

# AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

## FRAMEWORK of CONSOLIDATED FINANCIAL STATEMENTS

- It includes :-
- Consolidated Balance Sheet
  - Consolidated Profit & Loss St.
  - Consolidated Cash flow St.
  - Consolidated Statement of Changes in Equity.
  - Consolidated Notes to Accounts.

# Formats for prep of CFS as per SCH-III

Division - I

(Accounting Standard Based)

Division - II

(Indian AS Based)  
↓  
IND AS

## As per Section-129(3) :-

Parent's prep

↓  
Own FS

↓  
Consolidated FS of its

Components

→ Sub  
→ J.V  
→ Associates.

Every parent company along with its Standalone Fin<sup>l</sup> Sts. shall also prepare

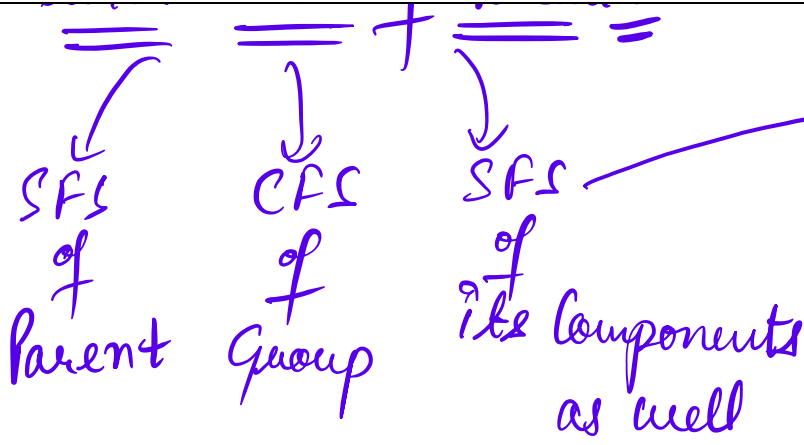
- Consolidated Financial Statement of its Components

→ (+) SFS of its Components

Section - 129(4) :- It provides that the preparation, Adoption & Audit → rules of Standalone FS of a holding Co. also applies to CFS.

In the AGM of Parent Co

Wd



It's being provided that now shall have to present SFS of its components in the same AGM & Attach such FS in AOC-1 along with its P-S

## Exemption from CONSOLIDATION

In case of WOS *wholly owned subsidiary*  
 [WHOLLY OWNED SUBSIDIARY]

Partially owned Subs.  
 In case of POS  
 [PARTIALLY OWNED SUBSIDIARY]

### Conditions

Neither listed (nor) in the process of listing *In India or outside India* → Same

2) The Immediate Parent Co is located in India & prepared CFs & filed with ROC as per compliance of Applicable Accounting Standards.

→ Same

Minority / NCI members.

3) It must have Intimated its Other Members in writing & having proof / evidence of such Intimation

↓  
" That they don't have an objection if Co. doesn't present Consolidated F.S. "

N.A

Note :- C.G. may also (vo - note (or) on Application can Grant

→ Exemption

Definitions [ Important for Audit of CFs ]

As per AS

As per IND AS

Associate:-

Associate:

- in which Investor has significant influence

at least 20% OR

participate in Business Policy

Same

- Neither sub ~~is~~ J.V. Includes

Control :-

- either Directly or Indirectly over more than 50% of voting rights.

- Control over more than half of Composition of Mgt.

Control!

when Investor has rights over Investor & has ability to affect the returns/policies through its power over an Investor

Joint Control / J.V.

J.C / J.V.:

A venture where 2/more parties will have control over Economic Activity as per Contractual Agreement.

Same

Minority Interest

Non-controlling Interest

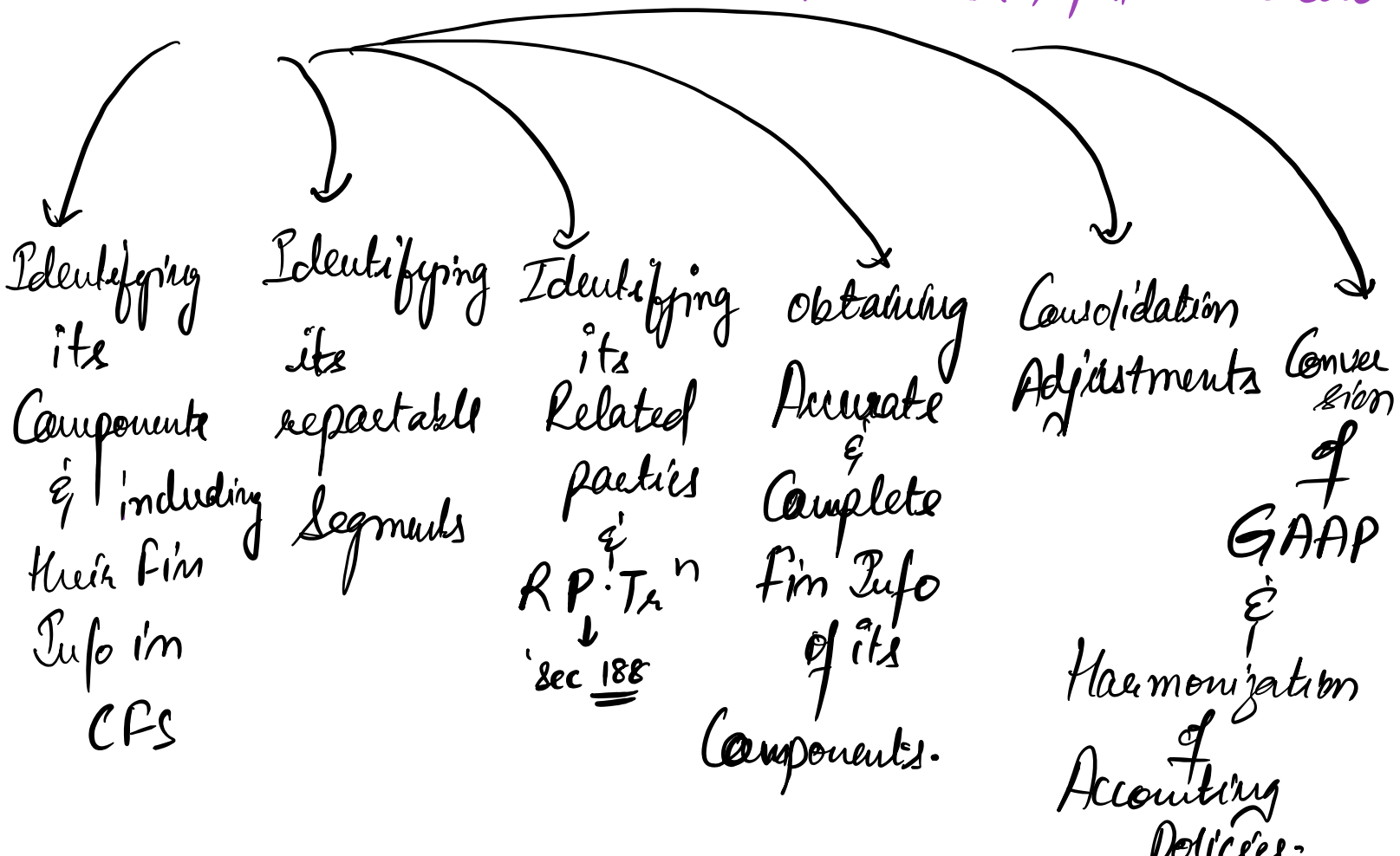
Part of  $\left\{ \begin{array}{l} \text{Net results} \\ \text{Net Assets} \end{array} \right.$  attributable to such Interest which is neither owned / controlled by parent.

Equity in Subsidiary not attributable to its parent co.

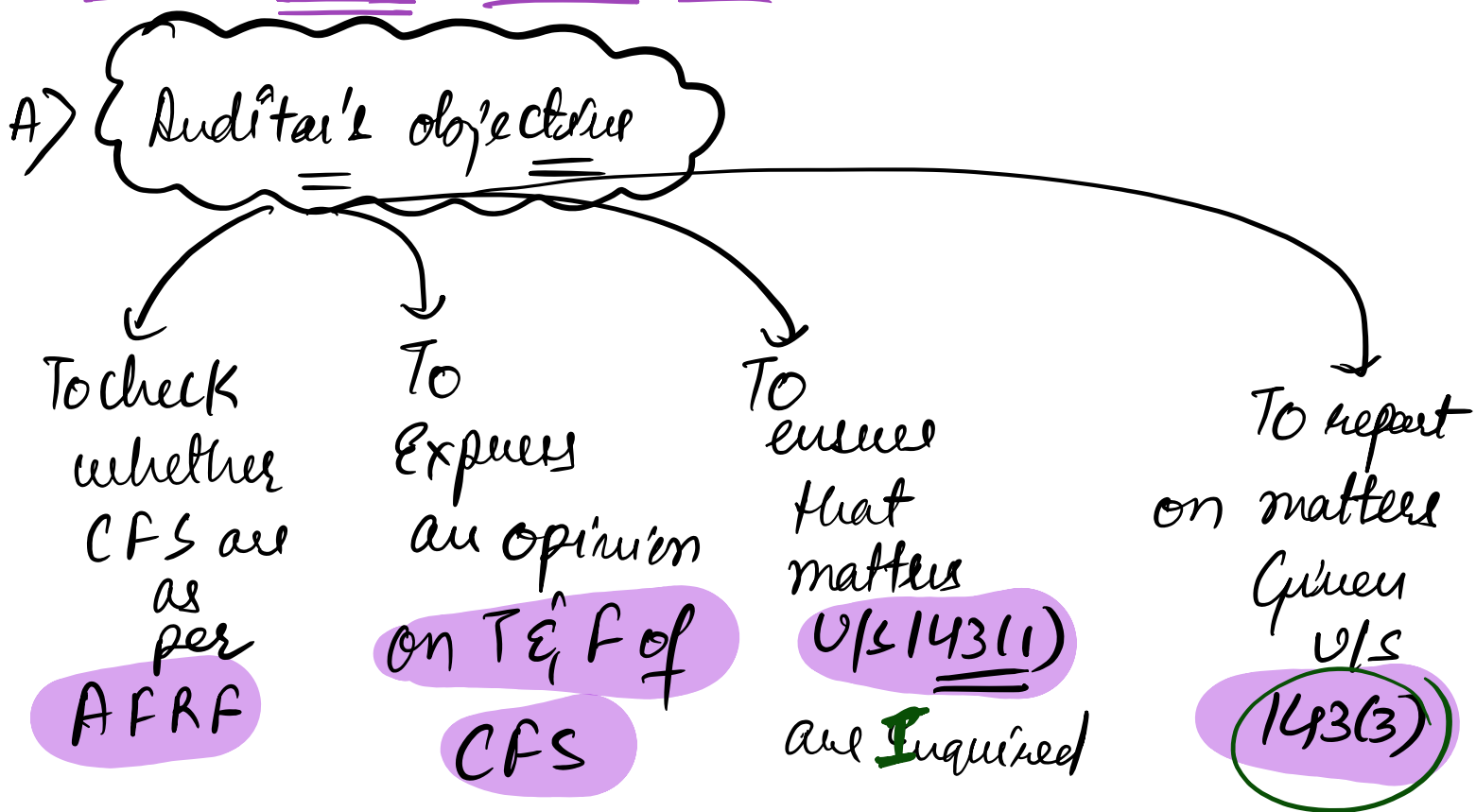
Subsidiary:- an entity controlled by a parent.

Same;

PARENT'S RESPONSIBILITY:- Prep. & presentation of <sup>Prime</sup> CFS is parent's resp. other than that, foll. are below



# AUDITOR'S RESPONSIBILITIES



## B) SA/GN/Statement - Compliance

- SA-300 :- plan his Audit work of CFS to carry out CFS Audit T&E. (Timely/Efficiently/Effectively)

- ICSE&AS :- To obtain understanding about

(Accounting Systems) ICS } of Entity,  
AS }  
- I.T Systems.

to plan his NTE of Audit Procedure

- P-J :- To use his Professional judgement in Assessing Audit risk & SA-315 (in relation to A.R.)  
 Draft Audit procedures in such a way to reduce such risks (Risk Assessment Procedures) to lowest Acceptable Level.

- CFS :- To ensure that CFS are being prepared as per SFC of parent & its components complying same AFRF

- Other Auditor's work :- To ensure that if need arise, CFS Auditor may use work of another Auditor in case he is not the same Auditor of other components.  
CSA-600

- SA-600 :- If Principal is of opinion Auditor he can't do it alone he may do CFS

Compliance  
of SA-600

Audit  
Alone

↓  
No Need to  
Comply  
SA-600

SA-580  
(MRL)

1- shall obtain MRL from  
Parent's Mgt / TCWG  
stating that:-

- CFS are prepared as per  
AFRF
- They approve CFS & take  
keep of its preparation.
- They considered all matters  
which are material for  
CFS preparation.

~~\*\*\*\*~~

SA-320  
(Audit  
Materiality)

→ while doing SFS Audit,  
Materiality shall be  
considered separately for all  
Components

↓

But while Doing CFS

Audit following are the  
Considerations:-

- Separately Compute "Materiality" for the Group as a whole.
- The above Computed Materiality shall be used to Assess Appropriateness of Consolidation Adjustments
- As being the Component Auditors, they already have Computed/ Considered "Materiality" on their Own in their Mod/Review
- The CFS Auditor shall ensure to include the Materiality Considerations of Component Auditors as it is in CFS Audit report  
    Audit report → mod/review

Irrespective of fact that CFS Auditors are Component Aud or not.

⇒ - Other financial, Other financial Performance

Info

which might NOT be considered by F.S of different Component Entities.

Harmonization of Accounting policies

Consensus of GAAP

Consolidation Adj.

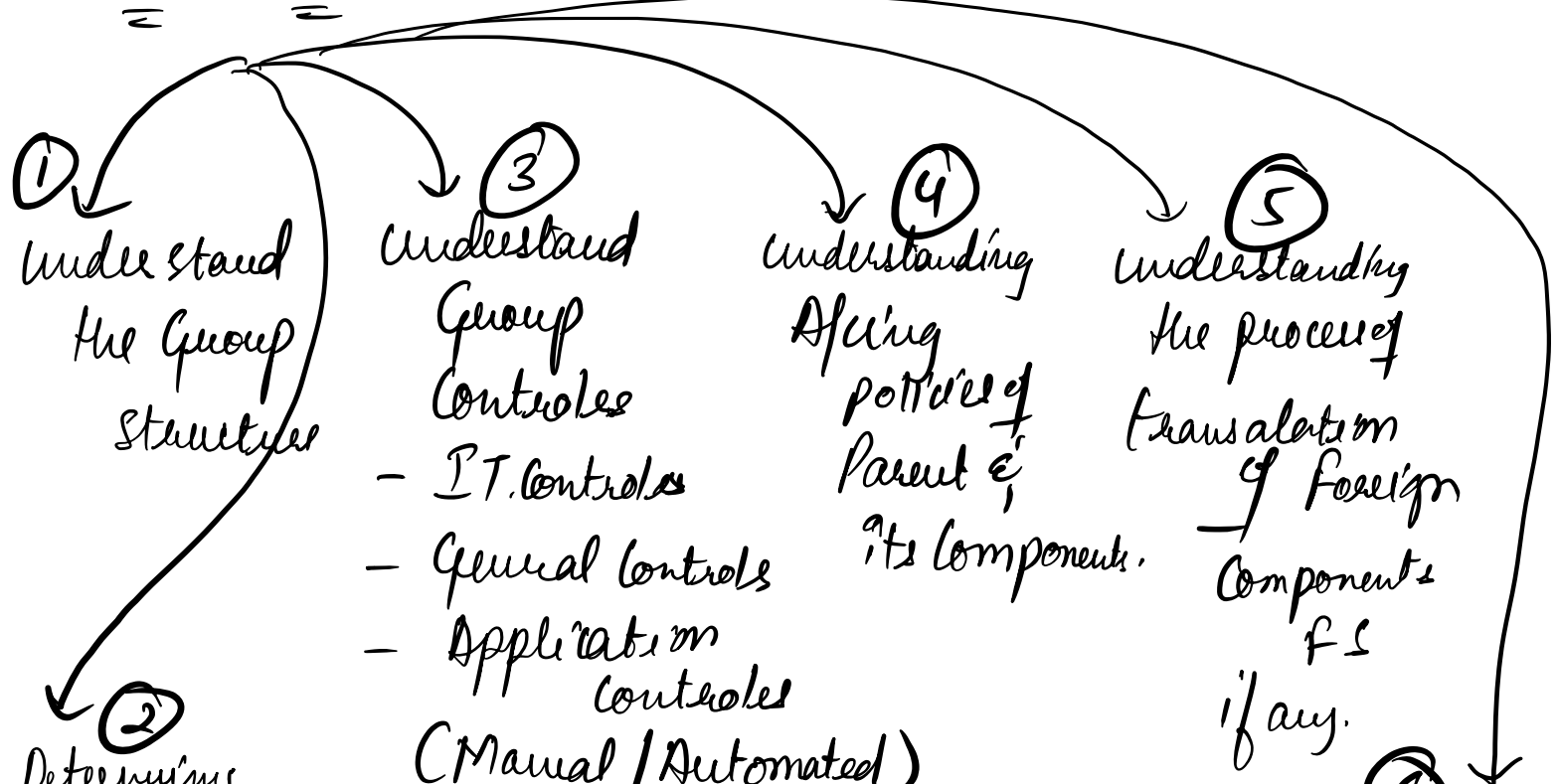
Subsequent Events

when F.Y is same

when F.Y is Diff.

# AUDIT THE CONSOLIDATION

Audit shall :-



MTA  
of  
Audit procedures  
on the basis  
of  
ROMM  
of  
Consolidation

(6)  
Determining the  
Extent of  
Use of other  
Auditor's work.  
&  
Co-ordinating  
work to be  
performed.

## COMPLETENESS of COMPONENT

Auditor  
shall obtain  
list of all the  
Components from  
Parent Co'



shall see  
while doing &  
preparing ECS  
whether such  
Components were  
properly Included  
or  
not

To ensure the Completeness of Components,

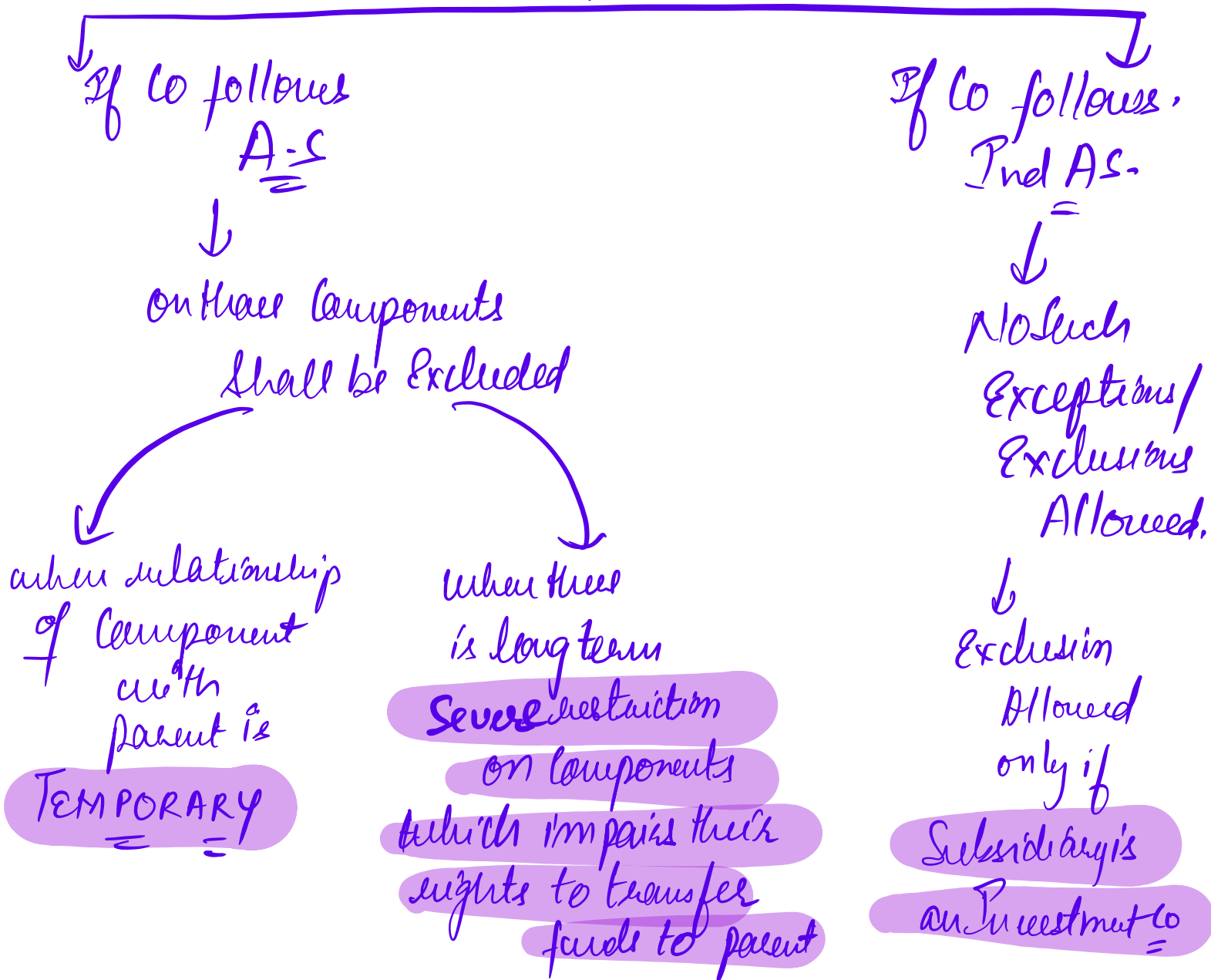
Auditor shall perform following procedures:-

- Review his Audit working papers of previous Year.
- Make Management Enquiry  $\rightarrow$  How many Included  
" " Excluded.
- Identify Management's Method of Identification of Components. (Why?)
- Review Investment patterns  $\rightarrow$  ? to understand their

Shareholding pattern.

- Review Joint Ventures & Joint Arrangements entered.
- " Other Arrangements not Included.
- Review Section 186 & 189 Statutory Registers.
- Identify the changes in Sh. holding pattern.

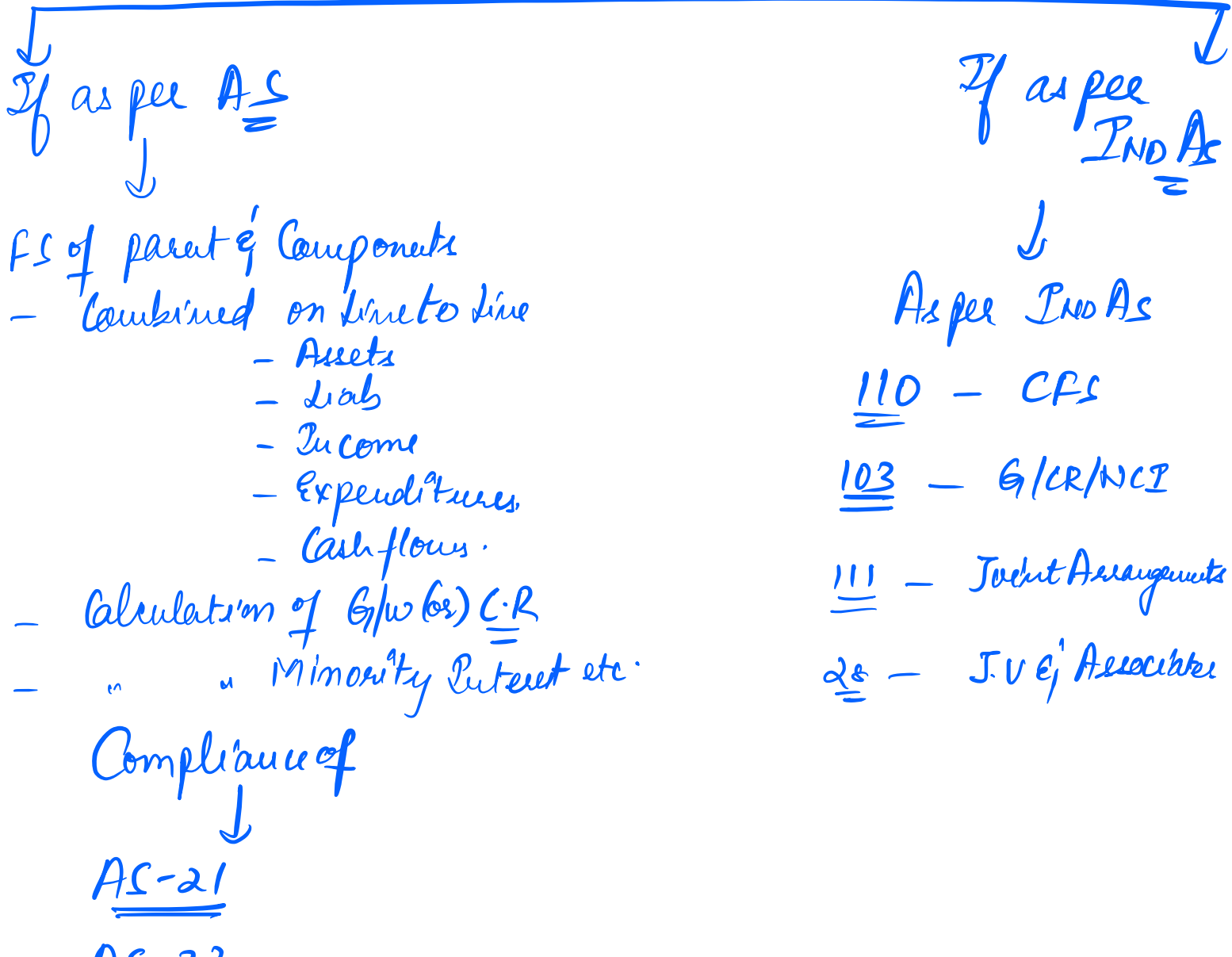
## \*\*\* Exclusions Allowed for Consolidation



∴ Shall check means for Exclusions → as per AFRF

# Consolidation to be done on line to line basis

- Auditor shall check any changes in status like,
  - eg:- 1) JV to Associate
  - 2) Sub to Associate
  - 3) Associate to J.V/sub etc.



# CONSOLIDATION ADJUSTMENTS

## PERMANENT CONSOLIDATION ADJ:-

### Meaning

### Audit procedures

- Such Consolidation Adjustments which are made only on "First Occasion"
- But on subsequent Occasion if there's any change in SH
- 2 Major PCA are:-

- Shall check that such 2 Calculations → Appropriate
- Make focus on Pre-Aca reserves of Components
- Date of Investments in Components.
- Pre Aca reserves divided appropriately blw → Holding Int. → Minority Int.
- Monitor changes due to subsequent → Acquisition → Disposal of Components in Group.

Determination of Q.W / C.B

Determination of Equity Attributable

of Components in Group.

TO MINORITY INTEREST

Net off figures

→ Parent may choose to show one single figure in CFS instead of  
- Goodwill from one Comp  
- C.R from one

# CURRENT CONSOLIDATION ADJUSTMENTS

## Meaning

## Audit Procedures

- Carried out every year for Consolidation
- to Eliminate Intra-group tr<sup>n</sup>
- Intra Group Balances.

- Verify the Memorandum records.
- Intra Group balances / Adj<sup>n</sup> are Eliminated
- Uniformity in A/c policies maintained.

## Adjustments

- Intra Group Interest paid/received / Mgt fee / Debts etc.
- Intra Group profits on Assets transferred

- Harmonization of A/c policies by Parent Mgt
- These A/c policies which were IMPRACTICABLE to get Harmonized
- Calculation of MI/MC?

To Comp. from components.

- Harmonizing A/c policies of P & C

- Concurrence of GAAP, if different

- Subsequent Events

a) when (H&S) → Same F.Y

b) when (H&S) → Diff F.Y.

- Deferred Tax payments arising on Temporary Differences.

- Movement in Equity attributable to M.P./N.C.P.

→ Verifying Deff Tax payment Adj.

→ Ensure the Subsidiaries P&L are Included in CFS from the Day it became till it Ceases to become.

## OTHER PROCEDURES

Auditor shall :-

A) Gain understanding of Mgt procedures to reduce his risk

B) Goodwill shall be valued @ Date of Acquisition +

- be Tested for Impairment loss at Every B/S Date

C) FS of Components shall be drawn upto same FS Date of Parent ↓

If any different Reporting dates  $\rightarrow$  Effect of Subsequent Events b/w those Date shall be Adjusted

As per AS

↓  
6 month  
Diff

As per IAS

↓  
3 month  
Diff

## Information to be Disclosed in CFS

Auditor shall check that following Info shall disclosed in CFS:-

$\rightarrow$  Amount of Net Assets (Net Amt)  
+  
Net Assets to Consolidated Assets (%) (Net %)

$\rightarrow$  Amount of Net share in profits & losses  
+  
% of Net share in profits to Consolidated profits & losses

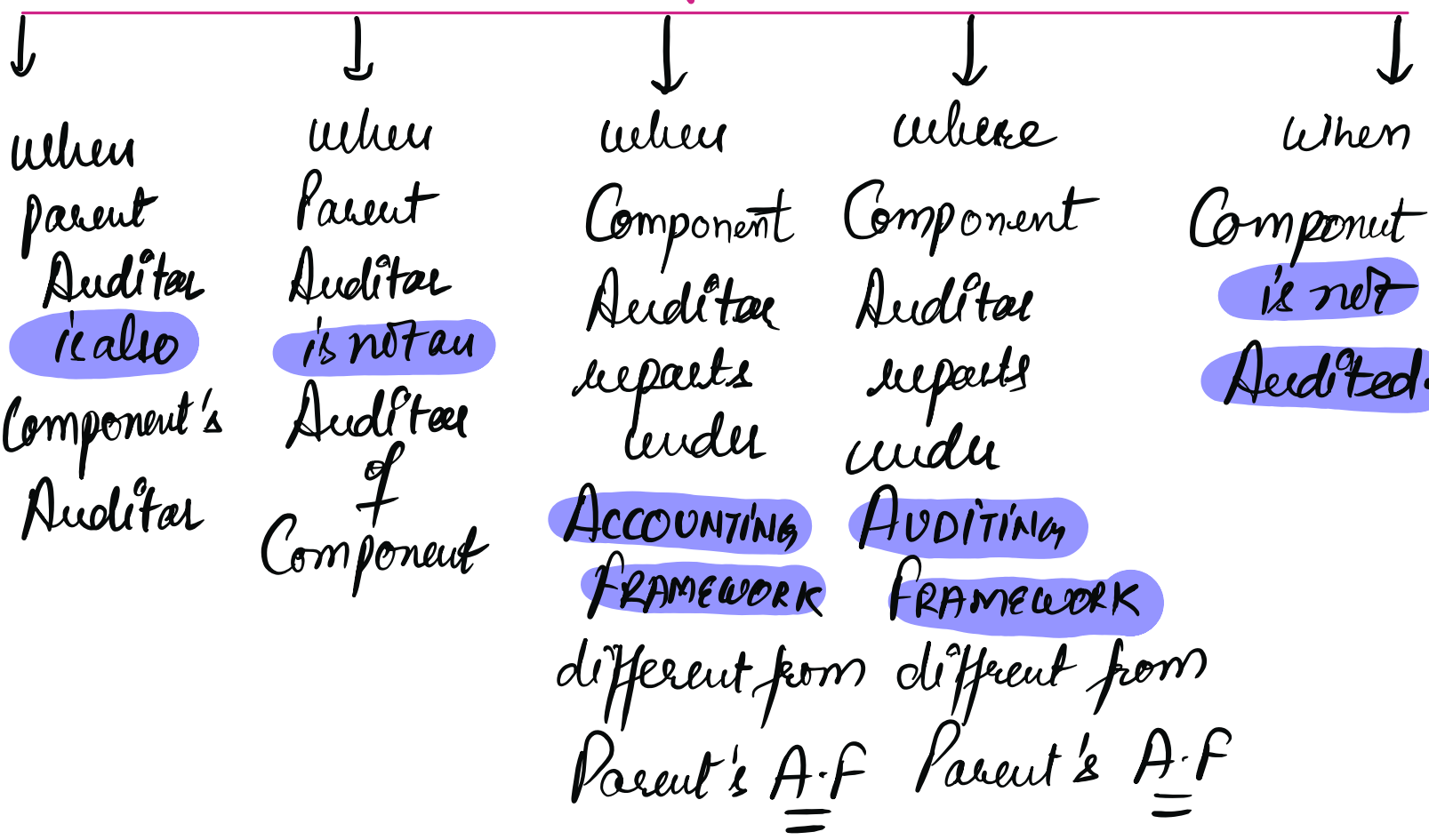
→ Amount of Other Comprehensive Income + % of OCI to Consolidated OCI.

# REPORTING ON CAS :-

CONSIDERATION of SAs :-

- SA-700(R)
- SA-705(R)
- SA-706(R)
- SA-600 (Optional)

## 5 CASES

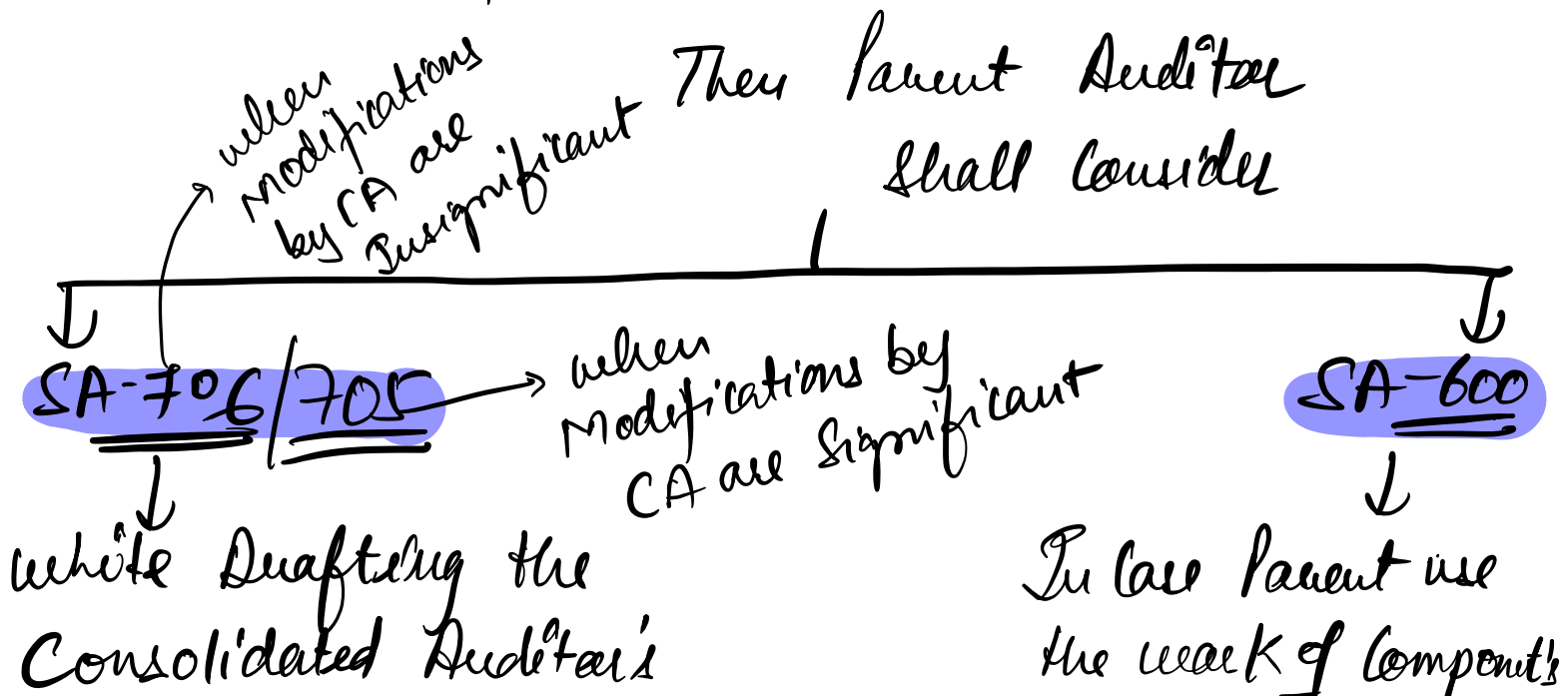


Case-I - When Parent & Component Auditors are Same

The CFS shall Express an opinion on  
^ Truthness & Fairness of :-

- Consolidated F.S
- CBS
  - CPEL & T.
  - C CFS
  - C NTA
  - C SOCE

Case-II - When Parent Auditor is different from Component Auditor.



report

Auditor, then  
Parent Auditor shall

Parent Auditor shall

ensure to include

Component's Mod/

Reservations w.r.t.

Components as

it is in his

report, as he

can't ignore it

& can't challenge

the assessment of

Materiality by

Component Auditor.

Disclose the  
Magnitude  
of  
FS Audited  
by Other Auditor  
(By proper  
Documentation)

+

Disclose  
Contribution  
of Component's  
- Revenue  
- P & L  
- Assets  
- Cashflow  
w.r.t.

Net Amt. ← to consolidated  
Net % ← figures of above  
along with %

So that Divided rep of PA & CA  
can be understood & Disclosed.

Refer SA-600

for better

clarification [ Reporting Rep of Principal  
Auditor ]

CASE - III

when Component's Auditor report under  
Different Accounting Framework as

# Compared to Parent's A.F

There are 2 options

If Component's / Mgt  
Auditors are  
unfamiliar with

A-Framework  
of  
Parent

It is Parent's  
Mgt responsibility  
to convert the  
FS of Component as  
per Parent's A-F

Later on shall do  
Consolidation Adjustment.

Parent Auditor shall  
apply his Audit

when Component's  
Mgt/Auditor's familiar  
with Parent's  
Acc-Frm. & Group  
Accounting Manual

Then Component shall  
prepare its FS in  
accordance with Parent's  
Acc-Frm from the  
beginning, as they  
might have knowledge  
of it & Group Accounting  
Manual.

It will prevent  
any Consolidation.

procedures to check  
such Const. Adj.

Adjustments e,

Due to which



- Adjustments will be Eliminated
- CFS Auditor shall be able to check that FS are as per Group Accounting Manual.
- Parent Auditor can decide whether or not to believe the Component's Audit report & work.

CASE - IV :-

when the Component's Auditor reports under different Auditing framework as compared to Parent's Auditing framework

→ In this case the order to Maintain :-

- Consistency of Aud. Framework

- to enable Parent Auditor to rely upon Component's Audit report

↓  
The Component's FS shall be Audited as per Indian GAAS

CASE-V :- Component is Not Audited

↓  
Auditor should consider UnAudited Components in Evaluating the POSSIBLE EFFECTS of MODIFICATIONS if any,

↓  
because he was unable to obtain SAAE on it & Components are Unaudited.