



## ICAI issues an implementation guide for auditor's reporting requirements on Specified Bank Notes post demonetisation

21 April 2017

### First Notes on

#### Financial reporting

Corporate law updates

Regulatory and other information

Disclosures

### Sector

#### All

Banking and insurance

Information, communication, entertainment

Consumer and industrial markets

Infrastructure and government

### Relevant to

#### All

Audit committee

CFO

Others

### Transition

#### Immediately

Within the next 3 months

Post 3 months but within 6 months

Post 6 months

### Background

The Ministry of Corporate Affairs (MCA) through its notification dated 30 March 2017 issued the following:

- Amendments to the Schedule III of the Companies Act, 2013 (2013 Act)
- The Companies (Audit and Auditors) Amendment Rules, 2017.

### Amendment to the Schedule III of the 2013 Act

Every company has to disclose the details of Specified Bank Notes (SBN) held and transacted during the period from 8 November 2016 to 30 December 2016 in the format specified by MCA. The MCA also clarified that for the purpose of this disclosure the term 'SBN' should have the same meaning as provided in the notification S.O. 3407(E) of the Ministry of Finance, dated 8 November 2016. The notification defines SBN as '*bank notes of denominations of the existing series of the value of five hundred rupees and one thousand rupees*'.

### The Companies (Audit and Auditors) Amendment Rules, 2017

The MCA amended the Companies (Audit and Auditors) Rules, and requires auditors to report on whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in SBN during the period from 8 November 2016 to 30 December 2016 and if so, whether these are in accordance with the books of accounts maintained by the company (Rule 11(d)).

The above notifications are applicable from 30 March 2017.

### New development

In light of the above, the Institute of Chartered Accountants of India (ICAI) has published an Implementation Guide (IG) on 15 April 2017 to provide guidance in respect of additional disclosure in the Schedule III to the 2013 Act and new Rule 11(d) of the Companies (Audit and Auditors) Amendment Rules (as explained above). The IG contains the following sections:

- Frequently Asked Questions (FAQs)
- Illustrative list of audit procedures
- Reporting scenarios
- Written representation.

This issue of First Notes provides an overview of the IG issued by the ICAI for auditor's reporting requirements on the SBN.

## Overview of FAQs

Topic	Clarification
Applicability of amendment to the Schedule III of the 2013 Act and Rule 11(d) of the Companies (Audit and Auditors) Amendment Rules	<ul style="list-style-type: none"> <li>• <b>Time period:</b> Revised disclosures are applicable to Financial Statements (FS) issued after 30 March 2017 and which include the period from 8 November 2016 to 30 December 2016.</li> <li>• <b>Type of FS:</b> Guidance provided in the IG is applicable to disclosure and reporting on the consolidated financial statements and stand-alone financial statements.</li> </ul>
Disclosure requirements	<ul style="list-style-type: none"> <li>• New disclosure requirements are as follows: <ul style="list-style-type: none"> <li>– Closing cash in hand as on 8 November 2016 and as on 30 December 2016 with other details. However, there is no specific requirement to mention the denomination in which closing cash balances during the specified period were held.</li> <li>– Amounts to be disclosed in INR.</li> </ul> </li> </ul>
Auditor's report	<ul style="list-style-type: none"> <li>• <b>Period of reporting:</b> Auditors to comment on FS issued after 30 March 2017 and which include the period from 8 November 2016 to 30 December 2016 as per Rule 11(d) of the Companies (Audit and Auditors) Amendment Rules.</li> <li>• <b>Modifying the main auditor's report:</b> Where in the auditor's professional judgement it is concluded that the non-compliance is of such nature that it has an impact on the true and fair view of the financial statements, the auditor should consider modifying his report in accordance with SA 705, <i>Modifications to the Opinion in the Independent Auditor's Report</i>.</li> </ul>

(Source: KPMG in India's analysis, 2017)

## Illustrative list of audit procedures

The IG provides an illustrative list of procedures. These procedures should not be substituted for ensuring compliance with Standards on Auditing and relevant guidance notes. Some of the key audit procedures are as follows:

- Obtaining cash balance certificates with denominations from the management as at 8 November 2016 and as at 30 December 2016 with respect to SBNs and other denomination notes.
- Confirming balances certified by the management from the books of accounts as at those dates.
- Obtaining a listing from the management as to how the SBNs available with the company as at closing on 8 November 2016 were dealt with. For example, deposited in bank accounts as evident from bank deposits, used for payments for permitted transactions. (Auditor to report cases of non-permitted transactions noted in accordance with Rule 11(d) of the Companies (Audit and Auditors) Amendment Rules, 2017).
- Obtaining a listing including the nature of transaction and amount with denominations from the management if there were any receipts of the SBNs during the period from 9 November 2016 to 30 December 2016.
- Obtaining a reconciliation of the cash balance from the management in the format prescribed for transactions between 9 November 2016 and 30 December 2016.
- Obtaining bank statement regarding deposits made with the banks.
- Obtaining management representation (suggested language of this is provided in the IG) regarding the following:
  - Completeness of the disclosures made in the notes to the financial statements
  - Manner of dealing in the SBNs during 9 November 2016 to 30 December 2016, deposited in bank, payment against permitted transactions, etc.
  - Permitted receipts and permitted payments made by the company as per the government notifications issued from time to time.

## Other matters

Illustrations on different reporting scenarios: The IG lists down different reporting scenarios for auditor's reporting and provides illustrations of the notes which can be provided by the auditor in these scenarios. For example, a scenario where the company has provided requisite disclosures in the FS as to holdings as well as dealings in SBN and auditor is able to report on the same or where the clause is not applicable to the company, etc.

The IG provides an illustrative format of a reconciliation of the cash balance required to be obtained from the management by an auditor as given below:

	SBNs		Other denomination notes		Total	
	Denomination	Amount	Denomination	Amount	Denomination	Amount
Closing balance as at 8 November 2016						
Transactions between 9 November 2016 and 30 December 2016						
Add: Withdrawal from bank accounts						
Add: Receipts for permitted transactions						
Add: Receipts for non-permitted transactions (if any)						
Less: Paid for permitted transactions						
Less: Paid for non-permitted transactions						
Less: Deposited in bank accounts						
Closing balance as at 30 December 2016						

(Source: The IG on auditor's report under Rule 11(d) of the Companies (Audit and Auditors) Amendment Rules, 2017 and Amendment to Schedule III to the Companies Act, 2013 issued by the ICAI dated 15 April 2017)

### Our comments

- The issuance of the IG for auditor's reporting requirements on SBN by the ICAI is timely considering that many Indian companies would soon be finalising their financial results for the financial year 2016-17. The guidance provided in the IG on various issues involved in the added disclosure and reporting obligations are likely to assist auditors to better discharge their responsibilities.
- On a combined reading of Section 129(1) of the 2013 Act and various regulations issued by the Reserve Bank of India, the Insurance Regulatory and Development Authority of India, the Central Electricity Regulatory Commission, the new reporting and disclosure requirements relating to SBN will not apply to insurance, banking, electricity or any other company governed by any special Act.

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The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access to thought leadership publications that are based on the evolving global financial reporting framework.



## ICAI issues exposure drafts of annual improvements to Ind AS (2014-2016 cycle), amendments to Ind AS 40 and Appendix B to Ind AS 21

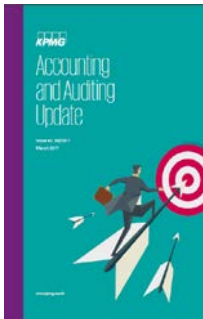
12 April 2017

With Ind AS being applicable to large Indian corporates from 1 April 2016, there is a need to keep Ind AS updated with revisions made to IFRS in order to maintain convergence. Accordingly, the Institute of Chartered Accountants of India (ICAI) on 29 March 2017 issued exposure drafts on the following:

- Amendments to Ind AS 40, *Investment Property*
- Appendix B of Ind AS 21, *Foreign Currency Transactions and Advance Consideration*
- Annual Improvements to Ind AS (2014-2016 cycle).

The last date for comments on the exposure drafts is 28 April 2017. This issue of IFRS notes provides an overview of the amendments proposed by the ICAI.

## Missed an issue of Accounting and Auditing Update or First Notes



Issue no. 8 – March 2017

The topics covered in this issue are:

- Agent vs principal – E-commerce and trading companies
- Developments in capital markets – Conversation with Mr. Ashish Chauhan
- Corporate Social Responsibility
- Accounting deferred tax assets – carry forward losses
- Regulatory updates
- Second Annual KARCC.



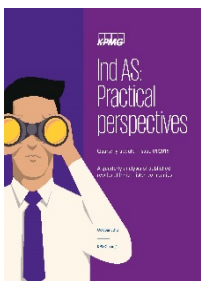
## RBI issues notifications clarifying certain accounting and disclosure requirements in financial statements of banks

21 April 2017

On 18 April 2017, RBI issued three important circulars. They deal with the following topics:

- Additional provisions for standard advances at higher than the prescribed rates
- Disclosure in the 'Notes to Accounts' to the financial statements-Divergence in the asset classification and provisioning
- Guidelines on compliance with Accounting Standard (AS) 11.

Our issue of First Notes provides an overview of these circulars issued by RBI.



## Ind AS - Practical perspectives

**KPMG in India's Ind AS - Practical perspectives through aims to put a finger on the pulse of India Inc's adoption of Ind AS and capture emerging trends and practices.**

Our impact assessment is based on Nifty 50 companies which would be the first group of companies to report Ind AS results. The Nifty 50 companies have released their financial results for the quarter ended 31 December 2016.

Out of the companies comprising Nifty 50 index, eight companies are banks, one is Non-Banking Financial Company (NBFC) and two companies follow a different date of transition to Ind AS. Therefore, our analysis would comprise the remaining 39 companies.

This can be accessed on KPMG in India website - '[Ind AS - Practical perspectives' webpage](#)

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