

## **Knowledge Round-up – 29<sup>th</sup> Aug 2016**

### **Implementation Guide on Audit of Internal Financial Controls over Financial Reporting with Specific Reference to Smaller, Less Complex Companies**

ICAI had issued Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('Guidance Note') (Refer [Guidance Note](#)). ICAI has now issued Implementation Guide on Audit of Internal Financial Controls over Financial Reporting with Specific Reference to Smaller, Less Complex Companies ('Implementation Guide'). This Implementation Guide provides guidance for the manner of application of the Guidance Note to audits of internal financial controls over financial reporting in case of smaller, less complex companies and addresses some of the practical difficulties that may arise in audits of internal financial controls over financial reporting of such companies.

Click [here](#) for implementation guide.

### **Notification of sections of The Insolvency and Bankruptcy Code, 2016**

The Insolvency and Bankruptcy Code, 2016 ('the Code') had received the assent of the President on 28 May 2016. The Central Government has appointed 19 August 2016 as the date on which the provisions of, inter alia, following sections of the code will come into force:

- Section 221: Grants by Central Government to The Insolvency and Bankruptcy Board of India ('Board');
- Section 222: Constitution of the Board's Fund and application of such fund;
- Section 225: Powers of Central Government to issue directions to the Board;
- Section 226: Power of Central Government to supersede the Board;
- Section 230: Delegation of powers and functions of the Board under this code (except the powers under section 240) to any member or officer of the Board;
- Section 232: Chairperson, Members, Officers and other employees of the Board will be deemed to be public servants within the meaning of section 21 of the Indian Penal Code when acting or purporting to act in pursuance of any of the provisions of this Code.

Click [here](#) for notification.

Click [here](#) for Code.

### **ITFG issues clarification bulletin 4**

Ind AS Transition Facilitation Group (ITFG) of Ind AS (IFRS) Implementation Committee, has issued the fourth set of clarifications on various issues related to the applicability/ implementation of Ind AS under Ind AS Rules, which were raised by preparers/ users / other stakeholders.

This bulletin includes clarifications on the following areas:

Applicability of Ind AS to the companies having negative net worth

- If the net worth of listed or unlisted company is negative, then Ind AS is not be applicable to such companies from financial year 2016-17.

Recognition and presentation of revenue and excise duty

- Revenue should be recognised at gross inflow of economic benefits received and receivables on own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and should be excluded from revenue;
- Revenue from operations should be presented as a gross amount including excise duty in the statement of profit and loss; and
- Excise duty should be presented as an expense in the statement of profit and loss.

Clarification on date of transition to Ind AS

- Companies covered under phase I are mandatorily required to adopt Ind AS from 01 April 2016. Further, the beginning of the comparative period will be 01 April 2015 and will be considered as the transition date. The company cannot have the date of transition at 01 April 2014.

Click [here](#) for clarification bulletin 4.

### **RBI issues Master Directions for Non-Banking Financial Companies**

RBI has issued Master Directions on six subjects related to Non-Banking Financial Companies (NBFCs) under its regulation. These directions consolidate instructions issued by various circulars/ directions/ notifications/ master circulars. The subjects on which Master Directions have been issued are:

- Exemptions from the provisions of RBI Act, 1934;
- Non-Banking Financial Companies Acceptance of Public Deposits (Reserve Bank) Directions, 2016;
- Core Investment Companies (Reserve Bank) Directions, 2016;
- Standalone Primary Dealers (Reserve Bank) Directions, 2016;
- Miscellaneous Non-Banking Companies (Reserve Bank) Directions, 2016;
- Residuary Non-Banking Companies (Reserve Bank) Directions, 2016.

Click [here](#) for press release.

### **Prudential Norms for Off-balance Sheet Exposures of Banks - Restructuring of derivative contracts**

RBI had clarified that in cases where a derivative contract is restructured, the mark-to-market value of the contract on the date of restructuring should be cash settled (Refer [Prudential Norms for Off-balance Sheet Exposures of Banks](#)). RBI has further clarified that cash settlement of only the change in mark-to-market value of the restructured derivative contract is required. It may be ensured that the restructuring of the derivative contract is carried out at prevalent market rates and not on the basis of off-market rates.

Click [here](#) for notification.

## Review of Prudential Norms - Risk Weights for Exposures to Corporates, AFCs and NBFC-IFCs

RBI had issued master circular on Basel III capital regulations (refer [Master Circular – Basel III Capital Regulations](#)). At present unrated exposures to Corporates, Asset Finance Companies (AFCs) and Non-Banking Financial Companies-Infrastructure Finance Companies (NBFC-IFCs) attract a risk weight of 100 per cent. RBI has now made following modifications to the risk weights applicable to unrated exposures:

- With effect from 30 June 2017, all unrated claims on corporates, AFCs and NBFC-IFCs having aggregate exposure from banking system of more than INR 200 crores will attract a risk weight of 150 per cent;
- Claims on corporates, AFCs and NBFC-IFCs having aggregate exposure from banking system of more than INR 100 crores which were rated earlier and subsequently have become unrated will attract a risk weight of 150 per cent with immediate effect.

Click [here](#) for notification.

## Implementation guide on Auditor's Reports under Indian Accounting Standards for Transition Phase

The ICAI has issued 'Implementation guide on Auditor's Reports under Indian Accounting Standards for Transition Phase' (Implementation guide). This implementation guide provides guidance on reporting responsibilities of the auditors for the audit of:

- Ind AS financial statements prepared for the first year in which Ind AS are applicable to the company;
- Ind AS financial results prepared by a listed entity under SEBI Listing Regulations during the first year of adoption of Ind AS;
- Special purpose financial statements for the corresponding period and opening balance sheet as per Ind AS which will be presented by the company as part of its first Ind AS financial statements.

Further, this implementation guide also provides illustrative formats of Independent Auditor's Report on the following:

- Audit Report on the First Standalone Ind AS Financial Statements of a Company under the Companies Act, 2013 and the Rules thereunder;
- Audit Report on the Comparative Ind AS Financial Information which will be presented by a Company as Part of its First Ind AS Standalone Financial Statements;
- Audit Report on Quarterly Financial Results (Companies other than Banks and Insurance Companies) (Phase 1) – Unmodified Opinion (only for quarterly results in the first year of Ind AS implementation);
- Limited Review Report on Quarterly Financial Results for Companies (other than banks and insurance companies) (Phase 1) - Unmodified Opinion (only for quarterly results in the first year of Ind AS implementation).

Click [here](#) for implementation guide.