

Inside the audit: Part 3 - Equity share capital

Objective:

To obtain sufficient and appropriate audit evidence that the equity share capital exists, is complete, is the legal obligation/right of the entity, is accurately recorded and valued, relates to the correct period, and is appropriately presented and disclosed in accordance with applicable financial reporting and legal requirements.

1) Combined Testing for Existence & Completeness:

- Reconcile issued and paid-up share capital across Register of Members, General Ledger, financial statements and ROC filings (PAS-3, SH-7, MGT-7).
- Obtain Benpos from NSDL/CDSL via RTA and reconcile total dematerialised shares with company records.
- Verify all share capital movements (allotments/transfers) with supporting documents, board resolutions and corresponding ROC filings.

2) Existence - Additional Assertion-Specific Tests:

- Agree opening balance of share capital with prior year audited financial statements.

3) Completeness - Additional Assertion-Specific Tests:

- Trace share capital receipts and share application money from bank statements and verify correct accounting classification.
- Review board minutes to identify share-related approvals and ensure all such decisions are recorded in the books.
- Review RTA transfer logs to identify any unrecorded transfers and reconcile with internal transfer registers.

4) Rights & Obligations:

- Verify authorised share capital from MOA/AOA and agree any changes with SH-7 and ROC filings.
- Review MOA/AOA to understand rights, restrictions and terms attached to equity shares.
- Review lender agreements or disclosures to identify whether any promoter or company shares are pledged or encumbered.

5) Accuracy / Valuation:

- Recalculate share capital by validating number of shares issued multiplied by face value.
- Verify correctness of accounting entries recorded in Share Capital, Share Application Money and Securities Premium accounts.
- Verify that any share issue expenses, if charged to premium or P&L, are appropriately recorded.

6) Presentation & Disclosure:

- Verify Schedule III disclosures relating to authorised, issued, subscribed and paid-up capital, reconciliation of shares, promoter shareholding and shareholders holding more than 5%.
- Verify disclosures relating to rights, restrictions, calls unpaid, forfeiture (if applicable) and shares reserved for convertible instruments (if recurring).
- Ensure equity instruments are correctly classified under equity and not financial liabilities as per Ind AS.
- Match weighted average number of shares used for EPS with share capital reconciliation.

7) Cut-off:

- Review allotment dates and ROC filing dates (PAS-3) to ensure shares issued after year-end are not recorded in the current year.
- Trace share application money received near year-end and verify appropriate classification between share capital issued and share application money pending allotment.
- Review RTA logs for the last few weeks around year-end to identify any delayed-recorded transfers or allotments.

Overall Audit Completion:

- Prepare a comprehensive reconciliation of share capital across General Ledger, ROC filings, DP/Benpos records and statutory registers.
- Obtain management representation confirming completeness, accuracy and statutory compliance of all share capital transactions and records.
- Capture issues or control gaps relating to share capital (delayed ROC filings, mismatches, missing approvals, incorrect postings) in RCM/ICFR reporting.