

# Consolidated Financial Statements (CFSs) & Audit Report on CFSs



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Under the earlier dispensation, that is, as per the Companies Act 1956, there was no requirement to prepare consolidated financial Statements but there is a mandate to present CFSs under Clause 32 of the Listing Agreement states that the Company (Listed) shall mandatorily publish consolidated financial statements in its Annual Report in addition to the individual financial statements.



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But, there is a sea change in Section 129 of the Companies Act, 2013 which now mandates preparation of consolidated financial statements by all companies having subsidiaries and/associates and /joint ventures or joint operations. Similarly, paragraph 9 of AS 21(Revised) requires enterprises which do not have a subsidiary but have an associate and/or a joint venture also to prepare consolidated financial statements in accordance with AS 23 and AS 27 respectively. For Companies covered by Ind. AS, the relevant accounting standard is Ind. AS 110 – Consolidated Financial Statements. In other words all companies listed and unlisted including private limited companies having subsidiaries need to prepare CFS.

Again, as per Section 129(4) of the Companies Act, 2013, the provisions of the Act applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, apply to the consolidated financial statements.

Further, pursuant to first proviso to Section 129 (3) of the Act, 2013 read with Rule 5 of the Companies (Accounts) Rules, 2015, a Company shall along with its financial statements attach a separate statement containing the salient features of the financial statements of its

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subsidiary or subsidiaries in form AOC 1. In the light of this, individual subsidiary accounts of subsidiaries... are not attached with the holding company accounts.

But, the Board's Report of the holding company shall include a Separate section wherein a report on the performance and financial position of each:

- Subsidiary
- Associate
- Joint venture companies, including in the consolidated financial statement is presented.

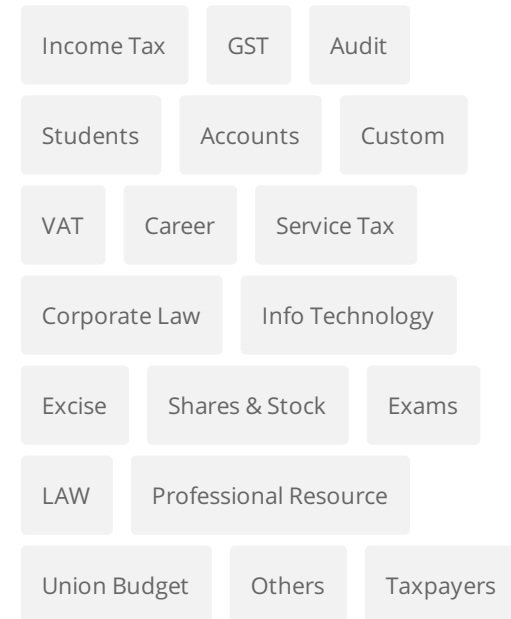
Rule 8(1) of the Companies (Accounts) Rules, 2014 provides that the Report shall be prepared based on the stand alone financial statements of the company and shall contain a separate section wherein the report of the financial position of each of the subsidiaries, associates and joint venture companies, included in the consolidated financial statement is presented, and their contribution to the overall performance of the company during the period under Report. Since the information requirements stipulated in the above Rule are covered as part of the information contained in AOC-1 required under section 129 of the Act, it is an industry practice to refer to AOC-1 in the Report, for the purpose of compliance thereof.

In addition to financial statements provided under sub-section (2) of Sec. 129, a consolidated financial statement of the company and of all the subsidiaries and associate companies in the same form and in the same form and manner as that of its own and in accordance with applicable accounting standards, which shall also be laid before the annual general meeting of the company along with the laying of its financial statement under the sub-section.

Now, let us travel through Consolidated Audit Report Format to see the apparent/noticeable difference between SEBI Format as per CIR/CFD/CMD/1/44/2019 dated 29/09/2019 and ICAI Guidance Note on Audit of Consolidated Financial Statements (Revised 2016) in respect of:



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Consolidated Audit Report Format Difference between SEBI Format as per CIR/CFD/CMD/1/44/2019 dated 29/09/2019 and ICAI Guidance Note on Audit of Consolidated Financial Statements (Revised 2016)

SEBI	ICAI
<p>In respect of:</p> <p>(a) Financial statements/ financial information/financial results of these branches and joint operations have been audited by the branch auditors and other auditors whose reports have been furnished to us</p> <p>(b) Financial information/financial results of ____ subsidiaries included in the consolidated financial results but not audited by the holding company auditor:</p> <p>(c) Financial statements/financial information/ financial results are unaudited and have been furnished to us by the Management</p> <p>We did not audit the interim financial statements / financial information/financial results of ____ subsidiaries included in the consolidated financial results, whose interim financial statements / financial information/financial results reflect total assets<sup>23</sup> of Rs. ____<sub>24</sub> as at____, total revenues of Rs.____and Rs.____, total net profit / (loss) after tax of Rs.____and Rs.____, and total comprehensive income/ loss of</p>	<p>In respect of:</p> <p>(a) Financial statements / financial information have been audited by other auditors whose reports have been furnished to us by management.</p> <p>(b) Financial statements / financial information are unaudited and have been furnished to us by the Management</p> <p>We did not audit the financial statements /financial information of ____ subsidiaries, and ____ jointly controlled entities /joint operations 53, whose financial statements/ financial information reflect total assets of Rs.____ and net assets of Rs. ____ as at 31st March, 20XX, total revenues of Rs. __ and net cash outflows/ (inflows) 54 amounting to Rs. ____for the year ended on</p>

Rs.\_\_\_\_and Rs.\_\_\_\_for the for the quarter ended\_\_\_\_\_ and for the period from\_\_\_\_ to\_\_\_\_ respectively, and cash flows (net)25 of Rs. \_\_\_\_ for the period from\_\_\_\_ to\_\_\_\_ , as considered in the consolidated financial results. The consolidated financial results also include the Group's share of net profit/loss after tax of Rs. \_\_\_\_and Rs.\_\_\_\_ and total comprehensive income/ loss of Rs.\_\_\_\_ and Rs.\_\_\_\_ for the quarter ended\_\_\_\_\_ and for the period from\_\_\_\_ to\_\_\_\_, respectively, as considered in the consolidated financial results, in respect of \_\_\_\_associates and \_\_\_\_ joint ventures, whose interim financial statements / financial information/financial results have not been audited by us.

PS:

23) Figures for total assets to be reported when balance sheet is also presented with the income statements.

24) All amounts, whether audited by other auditors or unaudited to be presented before giving effect to the permanent and current period consolidation adjustments as specified by paragraph 50 of the Guidance Note on Audit of Consolidated Financial Statements issued by the ICAI.

These financial statements/financial information/financial results have been audited by

that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. \_\_for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of\_\_ associates and joint ventures, whose financial statements / financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us by the management.

PS:

53) As the case may be as per the relevant accounting standards.

54) Please delete what is not applicable in the given case

other auditors whose reports have been furnished to us by the Management and our opinion on the consolidated financial results, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, associates and joint ventures, is based solely on the reports of the other auditors and the procedures performed by us as stated in paragraph 3 of SEBI Circular

In the above table, for brevity, one example has been taken out of three (SEBI), one out of two (ICAI Guidance Note on CFS) for reason to study 'what is total assets? -

Under SEBI Circular above mentioned, in the note to the suggested consolidated audit report, total assets are to be reported when balance sheet is also presented with the income statements in all the three cases (a, b &c). It is clear on that.

As against SEBI, in ICAI format, on a situation, that is, when where subsidiary or the accounts either not audited by the Holding company auditor nor audited by any auditor, in the other related two examples (a & b), the total assets are used in the context 'We did not audit the financial statements/ financial information of \_\_\_\_\_ subsidiaries, and \_\_\_\_\_ jointly controlled entities /joint operations, whose financial statements/ financial information reflect total assets of Rs.\_\_\_\_ and net assets of Rs. \_\_\_\_ as at 31st March, 20XX. (Illustration 2: Unmodified Opinion)

But, Para 50 of the Guidance Note is crystal clear to state, to quote, 'Total assets, revenues and cash flows not audited by the parent's auditor should be presented before giving effect to permanent and current period consolidation adjustments'.

Therefore, different treatment is given by different auditors; in view of the word 'net' is also used with respect to assets. PS. (53) as the case may be as per the relevant accounting standards.

It is high time the Institute rise to the occasion to clarify so that confusion is fused on the issue.

In the meantime, I solicit, appeal and invite eminent auditing community to come forward to clarify as to the correct position that will be very useful and highly helpful.

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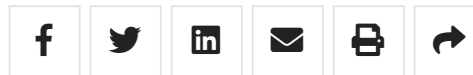
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