

Chapter - 13 "Group Audits"

Part I : Concept of Consolidated F.S.

(Legal Provisions and Accounting Aspects)

Part II : Auditor's Considerations

↓ along with SA 600

✓ Auditor's Responsibilities

✓ Planning an audit of CFS

✓ General Audit Considerations

- Special " "

- Management Representations

- Reporting Considerations

I. Concept of Consolidated financial statements:

(A) Statutory Requirement u/s 129(3) of Companies Act, 2013:

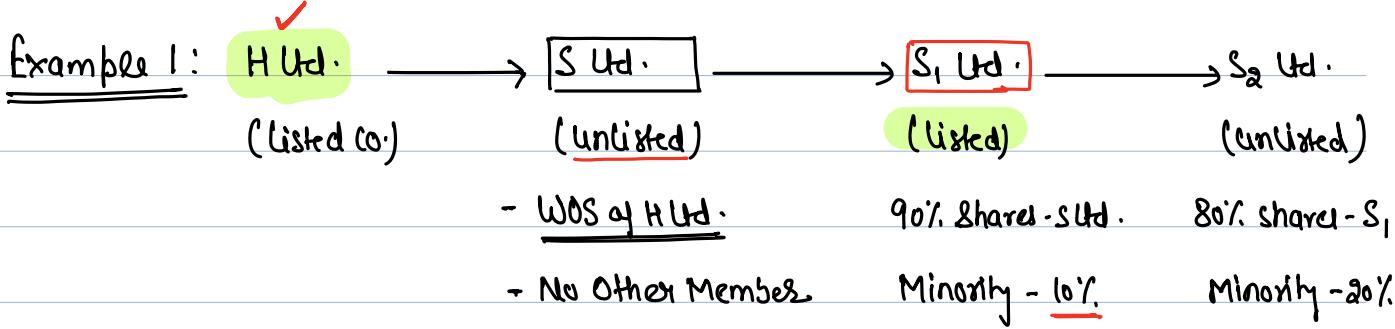
- Every company having ≥ 1 subsidiary, shall, prepared CFS of Company and its subsidiaries, in the same form and manner as that of its own F.S.
- Company shall also attach a Salient features statement in Form AOC-1 of all of its subsidiaries.

Rules of Companies (Accounts) Rules, 2014:

- Consolidation shall be in accordance with Sch-II and applicable AS (AS-21 or Ind AS 110)
- If company is not required to prepare CFS under AS, it shall be sufficient if company complies with provision of Sch-III.

Exemption: Requirement of CFS not applicable if :

- (a) Company is a WOSI POS of another Co. and all its other members intimated in writing and do not object to company not preparing CFS. [⊕]
- (b) Securities of Co. are not listed or not in process of listing on any SE. [⊕]
- (c) Ultimate or intermediate holding Co. files CFS with the ROC which are in compliance with applicable ASs.



Assuming that all conditions stated in Rule 6 are fulfilled,
which of these companies are required to prepare CFS.

- (a) Only H Ltd.
 - (b) H Ltd. and S Ltd.
 - (c) S Ltd. and S, Ltd.
 - (d) H Ltd., S Ltd. and S, Ltd.

(B) Exemption from Consolidation as per AS-21:

A subsidiary shall not be consolidated, if:

- (i) Control of holding Co. over subsidiary is **Temporary in nature** as holding Co. acquires shares in subsidiary with intention of subsequent disposal in future. OR

(ii) Subsidiary operate under **severe restrictions** that impair its ability to draw for funds to holding.

Example 2: H Ltd. is holding of ABC Ltd. and XYZ Ltd. H Ltd. acquires 70% shares of MN Ltd. on 01.01.2023 and disposed 60% shares of MN Ltd. on 31.12.2023.

For FY 2022-23, Mtd. is required to prepare CFS and Consolidation will be for:

- (a) ABC Ltd., XYZ Ltd. and MN Ltd.

~~(b)~~ ABC Ltd. and XYZ Ltd.

(c) MN Ltd.

(d) No consolidation required.

(C) Exemption from consolidation - as per Ind AS 110 :

Para 31: Investment company shall not consolidate its subsidiaries .
" " shall measure the investments in subsidiary at fair value through profit / loss in accordance with Ind AS - 109 .

Investment Company: An entity that :

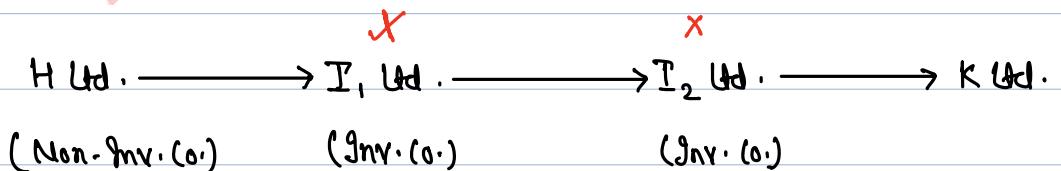
(a) obtains funds from one or more investors, for the purpose of providing Investment Mngt. Services.
④

(b) commits to its investors that its business purpose is to invest funds solely for returns from Capital appreciation or investment income or both.
⊕

(c) measures and evaluate the performance of its investments on a fair value basis.

Para 33: Parent of an Investment Co. shall consolidate all Entities that it controls, including those that are controlled through Investment Entity subsidiary, provided parent itself is a non-investment co.

Example 3:



which of these companies required to consolidate the F.S. and info. of which companies are to be consolidated .

Sol: H Ltd. is required to consolidate the F.S. and info. of all companies is to be considered .

I Ltd. → I, Ltd. → I₂ Ltd. → K Ltd .

Which Co. is required to prepare consolidated F.S.

Sol.: Consolidation is not required as parent Co. is also a Investment Co.

- (d) Responsibility of Parent :
- (i) Preparation and presentation of CFS
 - (ii) Identification of components and financial information of components to be included in CFS.
 - (iii) Identification of Reportable Segments.
 - (iv) " " Related parties and drawings with Related parties
 - (v) Obtaining info. from Components - accurate and complete.
 - (vi) Making consolidation adjustments - Current as well as Permanent.
 - (vii) Harmonisation of Accounting Policies and accounting framework.
 - (viii) GAAP conversion, if applicable.

(e) Steps involved in prepⁿ of CFS : (Self-Study)

- (f) Info. to be disclosed in CFS:
- Amt. - Net Assets and: Net Assets as % of consolidated net Assets
 - " - Share in Profit and: % age share in Profit or loss or loss
 - " - OCI and: % age share in consolidated OCI
 - " - TCI and: % age share in consolidated TCI.

(g) Information need not be disclosed in CFS: Self-Study (Learning)

Part - II "Auditor's Considerations"

- (i) Responsibilities of Auditor of CFS: (a) To Express an opinion on true and fair view of Consolidated F.S. (b) To Express an opinion whether CFS are being prepared in all material respects as per applicable FRF
(c) To Inquire on the matters specified u/s 143(1) of Companies Act, 2013.
(d) To report on matters:
 (i) covered u/s 143(3) of Companies Act, 2013
 (ii) Internal financial Controls
 (iii) covered under Rule 11 of CAAR, 2014.
(e) To report under CARO, 2020 - Para 3 (xxi), if applicable*

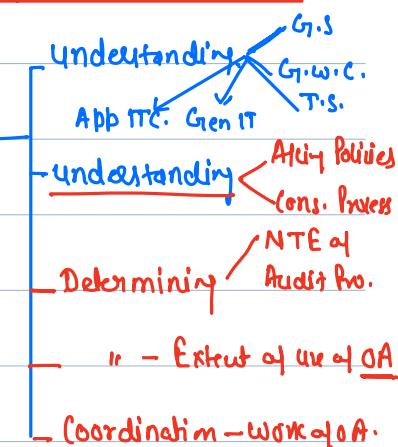
* Qualifications included in CARO Reporting in case of Standalone financial statements.

Note: While conducting audit of CFS, auditors are expected to

- (a) plan the work so as to conduct audit efficiently and effectively.
(b) Obtain understanding of accounting and Internal Control system to determine NTE of audit procedures.
(c) Use professional judgement to assess audit risk and to design audit procedures to reduce risk to an appropriate low level.

- (iv) Planning the audit of CFS:

Learning + Noting - H.W



(iii) General Audit Consideration: - Reading from book -

Using the work of other auditor: SA 600

With regard to determination of materiality during audit of CFS, auditor should consider the following:

- (a) Compute the materiality for the group as a whole and used this materiality to assess the appropriateness of consolidation adjustments.
- (b) Such materiality can also be used to determine whether Component F.S. are material to the group to determine whether they should scope in additional components.
- ✓(c) PA also computes materiality for each component and communicates to Component Auditor, if required for true and fair view of CFS.
- (d) Obtain confirmation from auditor of components w.r.t. Independence, Code of Ethics, information required for consolidation, disclosure requirements etc.

Note: while considering modifications / EoM Paragraphs of the Component Auditors issued in accordance with SA 705 / SA 706, PA should comply with requirements of SA 600.