

13.1 – Auditor's Considerations

Q.1 M/s S.S. & Associates has been appointed as the principal auditor for the Consolidated Financial Statements (CFS) of Vibrant Group, which comprises a parent company and twelve subsidiaries. During the initial audit planning meeting, the engagement partner, CA Sunil, suggests that since the subsidiaries have already been audited individually by other statutory auditors, the firm only needs to perform a high-level review of the final consolidated numbers.

He further argues that the detailed requirements of Standards on Auditing (SAs) and Guidance Notes issued by the ICAI are primarily intended for standalone audits and should not be applied with the same rigour to a consolidation engagement.

In light of the relevant provisions, evaluate the applicability of ICAI pronouncements to the audit of CFS and discuss the specific actions expected from the auditor while conducting such an audit.

Ans.: Applicability of ICAI pronouncements to the audit of CFS:

As per the Guidance Note on Audit of Consolidated Financial Statements, the Standards on Auditing (SAs), Statements, and Guidance Notes on auditing matters issued by the Institute of Chartered Accountants of India (ICAI) apply in the same manner to the audit of consolidated financial statements (CFS) as they apply to the audit of standalone financial statements.

This implies that the auditors, while conducting the audit of CFS, are, inter alia, expected to:

- Plan their work to enable them to conduct an effective audit in an efficient and timely manner.
- Obtain an understanding of the accounting and internal control systems, including IT systems like consolidation tools, sufficient to plan the audit and determine nature, timing, and extent of audit procedures. Such an understanding helps the auditors to develop an effective audit approach.
- Use professional judgement to assess audit risk and to design audit procedures to ensure that the risk is reduced to an acceptable level.

Conclusion: The contention of CA Sunil is incorrect. The principal auditor cannot limit their work to a high-level review simply because components are audited. They must apply all relevant SAs and Guidance Notes to the consolidation process, ensuring that they properly plan the engagement, understand the group's consolidation controls, and perform risk-responsive procedures to ensure the CFS presents a true and fair view.

Q.2 M/s K.N. & Associates is the principal auditor of Global-Tech Ltd., a multinational group with several domestic and foreign subsidiaries. During the audit of the Consolidated Financial Statements (CFS) for the year ended 31st March 2026, the audit team noted that a foreign subsidiary, acquired three years ago, has been consistently reporting losses.

The parent company has recorded an impairment loss for the goodwill arising from this acquisition in the foreign currency of the component. However, the management has not adjusted any amounts in the currency translation reserve despite significant exchange rate fluctuations since the acquisition date. Furthermore, the minority interest's share of losses in another subsidiary has exceeded their share of equity, but the management is unsure of the appropriate accounting treatment for this excess loss in the CFS.

Discuss the auditor's duties and the specific procedures to be performed regarding the verification of impairment loss on goodwill and the treatment of minority interest losses.

Ans.: Procedures to be performed regarding the verification of impairment loss on goodwill:

The auditor's responsibilities regarding current period consolidation adjustments for impairment and minority interests are as follows:

- **Testing for Impairment:** The auditor should verify that goodwill arising on consolidation, which is carried at the value determined at the date of acquisition, is tested for impairment loss at every balance sheet date.
- **Review of Parent's Procedures:** The auditor must examine whether any impairment loss has been determined by the parent and evaluate the procedures followed for such determination to satisfy themselves that the amount of impairment loss is fair.
- **Foreign Currency Adjustments:** If impairment loss in goodwill for a component is determined in foreign currency, the auditor should verify if any amount of loss in local currency needs to be adjusted from the currency translation reserve due to exchange rate movements from the initial accounting date to the date of impairment determination.
- **Intragroup Losses:** The auditor should perform procedures to understand and verify whether intragroup losses indicate an impairment loss that requires recognition in the consolidated financial statements.
- **Minority Interest Losses:** Apart from verifying calculations and disclosures, the auditor must determine, in cases where the minority interests' share of the losses exceed the minority/non-controlling interests' share of the equity, the excess, and any further losses applicable to the minority interest, have been accounted for in accordance with the relevant accounting standards.

Q.3 M/s S.K. & Associates is auditing the Consolidated Financial Statements (CFS) of Orbit Industries Ltd. for the year ended 31st March 2026. The group includes a foreign subsidiary whose financial statements are drawn up to 31st December 2025, as it is not practicable to align the dates.

The management has consolidated these figures without any further adjustments, arguing that a three-month gap is permissible under Ind AS. Furthermore, the subsidiary changed its reporting period from six months to twelve months during the year, but this change has not been specifically disclosed.

Discuss the auditor's duties regarding components with different reporting dates and the impact of changes in reporting periods.

Ans.: Auditor's duties regarding components with different reporting dates:

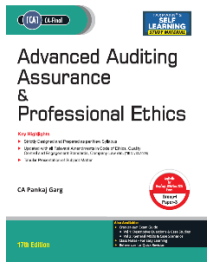
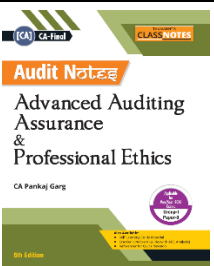
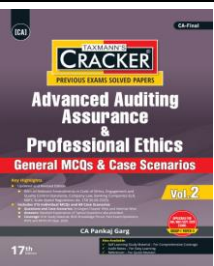
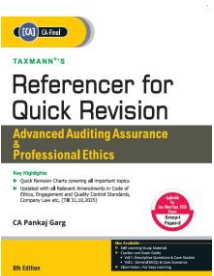
Auditor must ensure that the financial statements of components used in consolidation are drawn up to the same reporting date as the parent. If this is not practicable, the auditor has the following duties:

- (a) Ensure that adjustments are made for the effects of significant transactions or other events that occur between the component's reporting date and the parent's financial statement date.
- (b) Verify that the difference between reporting dates does not exceed six months for financial statements under AS and three months for financial statements under Ind AS.
- (c) Review the component's results between its reporting date and that of the parent for significant transactions or events that need to be reflected in the CFS.
- (d) Ensure that recognition, through disclosure or otherwise, must be given to the effect of intervening events that materially affect the financial position, results of operations, or cash flows.

	(e) Consider whether the length of reporting periods and any difference in year-ends are consistent from period to period. If there are changes in the reporting periods of components that have a material effect, auditor should ensure the entity discloses these changes and the manner of treatment in the financial statements. In the given case, the auditor must ensure that Orbit Industries Ltd. makes specific adjustments for significant transactions occurring between January and March 2026 for the subsidiary. Additionally, the auditor should insist on the disclosure of the change in the subsidiary's reporting period to comply with the fundamental accounting assumption of consistency.
Q.4	M/s J.P. & Associates is conducting the audit of the Consolidated Financial Statements (CFS) of Mega-Build India Ltd., a large infrastructure group with twenty subsidiaries. During the review, CA Jatin observes that the draft CFS essentially duplicates every standalone note from the subsidiaries, leading to a cluttered report. Furthermore, the management has omitted granular data regarding the net assets and profit contribution of individual components, claiming this information is already available in their separate audited reports. Considering the requirements under the Companies Act, 2013, answer the following: (a) What are the statutory requirements regarding the relevance of disclosures in the CFS versus standalone financial statements? (b) Discuss the specific duties of the auditor in examining the notes and additional statutory information included in the CFS. (c) Identify the specific information required to be disclosed for each component (including foreign components) as per Schedule III. Ans.: (a) Statutory requirements regarding relevance of disclosures in CFS versus standalone F.S.: As per the Ministry of Corporate Affairs (MCA), Circular number 39/2014, Schedule III to the Act read with the applicable Accounting Standards does not envisage that a company while preparing its consolidated financial statements merely repeats the disclosures made by it under separate financial statements being consolidated. In the consolidated financial statements, the company would need to give all disclosures relevant to consolidated financial statements only. (b) Auditor's duties in examining notes and additional statutory information: The auditor should: (i) examine that the notes required by the applicable standards which are necessary for presenting a true and fair view of the consolidated financial statements have been included in the consolidated financial statements as an integral part thereof; and (ii) examine that additional statutory information disclosed in the separate financial statements of the subsidiary and/or a parent having bearing on the true and fair view of the consolidated financial statements have been disclosed in the consolidated financial statements. (c) Specific information to be disclosed for each component (including foreign components): Pursuant to the general instructions of Schedule III, the following information must be disclosed separately for the parent and each of its components (including foreign entities) which has been consolidated: (i) amount of net assets and net assets as a percentage of consolidated net assets; (ii) amount of share in profit or loss and the percentage share in profit or loss as a percentage of consolidated profit or loss; (iii) amount in other comprehensive income (OCI) and the percentage of OCI as a percentage of Consolidated OCI.

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