10 Audit of Consolidated Financial Statements

10.1 Introduction

Consolidated financial statements normally include consolidated balance sheet, consolidated statement of profit and loss, consolidated cash flow statement, a consolidated statement of change in equity (if applicable) and any explanatory notes annexed to, or forming part thereof. Consolidated financial statements are presented, to the extent possible, in the same format as adopted by the parent for its separate financial statements. The formats for preparation of balance sheet, statement of profit and loss and a statement of change in equity (if applicable) are prescribed under the Schedule III of the Companies Act, 2013.

An entity which prepares the consolidated financial statements, either under any law or regulation governing the entity or suo motu, might be required to or otherwise engage the auditor for conducting the audit of consolidated financial statements. However, a law

* Source: Business line
or regulation governing the entity may require the consolidated financial statements to be audited by the statutory auditor of the entity. The Guidance Note on Audit of Consolidated Financial Statements provides guidance on the specific issues and audit procedures to be applied in an audit of consolidated financial statements. This Guidance Note can also be used while auditing consolidated financial statements prepared for special purpose, to the extent applicable but it does not deal with accounting matters arising on consolidation of financial statements.

10.1.1 Consolidation of Financial Statements - Now Mandatory under Companies Act, 2013

According to Section 129(3) of the Companies Act, 2013, where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own financial statements prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own. Further, section 129(4) of the said Act, provides that the provisions applicable to the preparation, adoption and audit of the financial statements of a holding company shall, mutatis mutandis, also apply to the consolidated financial statements.

The Consolidated financial statements shall also be approved by the board of directors before they are signed on behalf of the board, along with its own financial statements and shall also be laid before the annual general meeting of the company along with the laying of its own financial statement.

The company shall also attach along with its financial statement, a separate statement containing the salient features of the financial statement of its subsidiary or subsidiaries in Form AOC-1.

According to Companies (Accounts) Rules, 2014, the consolidation of financial statements of the company shall be made in accordance with the provisions of Schedule III to the Act and the applicable accounting standards. However, a company which is not required to prepare consolidated financial statements under the Accounting Standards, it shall be sufficient if the company complies with provisions on consolidated financial statements provided in Schedule III of the Act [refer Appendix given at the end of Chapter 6].

However, the requirement related to preparation of consolidated financial statements shall not apply to a company if it meets the following conditions:

(i) it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;

(ii) it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; and

(iii) its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards.
10.3 Advanced Auditing and Professional Ethics

As per sub-section 6 of the section 129 of the Companies Act, 2013, the Central Government may, on its own or on an application by a class or classes of companies, by notification, exempt any class or classes of companies from complying with any of the requirements of section 129 or the rules made thereunder, if it is considered necessary to grant such exemption in the public interest and any such exemption may be granted either unconditionally or subject to such conditions as may be specified in the notification.

Thus, the companies having subsidiaries, which have previously never prepared the consolidated financial statements, must prepare their consolidated financial statements in adherence with this mandatory requirement. This will provide the holding companies’ stakeholders more transparency about the companies’ businesses.

10.2 Definitions

Various terms used in this Guidance Note, have the same meaning as defined in applicable accounting standards. Important terms definition are given below:

Terms defined under Accounting Standards

1. **Associate**: An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

2. **Consolidated financial statements**: Consolidated financial statements are the financial statements of a group presented as those of a single enterprise.

3. **Control**:  
   a. The ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or  
   b. control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.

4. **Group**: A group comprises a parent and its subsidiaries.

5. **Joint control**: Joint control is the contractually agreed sharing of control over an economic activity.

6. **Joint venture**: A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

7. **Minority interest**: Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, through subsidiary(ies), by the parent.

8. **Parent**: A parent is an enterprise that has one or more subsidiaries.

9. **Significant influence**: Significant influence is the power to participate in the financial and/or operating policy decisions of the investee but not control over those policies.

10. **Subsidiary**: A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

Terms defined under Ind AS
1. **Associate:** An associate is an entity over which the investor has significant influence.

2. **Control of an investee:** An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

3. **Consolidated financial statements:** The financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

4. **Group:** A parent and its subsidiaries.

5. **Joint Control:** Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

6. **Joint Venture:** A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

7. **Non-controlling Interest:** Equity in a subsidiary not attributable, directly or indirectly, to a parent.

8. **Parent:** An entity that controls one or more entities.

9. **Power:** Existing rights that give the current ability to direct the relevant activities.

10. **Relevant Activities:** Relevant activities are activities of the investee that significantly affect the investee’s returns.

11. **Significant influence:** Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

12. **Subsidiary:** An entity that is controlled by another entity.

13. **Separate Financial Statements:** separate financial statements are those presented by a parent (i.e. an investor with control of a subsidiary) or an investor with joint control of, or significant influence over, an investee, in which the investments are accounted for at cost or in accordance with Ind AS 109, ‘Financial Instruments’.

**Terms defined under SA 600, “Using the Work of Another Auditor”**

1. **Component:** It is a division, branch, subsidiary, joint venture, associated enterprises or other entity whose financial information is included in the financial information audited by principal auditor.

### 10.3 Responsibility of Parent

The responsibility for the preparation and presentation of consolidated financial statements, among other things, is that of the management of the parent. This includes:

(a) identifying components, and including the financial information of the components to be included in the consolidated financial statements;

(b) where appropriate, identifying reportable segments for segmental reporting;

(c) identifying related parties and related party transactions for reporting;
10.5 Advanced Auditing and Professional Ethics

(d) obtaining accurate and complete financial information from components; and
(e) making appropriate consolidation adjustments.

(f) **harmonization of accounting policies and accounting framework;** and.

(g) **GAAP conversion, where applicable.**

Apart from the above, the parent ordinarily issues instructions to the management of the component specifying the parent’s requirements relating to financial information of the components to be included in the consolidated financial statements. The instructions ordinarily cover the accounting policies to be applied, statutory and other disclosure requirements applicable to the parent, including the identification of and reporting on reportable segments, and related parties and related party transactions, and a reporting timetable.

10.4 Responsibility of the Auditor of the Consolidated Financial Statements

Section 129(4) of the Companies Act, 2013 requires that the provisions of this 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. Besides other matters, the principal auditor of the consolidated financial statements is responsible for expressing an opinion on whether the consolidated financial statements are prepared, in all material respects, in accordance with the financial reporting framework under which the parent prepares the consolidated financial statements in addition to reporting on the additional matters as required under the Companies Act, 2013 and any other statute to the extent applicable.

Fig.: Responsibility of Auditors*

Therefore, the auditor’s objectives in an audit of consolidated financial statements are:

(a) **to satisfy himself that the consolidated financial statements have been prepared in accordance with the requirements of applicable financial reporting framework;**

(b) **to enable himself to express an opinion on the true and fair view presented by the consolidated financial statements.**

(c) **to enquire into the matters as specified in section 143(1) of the Companies Act, 2013;** and.

(d) **to report on the matters given in the clauses (a) to (i) of section 143(3) of the Companies Act, 2013; for other matters under section 143(3)(j) read with rule 11 of**

* Source: Business Insurance
the Companies (Audit and Auditors) Rules, 2014, to comment on the matters specified in sub-rule (a),(b) and (c) to the extent applicable.

Standards on Auditing, Statements and Guidance Notes on auditing matters issued by the Institute of Chartered Accountants of India apply in the same manner to audit of consolidated financial statements as they apply to audit of separate financial statements. It means that the auditors, while conducting the audit of consolidated financial statements are, inter alia, expected to:

(a) plan their work to enable them to conduct an effective audit in an efficient and timely manner;

(b) obtain an understanding of the accounting and internal control systems including IT system like consolidation tool, sufficient to plan the audit and determine the nature, timing and extent of his audit procedures. Such an understanding would help the auditors to develop an effective audit approach;

(c) use professional judgement to assess audit risk and to design audit procedures to ensure that the risk is reduced to an acceptable level, etc.

10.5 Audit Considerations

The following features of consolidated financial statements have an impact on the related audit procedures:

(a) The consolidated financial statements are prepared on the basis of separate financial statements of the parent and its components, using the consolidation procedures prescribed by Accounting Standards under applicable financial reporting framework; and

(b) The auditor of the consolidated financial statements may use the work of other auditors as per requirement of Standards on Auditing unless the auditor of consolidated financial statements is also the auditor of the other components of the group.

The consolidated financial statements (including the intermediate consolidated financial statements prepared internally) are prepared using the separate financial statements of the parent and its components and also other financial information, which might not be covered by the separate financial statements of these entities. The ‘other financial

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2 The auditor of the consolidated financial statements generally report on the matters pertaining to the component, on the basis of auditors’ report of the respective component.


4 Intermediate consolidated financial statements are the consolidated financial statements of an intermediate parent, e.g., Company A has one subsidiary Company B. Company B has a subsidiary Company C. In this case, Company B is the intermediate parent and the consolidated financial statements prepared by Company B will be intermediate consolidated financial statements.
information' would include disclosures to be made in the consolidated financial statements about the components, proportion of items included in the consolidated financial statements to which different accounting policies have been applied where permitted, adjustments made for the effects of significant transactions or other events that occur between the financial statements of parent and its components, as the case may be, etc. Thus, this 'other financial information' would be required to be additionally disclosed.

When an auditor accepts the audit of consolidated financial statements, the auditor should assess whether based on his work alone he would be able to express an opinion on the true and fair view presented by the consolidated financial statements. If the auditor is of the view that his own participation may not be enough or sufficient, he should consider using the work of ‘other auditors’.

Such 'other auditors' might be the statutory auditors of the separate financial statements of one or more of the components or the auditors appointed specifically for assisting the auditor of the consolidated financial statements (the principal auditor).

Where the statutory auditors of one or more of the components of the parent are also requested to assist the principal auditor, the work to be performed by such statutory auditors for use by the principal auditor would constitute an assignment separate from the assignment to conduct the statutory audit of the respective component.

Standard on Auditing (SA) 600, ‘Using the Work of Another Auditor’ establishes standards when an auditor, reporting on the financial statements of an entity (the group—in the case of consolidated financial statements), uses the work of another auditor on the financial information of one or more components included in the financial statements of the entity (Paragraph 2 of SA 600). The principal auditor, if he decides to use the work of another auditor in relation to the audit of consolidated financial statements, should comply with the requirements of SA 600.

In carrying out the audit of the standalone financial statements, the computation of materiality for the purpose of issuing an opinion on the standalone financial statements of each component would be done component-wise on a standalone basis. However, with regard to determination of materiality during the audit of consolidated financial statements (CFS), the auditor should consider the following:

- The auditor is required to compute the materiality for the group as a whole. This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) that are made by the management in the preparation of CFS.

- The parent auditor can also use the materiality computed on the group level to determine whether the component's financial statements are material to the group to determine whether they should scope in additional components, and consider
using the work of other auditors as applicable.5.

However, while considering the observations (for instance modification and/or emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the concept of materiality would not be considered. Thus, the component auditor's observations, if any, on the component's financial statements, irrespective of whether the auditors of the component are also the auditors of the CFS or not, are required to be included in the parent auditor's report on the CFS, regardless of materiality.

10.6 Auditing the Consolidation

Before commencing an audit of consolidated financial statements, the auditor should plan his work to enable him to conduct an effective audit in an efficient and timely manner. The auditor should make plans, among other things, for the following:

(a) Understanding of the group structure and group-wide controls including assessment of Information Technology (IT) system and related general and applications IT related controls (manual and automated) for consolidation process;

(b) understanding of accounting policies of the parent and its components as well as of the consolidation process including the process of translation of financial statements of foreign components;

(c) determining and programming the nature, timing, and extent of the audit procedures to be performed based on the assessment of the risk of material misstatement in the consolidation process;

(d) determining the extent of use of other auditor’s work in the audit; and

(e) coordinating the work to be performed.

A parent which presents consolidated financial statements is required to consolidate all its components in the consolidated financial statements other than those for which exceptions have been provided in the relevant accounting standards under the applicable financial reporting framework.

The auditor should obtain a listing of all the components included in the consolidated financial statements and review the information provided by the management of the parent identifying the components. The auditor should verify that all the components have been included in the consolidated financial statements unless these components meet criterion for exclusion. In respect of completeness of this information, the auditor should perform the following procedures:

(a) review his working papers for the prior years for the known components;

(b) review the parent’s procedures for identification of various components;

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5 Refer ICAI’s Announcement on the Manner of Disclosure in the Auditor’s Report of the Fact of Inclusion of Unaudited Financial Statements/ Information of Component/s in the Financial Statements Audited by the Principal Auditor(s) issued in February 2014.
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(c) make inquiries of management to identify any new components or any component which goes out of consolidated financial statements.

(d) review the investments of parent as well as its components to determine the shareholding in other entities;

(e) review the joint ventures and joint arrangements as applicable;

(f) review the other arrangements entered into by the parent that have not been included in the consolidated financial statements of the group.

(g) review the statutory records maintained by the parent, for example registers under section 186, 190 of the Companies Act, 2013.

(h) also identify the changes in the shareholding that might have taken place during the reporting period.

The auditor should document procedures performed for assessing completeness of the components to be consolidated.

There would be various means by which control, joint control or significant influence can be obtained. In this regard, the auditor may verify the Board’s minutes, shareholder agreements entered into by the parent, agreements with the entities to which the parent might have provided any technology or know how, enforcement of statute, as the case may be, etc. The auditor may also review the minutes of the meetings of the Board of Directors subsequent to the year-end to understand if there has been any liquidation of investments or any further investments have been made as these may provide further evidence to understand if the control was meant to be temporary in nature or otherwise.

Where a component is excluded from the consolidated financial statements, the auditor should examine the reasons for exclusion and whether such exclusion is in conformity with the applicable financial reporting framework, for example, under the Companies (Accounting Standards) Rules, 2006, there could be two reasons for exclusion of a subsidiary, associate or jointly controlled entity – one, that the relationship of parent with the subsidiary, associate or jointly controlled entity is intended to be temporary or the subsidiary, associate or joint venture operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent. Similarly, under the Companies Act, 2013, intermediate subsidiary in India is not required to present consolidated financial statements. Ind AS 110 also prescribes certain criteria where consolidated financial statements are not required. In such cases, the auditor should satisfy himself that the exclusion made by the management falls within these categories, e.g. in the case of an entity which is excluded from consolidation on the ground that the relationship of parent with the other entity as subsidiary, associate or joint venture is temporary, the auditor should verify that the intention of the parent, to dispose off the subsidiary, investment in associate or interest in jointly controlled entity, in the near future, existed at the time of acquisition of the subsidiary, making investment in associate or jointly controlled entity. The auditor should also verify that the reasons for exclusion are given in the consolidated financial statements. If an entity is excluded from the consolidated financial statements for reasons other than those allowed by the applicable
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financial reporting framework, the auditor should consider its effect on the auditor’s report to be issued.

The auditor should also examine whether there is any change in the status of a component (e.g., subsidiary to associate, JV to associates or vice versa). The auditor, in such cases, should examine whether these changes have been appropriately accounted for in the consolidated financial statements as required by the relevant accounting standards under the applicable financial reporting framework.

(a) In preparing consolidated financial statements in accordance with the Companies (Accounting Standards) Rules, 2006, the financial statements of the parent and its subsidiaries are combined on a line by line basis by adding together like items of assets, liabilities, income, expenses and cash flows and then certain calculations like determination of goodwill or capital reserve, minorities interest and adjustments like elimination of intra group transactions, balances and unrealised profits etc. are made in accordance with the requirements of Accounting Standard (AS) 21, “Consolidated Financial Statements”. Investments in associates are accounted for using the Equity Method as prescribed in Accounting Standard (AS) 23, “Accounting for Investments in Associates in Consolidated Financial Statements”. A parent that has an interest in a jointly controlled entity, reports its interest in the consolidated financial statements using proportionate consolidation method in accordance with Accounting Standard (AS) 27, “Financial Reporting of Interests in Joint Ventures”. Many of the procedures appropriate for the application of equity method and the proportionate consolidation method are similar to the consolidation procedures set out in Accounting Standard (AS) 21, “Consolidated Financial Statements”.

(b) For consolidation of subsidiaries in accordance with the Companies (Indian Accounting Standards) Rules, 2015:

- the financial statements of the parent and its subsidiaries are combined as per Ind AS 110, “Consolidated Financial Statements” on a line by line basis by adding together like items of assets, liabilities, income, expenses and cash flows;
- related goodwill/ capital reserve and non-controlling interest is determined as per Ind AS 103;
- adjustments like elimination of intra group transactions, balances, unrealised profits and deferred tax etc. are made in accordance with the requirements of Ind AS 110.
- Investments in associates and joint ventures are accounted for using the Equity Method as prescribed in Indian Accounting Standard (Ind AS) 28, “Investments in Associates and Joint Ventures”. Interests in assets, liabilities, revenues and expenses in a joint operation are accounted for as part of separate financial statements of the entity in accordance with Indian Accounting Standard (Ind AS) 111, “Joint Arrangements”.

The auditor should verify that the adjustments warranted by the relevant accounting standards under the applicable financial reporting framework have been made wherever required and have been properly approved by the management of the parent. The preparation of consolidated financial statements gives rise to permanent consolidation adjustments and current period consolidation adjustments. No adjustments, other than
those envisaged in this Guidance Note, can be carried out in the preparation of CFS at the group level.

10.7 Special Considerations

10.7.1 Permanent Consolidation Adjustments

Permanent consolidation adjustments are those adjustments that are made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated. Permanent consolidation adjustments are:

- (a) Determination of goodwill or capital reserve as per applicable accounting standards.
- (b) Determination of amount of equity attributable to minority/ non-controlling interests.

The auditor should verify that the above calculations have been made appropriately. The auditor should pay particular attention to the determination of pre-acquisition reserves of the components. Date(s) of investment in components assumes importance in this regard. The auditor should also examine whether the pre-acquisition reserves have been allocated appropriately between the parent and the minority interests/ non-controlling interests of the subsidiary. The auditor should also verify the changes that might have taken place in these permanent consolidation adjustments on account of subsequent acquisition of shares in the components, disposal of the components in the subsequent years.

It may happen that while working out the permanent consolidation adjustments, in the case of one subsidiary, goodwill arises and in the case of another subsidiary a capital reserve arises. The parent may choose to net off these amounts to disclose a single amount in the consolidated balance sheet where permitted by the applicable financial reporting framework. In such cases, the auditor should verify that the gross amounts of goodwill and capital reserves arising on acquisition of various subsidiaries have been disclosed in the notes to the consolidated financial statements to reflect the excess/shortage over the parents’ portion of the subsidiary’s equity.

10.7.2 Current Period Consolidation Adjustments

Current period adjustments are those adjustments that are made in the accounting period for which the consolidation of financial statements is done. Current period consolidation adjustments primarily relate to elimination of intra-group transactions and account balances including:

- (a) intra-group interest paid and received, or management fees, etc.;
(b) unrealised intra-group profits on assets acquired/ transferred from/to other subsidiaries;

(c) intra-group indebtedness;

(d) adjustments related to harmonising the different accounting policies being followed by the parent and its components;

(e) adjustments to the financial statements (of the parent and the components being consolidated) for recognized subsequent events or transactions that occur between the balance sheet date and the date of the auditor’s report on the consolidated financial statements of the group.

There are two types of subsequent events:

a. The first type of subsequent events consists of events or transactions that provide additional evidence about conditions that existed at the date of the financial statements, including the estimates inherent in the process of preparing financial statements (i.e. adjusting events).

b. The second type of subsequent events consists of events that provide evidence about conditions that did not exist at the date of the financial statements but arose subsequent to that date (i.e. non-adjusting events).

Events occurring after balance sheet date which do not require adjustments would not normally require disclosure, although they may be of such significance that they may require a disclosure in the report of approving authority in the case of accounting standards and in the financial statements in case of Ind AS. For such events, the following shall be disclosed:

a. The nature of the event; and

b. An estimate of its financial effect or a statement that such an estimate cannot be made.

(f) adjustments for the effects of significant transactions or other events that occur between the date of the components balance sheet and not already recognised in its financial statements and the date of the auditor’s report on the group’s consolidated financial statements when the financial statements of the component to be used for consolidation are not drawn upto the same balance sheet date as that of the parent;

(g) In case of a foreign component, adjustments to convert a component’s audited financial statements prepared under the component’s local GAAP to the GAAP under which the consolidated financial statements are prepared.

(h) determination of movement in equity attributable to the minorities interest/non-controlling interest since the date of acquisition of the subsidiary.

(i) adjustments of deferred tax on account of temporary differences arising out of elimination of profit and losses resulting from intragroup transactions and undistributed profits of the component in case of consolidated financial statements prepared under Ind AS.
The adjustments required for preparation of consolidated financial statements are made in memorandum records kept for the purpose by the parent. The auditor should review the memorandum records to verify the adjustment entries made in the preparation of consolidated financial statements. Apart from reviewing the memorandum records, the auditor should inter alia:

(a) verify that the intra group transactions and account balances have been eliminated;
(b) verify that the consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances;
(c) verify that adequate disclosures have been made in the consolidated financial statements of application of different accounting policies in case, it was impracticable to harmonize them. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.
(d) verify the adjustments made to harmonise the different accounting policies including adjustments made by management to convert a component’s financial statements prepared under the component’s GAAP to the GAAP under which the consolidated financial statements are prepared;
(e) verify the calculation of minorities/non-controlling interest;
(f) verify adjustments relating to deferred tax on account of temporary differences arising out of elimination of profit and losses resulting from Intergroup transactions (where the parent’s accounts are maintained in Ind AS);
(g) verify that income and expenses of the subsidiary are included in consolidated financial statements from the date it gains control until the date when the entity ceases to control the subsidiary and further such income and expenses are based on the amounts of the assets and liabilities recognised in consolidated financial statements at the acquisition date.

The auditor should gain an understanding of the procedures adopted by the management of the enterprise to make the above mentioned adjustments. This helps the auditor in reducing the audit risk to an acceptably low level.

One of the important adjustment that may be required in the current period is determination of impairment loss that might exist for goodwill arising on consolidation. Goodwill arising on consolidation is carried at the value determined at the date of

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6 AS 21/ AS 23/ AS 27 permit application of different accounting policies, if it is impractical to use uniform accounting policies, that fact should be disclosed together with the proportion of the items in the consolidated financial statements to which the different accounting policies have been applied. Ind AS 28 permits that financial statement of an associate can be prepared using different accounting policies if it is impractical to do so however adjustment shall be made to make the accounting policies confirm to those of parent when the financial statements are used by parent in applying the equity method.

7 Where the consolidated financial statements are prepared under Indian Accounting Standards.
acquisition of the component, and the same is to be tested for impairment loss at every balance sheet date.

The auditor should examine whether any impairment loss has been determined by the parent. If yes, the auditor should examine the procedure followed for determination of impairment loss. The auditor should satisfy himself that the amount of impairment loss determined is fair. In case the impairment loss in goodwill of a component has been determined in foreign currency, the auditor should verify if any amount of loss in local currency need to be adjusted from currency translation reserve on account of movement in the exchange rate from the date when the goodwill was first accounted for in the consolidated financial statement of parent, to the date of determination of impairment loss.

The auditor should also perform audit procedures to understand and verify whether Intragroup losses are indicating an impairment loss that requires recognition in the consolidated financial statements.

Apart from verifying that the calculation and disclosures regarding minorities/non-controlling interest have been made appropriately, the auditor also determines, 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.

The financial statements of the components used in the consolidation should be drawn up to the same reporting date as that of the parent. If it is not practicable to draw up the financial statements of one or more components to such date and, accordingly, those financial statements are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements. In any case, the difference between reporting dates should not be more than six months in case of financial statements under AS and three months in case of financial statements under Ind AS. The auditor of the consolidated financial statements should review other components' results between its financial reporting date and that of the parent for significant transactions or other events that have taken place during the period and, therefore, need to be reflected in the consolidated financial statements. Recognition should be given by disclosure or otherwise to the effect of intervening events which materially affect the financial position, results of operations or cash flows.

The fundamental accounting assumption of “consistency” requires the auditor of the consolidated financial statements to consider whether the length of the reporting periods and any difference in financial year-ends are the same from period to period. If there have been any changes in the respective reporting periods of the components included in the consolidated financial statements that have a material effect on the financial statements, the auditor should ensure that the entity discloses such changes and the manner of treatment in the financial statements.
The Ministry of Corporate Affairs has issued a Circular number 39/2014 dated October 14, 2014 stating that 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.

Further, Accounting Standard (AS) 21 also lays down certain principles that should be observed while giving the information which is part of the separate financial statements of the Components but that need not be reported in the notes and other explanatory material of the consolidated financial statements. The auditor should:

(a) 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

(b) 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.

In addition, the information required pursuant to Schedule III to the Companies Act, 2013 (‘general instructions for the preparation of consolidated financial statements’) should be disclosed. For example, following information is also required to be disclosed in the consolidated financial statements separately for the parent and each of its components (including foreign component) 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.8

As regards consolidation adjustments (including elimination of intra group transactions), it should be ensured that these are either disclosed as a single line item separately or adjusted in the information (e.g. net assets) disclosed for the parent and its each component.

The Ind AS 110 does not give a list of information which is part of the separate financial statement of the components but that need not be reported in the notes and other explanatory material of the consolidated financial statements, however, based on section 129(4) and MCA circular 39/2014 as referred above, it can be construed that, even in consolidated financial statements under Ind AS, only those disclosures should be given which are relevant to consolidated financial statements.

8 For companies which are covered by Ind AS.
Based on the above discussion, in case of companies, the information such as the following given in the notes to the separate financial statements of the parent and/or the subsidiary, need not be included in the consolidated financial statements.

(i) Source from which bonus shares are issued, e.g., capitalisation of profits or Reserves or from Securities Premium Account.

(ii) Disclosure of all unutilised monies out of the issue indicating the form in which such unutilised funds have been invested.


(iv) A statement of investments (whether shown under “financial assets or non-financial assets as stock-in-trade) separately classifying trade investments and other investments, showing the names of the bodies corporate (indicating separately the names of the bodies corporate under the same management) in whose shares or debentures, investments have been made (including all investments, whether existing or not, made subsequent to the date as at which the previous balance sheet was made out) and the nature and extent of the investment so made in each such body corporate.

(v) Value of imports calculated on C.I.F. basis by the company during the financial year in respect of:

   (a) raw materials;
   (b) components and spare parts;
   (c) capital goods.

(vi) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters.

(vii) Value of all imported raw materials, spare parts and components consumed during the financial year and the value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption.

(viii) The amount remitted during the year in foreign currencies on account of dividends, with a specific mention of the number of non-resident shareholders, the number of shares held by them on which the dividends were due and the year to which the dividends related.

(ix) Earnings in foreign exchange classified under the following heads, namely:-

   (a) export of goods calculated on F.O.B. basis;
   (b) royalty, know-how, professional and consultation fees;
   (c) interest and dividend;
   (d) other income, indicating the nature thereof.
However, notwithstanding the above, the auditor needs to ensure compliance with disclosure requirements of applicable accounting standards and other applicable laws for consolidated financial statements.

10.8 Management Representations

SA 580, “Written Representations” requires the auditor to obtain written representations from management and, where appropriate, those charged with governance. The auditor of the consolidated financial statements should obtain evidence that the management of the parent acknowledges its responsibility for a true and fair presentation of the consolidated financial statements in accordance with the financial reporting framework applicable to the parent and that parent management has approved the consolidated financial statements. In addition, the auditor of the consolidated financial statements obtains written representations from parent management on matters material to the consolidated financial statements. Examples of such representations include:

(a) Completeness of components included in the consolidated financial statements;
(b) Identification of reportable segments for segmental reporting;
(c) Identification of related parties and related party transactions for reporting;
(d) Appropriateness and completeness of permanent and current period consolidation adjustments, including the elimination of intra-group transactions.

10.9 Reporting

There could be two situations in an audit of consolidated financial statements—when the parent’s auditor is also the auditor of all the components to be included in the consolidated financial statements and when the parent’s auditor is not the auditor of one or more components and therefore, uses the work of other auditors in the audit. The auditor should, while preparing the report, consider the requirements of Standard on Auditing (SA) 700, “Forming an Opinion and Reporting on Financial Statements”, SA 705, “Modifications to the Opinion in the Independent Auditor’s Report and SA 706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report. Where, the auditor uses the work of other auditors in the audit of consolidated financial statements, the requirements of SA 600, “Using the Work of Another Auditor” should also be considered.
10.9.1 When the Parent's Auditor is also the Auditor of all its Components

While drafting the audit report, the auditor should report whether principles and procedures for preparation and presentation of consolidated financial statements as laid down in the relevant accounting standards have been followed. In case of any departure or deviation, the auditor should make adequate disclosure in the audit report so that users of the consolidated financial statements are aware of such deviation. Auditor should issue an audit report expressing opinion whether the consolidated financial statements give a true and fair view of the state of affairs of the Group as on balance sheet date and as to whether consolidated profit and loss statement gives true and fair view of the results of consolidated profit or losses of the Group for the period under audit. Where the consolidated financial statements also include a cash flow statement, the auditor should also give his opinion on the true and fair view of the cash flows presented by the consolidated cash flow statements.

10.9.2 When the Parent's Auditor is not the Auditor of all its Components

In a case where the parent’s auditor is not the auditor of all the components included in the consolidated financial statements, the auditor of the consolidated financial statements should also consider the requirement of SA 600.

*As prescribed in SA 706, if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor’s report on the consolidated financial statements should disclose clearly the magnitude of the portion of the financial statements audited by the other auditor(s). This may be done by stating aggregate rupee amounts or percentages of total assets, revenues and cash flows of components included in the consolidated financial statements not audited by the parent’s auditor. 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. Reference in the report of the auditor on the consolidated financial statements to the fact that part of the audit of the group was made by other auditor(s) is not to be construed as a qualification of the opinion but rather as an indication of the divided responsibility between the auditors of the parent and its subsidiaries.*
10.9.3 When the Component(s) Auditor Reports on Financial Statements under an Accounting Framework Different than that of the Parent

The parent may have components located in multiple geographies outside India applying an accounting framework (GAAP) that is different than that of the parent in preparing its financial statements. Foreign components prepare financial statements under different financial reporting frameworks, which may be a well-known framework (such as US GAAP or IFRS) or the local GAAP of the jurisdiction of the component. Local component auditors may be unable to report on financial statements prepared using the parent's GAAP because of their unfamiliarity with such GAAP.

When a component's financial statements are prepared under an accounting framework that is different than that of the framework used by the parent in preparing group's consolidated financial statements, the parent's management perform a conversion of the components' audited financial statements from the framework used by the component to the framework under which the consolidated financial statements are prepared. The conversion adjustments are audited by the principal auditor to ensure that the financial information of the component(s) is suitable and appropriate for the purposes of consolidation. Suggested format of the audit report to be issued by the auditor of the consolidated financial statements in this circumstance is given in Appendix I to this Guidance Note.

A component may alternatively prepare financial statements on the basis of the parent’s accounting policies, as outlined in the group accounting manual, to facilitate the preparation of the group’s consolidated financial statements. The group accounting manual would normally contain all accounting policies, including relevant disclosure requirements, which are consistent with the requirements of the financial reporting framework under which the group’s consolidated financial statements are prepared. The local component auditor can then audit and issue an audit report on the components financial statements prepared in accordance with “group accounting policies”.

When applying the approach of using group accounting policies as the financial accounting framework for components to report under, the principal/parent auditors should perform procedures necessary to determine compliance of the group accounting policies with the GAAP applicable to the parent’s financial statements. This ensures that the information prepared under the requirements of the group accounting policies will be directly usable and relevant for the preparation of consolidated financial statements by the parent entity, eliminating the need for auditing by the auditor, the differences between the basis used for the component’s financial statements and that of the consolidated financial statements. The Principal auditor can then decide whether or not to rely on the components’ audit report and make reference to it in the auditor’s report on the consolidated financial statements.

10.9.4 When the Component(s) Auditor Reports under an Auditing Framework Different than that of the Parent
Normally, audits of financial statements, including consolidated financial statements, are performed under auditing standards generally accepted in India ("Indian GAAS"). In order to maintain consistency of the auditing framework and to enable the parent auditor to rely and refer to the other auditor’s audit report in their audit report on the consolidated financial statements, the components’ financial statements should also be audited under a framework that corresponds to Indian GAAS.

10.9.5 Components Not Audited

Generally, the financial statements of all components included in consolidated financial statements should be audited or subjected to audit procedures in the context of a multi-location group audit. Such audits and audit procedures can be performed by the auditor reporting on the consolidated financial statements or by the components’ auditor.

Where the financial statements of one or more components continue to remain unaudited, the auditor reporting on the consolidated financial statements should consider unaudited components in evaluating a possible modification to his report on the consolidated financial statements. The evaluation is necessary because the auditor (or other auditors, as the case may be) has not been able to obtain sufficient appropriate audit evidence in relation to such consolidated amounts/balances. In such cases, the auditor should evaluate both qualitative and quantitative factors on the possible effect of such amounts remaining unaudited when reporting on the consolidated financial statements using the guidance provided in SA 705, “Modifications to the Opinion in the Independent Auditor’s Report”.

Note: Students may refer Appendix 1 of Guidance Note on Consolidated Financial Statements for illustrative format of independent auditor’s report on the consolidated financial statements of a group under the Companies Act, 2013 and the rules thereunder.