

**Implementation Guide on  
Reporting under Rule 11(e) and Rule  
11(f) of the Companies (Audit and  
Auditors) Rules, 2014**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

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Edition : April 2022

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Price : Rs. 200/-

Published by : The Publication Department on behalf of the  
Institute of Chartered Accountants of India,  
ICAI Bhawan, Post Box No. 7100,  
Indraprastha Marg, New Delhi – 110002

## Foreword

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The Ministry of Corporate Affairs (MCA) issued the Companies (Audit and Auditors) Amendment Rules, 2021 on March 24, 2021 introducing inter alia new Rule 11(e) and new Rule 11(f) in the Companies (Audit and Auditors) Rules, 2014. The Reporting requirements set forth under these Rules are applicable for audits of companies for the financial year 2021-22 and onwards. These Rules have cast onerous responsibility on auditors as scope of reporting under these Rules is very wide. The Auditing and Assurance Standards Board (AASB) of ICAI felt the need to provide guidance to the members on these reporting requirements and took the initiative to bring out an Implementation Guide to help the members so that they can discharge their duties more efficiently and effectively.

I am happy to note that the Auditing and Assurance Standards Board of ICAI has brought out this “Implementation Guide on Reporting under Rule 11(e) and Rule 11(f) of the Companies (Audit and Auditors) Rules, 2014” for providing appropriate guidance to the members so that the requirements of these Rules can be fulfilled in letter and spirit. The Implementation Guide provides guidance to auditors on Rule 11(e) which deals with reporting on lending or receiving funds through pass through entities marked for ultimate beneficiary and Rule 11(f) which deals with reporting on the payment/declaration of dividend. The Implementation Guide provides detailed guidance on these Rules including various audit procedures to be performed. It further specifies various scenarios for better understanding of the members and enables them to deal with the practical situations which may be faced by them while reporting under these Rules.

I compliment CA. (Dr.) Sanjeev Kumar Singhal, Chairman, CA. Vishal Doshi, Vice-Chairman and other members of the Auditing and Assurance Standards Board for bringing out this Implementation Guide for the benefit of the members at large.

I am confident that the members and other interested readers would find this Implementation Guide immensely useful.

April 21, 2022  
New Delhi

**CA. (Dr.) Debashis Mitra**  
President, ICAI

## Preface

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The Ministry of Corporate Affairs vide notification dated March 24, 2021 issued the Companies (Audit and Auditors) Amendment Rules, 2021. Pursuant to this notification, several changes have been made in Rule 11 of the Companies (Audit and Auditors) Rules, 2014. These changes include new Rule 11(e) which deals with reporting on lending or receiving funds through pass through entities marked for ultimate beneficiary and new Rule 11(f) which deals with reporting on the payment/declaration of dividend. These new reporting requirements are applicable for audits of financial year 2021-22 and onwards. The Auditing and Assurance Standards Board (AASB) of ICAI decided to develop an Implementation Guide for providing appropriate guidance to the members on these new reporting requirements so that the members can discharge their responsibilities in an effective manner.

It gives us immense pleasure to place in hands of the members, this “Implementation Guide on Reporting under Rule 11(e) and Rule 11(f) of the Companies (Audit and Auditors) Rules, 2014” brought out by the Auditing and Assurance Standards Board. The Implementation Guide contains detailed guidance on various aspects of reporting under Rule 11(e) like analysis of Rules, management’s responsibilities in respect of disclosures in financial statements under Schedule III to the Companies Act, 2013, various audit procedures to be performed, reporting considerations, illustrative formats of confirmation letters, illustrative formats of management representations. The Implementation Guide also contains detailed guidance on various aspects of reporting under Rule 11(f) like relevant requirements under the Companies Act, 2013 and Rules thereunder, audit considerations, reporting requirements, audit procedures and illustrative reporting. The Implementation Guide will enable

auditors of companies to comply with the reporting requirements under these Rules effectively.

We are extremely grateful to all members of the study group viz. CA. Vishal Doshi, Vice Chairman, AASB (Convenor of the study group), CA. Chandrika Sridhar, CA. V. Balaji, CA. Bhavani Balasubramanian, CA. Archana Bhutani, CA. Ridhima Dubey and CA. Alpa Chitalia for sparing time out of their other preoccupations to write this Implementation Guide. We express our sincere thanks to CA. Deepa Agarwal for her technical contribution at various stages of this Implementation Guide.

We would like to thank our Honourable President, CA. (Dr.) Debashis Mitra and Honourable Vice-President, CA. Aniket Sunil Talati for their guidance and support in various endeavours of the Board.

We wish to place on record high appreciation of all members of the Board for their active contribution in finalising this Implementation Guide. We also wish to thank CA. Megha Saxena, Secretary, AASB, CA. Samriddhi Bhatt, Assistant Project Officer and other staff of AASB for their technical and other contribution in finalising this Implementation Guide.

We are confident that the Implementation Guide would be well received by the members and other interested readers.

**CA. Vishal Doshi**  
Vice Chairman, AASB

**CA. (Dr.) Sanjeev Kumar Singhal**  
Chairman, AASB

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## **Introduction to Amendments to Rule 11 of Companies (Audit and Auditors) Rules, 2014**

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Section 143(3) of the Companies Act, 2013 (“the Act”) provides various matters on which auditors are required to report in their auditor’s report. Clause (j) of Section 143(3) states that auditor’s report shall also state such other matters as may be prescribed. Rule 11 of the Companies (Audit and Auditors) Rules, 2014 specifies such other matters that are to be reported by the auditor.

The Ministry of Corporate Affairs (MCA) vide its notification No. GSR 206(E) dated March 24, 2021 has issued the “Companies (Audit and Auditors) Amendment Rules, 2021” introducing new Rule 11(e), 11(f) and 11(g) and deleting Rule 11(d).

### **Effective date for reporting in respect of Rule 11(e) and Rule 11(f) of the Companies (Audit and Auditors) Rules, 2014**

Auditor’s reporting under Rule 11(e) and 11(f) is effective in respect of financial years commencing on or after 1 April 2021.

**Rule 11(e) and (f) are reproduced below:**

#### **Rule 11(e) of the Companies (Audit and Auditors) Rules 2014:**

*“(e) (i) Whether the management has represented that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or*

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*on behalf of the company (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;*

- (ii) Whether the management has represented, that, to the best of its knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been received by the company from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and*
- (iii) Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under sub-clause (i) and (ii) contain any material mis-statement.”*

### **Rule 11(f) of the Companies (Audit and Auditors) Rules 2014:**

*“Whether the dividend declared or paid during the year by the company is in accordance with section 123 of the Companies Act 2013”.*

### **Scope of the Implementation Guide**

The purpose of this Implementation Guide is to enable the auditors to comply with the reporting requirements of Rule 11(e) and Rule 11(f). It should be noted that whilst the guidance given in this Implementation Guide provides the principles for reporting under the aforesaid Rules, the auditors should also exercise their professional judgement and experience on the matters on which they are required to report.

### **Omission of sub-clause (d) in Rule 11**

The MCA vide its notification dated 30 March 2017 had amended Rule 11 of the Companies (Audit and Auditors) Rules, 2014 by inserting following clause, requiring auditors to report in their audit report:

“(d) whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in Specified Bank Notes (“SBN”) during the period from 8<sup>th</sup> November, 2016 to 30<sup>th</sup> December, 2016 and if so, whether these are in accordance with the books of accounts maintained by the company.”

A clarification dated 01 September 2018 was issued by the Corporate Laws and Corporate Governance Committee (CLCGC) of the ICAI stating that “Since this disclosure requirement was event specific, and hence was relevant for Financial Year 2016-17 only and required disclosure is also for period falling under that financial year. Therefore, in Notes to Account as well as Audit Report, the disclosure requirement relating to SBNs are not applicable for the Financial Year 2017-18 & subsequent years. Consequent disclosures may be made in the Financial Statements/ Audit Reports.” Subsequently, on 23 November 2018 the Auditing and Assurance Standards Board (AASB) of the ICAI had withdrawn “Implementation Guide on Auditor’s Report under Rule 11(d) of Companies (Audit and Auditors) Amendment Rules, 2017 and Amendment to Schedule III to Companies Act, 2013” which was issued by AASB in April 2017.

Above mentioned reporting requirements specified under Rule 11(d) has now been omitted by the Companies (Audit and Auditors) Amendment Rules, 2021 effective from 01 April 2021.

After omission of Rule 11(d), auditors are not required to report on the holdings as well as dealings of the company in Specified Bank Notes.

## Section 1

# Guidance for Reporting under Rule 11(e)

1. Rule 11(e) of the Companies (Audit and Auditors) Rules, 2014 (hereinafter referred to as “Rule 11(e)”) requires the auditor to comment on certain transactions relating to funds advanced/ received by entities<sup>1</sup>. Rule 11(e) is reproduced below:

- “(e) (i) Whether the management has represented that, to the best of it’s knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;*
- (ii) Whether the management has represented, that, to the best of it’s knowledge and belief, other than as disclosed in the notes to the accounts, no funds have been received by the company from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the company shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and*

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<sup>1</sup> The terms Funding party, Funding entity, reporting entity have been interchangeably used in this Implementation Guide. Similarly, the terms recipient entity, intermediary have been interchangeably used. Also, term ultimate beneficiary and third party has been used interchangeably across the Implementation Guide.

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*(iii) Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the representations under sub-clause (i) and (ii) contain any material mis-statement.”*

2. Rule 11(e)(i) requires the management to make a representation that, other than as disclosed in the notes to the accounts, the reporting entity (“the Funding Party”) has not used an Intermediary for advancing /loaning/ investing funds to/ in an ultimate beneficiary or has not provided any guarantee/ security or the like on behalf of the ultimate beneficiary.

3. Rule 11(e)(ii) requires the management to make a representation that, other than as disclosed in the notes to the accounts, the reporting entity (“the Intermediary”) has not acted as an intermediary for advancing /loaning/ investing funds to/ in an ultimate beneficiary identified by the Funding Party or has not provided any guarantee/ security or the like on behalf of the Funding Party.

4. Rule 11(e)(iii) requires the auditor to perform audit procedures and examine the appropriateness of such representations given by the management as per the requirements of Rule 11(e)(i) and (ii). Based on such examination, this Rule requires the auditor(s) to report that nothing has come to their notice that has caused them/ him to believe that the above-mentioned representations contain any material misstatement.

5. Funds may be provided for the benefit of certain beneficiaries, but the funds may flow through another entity(ies) (acting as an Intermediary) such that the trail of such transactions is difficult to establish and there is no transparency about the identity of the ultimate party receiving the funds. The Intermediary acts as per the directions of the reporting entity (“the Funding Party”) to pass on the funds received from the reporting entity to an entity identified by the reporting entity.

6. MCA, vide notification dated 24 March 2021, has correspondingly mandated additional disclosures by companies by amending Schedule III to the Act. Companies (funding party) are

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now required to disclose details of the transactions of advances or loans or investment of funds (either from the borrowed funds or share premium or any other sources or kind of funds), as prescribed, to any other person(s) or entity(ies), including foreign entities (Intermediaries) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall:

- (i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company (Ultimate Beneficiaries) or
- (ii) provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries.

The company shall disclose the following:

- (I) date and amount of fund advanced or loaned or invested in Intermediaries with complete details of each Intermediary.
- (II) date and amount of fund further advanced or loaned or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries alongwith complete details of the ultimate beneficiaries.
- (III) date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries.
- (IV) declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering Act, 2002 (15 of 2003).

Further, disclosure requirements are also prescribed for companies which receive funds in the capacity of intermediaries. These requirements are given below.

Where a company has received any fund from any person(s) or entity(ies), including foreign entities (Funding Party) with the understanding (whether recorded in writing or otherwise) that the company shall:

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- (i) directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (Ultimate Beneficiaries) or
- (ii) provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries,

the company shall disclose the following:

- (I) date and amount of fund received from Funding parties with complete details of each Funding party.
- (II) date and amount of fund further advanced or loaned or invested other intermediaries or Ultimate Beneficiaries alongwith complete details of the other intermediaries' or ultimate beneficiaries.
- (III) date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
- (IV) declaration that relevant provisions of the Foreign Exchange Management Act, 1999 (42 of 1999) and Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002 (15 of 2003).

7. The reporting requirements under Rule 11(e) are also applicable to the audits of branch(es) of a company since sub-section 8 of section 143 of the Act read with Rule 12 of the Companies (Audit and Auditors) Rules, 2014 clearly specifies that a branch auditor has the same duties in respect of audit as the company's auditor. Accordingly, the branch auditor is required to report on all the matters specified in Rule 11(e) in his report on the financial statements of the branch.

8. In cases where the management engages other auditors to audit branches of the company, the Group auditor shall send necessary referral instructions to such other auditors to report under Rule 11(e) as applicable.

### **Analysis of Rules<sup>2</sup>**

9. Reporting under Rule 11(e) in substance requires the auditor to report if the disclosures in the notes to the financial statements in respect of certain types of funding arrangements as specified in these Rules have been appropriately made by the management. **In the context of this Implementation Guide, the phrase ‘reporting under Rule 11(e)’ refers to both reporting on the extent of disclosures in the notes to the financial statements under Schedule III to the Act for such transactions as well as situations/ circumstances of exceptions that need to be reported by the auditor in case of incomplete, inaccurate or inadequate disclosures in the notes to the financial statements.**

10. Rule 11(e)(i) requires reporting in the case of a company that is governed under the Act (i.e. an Indian company and foreign company which (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and (b) conducts any business activity in India in any other manner) that is the Funding Party.

#### Illustration

A. If X gives a guarantee to B who in turn gives a counter guarantee to C on behalf of X providing the guarantee given by X as security for purpose of C availing funds. In this instance, X will not be considered as the Funding Party since in the whole arrangement no funds are being transferred and it relates to only non-funded arrangement and B will not be considered as an Intermediary since it did not receive any funds from X and therefore disclosure of such arrangement will not be required in the financial statements.

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<sup>2</sup> Illustrations and scenarios given in this Implementation Guide consider only one Intermediary. However, in a practical situation, there may be more than one Intermediary. The principles laid down in this Implementation Guide for the Intermediaries will apply to each Intermediary.



11. Rule 11(e)(ii) requires reporting in the case of a company that acts as an Intermediary and covers both funded and non-funded facilities to another party on behalf of the Funding Party.

**Illustration**

A gives a loan of Rs. 100 crores to B who based on such loan provides a guarantee in favour of C on behalf of A. In this instance, reporting by A will be required under Rule 11(e)(i) being a Funding Party to B, an Intermediary. Further, though there is no funding by the Intermediary B to C, reporting will be required under Rule 11(e)(ii) in view of the guarantee given by B to C on behalf of A.

12. Rule 11(e) requires reporting only if amounts funded by one (funding) party to another (intermediary) party is for onward lending or investment<sup>3</sup> to a third party which is on behalf of the first (funding) party. Such reporting is required to be made by auditors of companies which are funding parties and/or intermediary parties.

**Illustrations**

- A. A lends money to B for onward investment in C on behalf of A. In this instance reporting under Rule 11(e)(i) will be applicable for A and reporting under Rule 11(e)(ii) will be applicable for B.
  
- B. X, a company in United Kingdom, wants to acquire company Y in India through A, its wholly owned subsidiary in India. X provides funds to A through infusion in its capital and A is obligated to use such capital receipt for acquisition of investments in Y. In this instance, reporting under Rule 11(e)(ii) will be applicable to A.

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<sup>3</sup> In this Implementation Guide, the phrase 'Lending or Investment' shall also cover 'providing guarantee, security or the like', wherever applicable.

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13. When there is no written understanding that the Intermediary is lending or investing on behalf of the Funding Party, it is important to understand the timing of the cash flows from the Funding Party and the lending or investment by the Intermediary. Even if the timing is different, it should be presumed that the onward lending or investment made by the Intermediary is initially out of the funds provided by the Funding Party and the residual amount if any can be attributed to the internal or any other source of funds of the Intermediary and therefore, inquiries need to be made by the auditor. This will require evaluation on case to case basis.

### Illustration

A funds Rs. 100 crores to B in year 1 for onward funding to C on behalf of A. B funds Rs. 100 crores to C in year 2. As at the end of year 1, B has a cash and bank balance of Rs.120 crores. In this instance, it should be considered in year 2 that the funding by B to C was from the funds received by B from A in year 1 since the year 1 end cash and bank balance of B was more than the funds received from A.

14. The auditor needs to carefully evaluate the timing for reporting under Rule 11(e) under various scenarios. In this regard, the auditor should consider the disclosure requirements by the company under Schedule III<sup>4</sup> to the Act and align his reporting with such disclosure requirements. It may be noted that the <sup>5</sup>Guidance Note on Schedule III to the Companies Act, 2013 (“the Guidance Note”) infers that the disclosure in the subsequent years

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<sup>4</sup> Item 6.Y(xiv) of General Instructions for preparation of Balance Sheet under Division I of Schedule III to the Act, item 6.L(xvi) of General Instructions for preparation of Balance Sheet under Division II of Schedule III to the Act and item 6.WB(xvi) of General Instructions for preparation of Balance Sheet under Division III of Schedule III to the Act.

<sup>5</sup> Paragraph 8.9.14.4 of the Guidance Note on Division I – Non Ind AS Schedule III to the Companies Act, 2013, paragraph 8.5.16.5 of the Guidance Note on Division II – Ind AS Schedule III to the Companies Act, 2013 and paragraph 8.2.12.8(xvi) of the Guidance Note on Division III – Schedule III to the Companies Act, 2013 for NBFC that is required to comply with Ind AS.

when the funds provided by Funding Party are not fully utilized should be disclosed to the extent of unutilized amount each year until fully utilized. Thus, the Guidance Note pre supposes a disclosure in the financial statements and thus even where management has concluded that no transaction requires reporting, a statement to that effect should be made in the financial statements.

#### Scenario 1

Funding and understanding for onward lending or investment with the Intermediary in the same year. In this instance reporting under Rule 11(e)(i) and (ii) will trigger in the same year of funding and when such understanding was reached. It may be noted that the onward lending or investment by the Intermediary may not have happened in the same year but may happen in the next year. In the case of reporting under Rule 11(e)(ii) for the Intermediary the reporting will be made twice (i) the year in which the funds were received from the Funding Party and the understanding with the Funding Party was also reached and (ii) the year(s) in which the Intermediary makes the onward lending or investment (since the company will also be making such disclosure under Schedule III to the Act in each of the years where such onward lending or investment is made).

#### Scenario 2

Funding made by the Funding Party in year 1. Understanding with the Intermediary for onward lending or investing on behalf of the Funding Party reached in year 2. Intermediary makes the onward lending or investment on behalf of the Funding Party in year 3. In this instance since at the time of funding by the Funding Party in year 1 no understanding existed with the Intermediary for onward lending or investing on behalf of the Funding Party, the reporting under Rule 11(e)(i) will not be triggered for the Funding Party in year 1 even though the funds were disbursed. Also, reporting under Rule 11(e)(ii) for the Intermediary will not arise for the same reasons in year 1. However, in case the understanding is reached

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before the date of the audit report for year 1, the same will be considered as subsequent event under SA 560<sup>6</sup> and AS 4/ Ind AS 10<sup>7</sup> for purpose of reporting under Rule 11(e) in year 1 itself. If the understanding between the Funding Party and the Intermediary was reached after the date of the audit report for year 1, it would trigger reporting under Rule 11(e) for both the Funding Party and the Intermediary in year 2. Further, since the Intermediary made the onward lending or investment in year 3, reporting under Rule 11(e)(ii) should be made for the Intermediary in year 3.

15. For the auditor's reporting under Rule 11(e), the following phrases in the Rules require interpretation:

- (i) any other sources or kind of funds (included in Rule 11(e)(i)) (Refer paragraph 16 below)
- (ii) indirectly lend or invest in other persons (included in both Rule 11(e)(i) and (ii)) (Refer paragraph 17 below)
- (iii) provide any guarantee, security or the like (included in both Rule 11(e)(i) and (ii)) (Refer paragraph 18 below)
- (iv) on behalf of the Ultimate Beneficiaries (included in both Rule 11(e)(i) and (ii)) (Refer paragraph 19 below)
- (v) no funds have been received by the company (included in Rule 11(e)(ii)) (Refer paragraph 20 below)
- (vi) other than as disclosed in the notes to accounts (included in both Rule 11(e)(i) and (ii)) (Refer paragraphs 22 to 23 below)
- (vii) nothing has come to their notice (included in Rule 11(e)(iii)) (Refer paragraph 24 below)
- (viii) contain any material mis-statement (included in Rule 11(e)(iii)) (Refer paragraph 25 below)

16. The phrase 'any other sources or kind of funds' will include all sources of funds for a company i.e. share capital, securities

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<sup>6</sup> SA 560, "Subsequent Events".

<sup>7</sup> AS 4, "Contingencies and Events Occurring After the Balance Sheet Date" and Ind AS 10, "Events after the Reporting Period".

premium, amounts received towards grant, profit for the year, and the like. Borrowings have not been mentioned in this example since it is already directly mentioned in the Rules as a source of funds.

17. The phrase 'indirectly lend or invest in other persons' implies that the reporting entity (the Funding Party) has used more than one Intermediary to pass on the same funds to another party for the benefit of the Funding Party.

Illustration

F is the Funding Party and funds Rs. 200 crores to A, an Intermediary who in turn passes on the funds to B, another Intermediary, who ultimately transfers such funds to C, for the benefit of F, ultimate beneficiary. In this instance A is deemed to have indirectly funded C since A itself has been an Intermediary in this transaction and has used B as another Intermediary to fund C on behalf of A. In this instance if the reporting entity is F then reporting under Rule 11(e)(i) will be applicable. If the reporting entity is A then the reporting will be required under Rule 11(e)(i) (as the Funding Party) and Rule 11(e)(ii) (as the Intermediary to F). If the reporting entity is B, then reporting will be required under Rule 11(e)(ii) (since B is an Intermediary)

18. When interpreting the phrase '*provide any guarantee, security or the like*', documents like Letter of Support, Letter of Comfort, Letter of Credit, Letter of Surety and the like should be **carefully evaluated to determine if they are in the nature of guarantee, security or the like.**

Illustration

A, the Funding Party lends Rs.500 crores to B who provides a guarantee to the banker of C based on the security of the funds of Rs. 500 crores received from A. In this instance reporting under Rule 11(e) will be triggered only if C has been supported with the guarantee on behalf of A. If the guarantee has been provided on behalf of A, reporting in respect of A under Rule 11(e)(i) will be applicable since A is the Funding Party and it has used B as an Intermediary to provide guarantee to C based on the funds A

provided to B. In the case of B, reporting will be required under Rule 11(e)(ii) as an Intermediary.

19. If the transactions envisaged in Rule 11(e)(i) and (ii) are with a party outside the group of entities, it will need a careful assessment if the funding/ investing/ giving of guarantee, security or the like are on behalf of the Funding Party, especially when such arrangements are not supported in writing.

20. '*No funds have been received by the company*' implies that funds have not been received by the company from another entity ('the Funding Party') in the form of capital or borrowings. Funds received as sale proceeds from another entity is not covered for reporting under this clause as the same may not have been received with understanding that the company shall lend or invest in other persons or entities identified by or on behalf of the Funding Party. However, if such sales or sales proceeds have been made with the specific understanding that the company shall lend or invest in other persons or entities identified by or on behalf of the Funding Party then reporting under Rule 11(e)(ii) will be applicable.

#### Illustration

A is the holding company of B. A has reached its limits for investments under section 186 of the Act. A intends to have one more subsidiary C but has no direct limits to fund such subsidiary under section 186 of the Act. In order to incorporate C and fund C, A enters into an arrangement with B to purchase some of the assets of B and B shall use the consideration received from the sale to incorporate and fund C. In this instance reporting under Rule 11(e)(i) will be applicable for A as the Funding Party and reporting under Rule 11(e)(ii) will be applicable to B as Intermediary since it has received funds (albeit proceeds from sale of assets) from A for the purpose of investing in C.

21. Careful evaluation is required to determine if any amounts given as advance are not in the nature of loans. In this regard, amounts may be considered as an advance only if they are given in normal trade practice and is towards supply of goods or services in the normal course of business and in normal timelines.

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22. Auditor's reporting under Rule 11(e)(i) and (ii) is based on the disclosures in the notes to the accounts. Illustrative disclosure scenarios in the notes to the accounts are given below:

**In the financial statements of the Funding Party:**

<b>Disclosure requirement as per Schedule III</b>	<b>When should the disclosure be made</b>
(I) date and amount of fund advanced or loaned or invested in Intermediaries with complete details of each Intermediary	<p>Year of funding to the Intermediary with an understanding that the amount funded will further be advanced or loaned or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries.</p> <ul style="list-style-type: none"> <li>• If the year of funding is before the year of understanding, disclosure is required in year of funding if the understanding is reached before the date of the audit report for the year of funding.</li> <li>• If the understanding is reached after the date of the audit report for the year of funding, the disclosure will be required in the year in which such understanding is reached.</li> </ul> <p>The amount to be disclosed in respect of the fund advanced or loaned or invested in Intermediaries will be the unutilized amount of such funds at the end of the previous year if funded in earlier years<sup>8</sup>.</p>

<sup>8</sup> In the first year of such disclosure, the amount of unutilized funds as at the beginning of the year that is disclosed will only be based on such funds informed to the Funding Party by the respective Intermediary as the Funding Party will not have the information regarding the unutilized amounts as on such date by the respective Intermediary.

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<b>Disclosure requirement as per Schedule III</b>	<b>When should the disclosure be made</b>
(II) date and amount of fund further advanced or loaned or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries along with complete details of the Ultimate Beneficiaries	In each of the years in which the further advancing or lending or investing by such Intermediaries to other intermediaries or Ultimate Beneficiaries is made out of the funds received till such time the funds received by the Intermediary as a pass through are fully utilised. <sup>9</sup>
(III) date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries	In the year in which guarantee, security or the like is provided to or on behalf of the Ultimate Beneficiaries.

**In the financial statements of the Intermediary:**

<b>Disclosure requirement as per Schedule III</b>	<b>When should the disclosure be made</b>
(I) date and amount of fund received from Funding parties with complete details of each Funding party	In each of the years in which the funds are received till such time the funds received by the Intermediary as a pass through are fully utilised. <sup>10</sup>

<sup>9</sup> In case funds given with an understanding are not utilized for the purpose of the understanding and are diverted/ reallocated for other purposes a suitable note should be included in the notes to the accounts explaining the nature of utilization and the reduction in the balance of such funds given pursuant to an understanding.

<sup>10</sup> In case funds received with an understanding are not utilized for the purpose of the understanding and are diverted/ reallocated for other purposes a suitable note should be included in the notes to the accounts explaining the nature of utilization and the reduction in the balance of such funds received pursuant to an understanding.



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<b>Disclosure requirement as per Schedule III</b>	<b>When should the disclosure be made</b>
(II) date and amount of fund further advanced or loaned or invested other intermediaries or Ultimate Beneficiaries along with complete details of the other intermediaries or ultimate beneficiaries.	In each of the years in which the further advancing or lending or investing by such Intermediaries to other intermediaries or Ultimate Beneficiaries is made out of the funds received till such time the funds received by the Intermediary as a pass through are fully utilised.
(III) date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries.	In the year in which guarantee, security or the like is provided to or on behalf of the Ultimate Beneficiaries

As stated earlier, auditor’s reporting follows the disclosure and representation by the management. Accordingly, even where no such transactions are entered into, management is still expected to make a factual remark in this regard in the financial statements. Accordingly, following illustrative note can be provided in the financial statements:

*“No funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”) with the understanding, whether recorded in writing or otherwise, that the Intermediary shall lend or invest in party identified by or on behalf of the Company (Ultimate Beneficiaries). The Company has not received any fund from any party(s) (Funding Party) with the understanding that the Company shall whether, directly or indirectly lend or invest in other persons or entities identified by or on behalf of the Company (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.”*

#### **Implementation Guide on Reporting under Rule 11(e) & 11(f)**

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23. Sub-section (3) of section 186 of the Act read with sub-section (4) of section 186 of the Act requires disclosures in the financial statements of all transactions of loans, investments or providing guarantees, securities or the like between a Parent and its subsidiary including a wholly owned subsidiary (though such transactions are eliminated on consolidation and do not form part of the consolidated financial statements). Consequently, such transactions even if intra-group and get eliminated on consolidation should be disclosed as per the specifications of Schedule III to the Act irrespective of materiality.

24. Whilst the auditor's reporting under Rule 11(e)(iii) requires stating whether 'nothing has come to their notice' and appears to be in the nature of a negative assurance, it is actually in the nature of an audit opinion and not a negative assurance since this reporting is required to be made based on audit procedures performed.

25. Whilst the auditor's reporting under Rule 11(e)(iii) refers to '*material misstatements*', it should be noted that the reporting should be relevant to the circumstances under which such arrangements were made. Therefore, the concept of materiality will not only consider quantitative thresholds but also consider qualitative thresholds. For example, an arrangement which is intended to circumvent the provisions of section 186 of the Act (refer illustration provided in paragraph 20 above), if not included in the respective management's representations under Rule 11(e)(i) and Rule 11(e)(ii), as applicable, even if quantitatively not material may be qualitatively material as the penal provisions are prescribed in section 186 of the Act.

26. Reporting under Rule 11(e) is based on written management representation letters given to the auditor and audit procedures performed thereon. In the case of consolidated financial statements, since such written representations as applicable to respective components will be given to the respective component auditors and not to the auditor auditing the consolidated financial statements, the reporting by the auditor auditing the consolidated financial statements will be based on the

statutory audit reports of the component auditors. In this regard, it may be noted that section 129(4) of the Act which prescribes the requirements for consolidated financial statements including its audits has specifically stated that the provisions of this Act shall *mutatis mutandis*, apply to the consolidated financial statements implying that necessary changes are required to be made to interpret the requirements in respect of consolidated financial statements and their audit.

Accordingly, in line with the approach adopted in case of reporting on the consolidated financial statements on the clauses of section 143(3) of the Act, the reporting on compliance with Rule 11(e) would also be on the basis of the reports of the statutory auditors of subsidiaries, associates and joint ventures that are Indian companies under the Act. The auditors of the parent company should apply professional judgment and comply with applicable Standards on Auditing especially SA 600, "Using the Work of Another Auditor" while assessing the matters reported by the auditors of subsidiaries, associates and joint ventures that are Indian companies.

There may be situations where the auditors of subsidiaries, associates and joint ventures (that are Indian companies) have reported on the financial statements to the principal auditor but have not issued their statutory audit report by the date of the principal auditor's audit report. This may happen because unlisted companies in the group may have time till six months from the year end to conduct their annual general meeting and hence their statutory audit report may be finalised later than the principal auditor's report. In such situations, the principal auditor should refer to the requirements of SA 600, and take inputs from the auditors of subsidiaries, associates and joint ventures and request them as part of the group reporting instructions to comment on these reporting requirements.

Refer guidance provided in paragraph 44 of this Implementation Guide.

**Management's Responsibility in respect of disclosures in the financial statements under Schedule III to the Act<sup>11</sup>**

27. As stated in paragraph 6 above, management is required to provide specific disclosures in the financial statements as prescribed under Schedule III to the Act. Also, sub-section 4 of section 186 of the Act requires the companies to disclose in the financial statements the full particulars of the loan given along with the purpose for which the loan is proposed to be utilised by the recipient of the loan. As such the management should implement internal controls to ensure that any risks relating to the assertions of existence, rights and obligations, completeness, valuation and allocation, and assertions relating to the presentation and disclosures are appropriately addressed. Any deficiency in the related internal controls may impact the auditor's reporting on the adequacy and operating effectiveness of internal financial controls with reference to financial statements under section 143(3)(i) of the Act, reporting under Rule 11(e) and even on the financial statements of the company.

28. Management will have to carefully evaluate transactions of lending or investing in another entity or person to determine the nature and purpose of such funding, which should be very clearly evidenced and documented while approving such funding. Further, the management shall also identify and describe the source of funds for such lending or investing to determine if in the transaction they would be considered as the Funding Party or an Intermediary. The management should also carefully evaluate if the ultimate party receiving the funds is on behalf of the Funding Party and the procedures for such evaluation and conclusions reached should be clearly evidenced by the management.

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<sup>11</sup> Item 6.Y(xiv) of General Instructions for preparation of Balance Sheet under Division I of Schedule III to the Act, item 6.L(xvi) of General Instructions for preparation of Balance Sheet under Division II of Schedule III to the Act and item 6.WB(xvi) of General Instructions for preparation of Balance Sheet under Division III of Schedule III to the Act.

29. In addition, management should also ensure that every transaction of lending or investing is supported by a formal written agreement which shall specify the terms and conditions of such funding and the purpose for which the funding has been made. If those charged with governance are also required to approve such transactions, then they also shall evaluate the nature and purpose of such funding and concur with the management's assessment prior to approving such funding. The Board should also take on its record the fact that there does not exist any other oral agreement with regard to lending or investing arrangements other than as disclosed in the notes to accounts.

30. It needs to be noted that sub-section 9 of section 186 of the Act requires every company giving loan or giving a guarantee or providing security or making an acquisition under this section to keep a register which shall contain the prescribed particulars and shall be maintained in Form MBP-2. The Form MBP-2 *inter alia* requires the register to state the purpose of the loan/ investment/ guarantee/ security. Further, the auditor can corroborate it with disclosures/ regulatory filings such as half yearly disclosures around loans/ guarantees/comfort letters/ security provided by the listed entity, directly or indirectly to promoter/ promoter group entities or any other entity controlled by them in the compliance report submitted to stock exchange (Regulation 27(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015).

31. Where the funds given to another party are not intended to be further passed on, the agreement for such funding should ideally specifically prohibit further onward lending or investment by the party receiving the funds.

32. In addition, management should also obtain end use certificates from the party receiving such funds to determine the end use of funds and whether the funds have been onward lent to or invested or used to provide guarantee or security or the like to any other person or entity.

### **Audit Procedures**

33. Whilst completeness, accuracy and valuation, classification and occurrence and rights and obligations are the relevant assertions relating to presentation and disclosures in the financial statements, in the audit of the disclosure of funding and utilization of funds, the assertion of completeness carries a higher risk of material misstatement in the financial statements. As such, the auditor should plan and perform appropriate procedures to minimize this assertion risk from occurring.

34. The auditor should test the adequacy and operating effectiveness of the internal controls laid down by the management for lending or investing and for providing guarantee, security or the like to another person or entity.

35. The auditor should obtain a listing of all loans and investments and guarantees, security or the like provided to another person or entity during the year and compare the same with the transactions in the general ledger. It should be ensured that the listing includes even those loans that were paid and repaid during the year. The listing should also be compared with the details of the loans, investments, guarantees etc. mentioned in the register maintained under section 186 of the Act and disclosures made in the financial statements under Schedule III to the Act and in accordance with the requirements of sub-section 4 of section 186 of the Act to ensure completeness of the listing.

36. When pass-through transactions as envisaged in Rule 11(e)(i) and (ii) are in writing, the reporting in respect of such transactions may be straightforward. It is important for the auditor to understand the purpose of funding other party if the end use is not specified in the agreement for such funding. This would enable the auditor to understand if the funding to the other party is on a pass-through basis to fund another party.

37. The auditor should test a sample of all the loans given, investments made and guarantees, securities or the like provided to another person or entity. Samples may be selected considering the concept of materiality which should consider both quantitative

and qualitative aspects in line with the requirements prescribed by SA 530, "Audit Sampling".

38. In respect of the samples identified for testing, the auditor should obtain the loan agreements under which the amounts were funded to understand the purpose of such funding. The auditor should also obtain minutes of the meeting of the appropriate approving authority who approved the funding and note if there was any indication that the company was acting as a Funding Party or as an Intermediary. The auditor should examine the end use certificate obtained by the management for the amounts funded to determine if any such funding was for onward lending or investing on behalf of the company. The auditor shall also send out confirmation request as per the guidance provided in paragraph 40 below.

39. Where there is no written agreement or understanding that the intermediary is lending or investing on behalf of the Funding Party, it is important to understand the timing of the cash flows from the Funding Party and the lending or investment by the intermediary. It is also possible that timing of inflow and outflow are different and thus will require a careful evaluation on case-to-case basis. The auditors are not expected to act like investigator and thus non-existence of any written agreement or understanding is likely to call for professional skepticism that needs to be exercised by auditors while discharging their obligation under the Rule. Moreover, in case where no agreement exists, the auditor can take specific representation from management listing out each of the identified case in the representation. The auditor may consider obtaining minutes of the meeting wherein the Board has taken on record the fact that there does not exist any other oral agreement with regard to lending or investing arrangements other than as disclosed in the notes to the accounts.

40. The auditor should seek direct confirmations regarding the purpose for which the funds were lent or invested and whether the end use of such funds were for onward lending, investing or providing guarantee, security or the like on behalf of the Funding Party. The confirmation should be sought from the following:

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<b>Party</b>	<b>Objective/ Purpose</b>
<b>Confirmations to be sought in an audit of the Funding Party</b>	
The receiving party (second party/ Intermediary) who has received funds from the another party (first party/ Funding Party) (Refer Illustrative format No. 1)	To determine if such funding is being made to an Intermediary for onward lending or investing on behalf of the first party or the party offering assets as security.
<b>Confirmations to be sought in an audit of an Intermediary</b>	
The party (first/ Funding Party) who has provided funds to the second party/ Intermediary <sup>12</sup> (Refer Illustrative format No. 2)	To determine if the second party/ Intermediary has received the funds with a written or unwritten understanding for onward lending or investment.
The party who ultimately has received the funds or guarantee, security or the like (Ultimate Beneficiary) (Refer Illustrative format No. 3)	To determine if these were on behalf of a Funding Party.

Refer **Annexure I** for Illustrative Formats of confirmation letters.

<sup>12</sup> This confirmation request will be required to be sent only if (i) the auditor of the Intermediary is not the auditor of the Funding Party including Intermediary in the capacity of Funding Party and where both the Funding Party and Intermediary are in the same group of companies and (ii) the Intermediary is not responding to the confirmation request of the auditors of the Funding Party. If the Intermediary is responding to the request of confirmation of the auditor of the Funding Party, then such response itself may be considered as relevant evidence for the purpose of disclosure in the financial statements of the Intermediary and a separate confirmation from the Funding Party will not be required.



41. In case of non-receipt of responses to the confirmation requests, the auditor shall plan and perform alternate audit procedures as per the guidance provided in SA 505, 'External Confirmations'. The procedures mentioned in paragraph 38 above performed with a higher level of professional skepticism can also be considered as alternate audit procedures.

42. If the Funding Party, when funding an Intermediary, identifies the name of the party who would ultimately receive the funds or guarantee or security or the like, it would be a rebuttable presumption that the company shall disclose such arrangement in its financial statements as a note as required under Schedule III to the Act and no exception reporting under Rule 11(e) will be triggered.

43. The auditor should also evaluate compliance with the requirements of the Foreign Exchange Management Act, 1999, the Companies Act, 2013 for such transactions and the transactions are not violative of the Prevention of Money-Laundering Act, 2002.

44. The auditor should obtain a separate and specific appropriate management representation letter with regard to the disclosures in the financial statements from those charged with governance duly taken on record by the Board which will enable the auditor to comply with his reporting responsibilities under Rule 11(e). A copy of resolution of the Board taking on record the representation letter and authorising specified Board members to sign the letter for issuance to the auditor should be obtained and maintained in the audit documentation file. Refer **Annexure II** for Illustrative Management Representations.

#### **Reporting considerations**

45. Reporting under Rule 11(e) (under all three sub-clauses of Rule 11(e)) is applicable for all companies to which the provisions of this Act are applicable. As such reporting will be required under this Rule irrespective of whether the reporting entity is a Funding Party or an Intermediary.

46. It is possible that an Intermediary may be the Funding Party to another Intermediary in a single set of transactions of funding. In this instance, the first Intermediary becomes the Funding Party for the second Intermediary to whom the funds are provided. Accordingly, in the case of the first Intermediary, reporting will be made under Rule 11(e)(i) as the Funding Party to the second Intermediary and reporting under Rule 11(e)(ii) will also be made as an Intermediary having received the funds from another entity (Funding Party) for the purpose of onward funding to second Intermediary on behalf of the Funding Party.

The illustrative reporting formats for the auditor's opinion under Rule 11(e) are given below. These formats should be used after incorporating any modifications that the auditor deems necessary considering the facts and circumstances underlying such reporting.

**47. Illustrative reporting in case of Standalone Financial Statements:**

**A. Under Rule 11(e)(i)<sup>13</sup>**

Scenario 1 – Funding, understanding and onward lending or investing in the same year

The Management has represented that, to the best of its knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company

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<sup>13</sup> Whilst reporting in respect of funding party will be required if a foreign entity is an Intermediary in terms of Rule 11(e)(i), no reporting will be required in respect of such foreign entity as an Intermediary under Rule 11(e)(ii) since reporting under Rule 11(e) applies only to companies covered under the Act.

(“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

**Scenario 2 – The company has not funded in the capacity of a Funding Party**

The Management has represented that, to the best of its knowledge and belief, as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

**Scenario 3(a) - Funding made by the Funding Party in year 1. Understanding with the Intermediary for onward lending or investing on behalf of the Funding Party reached in year 2 before the date of audit report for year 1**

**Year 1 reporting**

The Management has represented that, to the best of its knowledge and belief, on the date of this audit report, other than as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(b) - Funding made by the Funding Party in year 1. Understanding with the Intermediary for onward lending or investing on behalf of the Funding Party reached in year 2 after the date of audit report for year 1

Year 1 reporting:

The Management has represented that, to the best of its knowledge and belief, as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities (intermediaries), with the understanding, whether recorded in writing or otherwise, as on the date of this audit report, that the intermediaries shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Year 2 reporting:

The Management has represented that, to the best of its knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

**B. Under Rule 11(e)(ii)<sup>14</sup>**

Scenario 1 – Receipt of funds, understanding and onward lending or investing in the same year

The Management has represented, that, to the best of its knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been received by the Company from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 2 – The company has not received funds in the capacity of an Intermediary (including situations where funds have been received by the company but the understanding of onward lending or investing on behalf of the Funding Party has not yet been reached)

The Management has represented, that, to the best of its knowledge and belief, as disclosed in the note X to the accounts, no funds have been received by the Company from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

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<sup>14</sup> Whilst reporting in respect of intermediary will be required if a foreign entity is a Funding Party in terms of Rule 11(e)(i), no reporting will be required in respect of such foreign entity as the Funding Party under the said Rule since reporting under Rule 11(e) applies only to companies covered under the Act.

Scenario 3(a) – Funds received from the Funding Party in year 1. Understanding with the Funding Party for onward lending or investing on behalf of the Funding Party reached in year 2 before the date of audit report for year 1

Year 1 reporting

The Management has represented, that, to the best of its knowledge and belief, on the date of this audit report, other than as disclosed in the note X to the accounts, no funds have been received by the Company from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(b) – Funds received from the Funding Party in year 1. Understanding with the Funding Party for onward lending or investing on behalf of the Funding Party reached in year 2 after the date of audit report for year 1

Year 1 reporting:

The Management has represented, that, to the best of its knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been received by the Company from any person(s) or entity(ies), including foreign entities (Funding Parties), with the understanding, whether recorded in writing or otherwise, as on the date of this audit report, that the Company shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Year 2 reporting:

The Management has represented, that, to the best of its knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been received by the Company from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company shall directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

**C. Under Rule 11(e)(iii)**

(i) Unmodified opinion

Based on the audit procedures performed that have been considered reasonable and appropriate in the circumstances, nothing has come to my/our notice that has caused me/us to believe that the representations under sub-clause (i) and (ii) of Rule 11(e) contain any material mis-statement.

(ii) Modified opinion

Scenario 1

Based on the audit procedures performed that have been considered reasonable and appropriate in the circumstances, except that the Company has not been considered as a Funding Party, for loan given to a subsidiary of Rs. ....although the evidence obtained by us indicate so<sup>15</sup>, nothing has come to our notice that has caused us to believe that the representations under sub-clause (i) and (ii) of Rule 11(e) contain any material mis-statement. The disclosures made in note X to these

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<sup>15</sup> Auditors need to evaluate if any reporting under sub-section 12 of section 143 of the Act will be triggered pursuant to such exception.

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standalone financial statements in respect of utilization of funds is also incomplete in this regard.

**Scenario 2 - Modified opinion under Rule 11(e)(i) and unmodified opinion under Rule 11(e)(ii)**

Based on the audit procedures performed that have been considered reasonable and appropriate in the circumstances, we are unable to state that nothing has come to our notice that has caused us to believe that the representations under sub-clause (i) of Rule 11(e) contain any material mis-statement since we have not been able to obtain sufficient appropriate audit evidence with regard to the end use of funds of Rs..... provided by the Company to another party.

Based on the audit procedures performed that have been considered reasonable and appropriate in the circumstances, nothing has come to my/our notice that has caused me/us to believe that the representations under sub-clause (ii) of Rule 11(e) contain any material mis-statement.

**Scenario 3 - Modified opinion under Rule 11(e)(ii) and unmodified opinion under Rule 11(e)(i)**

Based on the audit procedures performed that have been considered reasonable and appropriate in the circumstances, nothing has come to my/our notice that has caused me/us to believe that the representations under sub-clause (i) of Rule 11(e) contain any material mis-statement.

Based on the audit procedures performed that have been considered reasonable and appropriate in the circumstances, we are unable to state that nothing has come to our notice that has caused us to believe that the representations under sub-clause (ii) of Rule 11(e) contain any material mis-statement since we have not been able to obtain sufficient appropriate audit evidence with regard to the end use of funds of Rs..... received by



the company from a party (first party) and onward lent to or invested in another party on behalf of the first party.

**48. Illustrative reporting in case of Consolidated Financial Statements**

**A. Under Rule 11(e)(i)<sup>16</sup>**

Scenario 1 – Funding, understanding and onward lending or investing in the same year

The respective Managements of the Company and its subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act have represented to us and the other auditors of such subsidiaries, associates and joint ventures respectively that, to the best of their knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company or any of such subsidiaries, associates and joint ventures to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company or any of such subsidiaries, associates and joint ventures (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 2 – No funding in the capacity of a Funding Party

The respective Managements of the Company and its subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act have represented to us and the other auditors of such subsidiaries, associates and joint

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<sup>16</sup> Whilst reporting in respect of funding party will be required if a foreign entity is an Intermediary in terms of Rule 11(e)(i), no reporting will be required in respect of such foreign entity as an Intermediary under Rule 11(e)(ii) since reporting under Rule 11(e) applies only to companies covered under the Act.

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ventures respectively that, to the best of their knowledge and belief, as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company or any of such subsidiaries, associates and joint ventures to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company or any of such subsidiaries, associates and joint ventures (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(a) - Funding made by the Funding Party in year 1. Understanding with the Intermediary for onward lending or investing on behalf of the Funding Party reached in year 2 before the date of audit report for year 1

### Year 1 reporting

The respective Managements of the Company and its subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act have represented to us and the other auditors of such subsidiaries, associates and joint ventures respectively that, to the best of their knowledge and belief, on the date of this audit report, other than as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company or any of such subsidiaries, associates and joint ventures to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company or any of such subsidiaries, associates and joint ventures (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(b) - Funding made by the Funding Party in year 1. Understanding with the Intermediary for onward lending or investing on behalf of the Funding Party reached in year 2 after the date of audit report for year 1

Year 1 reporting:

The respective Managements of the Company and its subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act have represented to us and the other auditors of such subsidiaries, associates and joint ventures respectively that, to the best of their knowledge and belief, as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company or any of such subsidiaries, associates and joint ventures to or in any other person(s) or entity(ies), including foreign entities with the understanding, whether recorded in writing or otherwise, as on the date of this audit report, that such parties shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company or any of such subsidiaries, associates and joint ventures (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Year 2 reporting:

The respective Managements of the Company and its subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act have represented to us and the other auditors of such subsidiaries, associates and joint ventures respectively that, to the best of their knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company or any of such subsidiaries, associates and joint ventures to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with

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the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company or any of such subsidiaries, associates and joint ventures (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

### **B. Under Rule 11(e)(ii)<sup>17</sup>**

#### Scenario 1 – Receipt of funds, understanding and onward lending or investing in the same year

The respective Managements of the Company and its subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act have represented to us and the other auditors of such subsidiaries, associates and joint ventures respectively that, to the best of their knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been received by the Company or any of such subsidiaries, associates and joint ventures from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company or any of such subsidiaries, associates and joint ventures shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

#### Scenario 2 – No funds received in the capacity of an Intermediary (including situations where funds have been received by the company but the understanding of onward

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<sup>17</sup> Whilst reporting in respect of intermediary will be required if a foreign entity is a Funding Party in terms of Rule 11(e)(i), no reporting will be required in respect of such foreign entity as the Funding Party under the said Rule since reporting under Rule 11(e) applies only to companies covered under the Act.

lending or investing on behalf of the Funding Party has not yet been reached)

The respective Managements of the Company and its subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act have represented to us and the other auditors of such subsidiaries, associates and joint ventures respectively that, to the best of their knowledge and belief, as disclosed in the note X to accounts, no funds have been received by the Company or any of such subsidiaries, associates and joint ventures from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company or any of such subsidiaries, associates and joint ventures shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(a) – Funds received from the Funding Party in year 1. Understanding with the Funding Party for onward lending or investing on behalf of the Funding Party reached in year 2 before the date of audit report for year 1

Year 1 reporting

The respective Managements of the Company and its subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act have represented to us and the other auditors of such subsidiaries, associates and joint ventures respectively that, to the best of their knowledge and belief, on the date of this audit report, other than as disclosed in the note X to the accounts, no funds have been received by the Company or any of such subsidiaries, associates and joint ventures from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company or any of

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such subsidiaries, associates and joint ventures shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(b) – Funds received by the Funding Party in year 1. Understanding with the Funding Party for onward lending or investing on behalf of the Funding Party reached in year 2 after the date of audit report for year 1

Year 1 reporting:

The respective Managements of the Company and its subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act have represented to us and the other auditors of such subsidiaries, associates and joint ventures respectively that, to the best of their knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been received by the Company or any of such subsidiaries, associates and joint ventures from any person(s) or entity(ies), including foreign entities with the understanding, whether recorded in writing or otherwise, as on the date of this audit report, that the Company or any of such subsidiaries, associates and joint ventures shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Year 2 reporting:

The respective Managements of the Company and its subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act have represented to us and the other auditors of such subsidiaries, associates and joint ventures respectively that, to the best of their knowledge and

belief, other than as disclosed in the note X to the accounts, no funds have been received by the Company or any of such subsidiaries, associates and joint ventures from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company or any of such subsidiaries, associates and joint ventures shall directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

**C. Under Rule 11(e)(iii)**

(i) Unmodified opinion

Based on the audit procedures that have been considered reasonable and appropriate in the circumstances performed by us and that performed by the auditors of the subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act, nothing has come to my/ our or other auditors’ notice that has caused me/us or the other auditors to believe that the representations under sub-clause (i) and (ii) of Rule 11(e) contain any material mis-statement.

(ii) Modified opinion

Scenario 1

Based on the audit procedures that have been considered reasonable and appropriate in the circumstances performed by us and that performed by the auditors of the subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act, except for the reporting by an auditor of one of the subsidiaries that the subsidiary has not been considered as a Funding Party although the evidence obtained by that auditor indicate so, nothing has come to my/ our or

## Implementation Guide on Reporting under Rule 11(e) & 11(f)

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other auditors' notice that has caused me/ us or other auditors to believe that the representations under sub-clause (i) and (ii) of Rule 11(e) contain any material mis-statement. The disclosures made in note X to these consolidated financial statements in respect of utilization of funds is also incomplete in this regard.

### Scenario 2 Modified opinion under Rule 11(e)(i) and unmodified opinion under Rule 11(e)(ii)

Based on the audit procedures that have been considered reasonable and appropriate in the circumstances performed by us and that performed by the auditors of the subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act, we are unable to state that nothing has come to our notice that has caused us to believe that the representations under sub-clause (i) of Rule 11(e) contain any material mis-statement since we have not been able to obtain sufficient appropriate audit evidence with regard to the end use of funds of Rs..... provided by the Company to another party.

Based on the audit procedures that have been considered reasonable and appropriate in the circumstances performed by us and that performed by the auditors of the subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act, nothing has come to my/our or other auditors' notice that has caused me/us or other auditors to believe that the representations under sub-clause (ii) of Rule 11(e) contain any material mis-statement.

### Scenario 3 Modified opinion under Rule 11(e)(ii) and unmodified opinion under Rule 11(e)(i)

Based on the audit procedures that have been considered reasonable and appropriate in the circumstances performed by us and that performed by



the auditors of the subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act, nothing has come to my/ our or other auditors' notice that has caused me/ us or other auditors to believe that the representations under sub-clause (i) of Rule 11(e) contain any material mis-statement.

Based on the audit procedures that have been considered reasonable and appropriate in the circumstances performed by us and that performed by the auditors of the subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act, we are unable to state that nothing has come to our notice that has caused us to believe that the representations under sub-clause (ii) of Rule 11(e) contain any material mis-statement since we have not been able to obtain sufficient appropriate audit evidence with regard to the end use of funds of Rs..... received from a party (first party) and onward lent to or invested in another party on behalf of the first party.

(iii) Other reporting under Rule 11(e)(iii)

The auditor of one of the subsidiaries of the company which is a company incorporated in India has modified his report to state that the subsidiary has not been considered as a Funding Party although the evidence obtained by that auditor indicates so. Except for the above, based on the audit procedures that have been considered reasonable and appropriate in the circumstances performed by us and that performed by the auditors of the subsidiaries, associates and joint ventures which are companies incorporated in India whose financial statements have been audited under the Act, nothing has come to my/our or other auditors' notice that has caused me/us or other auditors to believe that the representations under sub-clause (i) and (ii) of Rule

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11(e) contain any material mis-statement. The subject matter of this modification has been rectified by the Management of the Company when preparing the consolidated financial statements (Refer disclosures made in note X to these consolidated financial statements in respect of utilization of funds).

49. In case the auditor is required to modify his reporting under Rule 11(e), the auditor should consider the requirements of SA 705(Revised), "Modifications to the Opinion in the Independent Auditor's Report". The auditor should also consider the impact of such modification on the other reporting requirements such as opinion on internal financial controls with reference to financial statements, related party disclosures (since the transactions envisaged under Rule 11(e)(i) and (ii) are more likely with the related parties), reporting under section 143(1)(a), 143(3)(a), 143(3)(f), reporting under Clause (xiii) of the Companies (Auditor's Report) Order, 2020 and the impact on the financial statements.

## Annexure I

### Illustrative format of confirmation letters

#### A. Confirmations to be sought in an audit of the party providing the funds including Intermediary acting as Funding Party

##### Illustrative format No.1

##### To seek confirmation from the party who has received funds from the party providing the funds including Intermediary acting in such capacity (“us”)

(Response to this confirmation request will be provided by the second party/ Intermediary (“you”))

[Letterhead of the party providing the funds including Intermediary acting in such capacity]

[Date]

[Name and address of the second party/ Intermediary/ the party receiving the funds]

Dear Sir,

For the purpose of our audit for the year ended 31 March 20XX, kindly confirm directly to our auditors (name and address of the auditors) with respect to the following:

Funds received by you from us, as loans or advances or investments at any time during the year then ended:

<b>Date of receipt of funds</b>	<b>Amount funded during the year</b>	<b>State whether it is loan or advance in the nature of loan or investment</b>	<b>Purpose of the funds provided if other than onward lending or investing, on behalf of us. In case</b>	<b>If the end use of such funds were for onward lending, investing or providing guarantee, security or the like on behalf of</b>
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			<p><b>onward lending or investing is not on behalf of us, kindly provide the names and contact details of the persons who received such funds</b></p>	<p><b>us, provide details of the party to whom such funds were provided during the year for onward lending, investing or providing guarantee, security or the like including the date of such funding and amounts involved and the amount remaining unutilized as at the year end</b></p>

Kindly also let us know loans or advances that were outstanding to us at any time during the year then ended only if they remained unutilized on our behalf as at the beginning of the year as follows:

<b>Date of receipt of funds</b>	<b>Amount outstanding at the beginning of the year and remaining</b>	<b>State whether it is loan or advance in the nature of loan or investment</b>	<b>If the end use of such funds were for onward lending, investing or providing guarantee, security or the like on behalf of us, provide details of the party to whom such funds were provided</b>
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	<b>unutilised on our behalf</b>		<b>during the year for onward lending, investing or providing guarantee, security or the like including the date of such funding and amounts involved and the amount remaining unutilized as at the year end</b>

In case there are other arrangements similar to the above but not stated/ listed above, kindly add the same in this confirmation of yours and provide the same to our auditors as you respond to this request.

A stamped envelope addressed to our auditors is enclosed for your convenience.

Kindly sign at the place provided below and return this entire letter directly to our auditors in the enclosed envelope.

Your prompt attention to this request will be appreciated.

Kindly return this letter in its entirety.

Yours Faithfully,

(Signature of responsible official of the entity)

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(Name and Address of entity)

(A) We confirm the above stated information.

Yours faithfully,

(Signature of responsible official)

**B. Confirmations to be sought in an audit of an Intermediary**

**Illustrative format No. 2**

**Illustrative format of Confirmation request Letter to be sent to the party (first/ Funding Party) who has provided funds to the second party/ Intermediary (“us”)<sup>18</sup>**

(Response to this confirmation request will be provided by the Funding Party/ Intermediary in the capacity as Funding Party (“you”))

[Letterhead of the Intermediary/ Fund receiving party]

[Date]

[Name and address of the party providing the funds/ Intermediary in the capacity as the party providing the funds]

Dear Sir,

For the purpose of our audit for the year ended 31 March 20XX, kindly confirm directly to our auditors (name and address of the auditors) with respect to the following:

Funds received by us from you, as loans or advances or investments at any time during the year then ended:

<b>Date of receipt of funds</b>	<b>Amount funded during the year</b>	<b>State whether it is loan or advance in the nature of loan or investment</b>	<b>Whether the funds were provided for onward lending or investing, or providing guarantee, security or the like on behalf of you and if so, the names of such parties</b>
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<sup>18</sup> This confirmation request will be required to be sent only if the auditor of the Intermediary is not the auditor of the Funding Party including Intermediary in the capacity of Funding Party and the Intermediary is not responding to the confirmation request of the auditors of the Funding Party.

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			<b>and amounts involved in respect of each party<sup>19</sup></b>

In case there are other arrangements similar to the above but not stated/ listed above, kindly add the same in this confirmation of yours and provide the same to our auditors as you respond to this request.

A stamped envelope addressed to our auditors is enclosed for your convenience.

Kindly sign at the place provided below and return this entire letter directly to our auditors in the enclosed envelope.

Your prompt attention to this request will be appreciated.

Kindly return this letter in its entirety.

Yours Faithfully,

(Signature of responsible official of the entity)

\_\_\_\_\_  
(Name and Address of entity)

(A) We confirm the above stated information.

Yours faithfully,

(Signature of responsible official)

\_\_\_\_\_  
<sup>19</sup> Party may be either the Ultimate Beneficiary, who is the end recipient of the funds or another Intermediary identified by the Funding Party who is receiving the funds/ guarantee from the first Intermediary on behalf of the Funding Party.

**Illustrative format No. 3**

**Illustrative format of Confirmation request Letter to be sent to the party who is the end recipient of the funds or guarantee, security or the like**

**To seek confirmation from the party who is the end recipient of the funds or guarantee, security or the like (“us”)**

(Response to this confirmation request will be provided by the party who is the end recipient of the funds, guarantee, security or the like (“you”))

[Letterhead of the party providing the funds including Intermediary acting in such capacity]

[Date]

[Name and address of the party who is the end recipient]

Dear Sir,

For the purpose of our audit for the year ended 31 March 20XX, kindly confirm directly to our auditors (name and address of the auditors) with respect to the following:

Funds or guarantee or security or like received by you from us, as loans or advances or investments at any time during the year then ended:

<b>Date of receipt of funds or guarantee or security or like</b>	<b>Amount funded during the year</b>	<b>State whether it is loan or advance in the nature of loan or investment, guarantee, security or the like</b>



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In case there are other arrangements similar to the above but not stated/ listed above, kindly add the same in this confirmation of yours and provide the same to our auditors as you respond to this request.

A stamped envelope addressed to our auditors is enclosed for your convenience.

Kindly sign at the place provided below and return this entire letter directly to our auditors in the enclosed envelope.

Your prompt attention to this request will be appreciated.

Kindly return this letter in its entirety.

Yours Faithfully,

(Signature of responsible official of the entity)

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(Name and Address of entity)

(A) We confirm the above stated information.

Yours faithfully,

(Signature of responsible official)

## Annexure II

### Illustrative Management Representations

#### A. For Standalone Financial Statements

##### Funding Party<sup>20</sup>

##### Scenario 1 – Funding, understanding and onward lending or investing in the same year

To the best of our knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

##### Scenario 2 – The company has not funded in the capacity of a Funding Party

To the best of our knowledge and belief, as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company

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<sup>20</sup> Whilst reporting in respect of funding party will be required if a foreign entity is an Intermediary in terms of Rule 11(e)(i), no reporting will be required in respect of such foreign entity as an Intermediary under Rule 11(e)(ii) since reporting under Rule 11(e) applies only to companies covered under the Act.

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(“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(a) - Funding made by the Funding Party in year 1. Understanding with the Intermediary for onward lending or investing on behalf of the Funding Party reached in year 2 before the date of audit report for year 1

Year 1

To the best of our knowledge and belief, on the date of the audit report, other than as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(b) - Funding made by the Funding Party in year 1. Understanding with the Intermediary for onward lending or investing on behalf of the Funding Party reached in year 2 after the date of audit report for year 1

Year 1:

To the best of our knowledge and belief, as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities with the understanding, whether recorded in writing or otherwise, as on the date of the audit report, that such parties shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

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### Year 2:

To the best of our knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

### **Intermediary<sup>21</sup>**

#### Scenario 1 – Receipt of funds, understanding and onward lending or investing in the same year

To the best of our knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been received by the Company from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries

#### Scenario 2 – The company has not received funds in the capacity of an Intermediary (including situations where funds have been received by the company but the understanding of onward lending or investing on behalf of the Funding Party has not yet been reached)

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<sup>21</sup> Whilst reporting in respect of intermediary will be required if a foreign entity is a Funding Party in terms of Rule 11(e)(i), no reporting will be required in respect of such foreign entity as the Funding Party under the said Rule since reporting under Rule 11(e) applies only to companies covered under the Act.

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To the best of our knowledge and belief, as disclosed in the note X to the accounts, no funds have been received by the Company from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(a) – Funds received from the Funding Party in year 1. Understanding with the Funding Party for onward lending or investing on behalf of the Funding Party reached in year 2 before the date of audit report for year 1

Year 1

To the best of our knowledge and belief, on the date of the audit report, other than as disclosed in the note X to the accounts, no funds have been received by the Company from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(b) – Funds received by the Funding Party in year 1. Understanding with the Funding Party for onward lending or investing on behalf of the Funding Party reached in year 2 after the date of audit report for year 1

Year 1:

To the best of our knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been received by the Company from any person(s) or entity(ies), including foreign entities with the understanding, whether recorded in writing or otherwise, as on the date of the audit report, that the Company shall, directly or indirectly, lend or invest in other persons or

entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

**Year 2:**

To the best of our knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been received by the Company from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company shall directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

**B. For Consolidated Financial Statements**

**Funding Party<sup>22</sup>**

**Scenario 1 – Funding, understanding and onward lending or investing in the same year**

To the best of our knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company or any of its subsidiaries, associates and joint ventures which are companies incorporated in India to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company or any of such subsidiaries, associates and joint ventures (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

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<sup>22</sup> Whilst reporting in respect of funding party will be required if a foreign entity is an Intermediary in terms of Rule 11(e)(i), no reporting will be required in respect of such foreign entity as an Intermediary under Rule 11(e)(ii) since reporting under Rule 11(e) applies only to companies covered under the Act.

Scenario 2 – No funding in the capacity of a Funding Party

To the best of our knowledge and belief, as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company or any of its subsidiaries, associates and joint ventures which are companies incorporated in India to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company or any of such subsidiaries, associates and joint ventures (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(a) - Funding made by the Funding Party in year 1. Understanding with the Intermediary for onward lending or investing on behalf of the Funding Party reached in year 2 before the date of audit report for year 1

Year 1

To the best of our knowledge and belief, on the date of this audit report, other than as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company or any of its subsidiaries, associates and joint ventures which are companies incorporated in India to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company or any of such subsidiaries, associates and joint ventures (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(b) - Funding made by the Funding Party in year 1. Understanding with the Intermediary for onward lending or investing on behalf of the Funding Party reached in year 2 after the date of audit report for year 1

Year 1:

To the best of our knowledge and belief, as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company or any of its subsidiaries, associates and joint ventures which are companies incorporated in India to or in any other person(s) or entity(ies), including foreign entities with the understanding, whether recorded in writing or otherwise, as on the date of this report, that such parties shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company or any of such subsidiaries, associates and joint ventures (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Year 2:

To the best of our knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company or any of its subsidiaries, associates and joint ventures which are companies incorporated in India to or in any other person(s) or entity(ies), including foreign entities (“Intermediaries”), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company or any of such subsidiaries, associates and joint ventures (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.



### **Intermediary<sup>23</sup>**

#### **Scenario 1 – Receipt of funds, understanding and onward lending or investing in the same year**

To the best of our knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been received by the Company or any of its subsidiaries, associates and joint ventures which are companies incorporated in India from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company or any of such subsidiaries, associates and joint ventures shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

#### **Scenario 2 – No funds received in the capacity of an Intermediary (including situations where funds have been received by the company but the understanding of onward lending or investing on behalf of the Funding Party has not yet been reached)**

To the best of our knowledge and belief, as disclosed in the note X to the accounts, no funds have been received by the Company or any of its subsidiaries, associates and joint ventures which are companies incorporated in India from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company or any of such subsidiaries, associates and joint ventures shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

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<sup>23</sup> Whilst reporting in respect of intermediary will be required if a foreign entity is a Funding Party in terms of Rule 11(e)(i), no reporting will be required in respect of such foreign entity as the Funding Party under the said Rule since reporting under Rule 11(e) applies only to companies covered under the Act.

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Scenario 3(a) – Funds received from the Funding Party in year 1. Understanding with the Funding Party for onward lending or investing on behalf of the Funding Party reached in year 2 before the date of audit report for year 1

Year 1

To the best of our knowledge and belief, on the date of this audit report, other than as disclosed in the note X to the accounts, no funds have been received by the Company or any of its subsidiaries, associates and joint ventures which are companies incorporated in India from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company or any of such subsidiaries, associates and joint ventures shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

Scenario 3(b) – Funds received from the Funding Party in year 1. Understanding with the Funding Party for onward lending or investing on behalf of the Funding Party reached in year 2 after the date of audit report for year 1

Year 1:

To the best of our knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been received by the Company or any of its subsidiaries, associates and joint ventures which are companies incorporated in India from any person(s) or entity(ies), including foreign entities with the understanding, whether recorded in writing or otherwise, as on the date of this audit report, that the Company or any of such subsidiaries, associates and joint ventures shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

**Year 2:**

To the best of our knowledge and belief, other than as disclosed in the note X to the accounts, no funds have been received by the Company or any of its subsidiaries, associates and joint ventures which are companies incorporated in India from any person(s) or entity(ies), including foreign entities (“Funding Parties”), with the understanding, whether recorded in writing or otherwise, that the Company or any of such subsidiaries, associates and joint ventures shall directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party (“Ultimate Beneficiaries”) or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

## Section 2

### Guidance for Reporting under Rule 11(f)

#### **Guidance for reporting on compliance with section 123 of the Companies Act 2013 in respect of declaration and payment of dividend<sup>24</sup>**

Rule 11(f) of the Companies (Audit and Auditors) Rules 2014:

*Whether the dividend declared or paid during the year by the company is in accordance with section 123 of the Companies Act 2013.*

#### **Introduction**

1. There is no change in the objective and scope of an audit of financial statements due to the inclusion of clause (f) in Rule 11 of the Companies (Audit and Auditors) Rules, 2014 since auditors, pursuant to the requirements of Standard on Auditing (SA) 250, “Consideration of Laws and Regulations in An Audit of Financial Statements”, are always required to make an assessment regarding compliance with provisions of various laws & regulations. By virtue of this new reporting requirement, auditors are now specifically required to comment on compliance with provisions of section 123 of the Companies Act 2013 (‘the Act’) with respect to the dividend declared or paid during the year by the company in their audit report.

2. AS 4, “Contingencies and Events Occurring After the Balance Sheet Date” requires that if an enterprise declares dividends to shareholders after the balance sheet date, the enterprise should not recognise those dividends as a liability at the balance sheet date unless a statute requires otherwise. Such

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<sup>24</sup> It may be noted that ICAI has issued the “Guidance Note on Audit of Payment of Dividend in 2005”. The aforesaid Guidance Note would be applicable in case of audit of dividend declared and paid pursuant to the Companies Act, 1956.

dividends should be disclosed in notes. Similarly, Ind AS 10, "Events after the Reporting Period" requires that dividends in respect of the period covered by the Financial Statements, which are declared by the enterprise after the Balance Sheet date but before approval of the Financial Statements, should not be adjusted but should be disclosed in accordance with Ind AS 1, "Presentation of Financial Statements". However, Schedule III to the Act requires disclosure of the amount of dividends proposed to be distributed to equity and preference shareholders for the period as part of the Notes to the financial statements.

Accordingly, the reporting under Rule 11(f) will cover reporting for dividend (including interim dividend) which is declared or paid or proposed for the financial year under reporting but remaining unpaid as at the Balance Sheet date.

***Definition***

3. As per section 2(35) of the Act, "dividend" includes any interim dividend. In common parlance, "Dividend" implies a distribution of any sums to members out of profits and wherever permitted out of free reserves available for the purpose.

**Requirements under the Companies Act, 2013 and Rules made thereunder**

4. Section 123 of the Act deals with the provisions relating to declaration and payment of dividend in respect of both equity and preference share capital. Additional provisions relating to interim dividend are prescribed in sub-section (3) of section 123 of the Act. The provisions of this sub-section with regard to interim dividend need to be read in conjunction with the other sub-sections of section 123 of the Act.

5. The sub-section 1 of Section 123 provides that dividend can be paid out of:

- (a) Profits for that year arrived at after providing for depreciation (based on standalone financial statements and not consolidated financial statements) and / or out of the profits

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for any previous financial year or years arrived at after providing for depreciation and remaining undistributed.

- (b) Money provided by the Central Government or a State Government for the payment of Dividend by the company in pursuance of a guarantee given by that Government.

Various provisos given under Section 123(1) provide as follows:

- In computing profits as stated in (a) above any amount representing unrealised gains, notional gains or revaluation of assets and any change in carrying amount of an asset or of a liability on measurement of the asset or the liability at fair value shall be excluded.
- Where, owing to inadequacy or absence of profits in any financial year, any company proposes to declare dividend out of the accumulated profits earned by it in previous years and transferred by the company to the free reserves, such declaration of dividend shall not be made except in accordance with such rules as may be prescribed in this behalf. The relevant Rules prescribed in this regard are “the Companies (Declaration and Payment of Dividend) Rules, 2014” (“the Dividend Rules”).

It may be noted that the requirement of above proviso is not applicable to a Government Company where the entire paid-up share capital is held by the Central Government, or by any State Government or Governments or by the Central Government and one or more State Governments.

- No dividend shall be declared or paid by a company from its reserves other than free reserves.
- No company shall declare dividend unless carried over previous losses and depreciation not provided in previous year or years are set off against profit of the company for the current year.

6. Sub-section (3) of Section 123 of the Act deals with declaration of interim dividend by the Board of companies. The

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said sub-section specifies that interim dividend may be declared out of:

- the surplus in the profit and loss account; or
- profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend; or
- profits of the financial year for which such interim dividend is sought to be declared.

The proviso to this sub-section however provides that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

7. In summary, dividends may be declared from sums as follows:

<b>Nature of dividend</b>	<b>Sums available for declaration of dividend</b>
Interim dividend	<ul style="list-style-type: none"><li>• the surplus in the profit and loss account; or</li><li>• profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend; or</li><li>• profits of the financial year for which such interim dividend is sought to be declared.</li></ul>
Proposed final dividend	(a) out of the profits of the company for that year arrived at after providing for depreciation, or  (b) out of the profits of the company for any previous financial year or years arrived at after providing for depreciation and remaining undistributed, or

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<b>Nature of dividend</b>	<b>Sums available for declaration of dividend</b>
	(c) out of (a) and (b), both  In case of inadequacy or absence of profits in any financial year, a company may declare dividend out of the accumulated profits earned in previous years and transferred by the company to the free reserves, in accordance with the Dividend Rules.

8. After the declaration of dividend, the amount of the dividend, including interim dividend, shall be deposited in a scheduled bank in a separate account within five days from the date of declaration of such dividend by the company. This requirement is not applicable to the Government Company where entire paid up share capital is held by the Central Government, or by any State Government or Governments or by the Central Government and one or more State Governments or by one or more Government Company. [Section 123(4)]

9. The payment of dividend on any share by the company other than Nidhi company should be in cash and only to the registered shareholder of such share or to his order or to his banker. Any dividend payable in cash may be paid by cheque or warrant or in any electronic mode to the shareholder entitled to the payment of the dividend. In case of Nidhi company, if the dividend is not claimed by the member within 30 days from the date of declaration of the dividend, then such dividend payable in cash can be paid by crediting the same to the account of the member. [Section 123(5)]

10. No company shall be able to declare dividend to equity shareholders in the event of continuing default with the provisions of sections 73 and 74 of the Act which deal with acceptance and repayment of deposits. [Section 123(6)]



## **Audit considerations**

### ***Interim dividend***

11. Interim dividend can be declared by the Board of Directors of a company during any financial year or at any time during the period from closure of financial year till holding of the Annual General Meeting for that financial year. The declaration of interim dividend is not an annual or one time activity and accordingly there may be several instances of interim dividend in the course of one year as decided by the Board of the company.

12. When the Board of the company declares Interim Dividend on equity shares, it is not necessary to declare Interim Dividend on preference shares also. However, the Board should take into account such sum as would be necessary to pay Dividend to the Preference Shareholders and reduce such amount from the profits available for distribution for dividend before declaring the Interim Dividend on equity shares.

13. Adequacy of profits for declaring dividend should be determined after considering the effect of audit modifications, if any, including unresolved modification of the previous year. In case the audit modification is not quantified, the management shall quantify the effect of such modification on a best estimate basis and determine whether the company has adequate profits after adjusting such best estimate when declaring the dividend. Where the management cannot make such an estimate, the auditor will continue to express his inability to opine on this aspect.

### ***Registered Shareholders***

14. Dividend is payable to the Registered Shareholders i.e. the shareholder whose name appears in the register of members on the record date.

## **Reporting requirements**

15. The reporting requirement relates to “Whether the dividend declared or paid during the year....”

In terms of Section 123(4) of the Act, the amount of dividend should be deposited in a scheduled bank in a separate account

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within five days from the date of declaration of such dividend. The amount deposited in such bank account can be utilised only for the payment of dividend or for transfer to Unpaid Dividend Account/Investor Education and Protection Fund and for no other purpose. Mere transfer of funds to a separate bank account under section 123(4) of the Act will not tantamount to payment of dividend by the company.

Payment of dividend is covered under section 123(5) of the Act, the compliance with which should be verified by the auditor prior to reporting under Rule 11(f). In effect, the word 'paid' implies the act of posting of Dividend warrants or cheques including through Electronic Clearance Services (ECS) facility as provided under the Act. The payment of dividend should be made in accordance with the requirements prescribed under Section 123 of the Act. Any deviation of the requirements would lead to non-compliance under the Act.

The auditor shall verify the compliance with the requirements of section 123(5) of the Act till the date of the audit report. The auditor should also evaluate the system of internal control relating to payment of dividend to determine the nature, timing and extent of his other audit procedures.

An illustrative list of various scenarios explaining applicability of the reporting requirements under Rule 11(f) are summarised below:

<b>Scenario</b>	<b>Previous year (Year 1)</b>	<b>Current year (Year 2)</b>	<b>Next year (Year 3)</b>
• Interim dividend for year 1 declared and paid in year 1	To be reported in year 1	None	None
• Interim dividend for year 1 declared in year 1, paid in year 2 before the date of audit report for year 1	To be reported in year 1	Not required since already reported in year 1	None

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<b>Scenario</b>	<b>Previous year (Year 1)</b>	<b>Current year (Year 2)</b>	<b>Next year (Year 3)</b>
<ul style="list-style-type: none"> <li>Interim dividend for year 1 declared and paid in year 2, before the date of audit report for year 1</li> </ul>	To be reported in year 1	Not required since already reported in year 1	None
<ul style="list-style-type: none"> <li>Interim dividend for year 1 declared in year 1/ 2 but paid after the date of audit report for year 1</li> </ul>	To be reported in year 1 for the declaration stating that the dividend has not been paid as on the date of audit report.	To be reported in year 2 for the payment and also reporting for the declaration stating the dividend was declared in year 1	None
<ul style="list-style-type: none"> <li>Interim dividend for year 2 declared and paid in year 2</li> </ul>	None	To be reported in year 2	None
<ul style="list-style-type: none"> <li>Interim dividend for year 2 declared in year 2 and paid in year 3 before the date of audit report for year 2</li> </ul>	None	To be reported in year 2	None
<ul style="list-style-type: none"> <li>Interim dividend for year 2 declared and paid in year 3 before the date of audit report for year 2</li> </ul>	None	To be reported in year 2	None
<ul style="list-style-type: none"> <li>Interim dividend for year 2 declared in year 2/ 3 but paid after the date of audit report for year 2</li> </ul>	None	To be reported in year 2 for the declaration stating that the dividend has not been paid as on the date of audit report	To be reported in year 3 for the payment and also reporting for the declaration stating the dividend was

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Scenario	Previous year (Year 1)	Current year (Year 2)	Next year (Year 3)
			declared in year 2
<ul style="list-style-type: none"> <li>Final dividend for year 1 declared and paid in year 2</li> </ul>	<p>To be reported in year 1 for the declaration stating that the final dividend is proposed and will be paid after approval by the members in the annual general meeting</p>	<p>To be reported in year 2 for the payment stating that this reporting is in relation to final dividend for the previous year approved by the members in the annual general meeting held during the year</p>	None
<ul style="list-style-type: none"> <li>Final dividend for year 2 declared and paid in year 3</li> </ul>	None	<p>To be reported in year 2 for the declaration stating that the final dividend is proposed and will be paid after approval by the members in the annual general meeting</p>	<p>To be reported in year 3 for the payment stating that this reporting is in relation to final dividend for the previous year approved by the members in the annual general meeting held during</p>

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<b>Scenario</b>	<b>Previous year (Year 1)</b>	<b>Current year (Year 2)</b>	<b>Next year (Year 3)</b>
			the year

Note: Above principles will apply for reporting on declaration and payment of dividend on preference shares as well.

16. It may be noted that companies incorporated with charitable objects cannot declare dividend.

17. In case of consolidated financial statements, the reporting will cover the subsidiaries, associates and joint ventures which are Indian companies under the Act. In this regard, it may be noted that section 129(4) of the Act which prescribes the requirements for consolidated financial statements including its audits has specifically stated that the provisions of this Act shall *mutatis mutandis*, apply to the consolidated financial statements implying that necessary changes are required to be made to interpret the requirements in respect of consolidated financial statements and their audit.

Accordingly, in line with the approach adopted in case of reporting on the consolidated financial statements on the clauses of section 143(3) of the Act, the reporting on compliance with Section 123 would also be on the basis of the reports of the statutory auditors of subsidiaries, associates and joint ventures that are Indian companies under the Act. The auditors of the parent company should apply professional judgment and comply with applicable Standards on Auditing especially SA 600, while assessing the matters reported by the auditors of subsidiaries, associates and joint ventures that are Indian companies.

There may be situations where the auditors of subsidiaries, associates and joint ventures that are Indian companies have reported on the financial statements to the principal auditor but have not issued their statutory audit report by the date of the principal auditor's audit report. This may happen because unlisted

companies in the group may have time till six months from the year end to conduct their annual general meeting and hence their statutory audit report may be finalised later than the principal auditor's report. In such situations, the principal auditor should take inputs from the auditors of subsidiaries, associates and joint ventures that are Indian companies and request them as part of the group reporting instructions to comment on this reporting requirement.

### **Audit Procedures and illustrative Reporting**

18. In the case of interim dividend, such dividend may be declared out of profits of the financial year for which such interim dividend is sought to be declared or out of profits generated in the financial year till the quarter preceding the date of declaration of the interim dividend or out of surplus in the profit and loss account. In this regard, the auditor should:

- Obtain the interim financial statements for the relevant period to determine the adequacy of profits to declare such interim dividend. In considering such interim financial statements, the auditor shall consider any modifications to the audit report for the previous year in respect of adequacy and operating effectiveness of internal financial controls and evaluate if the effect of any modifications in such report has been duly mitigated by the Management in preparation of the interim financial statements. This would provide the necessary evidence to the auditor that the company's internal controls operated effectively to enable the management to prepare such interim financial statements.
- In case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, the auditor shall verify that such interim dividend is not declared at a rate higher than the average dividends declared by the

company during the immediately preceding three financial years.<sup>25</sup>

19. In respect of any dividend declared and paid by the company during the year (i.e. both interim dividend and proposed final dividend), the auditor shall:

- Evaluate if the management has duly considered the effect of any audit modifications when determining adequacy of profits for declaring or proposing dividend. In case the audit modification is not quantified, the auditor shall evaluate Management's quantification of the effect of such modification on a best estimate basis and determine whether the company has adequate profits after adjusting such best estimate when declaring the dividend.
- In case of declaration of dividend out of reserves, verify whether the same is in accordance with Rule 3 of the Companies (Declaration and Payment of Dividend) Rules, 2014 viz., Declaration of dividend out of reserves.
- Verify that the dividend has been declared by the Board of the company and not by any other committee or sub-committee of the Board, since the power of dividend declaration cannot be delegated.
- Obtain certified copy of the resolutions declaring such dividend and verify that the Board/General meeting where such dividend has been declared was duly convened.
- Verify details of transfers of the dividend declared to separate bank account as required by sub-section (4) of section 123 of the Act.

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<sup>25</sup> The proviso to Rule 3(1), the said Rule (specifying the limits for declaration of any dividend) states that the same shall not apply to a company, which has not declared any dividend in each of the three preceding financial year.

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- Verify that the dividend to the extent paid is only to the registered shareholders and in accordance with sub-section (5) of section 123 of the Act. Where the payment of dividend is through the Registrar and Transfer Agent (RTA), the auditor should consider obtaining independent confirmation from the RTA with regard to compliance with sub-section (5) of section 123 of the Act.
- Examine the investor complaints with regard to dividend to see if any of them indicate any non-compliance of section 123 of the Act.

20. The auditor's workpaper should document the testing performed on the calculation of the profits available for dividend.

21. When performing procedures for testing compliance with the provisions of section 123 of the Act, the principles of materiality would not be applicable since the reporting under Rule 11(f) is towards specific compliance with the provisions of the Act and section 123 of the Act does not prescribe any threshold for materiality.

22. The auditor shall obtain appropriate written representation from the management of the company that it has complied with all the requirements of section 123 of the Act read with the Rules thereunder applicable to the declaration and payment of dividend.

23. In the case of listed companies, the auditor is required to report on the audited financial information being submitted to the stock exchanges within the timelines specified in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended) for the year end, where such audited financial information will contain details of the proposed final dividend. In these circumstances, the auditor should request the management to provide them with a computation of profits available for distribution as dividend along with the maximum percentage of dividend that may be declared considering such profits and verify



such information so as to enable them to report within the specified timelines.

24. In addition to the compliance with provisions of the Act, the auditor would also need to assess the requirements w.r.t. dividend declaration and payment as per any other law applicable to the company. For example, if the company is an NBFC, RBI norms with regard to payment of dividend will also need to be complied with. However, it may be noted that there is no reporting requirement for compliance with the said requirements while reporting under Rule 11(f).

## **25. Illustrative reporting in case of Standalone Financial Statements<sup>26</sup>**

- **Unmodified Reporting:**

A. Where interim dividend has been declared and paid before the date of audit report for the year to which such interim dividend relates to

*The interim dividend declared and paid by the Company during the year and until the date of this audit report is in accordance with section 123 of the Companies Act 2013.*

B. Where interim dividend has been declared but not paid before the date of audit report for the year to which such interim dividend relates to

*The interim dividend declared by the Company during the year is in accordance with section 123 of the Companies Act 2013 to the extent it applies to declaration of dividend. However, the said dividend was not paid on the date of this audit report.*

C. Where interim dividend was declared in the previous year but paid after the date of audit report for the year to which such interim dividend relates to

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<sup>26</sup> It may be noted that these reporting are illustrative in nature and necessary changes may be made as per the facts and circumstances of the audit engagement.

*The interim dividend paid by the Company during the year in respect of the same declared for the previous year is in accordance with section 123 of the Companies Act 2013 to the extent it applies to payment of dividend.*

- D. Where final dividend has been proposed

*As stated in note x to the financial statements, the Board of Directors of the Company has proposed final dividend for the year which is subject to the approval of the members at the ensuing Annual General Meeting. The dividend declared is in accordance with section 123 of the Act to the extent it applies to declaration of dividend.*

- E. Where interim dividend was declared and paid and final dividend has been proposed

*The interim dividend declared and paid by the Company during the year and until the date of this audit report is in accordance with section 123 of the Companies Act 2013.*

*As stated in note x to the financial statements, the Board of Directors of the Company has proposed final dividend for the year which is subject to the approval of the members at the ensuing Annual General Meeting. The dividend declared is in accordance with section 123 of the Act to the extent it applies to declaration of dividend.*

- F. Where final dividend of previous year has been paid during the year and final dividend for the current year has been proposed

*The final dividend paid by the Company during the year in respect of the same declared for the previous year is in accordance with section 123 of the Companies Act 2013 to the extent it applies to payment of dividend.*

*As stated in note x to the financial statements, the Board of Directors of the Company have proposed final dividend for the year which is subject to the approval of the members at the ensuing Annual General Meeting. The dividend declared is in accordance with section 123 of the Act to the extent it applies to declaration of dividend.*

- **Modified Reporting<sup>27</sup>:**

- A. In case of non-compliance related to transfer of amount to separate bank account (however the company is in compliance with the other provisions of section 123):

*In respect of dividend declared and paid during the year by the company, except for not transferring amount of dividend to separate bank account within the timeline specified in sub-section (4) of section 123 of the Act, declaration and payment of dividend is in accordance with section 123 of the Companies Act 2013.*

- B. In case of non-compliance related to transfer of amount of proposed final dividend of previous year to separate bank account:

*Attention is drawn to note xx to the Financial Statements regarding declaration of proposed final dividend for the previous year. In respect of the said dividend paid during the year by the company, except for not transferring amount of dividend to separate bank account within the timeline specified in sub-section (4) of section 123 of the Act, the payment of dividend is in accordance with section 123 of the Companies Act 2013.*

- C. Inadequacy of profit on considering impact of the subject matter of the qualification provided in the audit report

*In regard to the dividend declared and paid during the year/ final dividend proposed for the year, the management has not considered the effect of audit qualifications in determining the adequacy of profits for declaring such dividend. Based on (the best estimates of the amounts likely involved / amounts quantified in*

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<sup>27</sup> The auditor needs to assess the impact of modified reporting under Rule 11(f) on the reporting on the financial statements including opinion on internal financial controls with reference to financial statements, where applicable and report in accordance with SA 705(Revised) 'Modifications to the Opinion in the Independent Auditor's Report', if applicable.

*respect of the audit qualifications)<sup>28</sup>, the company would not have had sufficient profits to the extent of [Rs..... (where the audit qualifications are quantified)/ sufficient profits possibly to the extent of Rs..... (where the audit qualifications are not quantified but are determined based on a best estimate basis)]<sup>29</sup> which is not in accordance with section 123 of the Act.*

- D. Determination of adequacy of profits considering impact of the subject matter of the qualification provided in the audit report, on best estimates basis by the management to which auditor is not in agreement.

*In regard to the dividend declared and paid during the year/ final dividend proposed for the year, the management has considered the effect of audit qualifications, based on the best estimates of the amounts likely involved in respect of the audit qualifications, in determining the adequacy of profits for declaring such dividend. In absence of sufficient appropriate audit evidence, we have not been able to opine on the reasonableness of the estimate made by the management of the amounts involved in the matters of qualification in paragraph xx of Basis for Qualified Opinion section of our audit report and therefore, we are unable to comment on the determination of adequacy of profits for declaration of dividend as required by the section 123(1) of the Act. Except for the said determination of adequacy of profits for declaration of dividend, the dividend declared and paid during the year by the company is in accordance with section 123 of the Act.*

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<sup>28</sup> Retain as applicable.

<sup>29</sup> Retain as applicable.