

ANNOUNCEMENT¹

Reference to the Accounting Standards Applicable to the Companies in the Auditor's Report and Limited Review Reports and various Engagement Standards

- I. The Ministry of Corporate Affairs (MCA) has *vide* its notification dated 12th September 2013 notified 98 sections of the Companies Act 2013 having come into force from that date. One of the sections so notified is Section 133 which empowers the Central Government to prescribe the standards of accounting or any addendum thereto, as recommended by the Institute of Chartered Accountants of India (ICAI) in consultation with and after examination of the recommendation by the National Financial Reporting Authority (NFRA).
- II. Subsequently, MCA *vide* its General Clarification No. 15/2013 dated 13th September 2013, has clarified that to facilitate proper administration of the notified sections of the Companies Act 2013, in respect of the aforesaid Section 133, *"Till the Standards of Accounting or any addendum thereto are prescribed by Central Government in consultation and recommendation of the National Financial Reporting Authority, the existing Accounting Standards, notified under the Companies Act, 1956 shall continue to apply."*
- III. Further, *vide* its Circular no. 16/2013 dated 18th September 2013 has further clarified that with effect from 12th September 2013, *"the relevant provisions of the Companies Act, 1956, which correspond to provisions of 98 sections of the Companies Act, 2013 brought into force on 12.09.2013, cease to have effect from that date."* As a result, section 211(3C) of the Companies Act, 1956 corresponding to which section 133 of the Companies Act, 2013 has been notified has ceased to have effect from 12th September, 2013.
- IV. In view of the above, members have sought guidance on the manner of reference to the Accounting Standards applicable to the company in the statutory auditor's report of the company as well as the limited review report in case of a listed company, issued pursuant to clause 41 of the Listing Agreement.

¹ This announcement has been issued by Auditing and Assurance Standards Board under the authority of the Council of ICAI. (aasb@icai.in)

IV. The matter was considered by the Council of the Institute of Chartered Accountants of India at its 329th Adjourned meeting held on 03rd and 04th January 2014 at New Delhi. The Council noted that in so far as the format of the auditor's report for a statutory audit of a company, for example, as given in illustration 1 in Appendix to SA 700, is concerned, reference to the Accounting Standards issued under section 211 (3C) of the Companies Act, 1956 appears at two places. First, under the "*Management's Responsibility for the Financial Statements*" paragraph and second, under the "*Report on Other Legal and Regulatory Requirements*" paragraph.

V. The Council noted that, while section 133 of the Companies Act, 2013 had been notified, and accordingly, section 211(3C) of the Companies Act, 1956 had been superceded, section 143 of the Companies Act, 2013, which dealt with the matters to be contained in the auditor's report, had not yet been notified. Accordingly, the auditor's reporting requirements were still being governed by section 227(3) of the Companies Act, 1956 and that clause 227(3)(d) of the Companies Act, 1956 requires the auditors to report "*whether, in his opinion, the profit and loss account and balance sheet comply with the accounting standards referred to in sub-section (3C) of section 211*" of the Companies Act, 1956.

VI. The Council is of the view that in the above background, till the time section 143 of the Companies Act, 2013 is made operative, both the following manners of making reference to the Accounting Standards in the independent auditor's report of a Company would be acceptable:

Alternative 1: Refer to section 211(3C) of the Companies Act, 1956 (both in the "Management's Responsibility for Financial Statements" and "Report on Legal and Other Regulatory Matters" paragraphs *(as currently given in the illustrative format of independent auditor's report for accompany given in Appendix to SA 700)*;

OR

- *Alternative 2:* Refer to only the Companies Act, 1956 along with the reference to the relevant notifications of MCA *vide* which it had clarified that the Accounting Standards prescribed under the Companies Act, 1956 would continue to apply in respect of section 133 of the Companies Act, 2013.

VII. Where the members decide to opt for *Alternative 2* above, the "Management Responsibility for Financial Statements" paragraph and the "Report on Legal and Other Regulatory Matters" paragraph in the independent auditor's report would need to suitably reworded as follows and such rewording would be construed to be in accordance with that prescribed in the text/ Appendix to the concerned Engagement Standard.

“Management’s Responsibility for the Financial Statements

Management iscash flows of the Company in accordance with the Accounting Standards notified under the Companies Act, 1956 (“the Act”) read with the General Circular 15/2013 dated 13th September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013. This responsibility..... fraud or error.”

“Report on Other Legal and Regulatory Requirements

2. As required by Section 227(3) of the Act, we report that:

(a)
.....

(d) In our opinion, the Balance Sheet, the Statement of Profit and Loss, and the Cash Flow Statement comply with the Accounting Standards notified under the Companies Act, 1956 read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013.

.....

(f)”

VIII. Similarly, in case of limited review reports issued in terms of clause 41 of the Listing Agreement, approach similar to as suggested above may also be adopted while making a reference to the Accounting Standards applicable to the concerned Company in the limited review report/s issued by a practitioner pursuant to the Standard on Review Engagement (SRE) 2400, *Engagements to Review Financial Statements* or the Standard on Review Engagement (SRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.