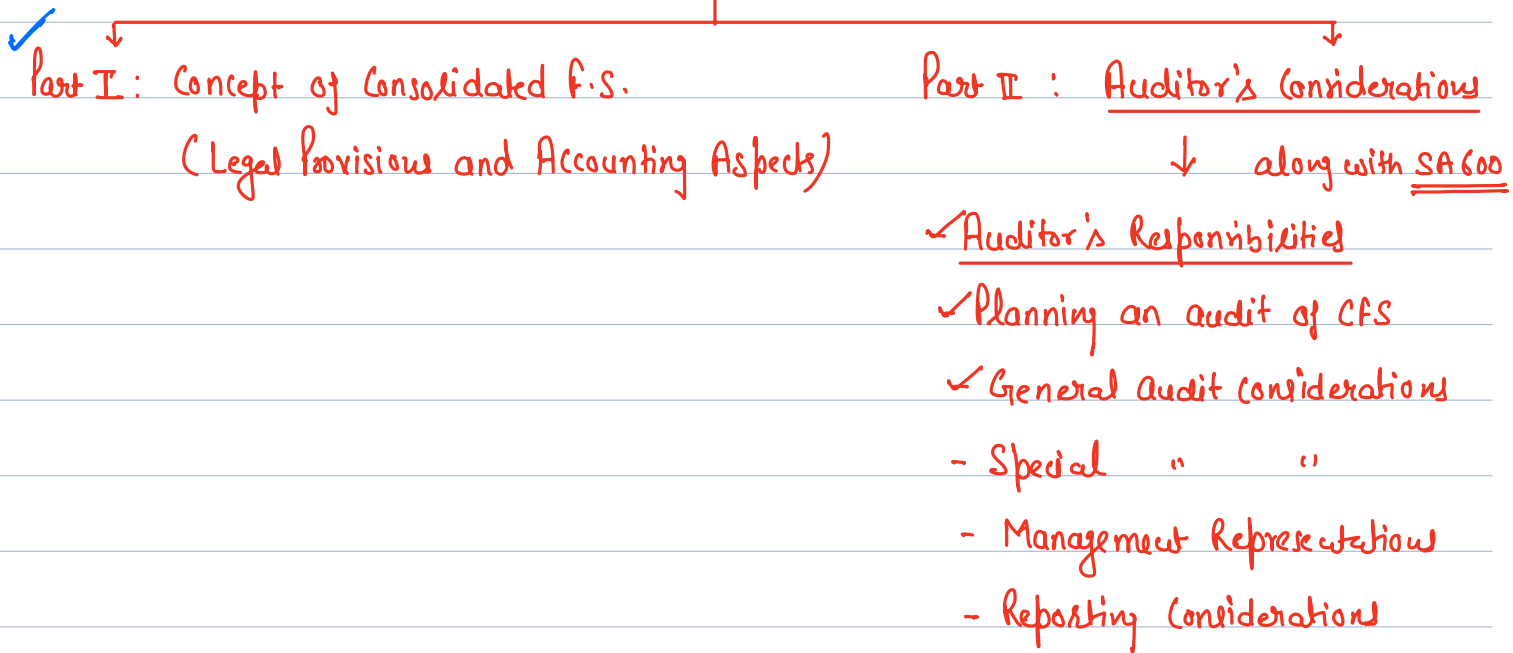


Chapter - 13 "Group Audits"



I. Concept of Consolidated Financial Statements:

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

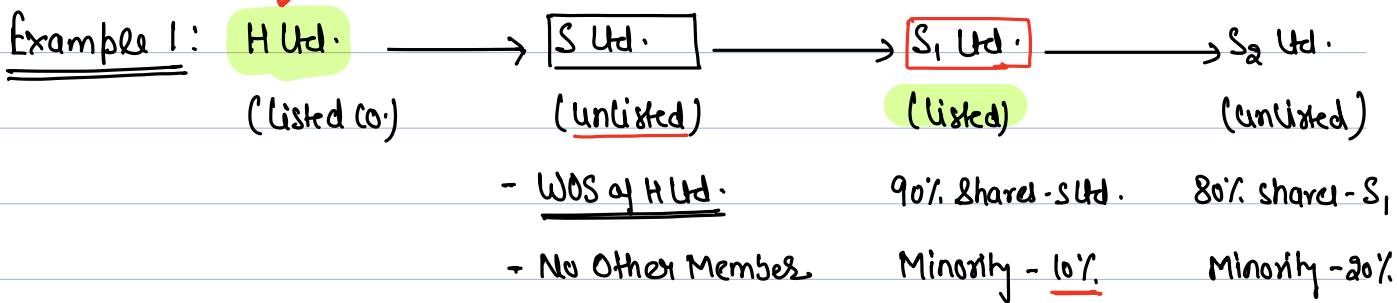
- Every company having ≥ 1 subsidiary, shall, prepared CFS of company and its subsidiaries, in the same form and manner as that of its own F.S.
- Company shall also attach a salient features statement in Form AOC-1 of all of its subsidiaries.

Rules of Companies (Accounts) Rules, 2014:

- Consolidation shall be in accordance with Sch-III 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 provisions of Sch-III.

Exemption: Requirement of CFS not applicable if:

- ✓ (a) Company is a WOS/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 S.E.
- ✓ (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 S₁ Ltd.
- (d) H Ltd, S Ltd. and S₁ Ltd.
- (e) H Ltd. and S₁ 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% share of MN Ltd. on 01.01.2023 and draw for 60% shares of MN Ltd. on 31.12.2023.

For FY 2022-23, H Ltd. 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.

- (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 transactions 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 % age 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 to 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. (or) To Express an opinion whether CFS are being prepared in all material respects as per applicable FRF
 - (b) To Inquire on the matters specified U/s 143(1) of Companies Act, 2013.
 - (c) 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.
 - (d) To report under CARO, 2020 - Para 3 (xxi), if applicable*

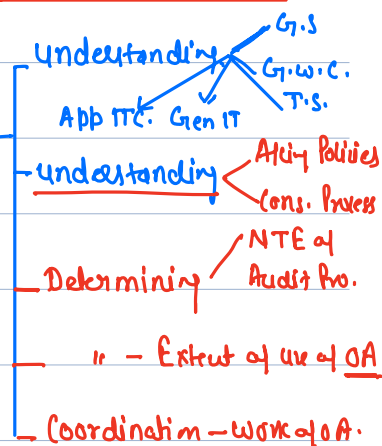
* Qualifications included in CARO Reporting in case of Standalone financial statements.

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.

(ii) Planning the audit of CFS:

Learning + Noting - H.W



(iii) General Audit Considerations: - 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 use 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 component 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.