Not Applicable,

if Engaged in Defence Production

→AS 22 / Ind AS 12 Deferred Taxes Not Applicable,

If its PFI / NBFC / Business of Infrastructure Finance earning more than 75% revenue from government & its entities

→Some Additional Disclosures of P&L as in Sch III Not Applicable

-- a) if BOD Consent /

-- b) Comply with Accounting Standards / Maintain and file such information required by the government or RBI or any other regulator.

-- c) Disclose in the Notes grant of exemption / FST should give a true and fair state of affairs

## SEC 130: - RE-OPENING OF FINANCIAL STATEMENTS ON COURT AND TRIBUNALS ORDER

**BARE ACT**

Provided that the court or the Tribunal, as the case may be, shall give notice to the Central Government, the Income-tax authorities, the Securities and Exchange Board or any other statutory regulatory body or

authority concerned [or any other person concerned] and shall take into consideration the representations, if any, made by that Government or the authorities, Securities and Exchange Board or the body or authority concerned [or the other person concerned] before passing any order under his section.

[(3) No order shall be made under sub-section (1) in respect of re-opening of books of account relating to a period earlier than eight financial years immediately preceding the current financial year:]

Provided that where a direction has been issued by the Central Government under the proviso to sub-section (5) of section 128 for keeping of books of account for a period longer than eight years, the books of account may be ordered to be re-opened within such longer period.]

### **In Short & Simplified**

- Now if application is given by "Any Concerned Person", Tribunal has to give notice to "Any Concerned Person" also & Consider representations given by "Any Concerned Person"
- Now re-opening of financial statements is restricted to 8 years, if CG has ordered for longer retention for books under Sec 128 then revision can also be ordered for such longer period.

## **SEC 132: - CONSTITUTION OF NATIONAL FINANCIAL REPORTING AUTHORITY**

### **CONSTITUTION**

(1) The Central Government may, by notification, constitute a National Financial Reporting Authority to provide for matters relating to accounting and auditing standards under this Act.

(In Short)

CG has power to form NFRA / To look after matters related to AS & SAs

### **FUNCTIONS**

(2) Notwithstanding anything contained in any other law for the time being in force, the National Financial Reporting Authority shall—

(a) make recommendations to the Central Government on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be;

(b) monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed;

(c) oversee the quality of service of the professions associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of services and such other related matters as may be prescribed; and

(d) perform such other functions relating to clauses (a), (b) and (c) as may be prescribed.

Formulation and Laying Down of Accounting & Auditing Policies & Standards / Enforce and Monitor the compliance of Standards / Oversee quality of services & Suggest measures for improvement / Such other Functions as Prescribed

### **COMPOSITION -- CHAIRPERSON & MEMBERS**

(3) The National Financial Reporting Authority shall consist of a chairperson, who shall be a person of eminence and having expertise in accountancy, auditing, finance or law to be appointed by the Central Government and such other members not exceeding fifteen consisting of part-time and full-time members as may be prescribed:

Provided further that the chairperson and members shall make a declaration to the Central Government in the prescribed form regarding no conflict of interest or lack of independence in respect of his or their appointment:

Provided also that the chairperson and members, who are in full-time employment with National Financial Reporting Authority shall not be associated with any audit firm (including related consultancy firms) during the course of their appointment and two years after ceasing to hold such appointment.

Provided that the terms and conditions and the manner of appointment of the chairperson and members shall be such as may be prescribed:

(In Short)

NFRA = Chairperson + Max 15 Members (Part Time or Full Time)

→ Eminent & Expertise in Accountancy / Audit / Finance / Law

→ Declaration to CG for no conflict of interest or lack of independence

→ Appointed by CG

→ Terms & Conditions Prescribed by Rules

→ Not Associated with any audit & related consultancy firm during tenure and 2 years after cessation

### POWERS & PUNISHMENTS

(4) Notwithstanding anything contained in any other law for the time being in force, the National Financial Reporting Authority shall—

(a) have the power to investigate, either suo motu or on a reference made to it by the Central Government, for such class of bodies corporate or persons, in such manner as may be prescribed into the matters of professional or other misconduct committed by any member or firm of chartered accountants, registered under the Chartered Accountants Act, 1949 (38 of 1949):

Provided that no other institute or body shall initiate or continue any proceedings in such matters of misconduct where the National Financial Reporting Authority has initiated an investigation under this section;

(b) have the same powers as are vested in a civil court under the Code of Civil Procedure, 1908 (5 of 1908), while trying a suit, in respect of the following matters, namely: —

(i) discovery and production of books of account and other documents, at such place and at such time as may be specified by the National Financial Reporting Authority;

(ii) summoning and enforcing the attendance of persons and examining them on oath;

(iii) inspection of any books, registers and other documents of any person referred to in clause (b) at any place;

(iv) issuing commissions for examination of witnesses or documents;

(c) where professional or other misconduct is proved, have the power to make order for—

(A) imposing penalty of—

I. not less than one lakh rupees, but which may extend to five times of the fees received, in case of individuals; and

II. not less than five lakh rupees, but which may extend to ten times of the fees received, in case of firms;

(B) debaring the member or the firm from engaging himself or itself from practice as member of the Institute of Chartered Accountants of India referred to in clause (e) of sub-section (1) of section 2 of the Chartered Accountants Act, 1949 (38 of 1949) for a minimum period of six months or for such higher period not exceeding ten years as may be decided by the National Financial Reporting Authority.

Explanation. —For the purposes of this sub-section, the expression "professional or other misconduct" shall have the same meaning assigned to it under section 22 of the Chartered Accountants Act, 1949 (38 of 1949).

(In Short)

- Overrides all other laws
- Power to Investigate Suo Moto or On Reference by CG / Prescribed Body Corporates or Person
- Matters of Professional or Other Misconduct Committed by CAs (As per CA Act)
- No other institute or body to initiate or continue any proceedings where NFRA initiated investigations
- While trying Suit Powers will be same as Vested in Civil Court
- Powers Namely – Discovery & Production of Books of Accounts / Inspection of Any Books, Registers & Other Documents / Summoning & Enforcing Attendance & Examining on Oath / Issuing Commissions (Orders) for examination of witness or documents

Punishments after Professional or Other Misconduct is Proved

- Penalty: - Individual – 1 Lakh to 5 Times Fees Received / Firm – 5 Lakh to 10 Times Fees Received
- Debarring: - Minimum 6 months not exceeding 10 years

### APPEAL

(5) Any person aggrieved by any order of the National Financial Reporting Authority issued under clause (c) of sub-section (4), may prefer an appeal before [the Appellate Tribunal in such manner and on payment of such fee as may be prescribed].

(In Short)

If aggrieved by NFRA order, appeal before appellate tribunal with prescribed fees

DELETED

(6) to (9) [\*\*\*]

**MISCELLANEOUS** – Meetings / Secretary / Head Office / Books of Accounts / Audit by CAG / Annual Report

(10) The National Financial Reporting Authority shall meet at such times and places and shall observe such rules of procedure in regard to the transaction of business at its meetings in such manner as may be prescribed.

(11) The Central Government may appoint a secretary and such other employees as it may consider necessary for the efficient performance of functions by the National Financial Reporting Authority under this Act and the terms and conditions of service of the secretary and employees shall be such as may be prescribed.

(12) The head office of the National Financial Reporting Authority shall be at New Delhi and the National Financial Reporting Authority may, meet at such other places in India as it deems fit.

(13) The National Financial Reporting Authority shall cause to be maintained such books of account and other books in relation to its accounts in such form and in such manner as the Central Government may, in consultation with the Comptroller and Auditor-General of India prescribe.

(14) The accounts of the National Financial Reporting Authority shall be audited by the Comptroller and Auditor-General of India at such intervals as may be specified by him and such accounts as certified by the Comptroller and Auditor-General of India together with the audit report thereon shall be forwarded annually to the Central Government by the National Financial Reporting Authority.

(15) The National Financial Reporting Authority shall prepare in such form and at such time for each financial year as may be prescribed its annual report giving a full account of its activities during the financial year and forward a copy thereof to the Central Government and the Central Government shall cause the annual report and the audit report given by the Comptroller and Auditor-General of India to be laid before each House of Parliament.

(In Short)

- CG may appoint secretary & other employees and prescribe their terms & conditions of service
- HO will be at New Delhi and they can meet at other places as deems fit



→ Number of meetings, procedure for transacting business will be prescribed  
 → Maintain Books of Accounts & Other Books as prescribed by CG in consultation with CAG  
 → Audit by CAG as prescribed / NFRA to forward audit report annually to CG  
 → Prepare Annual Report as prescribed, giving full account of activities for FY and forward copy to CG / Annual Report & Audit Report should be laid before each house of parliament

**NATIONAL FINANCIAL REPORTING AUTHORITY (MANNER OF APPOINTMENT AND OTHER TERMS AND CONDITIONS OF SERVICE OF CHAIRPERSON AND MEMBERS) RULES, 2018.**

In exercise of the powers conferred by sub-section (3) of section 132 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules, namely: -

Short Title and Commencement

1. (1) These rules may be called The National Financial Reporting Authority (Manner of Appointment and other Terms and Conditions of Service of Chairperson and Members) Rules, 2018.
- (2) They shall come into force on the date of their publication in the Official Gazette.

Definitions

2. (1) In these rules, unless the context otherwise requires, —

- (a) "Act" means the Companies Act, 2013 (18 of 2013);
- (b) "Authority" means the National Financial Reporting Authority constituted under sub section (1) of section 132 of the Act.
- (2) Words and expressions used in these rules and not defined but defined in the Act shall have the meanings respectively assigned to them in the Act.

Composition of Authority

3. (1) The Authority shall consist of the following persons to be appointed by the Central Government, namely: -
  - (a) a chairperson;
  - (b) three full time members; and
  - (c) nine part time members.
- (2) The chairperson shall be a person of eminence, ability, integrity and standing and having expertise and experience of not less than twenty-five years in the field of accountancy, auditing, finance or law.
- (3) A full-time member shall be a person of ability, integrity and standing and having expertise and experience of not less than twenty years in the field of accountancy, auditing, finance or law.
- (4) The chairperson and all members, before being appointed, shall submit a declaration to the Central Government confirming that they have no conflict of interest or lack of independence in respect of such appointment as chairperson or members in Form I annexed to these rules, failing which their appointment shall not be considered.
- (5) The chairperson and full-time members shall not be associated with any audit firm including related consultancy firms during the course of their appointment and two years after ceasing to hold such appointment.
- (6) A part-time member shall be a person who shall not, have any such financial or other interest as is likely to affect prejudicially his functions as a part-time member.



(In Short) -- Constitution

→ Chairperson + 3 Full Time Members + 9 Part Time Members

→ Chairperson should have experience not less than 25 Years in Accountancy, Audit, Finance, Law (Eminence, Ability, Integrity & Standing)

→ Full Time Members should have experience not less than 20 Years in Accountancy, Audit, Finance, Law (Ability, Integrity & Standing)

→ Chairperson & all Members shall submit declaration confirming no conflict of Interest & Independence

→ Chairperson & Full-Time members Shall not be associated with any audit firm including related consultancy firm during the course & 2 years after cessation

→ Part Time Members should not have financial or other interests as is likely to affect prejudicially his functions

Manner of appointment

4. (1) The Central Government shall appoint the chairperson and a full-time member referred to in rule 3 on the recommendation of a search-cum-selection committee consisting of—

(a) Cabinet Secretary - Chairperson;

(b) Additional Principal Secretary to the Prime Minister- Member;

(c) Secretary - Ministry of Corporate Affairs- Member;

(d) Chairperson, National Financial Reporting Authority (for selection of full-time members) - Member;

(e) three experts of repute from a panel of experts in the field of accountancy, auditing, finance, law (to be nominated by the Central Government) - Members

(2) The Secretary, Ministry of Corporate Affairs shall be the convener of the search- cum-selection committee.

(3) The search-cum-selection committee shall determine its procedure for making its recommendation.

(4) No appointment of chairperson or a full-time member shall be invalid merely by reason of any vacancy or absence in the search-cum-selection committee.

(5) The search-cum-selection committee shall make its recommendations in regard to appointment of chairperson or the members, as the case may be, to the Central Government within a period not exceeding one hundred and twenty days from the date of reference made to it by the Central Government.

(In Short)—Appointment Chairperson & Full Time Members

→ CG shall appoint chairperson and fulltime members after recommendation of search-cum-selection committee

→ Composition (SSC) – Cabinet Secretary (Chairperson) / Additional Principal Secretary to PM / Secretary to MCA (Convenor) / Chairperson (For Full Time Members) / 3 Experts in field of AAFL nominated by CG

→ Set its own procedures / Time of 180 days from date of reference made by CG

→ Vacancy or Absence not to affect appointments

(6) The following persons shall be appointed as part time members of the Authority namely: -

(i) one member to represent the Ministry of Corporate Affairs, who shall be an officer not below the rank of Joint Secretary, ex-officio;

(ii) one member to represent the Comptroller and Auditor General of India, who shall be an officer not below the rank of Accountant General or Principal Director, ex-officio;

(iii) one member to represent the Reserve Bank of India, who shall be an officer not below the rank of Executive Director, ex-officio;

(iv) one member to represent the Securities and Exchange Board of India, who shall be an officer not below the rank of Executive Director, ex-officio;

(v) President, Institute of Chartered Accountants of India, ex-officio;

(vi) Chairperson, Accounting Standards Board, Institute of Chartered Accountants of India, ex-officio;

- (vii) Chairperson, Auditing and Assurance Standards Board, Institute of Chartered Accountants of India, ex-officio; and  
 (viii) two experts from the field of accountancy, auditing, finance or law.

(In Short)—Part Time Members

→1 Member each of MCA (Not below rank of Joint Secretary) / CAG (Not Below Rank of Accountant General or Principal Director) / RBI (Not Below Rank of Executive Director) / SEBI (Officer not below rank of ED) / President ICAI / Chairperson ASB / Chairperson AASB

→Two Experts from AAFL

Medical fitness

5. No person shall be appointed as the chairperson or full-time member unless he is declared medically fit by an authority specified by the Central Government in this behalf.

(In Short)

→Shall be declared medically Fit

Resignation

6. The chairperson or a member may, by writing under his hand addressed to the Central Government, resign from his office at any time:

Provided that the chairperson or member shall, unless he is permitted by the Central Government to relinquish office sooner, continue to hold office until the expiry of three months from the date of receipt of such notice or until a person duly appointed as a successor enters upon his office or until the expiry of his term of office, whichever is the earliest.

Removal from office

7. (1) The Central Government may, on the recommendation of a Committee referred to in sub-rule (1) of rule 4, remove from office the chairperson or a member, who—

(a) has been adjudged as an insolvent; or

(b) has been convicted of an offence which, in the opinion of the Central Government, involves moral turpitude; or

(c) has become physically or mentally incapable of acting as the chairperson or member; or

(d) has acquired such financial or other interest as is likely to affect prejudicially his functions as the chairperson or member; or

(e) has so abused his position as to render his continuance in office prejudicial to the public interest:

Provided that the chairperson or the interested member shall not be the member of such Committee, where the subject matter of the cause is against him.

(2) No member shall be removed under clauses (b) to (e) of sub-rule (1) unless he has been given a reasonable opportunity of being heard in the matter.

Procedure for inquiry of misbehaviour or incapacity of the chairperson or a member

8. (1) If a written complaint is received by the Central Government, alleging any definite charge of misbehaviour or incapacity to perform the functions of the office in respect of the chairperson or a full-time member, the Ministry of Corporate Affairs shall make a preliminary scrutiny of such complaint.

(2) If on preliminary scrutiny, the Ministry of Corporate Affairs, is of the opinion that there are reasonable grounds for making an inquiry into the truth of any such misbehaviour or incapacity of the chairperson or full-time member, it shall make a reference to the Committee constituted under sub-rule (1) of rule 4 to conduct the inquiry:

Provided that the chairperson or the interested member shall not be the member of such committee, where the subject matter of the cause is against him.

(3) The Committee shall complete the inquiry within one hundred and twenty days' time or such further time as may be extended by the Central Government on the request of the committee in this behalf.

(4) After the conclusion of the inquiry, the Committee shall submit its report to the Central Government stating therein its findings and the reasons thereof on each of the charges separately with such observations on the whole case as it may think fit.

(5) The Committee shall not be bound by the procedure laid down by the Code of Civil Procedure, 1908 (5 of 1908) but shall be guided by the principles of natural justice and shall have power to regulate its own procedure, including the fixing of date, place and time of its inquiry.

(In Short)

→ Resignation through hand written letter to CG / Relinquish post earlier of 3 months, appointment of successor or end of term whichever is earliest

→ CG can remove on recommendation of search cum selection committee

→ Reasons for such recommendation are following

→ Physically, Mentally Incapable / Adjudged Insolvent / Financial or Other Interest likely to affect Prejudicially / Abused Position, Prejudicial to Public Interest / Offence involving Moral Turpitude

→ Shall not be part of committee where subject matter is against him

→ No removal unless opportunity of being heard

Inquiry of Misbehaviour or Incapacity

→ Written complaint to CG with Specific Charge

→ MCA shall make preliminary scrutiny

→ Opinion of MCA reasonable grounds for making inquiry

→ Search Cum Selection Committee shall do Inquiry / Such person should not be part of this committee

→ Complete inquiry in 120 days / After conclusions submit report to CG, stating findings & reasons

→ Search cum selection committee not bound by code of civil procedures, shall be guided by natural justice & power to regulate its own procedures

Term of Office

9. (1) The term of office of the chairperson and a full-time member shall be three years from the date on which he enters upon his office or till he attains the age of sixty-five years, whichever is earlier, and he shall be eligible for re-appointment for one more term.

(2) A part-time member shall hold office for a period, not exceeding three years, as may be specified in the order of his appointment or the period for which he holds the substantive post by virtue of which he has been appointed as the part-time member, whichever is earlier, but shall be eligible for re-appointment.

Vacancy

10. In case of a vacancy in the office of the chairperson or a full-time member, the Central Government shall have the power to appoint the senior most full-time member or in his absence any other full-time member to officiate as chairperson.

(In Short)

→ Tenure of CP & FTM shall be 3 years or Age of 65 whichever is earlier / Eligible for re-appointment of one more term

→ Tenure of PTM not exceeding 3 years subject to order of his appointment / Eligible for reappointment

→ In case of vacancy of chairperson CG have the power to appoint senior most FTM or in his absence other FTM to officiate as Chair Person

#### Salary and allowances

11. (1) The chairperson shall be paid a salary of two lakhs fifty thousand rupees (fixed) and other allowances and benefits as are admissible to a Central Government officer holding posts carrying the same pay.

(2) A full-time member shall be paid a salary of two lakhs twenty-five thousand rupees and other allowances and benefits as are admissible to a Central Government Officer holding a Group 'A' post carrying the same pay.

(3) In case the person appointed as the chairperson or full-time member is in receipt of any pension, the pay of such person shall be reduced by the gross amount of pension drawn by him.

#### Pension, Gratuity and Provident Fund

12. (1) The chairperson or a full-time member shall be governed by the provisions of the Contributory Provident Fund (India) Rules, 1962 and the Contribution Pension System.

(2) Additional pension and gratuity shall not be admissible for service rendered in the Authority.

#### Leave

13. (1) The chairperson and a full-time member shall be entitled to following leave, namely: --

(a) earned leave at the rate of thirty days for every completed calendar year of service;

(b) casual leave, not exceeding eight days in a calendar year.

(2) The payment of leave salary during leave shall be governed by rule 40 of the Central Civil Services (Leave) Rules, 1972.

(3) The chairperson or a full-time member shall be entitled to encashment of leave in respect of the earned Leave standing to his credit, subject to the condition that maximum leave encashment, including the amount received at the time of retirement from previous service shall not in any case exceed the prescribed limit under the Central Civil Service (Leave) Rules, 1972.

#### Leave and Foreign Travel Sanctioning Authority

14. (1) The leave sanctioning authority, —

(a) for a full-time member, shall be the chairperson and in case of absence of chairperson, the Central Government; and

(b) for the chairperson, shall be the Central Government.

(2) The Central Government shall be the sanctioning authority for foreign travel of the chairperson or a full-time member.

#### House rent allowance

15. The chairperson or a full time Member shall be entitled to the house rent allowance at the same rate as are admissible to a Central Government officer holding a Group 'A' post carrying the same pay:

Provided that the chairperson or a full-time member shall not be eligible for house rent allowance in case he is declared eligible for general pool residential accommodation and occupies Government accommodation allotted to him.

Transport allowance

16. The chairperson or a full-time member shall be entitled to the facility of staff car for journeys for official and private purposes in accordance with the facilities as are admissible to a Central Government officer holding a Group 'A' post carrying the same pay as per the provisions of applicable staff car rules.

(In Short)
Salary CP → 2,50,000 + Benefits of CG Employee of Same Pay FTM → 2,50,000 + Benefits of CG Employee of Gr A with Same Pay Pension amount to be reduced from Salary
Pension CP & FTM governed by Contributory PF(India) Rules 1962 / No Additional pension or gratuity for Service in NFRA
Leave 30 Days for Every Completed Calendar Year / Casual Leave not exceeding 8 Days in Calendar year / Payment of Leave period as per Central Civil Service Rules 1972 / Entitled to leave encashment shall not exceed limit under CCS Rules
Leave & Foreign Travel Sanctioning Authority
Leave Sanction For CP—CG For FTM – Chairperson and in his absence CG
Foreign Travel Sanction FOR CP & FTM – CG
HRA CP & FTM entitled to HRA as per same rate as CG officer of Group “A” Post / Not eligible for HRA if declared eligible for residential accommodation and occupies it
TA CP & FTM – Facility of Staff Car (official + Private)

Declaration of Financial and other Interests

17. The chairperson or a full-time member shall, before entering upon his office, declare his assets, liabilities and financial and other interests.

Other conditions of service

18. (1) The terms and conditions of service of a chairperson or a full-time member with respect to which no express provision has been made in these rules, shall be such as are admissible to a Central Government officer holding a Group 'A' post carrying the same pay.

(2) The chairperson or a full-time member shall not practise before the Authority after retirement or resignation or removal from the service of the Authority.

(3) The chairperson or a full-time member shall not undertake any arbitration work while functioning in the Authority.

(4) The chairperson or a full-time member shall not, for a period of two years from the date on which he ceases to hold office, accept any employment in, or connected with the management or administration of, any person who has been a party to a proceeding before the Authority:

Provided that nothing contained in this rule shall apply to any employment under the Central Government or a State Government or a local authority or in any statutory authority or any corporation established by or under any Central, State or Provincial Act or a Government company as defined in clause (45) of section 2 of the Companies Act, 2013 (18 of 2013).

#### Oath of office and secrecy

19. Every person appointed to be the chairperson, or a full-time member shall, before entering upon his office, make and subscribe an oath of office and secrecy in Form II and Form III annexed to these rules.

#### Sitting fee and allowances of Part-time Members

20. (1) A part-time member other than those holding the position on ex-officio basis, shall be entitled to receive remuneration by way of a sitting fee of rupees six thousand only for each meeting of the Authority attended by him.

(2) A part-time member while on tour (including the journey undertaken to attend a meeting of the Authority) shall also be entitled to travelling allowance and daily allowances at the same rates and scale as are applicable to a Group A officer in Senior Administrative Grade in the Central Government.

#### Power to Relax

21. Where the Central Government is of the opinion that it is necessary or expedient so to do, it may, by order for reasons to be recorded in writing relax any of the provisions of these rules with respect to any class or category of persons.

#### Interpretation

22. If any question arises relating to the interpretation of these rules, the decision of the Central Government thereon shall be final.

(In Short)

#### Declaration

Declare assets, liabilities, financial and other interests before entering his office

#### Other Conidiations of Service –

→Wherever no express provision as per CG Employee (Gr A)

→Not practice in NFRA after retirement, resignation, removal

→Shall not take any arbitration work while in NFRA

→Shall not accept employment under CG / SG / Connected or Under Mgt of Person who has been party to proceeding for 2 years after cessation

Nothing shall apply to CG / SG / LA employees

CG has power to give exemptions & their interpretation will be final



## SEC 135 CSR PUNISHMENT

### **BARE ACT**

#### Consequences of not spending

- Earlier No specific penalties prescribed in the Section.
- Reasons for not spending to be provided as stated already in BOD Report
- As per Recent Notification
- Now Section 134(8) penalties will apply, non-compliance of Sec 135.
- CO. fine 50,000 to 25,00,000
- Officer's Fine 50,000 to 5,00,000
- Officer involve jail up to 3 years
- Or Both

## SEC 136 DOCUMENTS SENT LESS THAN 21 DAYS BEFORE MEETING

### **BARE ACT**

Provided that if the copies of the documents are sent less than twenty-one days before the date of the meeting, they shall, notwithstanding that fact, be deemed to have been duly sent if it is so agreed by members—

(a) holding, if the company has a share capital, majority in number entitled to vote and who represent not less than ninety-five per cent of such part of the paid-up share capital of the company as gives a right to vote at the meeting; or

(b) having, if the company has no share capital, not less than ninety-five per cent of the total voting power exercisable at the meeting

### **In Short & Simplified**

Co can send FST + Other Documents in less than 21 Days

Provided it is approved as such by members in case

Co having SC – Majority in Number & 95% or more in Paid-up SC (Consider only those holdings which are entitled to Vote)

Co not having SC – Members not less than 95% voting power.

## SEC 136 FINANCIAL STATEMENTS ON WEBSITE

### **BARE ACT**

Provided also that every listed company having a subsidiary or subsidiaries shall place separate audited accounts in respect of each of subsidiary on its website, if any:



Provided also that a listed company which has a subsidiary incorporated outside India (herein referred to as "foreign subsidiary")—

(a) where such foreign subsidiary is statutorily required to prepare consolidated financial statement under any law of the country of its incorporation, the requirement of this proviso shall be met if consolidated financial statement of such foreign subsidiary is placed on the website of the listed company;

(b) where such foreign subsidiary is not required to get its financial statement audited under any law of the country of its incorporation and which does not get such financial statement audited, the holding Indian listed company may place such unaudited financial statement on its website and where such financial statement is in a language other than English, a translated copy of the financial statement in English shall also be placed on the website.

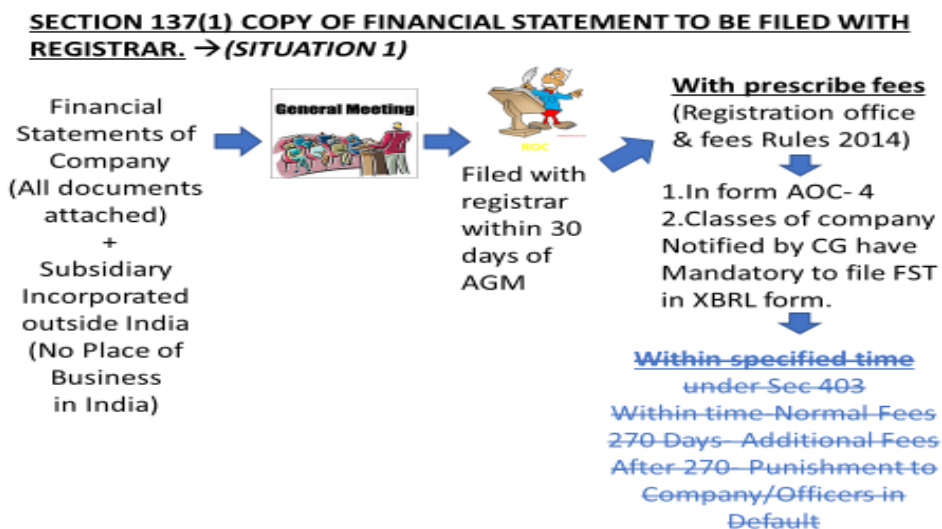
### **In Short & Simplified**

-- Only Listed Co shall place separate audited FST for each subsidiary

-- Foreign Subsidiary required to prepare consolidated FST under foreign law, it will be fine if only one consolidated FST are uploaded on website

-- Foreign Co not required to get FST audited as per foreign law and has not audited FST, Place unaudited FST in website, if language is other than English then translated copy should also be uploaded.

## **SECTION 137(1) COPY OF FINANCIAL STATEMENT TO BE FILED WITH REGISTRAR. (SITUATION 1)**



5

## SECTION 137(2) AGM NOT HELD · (SITUATION 3)



General Meeting

**AGM**IF NOT  
HELD →

FST along with all documents dually signed along with the statement of facts & reasons for not holding AGM.

Filed with Registrar within 30 days of last date before which AGM should be held with prescribed Fees & ~~within specified time under section 403.~~

## XBRL REPORTING

**BARE ACT**

The following class of companies shall file their financial statements and other documents under section 137 of the Act with the Registrar in e-form AOC-4 XBRL as per Annexure-I: —

- (i) companies listed with stock exchanges in India and their Indian subsidiaries;
- (ii) companies having paid up capital of five crore rupees or above;
- (iii) companies having turnover of one hundred crore rupees or above;
- (iv) all companies which are required to prepare their financial statements in accordance with Companies (Indian Accounting Standards) Rules, 2015:

Provided that the companies preparing their financial statements under the Companies (Accounting Standards) Rules, 2006 shall file the statements using the Taxonomy provided in Annexure-II and companies preparing their financial statements under Companies (Indian Accounting Standards) Rules, 2015, shall file the statements using the Taxonomy provided in Annexure-IIA:

Provided further that non-banking financial companies, housing finance companies and companies engaged in the business of banking and insurance sector are exempted from filing of financial statements under these rules.]

The companies which have filed their financial statements under sub-rule (1) shall continue to file their financial statements and other documents though they may not fall under the class of companies specified therein in succeeding years.

The companies which have filed their financial statements under the erstwhile rules, namely the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011, shall continue to file their financial statements and other documents as

prescribed in sub-rule (1) though they do not fall under the class of companies specified therein.

### **In Short & Simplified**

→ Uploading FST in XBRL Format is Mandatory for Listed Cos, Their Indian Sub / All Cos required to prepare FST in accordance with Ind AS / Paid-Up Capital 5Cr or Above / Turnover 100 Cr or Above

→ Not Applicable to NBFC, HFC, Banking & Insurance Co

→ Once applicable always applicable in succeeding years / Even applicable to Co covered in old rules of 2011

## **SEC 137 FOREIGN SUBSIDIARY FST NOT AUDITED**

### **BARE ACT**

Provided also that in the case of a subsidiary which has been incorporated outside India (herein referred to as "foreign subsidiary"), which is not required to get its financial statement audited under any law of the country of its incorporation and which does not get such financial statement audited, the requirements of the fourth proviso shall be met if the holding Indian company files such unaudited financial statement along with a declaration to this effect and where such financial statement is in a language other than English, along with a translated copy of the financial statement in English.

### **In Short & Simplified**

→ Foreign Subsidiary – Not required to get FST Audited as per Foreign Law

→ Then no need to submit audited FST / Submit unaudited FST & Declaration to the effect.

→ If it's in language other than English, then submit translated copy also.

## **SEC 53: - ISSUE OF SHARES FOR DISCOUNT**

### **BARE ACT**

In section 53 of the principal Act, —

(2A) Notwithstanding anything contained in sub-sections (1) and (2), a company may issue shares at a discount to its creditors when its debt is converted into shares in pursuance of any statutory resolution plan or debt restructuring scheme in accordance with any guidelines or directions or regulations specified by the Reserve Bank of India under the Reserve Bank of India Act, 1934 or the Banking (Regulation) Act, 1949."

## **SEC 54: - ISSUE OF SWEAT EQUITY SHARES**

### **BARE ACT**

13. In section 54, in sub-section (1), clause (c) shall be omitted

Condition of 1 year from date of commencement is removed, so now even new companies can issue shares for discount.

### SEC 188: - RELATED PARTY TRANSACTIONS

Second Proviso --Provided further that no member of the company shall vote on such resolution, to approve any contract or arrangement which may be entered into by the company, if such member is a related party:

Third Proviso --**Provided also that nothing contained in the second proviso shall apply to a company in which ninety per cent or more members, in number, are relatives of promoters or are related parties**

## SA 299 (Revised) JOINT AUDIT OF FINANCIAL STATEMENTS

### WHAT DO YOU MEAN BY JOINT AUDIT, ALSO ADVANTAGES & DISADVANTAGES?

The practice of appointing more than one auditor to conduct the audit of large entities has been in vogue (Trend) for a long time, sometimes voluntarily by the shareholders or sometimes due to the requirements of laws or regulations. Such auditors, known as joint auditors, conduct the audit jointly and report on the financial statements of the entity.

This Standard lays down the principles for effective conduct of joint audit to achieve the overall objectives of the auditor as laid down in SA 200 "Overall Objectives of the Independent Auditor and the conduct of an audit in accordance with Standards on Auditing". This Standard deals with the special considerations in carrying out audit by

joint auditors. Accordingly, in addition to the requirements enunciated in this Standard, the joint auditors also need to comply with all the relevant requirements of other applicable Standards on Auditing.

2. This Standard does not deal with the relationship between a principal auditor who is appointed to report on the financial statements of an entity and another auditor who is appointed to report on the financial statements of one or more component (divisions, branches, subsidiary, joint venture, associates, other entity) included in the financial

statements of the entity.

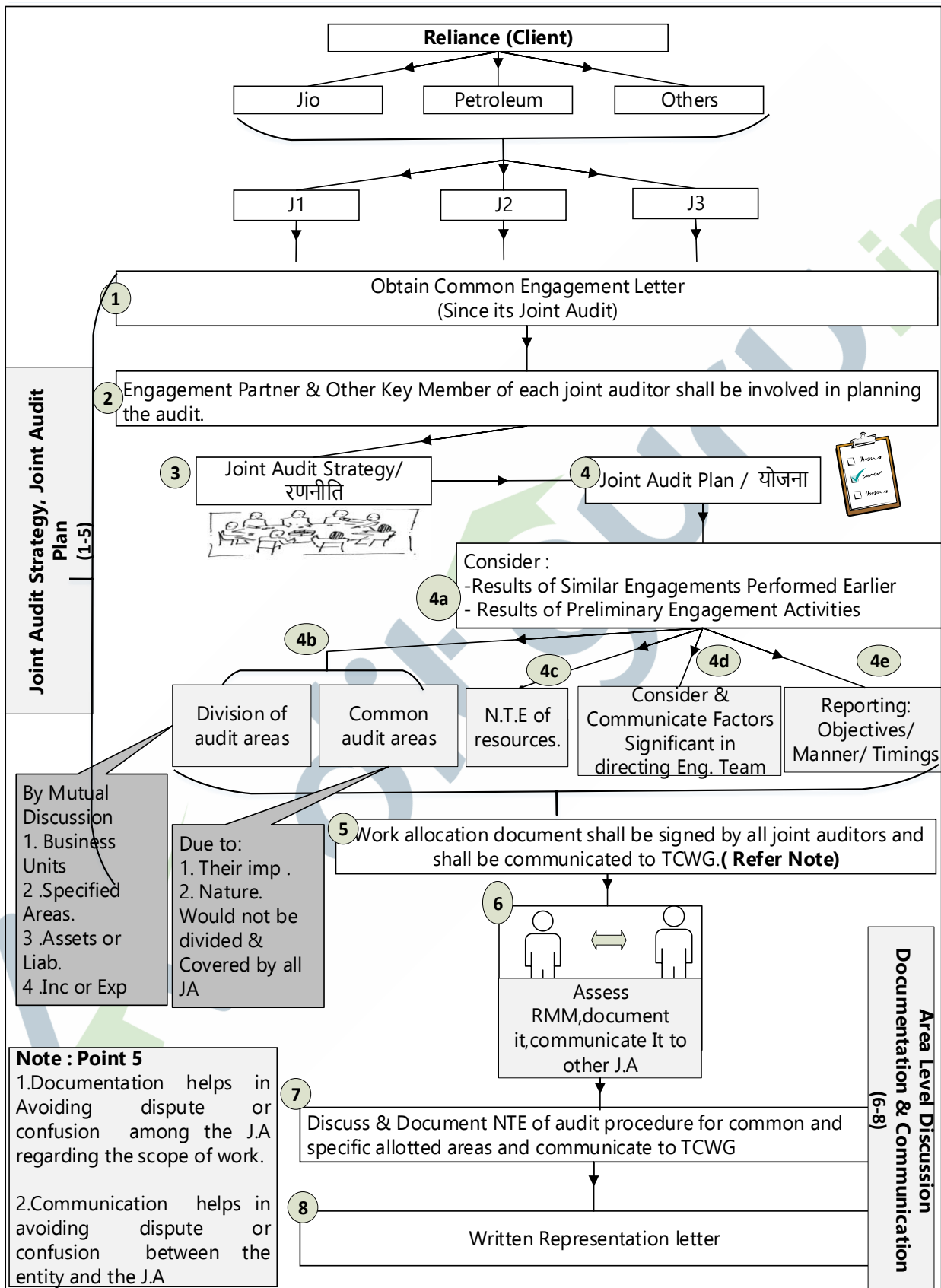
#### Advantages

- (a) Pooling and sharing of resources [like equipment, team member]
- (b) Pooling of expertise in different area
- (c) Advantage of mutual consultation;
- (d) Better quality of work performance;
- (e) Lower costs to carry out the audit work.
- (f) If one auditor leave the audit than other will continue
- (g) Rotation of auditor becomes easy to manage

#### Disadvantages

- (a) Problems when Firms of different standing are associated; [e.g. many times people do not work with other people because of ego issues.]
- (b) Lack of clear definition in case of joint responsibility;
- (c) Areas of common concern being neglected;
- (d) Co-ordination problems in conduct of work;
- (e) Sharing of fees.

**AUDIT PLANNING, RISK ASSESSMENT AND ALLOCATION OF WORK**



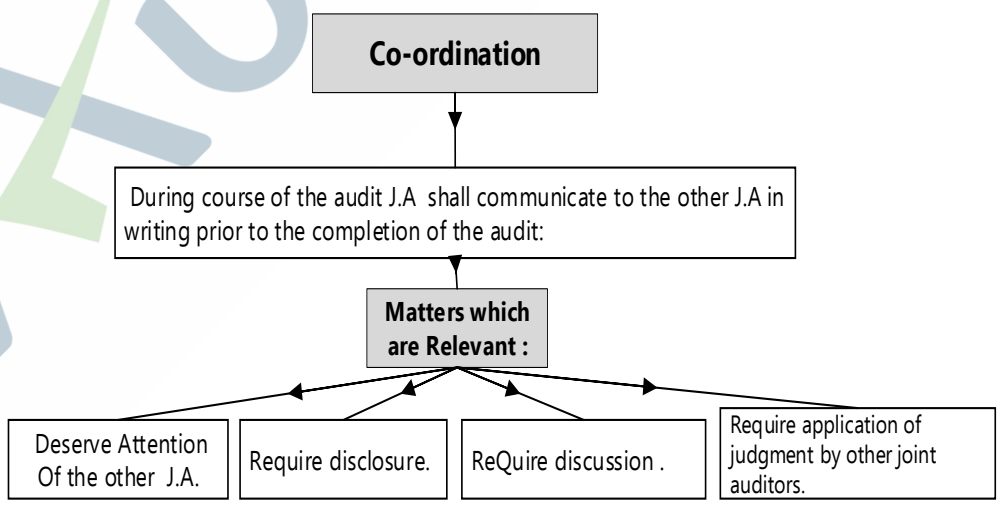
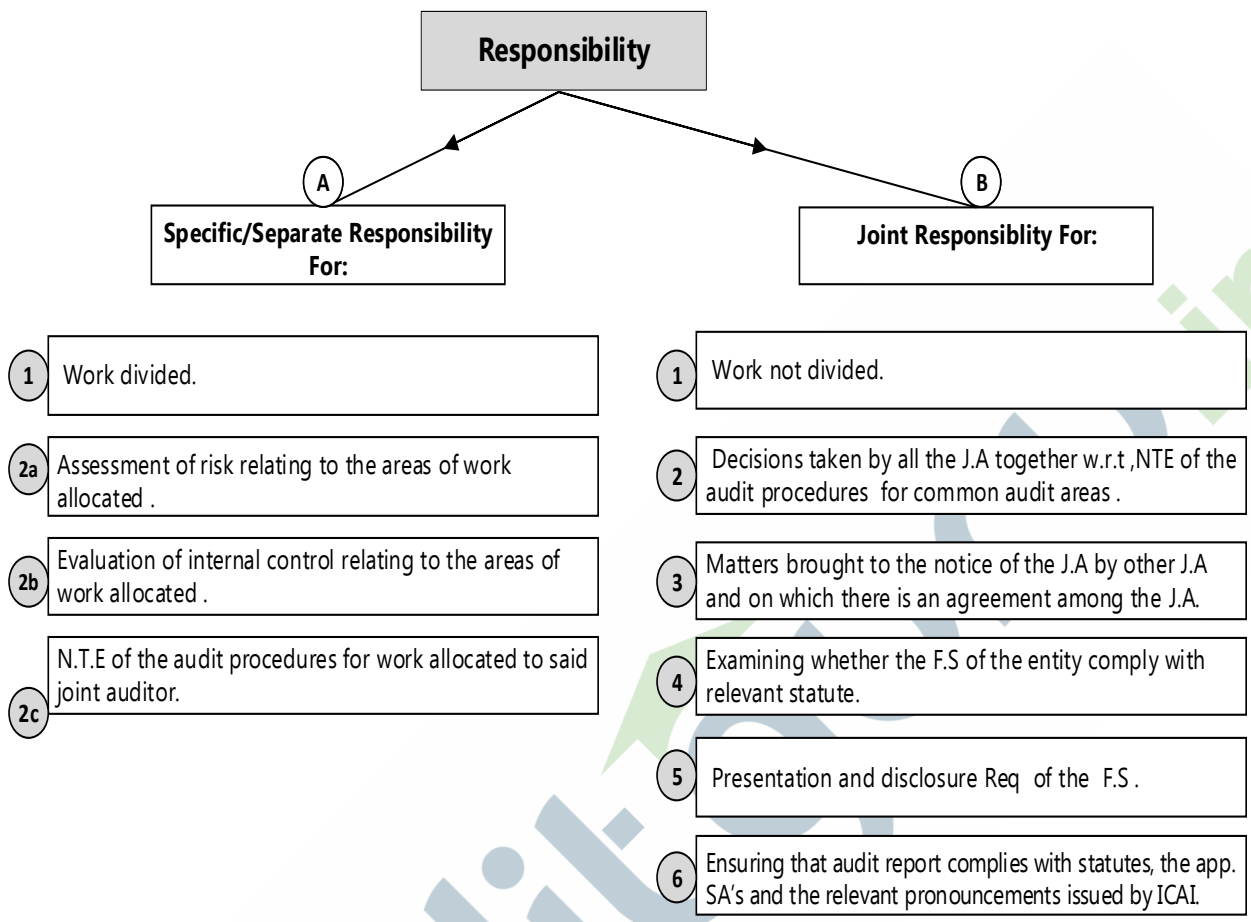
1. The joint auditors shall obtain common engagement letter.
2. The engagement partner and other key members of the engagement team from each of the joint auditors shall be involved in planning the audit.
3. The joint auditors shall jointly establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.
4. Prior to the commencement of the audit, the joint auditors shall discuss and develop a joint audit plan. In developing the joint audit plan, the joint auditors shall:
  - a. Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other or similar engagements performed earlier by the respective engagement partner(s) for the entity is relevant.
  - b. Identify division of audit areas and common audit areas amongst the joint auditors that define the scope of the work of each joint auditor;
  - c. Ascertain the nature, timing and extent of resources necessary to perform the engagement.
  - d. Consider and communicate among all joint auditors the factors that, in their professional judgment, are significant in directing the engagement team's efforts;
  - e. Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
5. After identification and allocation of work among the joint auditors, the work allocation document shall be signed by all the joint auditors and the same shall be communicated to those charged with governance of the entity. (Ref: Note 1 Below)
6. At this stage, risks of material misstatement need to be considered and assessed by each of the joint auditors and shall be communicated to other joint auditors, and documented, whether pertaining to the overall financial statements level or to the area of allocation among the other joint auditors.
7. The joint auditors shall discuss and document the nature, timing, and the extent of the audit procedures for common and specific allotted areas of audit to be performed by each of the joint auditors and the same shall be communicated to those charged with governance.
8. The joint auditors shall obtain common management representation letter.

**Note 1: Ref Point 5 above: Include if Question is specifically asked on Documentation**

The documentation of allocation of work helps in avoiding any dispute or confusion which may arise among the joint auditors regarding the scope of work to be carried out by them. Further, the communication of allocation of work to the entity helps in avoiding any dispute or confusion which may arise between the entity and the joint auditors



**RESPONSIBILITY AND CO-ORDINATION AMONG JOINT AUDITORS**



A)

**PART A) SPECIFIC RESPONSIBILITIES**

1. In respect of audit work divided among the joint auditors, each joint auditor shall be responsible only for the work allocated to such joint auditor including proper execution of the audit procedures.

2a,2b,2c.

It shall be the responsibility of each joint auditor to determine the nature, timing and extent of audit procedures to be applied in relation to the areas of work allocated to said joint auditor. It is the individual responsibility of each joint auditor to study and evaluate the prevailing system of internal control and assessment of risk relating to the areas of work allocated to said joint auditor.

**PART B) JOINT RESPONSIBILITIES**

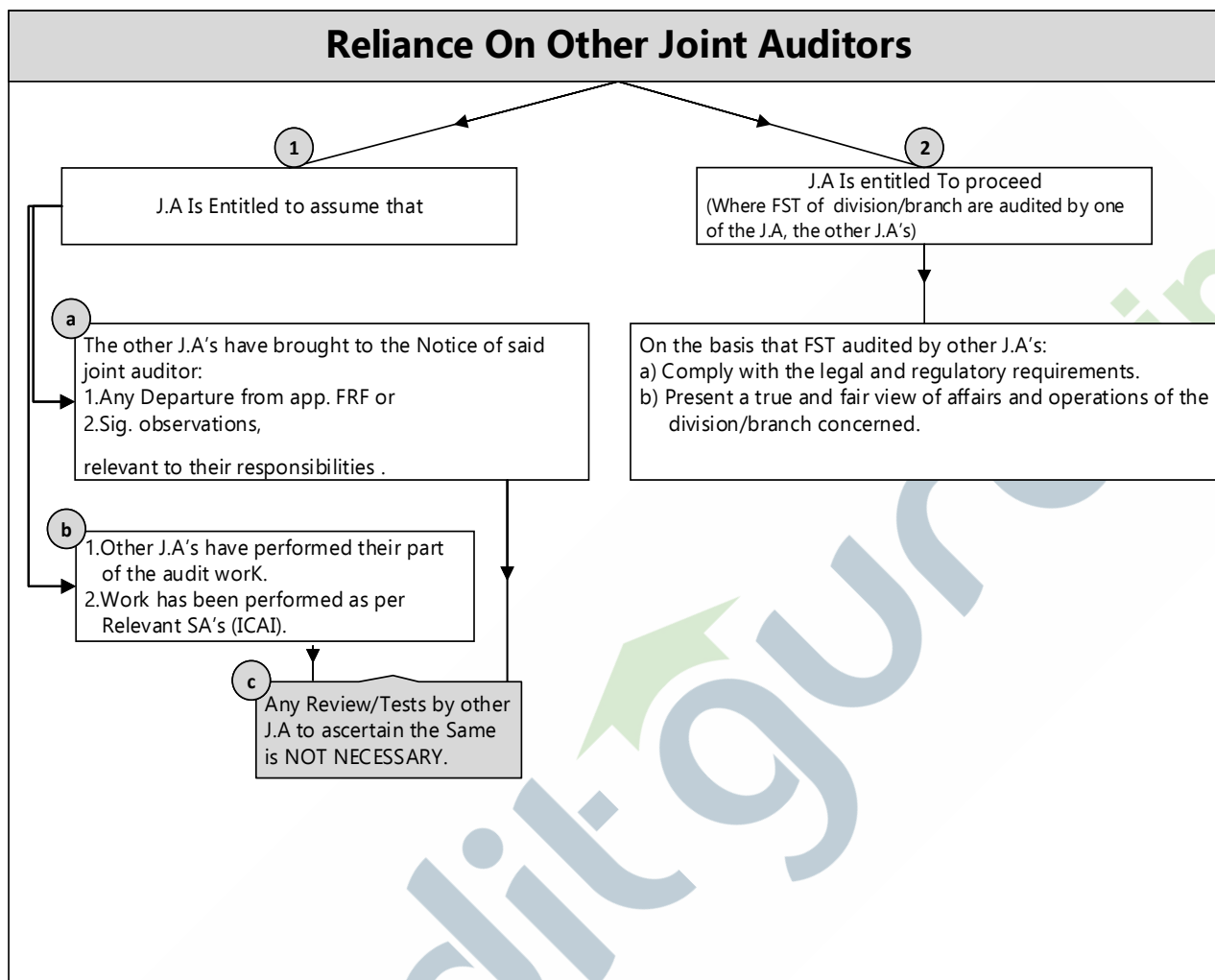
All the joint auditors shall be jointly and severally responsible for:

1. The audit work which is not divided among the joint auditors and is carried out by all joint auditors;
2. Decisions taken by all the joint auditors under audit planning in respect of common audit areas concerning the nature, timing and extent of the audit procedures to be performed by each of the joint auditors.
3. Matters which are brought to the notice of the joint auditors by any one of them and on which there is an agreement among the joint auditors;
4. examining that the financial statements of the entity comply with the requirements of the relevant statutes;
5. Presentation and disclosure of the financial statements as required by the applicable financial reporting framework;
6. Ensuring that the audit report complies with the requirements of the relevant statutes, the applicable Standards on Auditing and the other relevant pronouncements issued by ICAI.

**Coordination:**

- Where, in the course of the audit, a joint auditor comes across matters which are relevant to the areas of responsibility of other joint auditors and which deserve their attention, or which require disclosure or require discussion with, or application of judgment by other joint auditors, the said joint auditor shall communicate the same to all the other joint auditors in writing prior to the completion of the audit.

## RELIANCE

**1.Each joint auditor is entitled to assume that:**

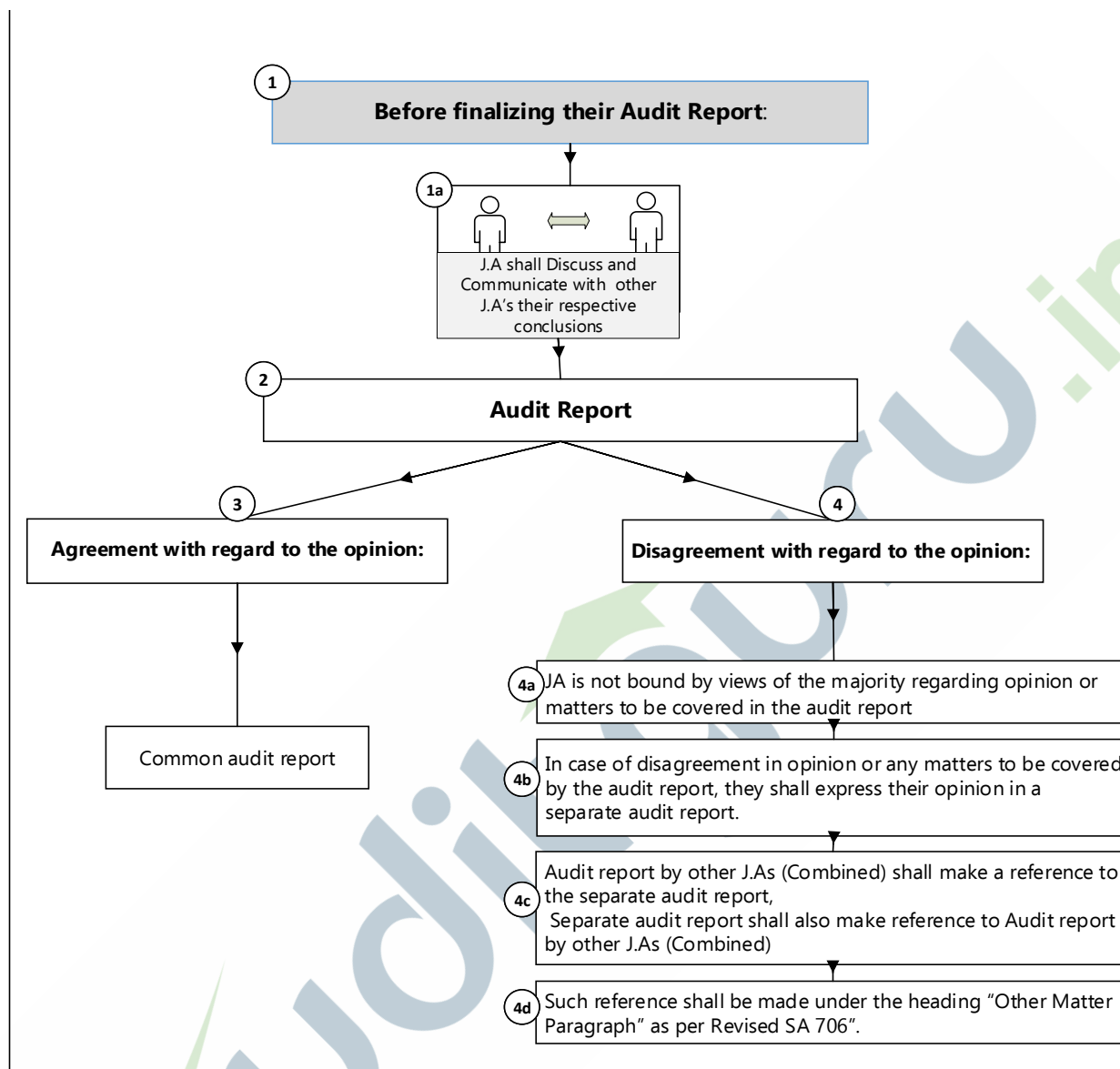
**a.** The other joint auditors have brought to said joint auditor's notice any departure from applicable financial reporting framework or significant observations that are relevant to their b.responsibilities noticed in the course of the audit.

**b.** The other joint auditors have carried out their part of the audit work and the work has actually been performed in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India.

**c.** It is not necessary for a joint auditor to review the work performed by other joint auditors or perform any tests in order to ascertain whether the work has actually been performed in such a manner.

**2.** Where financial statements of a division/branch are audited by one of the joint auditors, the other joint auditors are entitled to proceed on the basis that such financial statements comply with all the legal and regulatory requirements and present a true and fair view of the state of affairs and of the results of operations of the division/branch concerned.

## AUDIT CONCLUSION AND REPORTING



The joint auditors are required to issue common audit report, however, where the joint auditors are in disagreement with regard to the opinion or any matters to be covered by the audit report, they shall express their opinion in a separate audit report.

A joint auditor is not bound by the views of the majority of the joint auditors regarding the opinion or matters to be covered in the audit report and shall express opinion formed by the said joint auditor in separate audit report in case of disagreement. In such circumstances, the audit report(s) issued by the joint auditor(s) shall make a reference to the separate audit report(s) issued by the other joint auditor(s). Further, separate audit report shall also make reference to the audit report issued by other joint auditors.

Such reference shall be made under the heading "Other Matter Paragraph" as per Revised SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report".

Before finalizing their audit report, the joint auditors shall discuss and communicate with each other their respective conclusions that would form the content of the audit report.

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

**Note: Communication with TCWG**

**J.A's shall communicate with TCWG the following:**

In case J.A's expect to modify the Report:

Circumstances that led to the expected modification and the proposed wording of the modification to ensure compliance with Revised SA 705.

In case J.A's expect to include an EOM or an OM paragraph in the Report:

Expectation and the proposed wording of this paragraph to ensure compliance with Revised SA 706.

When the joint auditors expect to modify the opinion in the auditor's report, the joint auditors shall communicate with those charged with governance the circumstances that led to the expected modification and the proposed wording of the modification to ensure compliance with Revised SA 705, "Modifications to the Opinion in the Independent Auditor's Report".

If the joint auditors expect to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the joint auditors shall communicate with those charged with governance regarding this expectation and the proposed wording of this paragraph to ensure compliance with Revised SA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report".

## OBJECTIVES

The objectives of this Standard are:

- (a) To lay down broad principles for the joint auditors in conducting the joint audit.
- (b) To identify the distinct areas of work and coverage thereof by each joint auditor.
- (c) To provide a uniform approach to the process of joint audit.
- (d) To identify individual responsibility and joint responsibility of the joint auditors in relation.

**(SA) 720 (Revised)**  
**THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER**

### 1. OTHER INFORMATION

➤ Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

### 2. OBTAINING THE OTHER INFORMATION

➤ The auditor shall:

- (a) Determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s);
- (b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the document(s) comprising the annual report; and
- (c) When some or all of the document(s) determined in (a) will not be available until after the date of the auditor's report, request management to provide a written representation that the final version of the document(s) will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by this SA.

### 3. READING AND CONSIDERING THE OTHER INFORMATION

➤ The auditor shall read the other information and, in doing so shall:

- (a) Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements; and
- (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit.

➤ While reading the other information in accordance with above paragraphs, the auditor shall remain alert for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated.

### 4. RESPONDING WHEN A MATERIAL INCONSISTENCY APPEARS TO EXIST, OR OTHER INFORMATION APPEARS TO BE MATERIALLY MISSTATED.

➤ If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether:

- (a) A material misstatement of the other information exists;
- (b) A material misstatement of the financial statements exists; or
- (c) The auditor's understanding of the entity and its environment needs to be updated.

## 5. RESPONDING WHEN THE AUDITOR CONCLUDES THAT A MATERIAL MISSTATEMENT OF THE OTHER INFORMATION EXISTS

- If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:
  - (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or
  - (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.
  
- If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including:
  - (a) Considering the implications for the auditor's report and communicating with those charged with governance about how the auditor plans to address the material misstatement in the auditor's report
  - (b) Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.
- If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:
  - (a) If the other information is corrected, perform the procedures necessary in the circumstances; or
  - (b) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared.

## 6. RESPONDING WHEN A MATERIAL MISSTATEMENT IN THE FINANCIAL STATEMENTS EXISTS OR THE AUDITOR'S UNDERSTANDING OF THE ENTITY AND ITS ENVIRONMENT NEEDS TO BE UPDATED.

- If, as a result of performing the procedures in paragraphs to "Reading & Consideration of Other Information", the auditor concludes that a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other SAs.

## 7. REPORTING

- The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:
  - (a) For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or
  - (b) For an audit of financial statements of an unlisted corporate entity, the auditor has obtained some or all of the other information.
  
- When the auditor's report is required to include an Other Information section in accordance with paragraph above para, this section shall include:
  - (a) A statement that management is responsible for the other information;
  - (b) An identification of:
    - (i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and
    - (ii) For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report;
  - (c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;



- (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this SA; and
- (e) When other information has been obtained prior to the date of the auditor's report, either:
- (i) A statement that the auditor has nothing to report; or
- (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

➤ When the auditor expresses a qualified or adverse opinion in accordance with SA 705 (Revised),<sup>3</sup> the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in above paragraph Point (e).

## 8. OBJECTIVE

- The objectives of the auditor, having read the other information, are:
- (a) To consider whether there is a material inconsistency between the other information and the financial statements;
- (b) To consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit;
- (c) To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated; and
- (d) To report in accordance with this SA.

## 9. NOT APPLICABLE

- This SA does not apply to:
- (a) Preliminary announcements of financial information; or (Infosys use to give guidance about next quarter)
- (b) Securities offering documents, including prospectuses. (Red Hearing Prospectus)
- The auditor's responsibilities under this SA do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.
- Law or regulation may impose additional obligations on the auditor in relation to other information that are beyond the scope of this SA. *(Certificate on Corporate Governance Which involves examining CG report in Annual Report)*

## 10. ILLUSTRATIONS

**Illustration 1** – An auditor's report of a company, whether listed or unlisted, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

**Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

The Company's Board of Directors is responsible for the other information. The other information comprises the [information included in the X report, but does not include the financial statements and our auditor's report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial

statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Illustration 2** – An auditor’s report of a listed company containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.

**Other Information [or another title if appropriate, such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]**

The Company’s Board of Directors is responsible for the other information. The other information comprises the X report (but does not include the financial statements and our auditor’s report thereon), which we obtained prior to the date of this auditor’s report, and the Y report, which is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

[When we read the Y report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and [describe actions applicable under the applicable laws and regulations]]

