

Inside the Audit: Part 9 - Investments

A. COMMON AUDIT PROCEDURES (APPLICABLE TO ALL TYPES OF INVESTMENTS)

Test of Controls

- Perform walkthroughs of one or more sample transactions from deal initiation to accounting entry.
- Understand and evaluate the process for approval, trade execution, including dealer authorization and system access controls, recording, valuation, and monitoring of investments.
- Verify existence of Board / Committee approvals in line with the Companies Act, 2013 and internal investment policy.
- Review controls over classification of financial assets under Ind AS 109 (Amortised Cost / FVOCI / FVTPL).
- Evaluate controls over periodic fair valuation, impairment assessment, and review by management.
- Check controls over reconciliation of investment records with demat statements and third-party confirmations.
- Review controls over accounting entries, journal approvals, and system postings

B. Substantive Audit Procedures

Existence / Occurrence

- Obtain detailed schedule of investments with classification as per Ind AS 109.
- Verify investments with supporting documents such as share certificates, demat statements, mutual fund statements, bond/debenture certificates.
- Verify deal tickets / trade confirmations generated.
- Match trade details (security, quantity, price, trade date) with broker contract notes.
- Trace investment payments to bank statements.
- Verify units / shares held, folio numbers, ISIN, and investor name as per RTA records.
- Obtain direct confirmations from third parties such as:
 - Depositories / Custodians
 - Mutual fund houses
 - Banks / Financial institutions
 - Investee companies (for unlisted investments and ICDs)

Completeness

- Review complete bank statements to identify any unrecorded investment transactions.
- Reconcile investment register with general ledger and trial balance.
- Match investments reflected in demat statements and third-party confirmations with books of accounts.

Accuracy / Valuation (Ind AS 109 Specific)

- Verify initial recognition of investments at fair value plus transaction costs (where applicable) in accordance with Ind AS 109.
- Review management's classification of financial assets into Amortised Cost, FVOCI and FVTPL.
- For investments measured at FVTPL / FVOCI:
 - Verify fair value determination using observable market prices (Level 1) or valuation techniques (Level 2 / Level 3).
 - Check valuation workings, assumptions, and inputs used by management or external valuers.
 - Validate consistency of valuation methodology with prior periods.

- For investments measured at Amortised Cost:
 - Recompute amortised cost using the Effective Interest Rate (EIR) method.
 - Verify accounting of interest income and carrying amount.
- Evaluate Expected Credit Loss (ECL) provisioning, wherever applicable, in line with Ind AS 109.

Rights & Obligations

- Inspect share certificates, demat statements, investment agreements, and confirmation replies to ensure investments are held in the name of the company.
- For investments in subsidiaries, associates, or joint ventures, verify ownership percentage and voting rights.

Cut-off

- Verify investments purchased or sold near the reporting date are recorded in the correct financial year.
- Match trade dates and settlement dates to ensure proper cut-off.

Classification & Presentation

- Verify correct classification between current and non-current investments.
- Ensure appropriate disclosure of:
 - Fair value hierarchy (Level 1, 2, 3)
 - Valuation techniques and key assumptions
 - Movement in fair value through P&L / OCI as required under Ind AS 107 and Schedule III.

C. Compliance

- Verify compliance with Section 186 of the Companies Act, 2013 with respect to limits, approvals, and disclosures.
- Check compliance with accounting requirements under Ind AS 109, Ind AS 107, and relevant guidance notes.

D. INVESTMENT-SPECIFIC ADDITIONAL PROCEDURES

Equity Shares (Listed / Unlisted)

- For listed shares, verify valuation using closing market price as at reporting date.
- For unlisted shares, evaluate impairment and fair value using appropriate valuation techniques.

Mutual Funds

- Match units held with statements received directly from mutual fund houses.
- Verify NAV used for valuation as at the balance sheet date.

Investment in Subsidiaries / Associates / Joint Ventures

- Obtain direct confirmation from investee entities regarding shareholding and capital balance.
- Assess impairment based on financial performance and net worth of investee companies

Bonds / Debentures / ICDs

- Verify terms of investment, interest rate, maturity, and redemption clauses.
- Obtain direct confirmation of outstanding balance and accrued interest.