



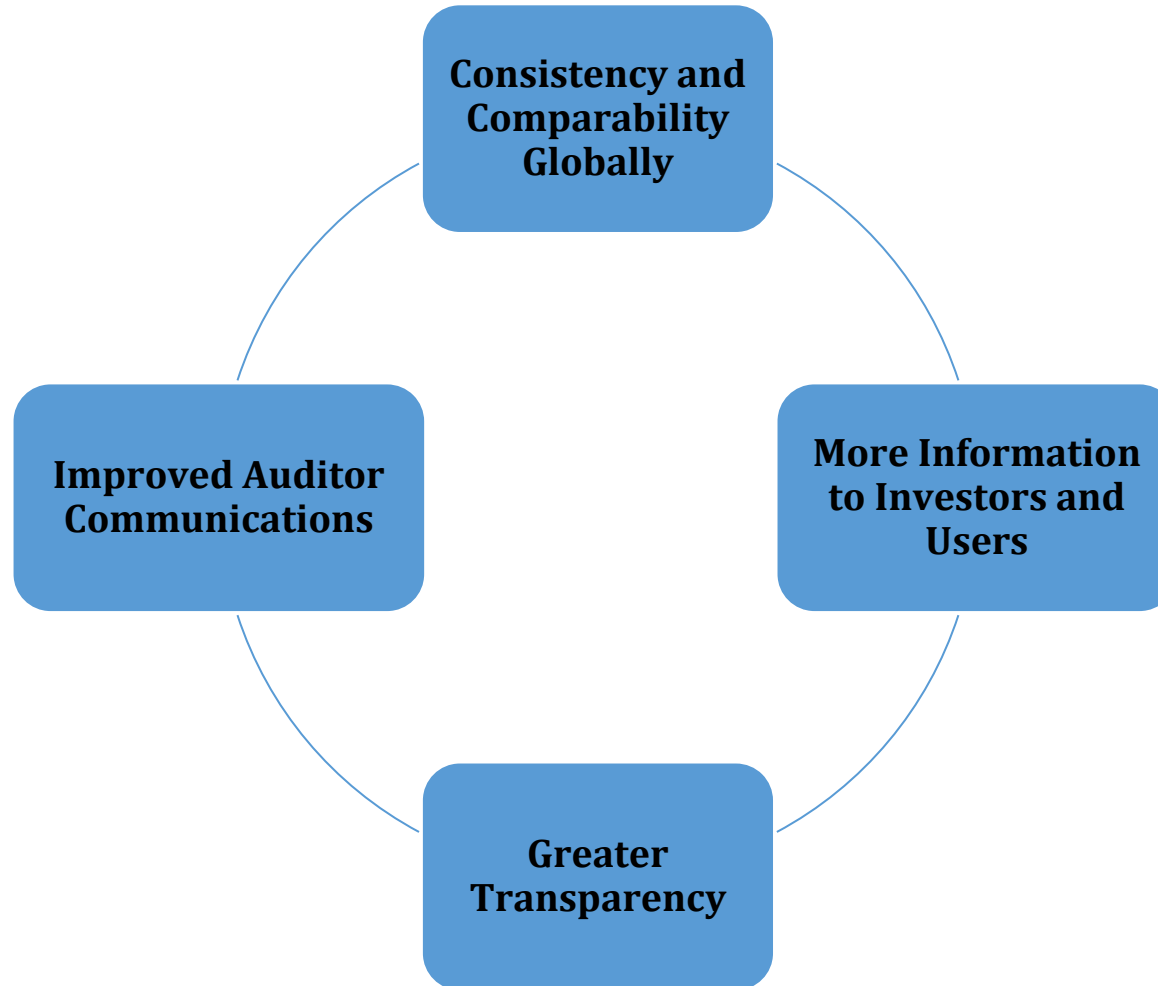
Years of dedicated service

Decoding New Audit Report Format

20th August 2019

CA Hetal Malde

WHY CHANGE THE AUDITOR'S REPORT?



Expected benefits of the New Auditor's Report?

Enhanced value of the auditor's report



- Overall improvement of the key deliverable
- Greater transparency
- Enhance communications between the auditor and those charged with governance

Including information about areas of auditor focus in the auditor's report was designed to :



- Increase audit quality
- Enhance financial statement disclosures
- Increased professional skepticism in areas where KAM are identified

**Skepticism means doubt of truth*

Effective for audits of financial statements for periods beginning on or after April 1, 2018.

SA	SA about
Revised SA 700	Forming an Opinion and Reporting on Financial Statements
SA 701	Communicating Key Audit Matters in the Independent Auditor's Report
Revised SA 705	Modifications to the Opinion in the Independent Auditor's Report
Revised SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
Revised SA 720	The Auditor's Responsibilities Relating to Other Information
SA 570(Revised)	Going Concern (Applicable from 1 st April 2017)

Auditor's report – Changes in Report Format

Seq. No.	Old Format	New Format
1	<ul style="list-style-type: none"> Title: Independent Auditor's Report Addressee: As per Engagement terms 	<ul style="list-style-type: none"> Title: Independent Auditor's Report Addressee: As per Engagement terms
2	Subtitle: Report on the Financial Statements	Subtitle: Report on the Audit of the Financial Statements
3	Introductory Paragraph: To mention <ul style="list-style-type: none"> Whose FS are audited and period covered Title of each statement in FS Refer summary of significant accounting policies and explanatory information 	Auditor's Opinion: Including introductory paragraph
4	Management's Responsibility	<ul style="list-style-type: none"> Basis for Opinion (mandatory) Emphasis of Matter, if applicable (SA 706) Material Uncertainty Related to Going Concern, if applicable (SA 570) Key Audit Matters, if applicable (SA 701) Other Information, if applicable (SA 720) Responsibilities of Management and Those Charged with Governance for the Financial Statements Auditor's Responsibilities for the Audit of the Financial Statements – Enhanced Other Matter, if any Report on Other Legal and Regulatory Requirements
5	Auditor's Responsibility	
6	Basis for modified opinion, if any	
7	Auditor's Opinion	
8	Emphasis of Matter	
9	Other Matters	
10	Report on Other Legal and Regulatory Requirements	

- □ Title
- □ Addressee
- □ Subtitle
- Auditor's Opinion
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Title

Title indicating the report is the report of an independent auditor

Reported in audit report as: **"INDEPENDENT AUDITOR'S REPORT"**

Addressee


Addressed to those for whom the report is prepared, often to the shareholders or to those charged with governance

Reported in audit report as: **"To the Members of ABC Company Limited"**

Subtitle

Subtitle states "report on financial statement"

Reported in audit report as: **"Report on the Audit of Financial Statements"**

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Opinion

We have audited the standalone financial statements of _____ ("the Company"), which comprise the Balance Sheet as at 31st March, 2019, the Statement of Profit and Loss and the Statement of Cash Flows for the year then ended and notes to financial statements, including a summary of the significant accounting policies and other explanatory information [in which included are the returns for the year ended on that date audited by the branch auditors of the Company's branches located at (locations)].

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2019, and **profit / loss** and its cash flows for the year ended on that date.

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- The auditors' report includes a section with the heading "Basis of Opinion" that:
 - ✓ States that audit is conducted in accordance with Standards of Auditing (SAs)
 - ✓ Includes a statement that the auditor is independent of the entity in accordance with relevant ethical requirements and has fulfilled auditors' other ethical responsibilities
 - ✓ States whether the auditor believes that auditor has obtained sufficient and appropriate evidence to provide opinion
 - ✓ Applicable, even if unmodified opinion is given.

Basis for Opinion

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under Section 143(10) of the Companies Act, 2013. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of Companies Act, 2013 and the Rules thereunder, and we have fulfilled our ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for **our [qualified/adverse/disclaimer of] opinion.**

New affirmative statement about the auditor's fulfillment of independence and other relevant ethical responsibilities requirements.

SA broadly defines two type of audit report:

Un-modified report

- Financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework

Modified report

- Financial statements are prepared with certain “material misstatement” or auditor has not obtain “sufficient & appropriate audit evidence”.
- Modification in report can be in form of:
 - **Qualified audit report.**
 - **Adverse opinion report**
 - **Disclaimer of opinion.**

Modified Report

Type of modified opinion depends upon:

- (a) The nature of the matter giving rise to the modification:
- whether the financial statements are materially misstated or,
 - in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- (b) pervasiveness of the effects or possible effects of the matter.

**Pervasive means having an extensive or vast effect*

pervasiveness – Pervasive effects on the financial statements are those that:

- Are not confined to specific elements, accounts or items of the financial statements
- If so confined, represent or could represent a substantial proportion of the financial statements
- In relation to disclosures, are fundamental to users' understanding of the financial statements.

Modified Report

Qualified audit report.

Sufficient appropriate audit evidence **are available** but the misstatements (individually or in aggregate) **are** material, but **not** pervasive.

Sufficient appropriate audit evidence **are not available** but the misstatements (individually or in aggregate) **are** material, but **not** pervasive.

Adverse opinion report.

Sufficient appropriate audit evidence **are available** but the misstatements (individually or aggregate) **are** material and **are** pervasive.

Disclaimer of opinion.

Sufficient appropriate audit evidence **are not available** and the possible effects of undetected misstatements, could be **both material and pervasive**.

Modified Report

Audit evidence available?	Is misstatement pervasive?	Nature of Opinion
Yes	No	Qualified
No	No	Qualified
Yes	Yes	Adverse
No	Yes	Disclaimer

Illustrations of Auditor's Reports with Modifications to the Opinion:

Nature of reporting	Illustration No	Relevant page of SA 705
A <u>Qualified opinion</u> (No holding-sub subsidiary)	I	14-16
An <u>Adverse opinion</u> (consolidated financial statements)	II	17-19
<u>Qualified opinion</u> due to the auditor's inability to obtain sufficient audit evidence regarding a "foreign associate"	III	20-22
<u>Disclaimer of opinion</u> due to the auditor's inability to obtain sufficient audit evidence about a single element of the consolidated financial statements.	IV	23-24
<u>Disclaimer of opinion</u> due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.	V	25-26

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- *Emphasis of Matter paragraph* – A paragraph included in the auditor’s report that refers to a matter appropriately **presented or disclosed in the financial statements** that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.
- *Other Matter paragraph* – A paragraph included in the auditor’s report that refers to a matter **other than those presented or disclosed in the financial statements** that, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report

Emphasis of Matter	Other Matter
<p>Auditor shall include an Emphasis of Matter paragraph in the auditor’s report provided:</p> <ol style="list-style-type: none"> 1. The auditor would not be required to modify the opinion as a result of the matter; AND 2. When SA 701 (Key Audit Matters) applies, the matter has not been determined to be a key audit matter to be communicated in the auditor’s report 	<p>Auditor shall include an Other Matter paragraph in the auditor’s report, provided:</p> <ol style="list-style-type: none"> 1. This is not prohibited by law or regulation; AND 2. When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor’s report
<p>A <u>clear reference</u> to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements.</p>	<p>Matters other than those relating to financial statements and which are important to be mentioned are disclosed in detail.</p>
<p>The paragraph shall refer only to information presented or disclosed in the financial statements</p>	<p>The paragraph shall refer to information other than those presented or disclosed in the financial statements</p>

Contd....

Contd....

Emphasis of Matter	Other Matter
<p>Cases of reporting:</p> <ol style="list-style-type: none"> 1. An uncertainty relating to the future outcome of exceptional litigation or regulatory action 2. Application of a new accounting standard that has a material effect on the financial statements. 3. A major damage that has had, or continues to have, a significant effect on the entity's financial position. 	<p>Cases of reporting:</p> <ol style="list-style-type: none"> 1. Planned scope and timing of the audit, which includes communication about the significant risks identified by the auditor 2. Auditor is unable to withdraw from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management
<p>Illustration :</p> <p>“We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter”</p>	<p>Illustration :</p> <p>“The financial statements of ABC Company for the year ended March 31, 20X0, were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.”</p>

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- ✓ Going Concern is fundamental principle in preparation of Financial Statements
- ✓ SA 570 relating to GC is applicable for the period beginning on or after 1st April 2017 i.e. from F.Y. 2017-18
- ✓ Management make the assessment of GC assumptions
- ✓ Auditor assess the assumption the following basis:
 - **Appropriateness** of use of GC assumption
 - **Conclude**, whether a material uncertainty exists,
 - **Reporting** on GC
- ✓ If management does not perform GC assessment, then discuss with the management basis for intended use of the GC assumption & inquire whether conditions exist that cast significant doubt.

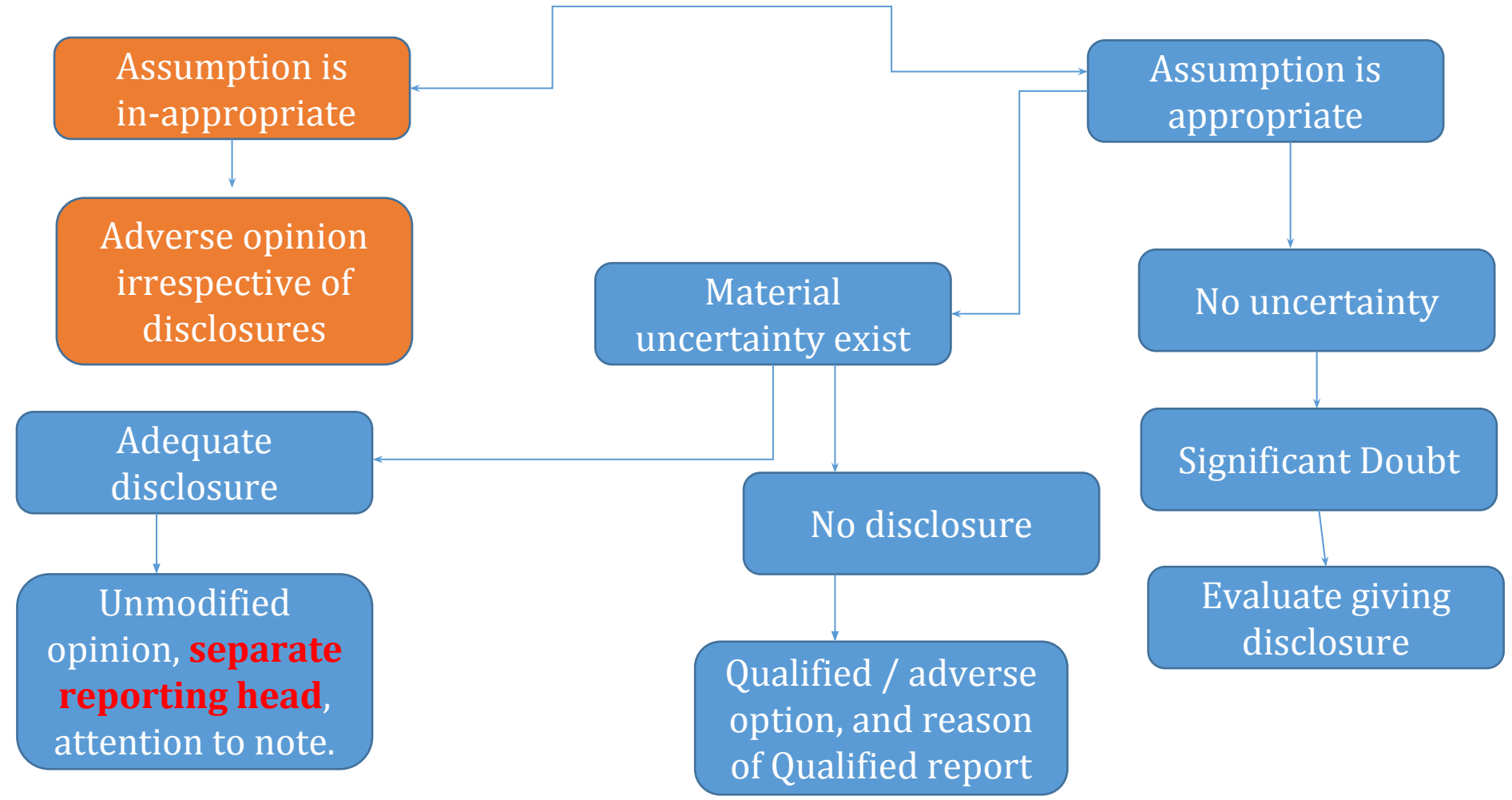


Recurring operating losses	Loss of key management	Noncompliance with capital requirements
Working capital deficiencies	Loss of a major market	Statutory requirements
negative cash flows	High dependence on particular project	legal proceedings
Excessive reliance on short-term borrowings to finance long-term assets	Uneconomic long-term commitments	Technical developments
Inability to pay creditors on due dates	Loss of principal supplier, key franchise or license	
Default on loan repayments		

Documentation for GC :

- Projected cash flow, PNL etc. (evaluate any gross errors).
- Interim FS.
- Production plans.
- Outcome of negotiation with Banker / lenders.
- Replacement of KMP.
- Management's plan to dispose Fixed Assets.
- Opinion on legal litigations.
- Financial support of Holding Company / related party.

Going Concern Reporting :



Illustration

Material Uncertainty Related to Going Concern

We draw attention to Note XX in the financial statements, which indicates that the Company incurred a net loss of Rs. ZZZ during the year ended March 31, 20XX and, as of that date, the Company's current liabilities exceeded its total assets by Rs. YYY. As stated in Note XX, these events or conditions, along with other matters as set forth in Note XX, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. **Our opinion is not modified in respect of this matter.**

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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❑ What is KAM?

Matters that, in the **auditor's professional judgment**, were of most significance in the audit of the current period, were addressed in the context of the audit and the auditor does not provide a separate opinion on these matters.

❑ Applicability

- ✓ **Applicability Date** : Periods beginning on or after 1 April 2018
- ✓ **Listed entities Applicability: Mandatory Complete sets** of general purpose financial statements for listed entities. Status of listing to be checked on reporting date (Balance Sheet Date). If during the reporting period listed entity gets delisted, SA 701 is not applicable. SA 701 is also not applicable for entities in process of listing as at reporting date.
- ✓ **Entities listed outside India**: SA 701 is applicable for audit of complete set of general purpose financial statements in respect of listed entities. Hence entities whose securities are listed on any stock exchange outside India falls within purview of SA 701
- ✓ **Applicability for unlisted entities: Voluntary**
 - ❑ When auditor decides to communicate, or
 - ❑ When auditor is required by law or regulation
 - ❑ Interim Financial Statements: SA 701 not applicable
- ✓ **Early Adoption** : Not permissible

❑ Purpose of KAM

✓ Greater transparency of audit:

To enhance the communicative value of the auditor's report by providing greater transparency about the audit

✓ Understanding significant matters:

Provides additional information to users of financial statements and auditor's report thereon to assist them in understanding those items that, in auditor's professional judgment, were most significant to the audit

✓ Understanding entity's significant management judgements:

Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgment in the audited financial statements

✓ KAM are supplementary to the auditor's report on the financial statements and read in the context of the audit of the financial statements.

✓ KAM is not an Audit Qualification

✓ KAM is intended to highlight 'Through the eyes of Auditor' matters of most significance

Reporting of Key Audit Matters

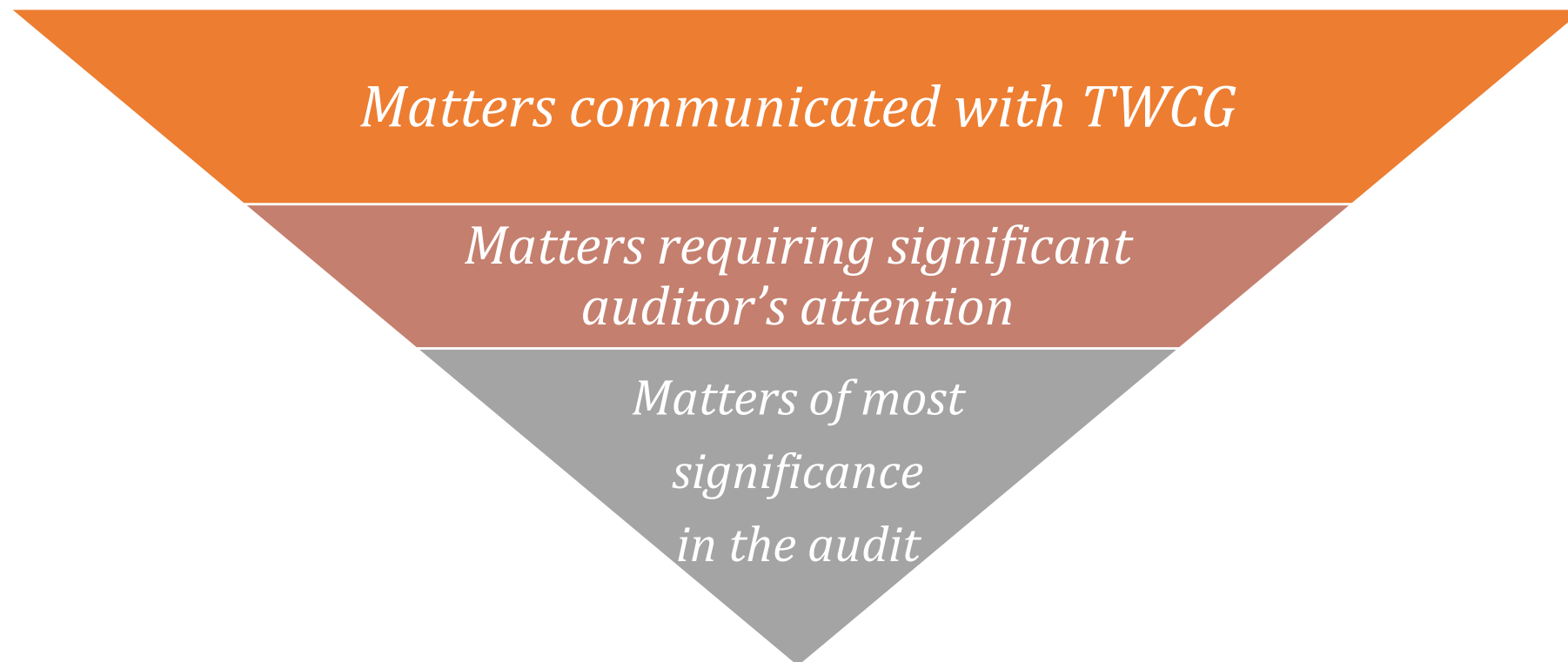
Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements for the current period

Significant Audit Risks:
Areas of risk of material misstatement in the financial statements

Significant judgmental areas in the financial statements: Accounting estimates with high estimation uncertainty

Significant events or transactions during the year: with the effects on the financial statements

How to identify KAM – Decision-making Framework



KEY AUDIT MATTERS

Some examples of Key Audit Matters :

Going Concern assessment

Revenue Recognition

Effect of New Accounting Standards

Impairment of Assets

Valuation of Financial Instruments

Disposal of a business unit

Business Combination and
accounting impacts

Taxation matters (uncertain tax
positions, deferred tax assets)

IT Systems and Controls

Provisions and Contingencies

Communicating KAMs in Auditor's Report is not a substitute for:



❑ When KAM is not reported

- ✓ Unlisted Company (not mandatory).
- ✓ Legal and regulatory restrictions.
- ✓ Disclaimer opinion.
- ✓ Company specific information, the benefit of which will be limited but the cost involved can be high.
- ✓ The adverse consequences of reporting would reasonably be expected to outweigh the public interest benefits of such communication.

***Issues regarding a decision to not communicate a matter are complex and involve judgement – auditor may obtain legal advice*

❑ How to write KAM?

- ✓ Using an appropriate sub-heading “KAM” the auditor shall describe each KAM and explain:
 - Why the matter was considered to be one of the most significance in the audit
 - How the matter was addressed in the audit – Audit approach and overview of procedures performed with an indication of outcome
 - Give **reference to the related disclosures** in financial statements
- ✓ KAM should be entity-specific
- ✓ Avoid standardized – Should be specifically drafted for the Company
- ✓ Avoid overly technical language

❑ Communicating KAMs

- ✓ Order of presentation of individual KAM
- ✓ Order of Individual KAM :
 - relative importance of each KAM
 - based on auditor's judgment
 - corresponding to the manner in which such matters are disclosed in FS
- ✓ Number of KAM (No Ceiling By Standard)
 - complexity of the entity
 - nature of entity's business and environment
 - facts and circumstances of the audit engagement
- ✓ Documentation of all the key audit matters to be properly maintained

❑ **Implementation of SA 701 in Consolidated Financial statements :**

The principal auditor or the group auditor while reporting on key audit matters in accordance with SA 701 should comply with the requirements of SA 600 'Using the work of Another Auditor' and the Guidance Note on audit of consolidated financial statements.

Group Auditor: required to assess matters that in his professional judgement, are key audit matters from the perspective of consolidated financial statements

Parent Auditor is auditor of all components: he would be required to assess matters that in his professional judgement are key audit matters from a perspective of the consolidated financial statements.

Parent's auditor is not the auditor of all the components to be included in the consolidated financial statements: Consider the requirements of SA 600, 'Using the work of another auditor'.

Illustration

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report:

Key Audit Matter	How our audit addressed the matter
<p>The Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of XX as of 31 December 20X9 is material to the financial statements. In addition, management’s assessment process is complex and highly judgmental and is based on assumptions, specifically [describe certain assumptions], which are affected by expected future market or economic conditions, particularly those in [name of country or geographic area].</p> <p>The Company’s disclosures about goodwill are included in Note X, which specifically explains that small changes in the key assumptions used could give rise to an impairment of the goodwill balance in the future</p>	<p>Our audit procedures included, among others, using a valuation expert to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the forecasted revenue growth and profit margins for [name of business line]. We also focused on the adequacy of the Group’s disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.</p>

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SA 720 deals with auditor's responsibilities relating to other information, whether financial or non-financial information included in an entity's annual report.

List of reports / documents are as follows:

- Director's Report (with annexures - Annual Return extracts, Secretarial audit report, annual report on CSR, etc.)
- Management Discussion & Analysis
- Corporate Governance Report
- Business Responsibility Report
- Shareholder information
- Any other information/report forming part of the annual report
- Also, refer to Regulation 34 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 specifying the contents of the annual report.

*A statement that the other information is **materially consistent or not consistent** with the financial statements*

Expectations from management - availability of other information

Timely availability of the draft of Annual Report including director's report - before audit report is finalised

Written confirmation that drafts are near final

Other Information to be consistent with financial statements

In case some information is not provided during audit process:

- a. mention this fact in audit report
- b. written representation from management that the final version of the outstanding documents, if any, will be available to us prior to issuance by entity.

Enhanced responsibilities of Auditor

Material inconsistency
between the other
information and the FS

Respond / perform
additional procedures if
there is material
inconsistency

Report as required by
SA

Reporting of material misstatement in Audit report

OI obtained prior to issue of Audit report

Report material mis-statement if any or a **disclaimer of opinion / Withdrawal from the Engagement,**

OI obtained after issue of Audit report

If miss-statement corrected, review the correction.

If not corrected: the action depends on the professional judgement. Auditor need to ensure uncorrected misstatement brought to the attention of users:

Actions that the auditor may take:

- Providing a new / amended auditor’s report to management including a modified section & requesting management to provide this new or amended auditor’s report to users. Also review the steps taken by management to provide the new auditor’s report to such users.
- Bringing the misstatement to the attention of the appointing authority (can be at AGM).
- Communicating with the regulator (Can be RoC)
- Considering the implications for engagement continuance.

Sample reporting (unlisted corporate entity & Part of OI available):

Information Other than the Financial Statements and Auditor’s Report Thereon:

The Company’s Board of Directors is responsible for the other information. The other information obtained at the date of this auditor’s report is information included in the **Board of Director’s report and management analysis** but does not include the financial statements and our auditor’s report thereon.

Our opinion on the Financial Statement does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statement, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statement or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. **We have nothing to report in this regard.**

Sample reporting (for material misstatement)

Information Other than the Financial Statements and Auditor’s Report Thereon:

The Company’s Board of Directors is responsible for the other information. The other information obtained at the date of this auditor’s report is information included in the Board of Director’s report and management analysis but does not include the financial statements and our auditor’s report thereon.

Our opinion on the Financial Statement does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statement, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statement or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, **we conclude that there is a material misstatement of this other information, we are required to report that fact. As described below, we have concluded that such a material misstatement of the other information exists.**

[Description of material misstatement of the other information]

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- Management refers to those persons within the entity who are having the executive responsibility about code of conduct of the entity.
For example: Board of directors of the company.
- Those charged with governance refers to those persons within the entity who are having the following two responsibilities:-
 - a) Accountability of the entity AND
 - b) Strategic direction of the entityFor example : Audit Committee
- New description of management's responsibilities relating to going concern is added as additional disclosure
- Identification of TCWG is required when a separate body exists that is responsible for the oversight of the financial reporting process (In many cases, the audit committee)
- Management / BoD is responsible for preparation of FS and TWCG is responsible for overseeing the entity's financial reporting process.

Responsibility of Management for the Standalone Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those board of directors are also responsible for overseeing the Company's financial reporting process.

New description of management's responsibilities relating to going concern is added as additional disclosure

When individuals who are responsible for such oversight are also responsible for the preparation of the financial statements, no reference to oversight responsibilities is required.

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- Expanded description of the auditor's responsibilities, including key features of the audit
- The auditor's responsibility section is intended to explain more fully the concept of a risk-based audit, as well as to clarify the meaning of certain audit-technical terms.
- This approach results in a fuller description of the auditor's responsibilities in relation to specific matters, including
 - i. fraud;
 - ii. Internal control,
 - iii. accounting policies and estimates,
 - iv. evaluating the overall presentation, structure and content of the financial statements,
 - v. disclosures and
 - vi. Communications with TCWG.
- New descriptions of responsibilities relating to going concern. Reflects responsibilities under SA 570, which are required regardless of the applicable framework.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(b) Obtain an understanding of internal financial controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Companies Act, 2013, we are also responsible for expressing our opinion on whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Because of the increased length of this section, SA 700 include a provision that certain components of this description may be presented in an appendix to the auditor's report.

Auditor's Responsibilities for the Audit of the Financial Statements (Contd...)

(d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

New descriptions of responsibilities relating to going concern as per SA 570

(e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.


Communication with TCWG

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Auditor's Responsibilities for the Audit of the Financial Statements (Contd...)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication .

New descriptions of responsibilities relating to going concern as per SA 570

- Title
- Addressee
- Subtitle
- Auditor's Opinion
- Basis for Opinion (mandatory)
- Emphasis of Matter, if applicable (SA 706)
- Material Uncertainty Related to Going Concern, if applicable (SA 570)
- Key Audit Matters, if applicable (SA 701)
- Other Information, if applicable (SA 720)
- Responsibilities of Management and Those Charged with Governance for the Financial Statements
- Auditor's Responsibilities for the Audit of the Financial Statements
- Other Matter, if any
-  □ Report on Other Legal and Regulatory Requirements

- Auditor need to report any other reporting responsibilities that are in addition to the auditor's responsibilities under the SAs.
- The Section shall be titled as "Report on Other Legal and Regulatory Requirements"
- Covers reporting on:
 - Internal Control over Financial Reporting (ICFR) Reporting para: Applicable only if not a small company, (Turnover > 50 Cr, Borrowing > 25 Cr)
 - Companies (Auditor's Report) Order, 2016 (CARO) reporting para: Applicable only if not a small company, (Net-worth > 1 Cr, Borrowing > 1 Cr, Turnover > 10 Cr)

Report on Other Legal & Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order 2016 ("the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Companies Act 2013, we give in the Annexure A, a statement on the matters specified in paragraph 3 and 4 of the Order to the extent applicable.
2. As required by the section 143 (3) of the Act, we report that:
 - a) We have sought and obtained all the information and explanations, which to the best of our knowledge and beliefs were necessary for the purpose of our audit.
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.
 - c) The Balance Sheet, the Statement of Profit and Loss and cash flow statement dealt with by this report are in agreement with the books of account.
 - d) In our opinion, the aforesaid standalone Financial Statements comply with the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014, as amended.
 - e) On the basis of written representations received from the directors as on March 31, 2019, and taken on record by the Board of Directors, none of the directors are disqualified as on March 31, 2019, from being appointed as a director in terms of sub-section (2) of section 164 of the Act.

To be written when CARO is applicable

Report on Other Legal & Regulatory Requirements (Contd...)

f) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate report in "Annexure B"; and our report expresses an unmodified opinion on the adequacy & operating effectiveness of the company's internal financial controls over financial reporting.

To be written when ICFR is applicable

g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, as amended, in our opinion and to the best of our information and according to the explanations given to us:

- i. The Company does not have any pending litigations which would impact its financial position. **OR The Company has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Note XX to the financial statements.**
- ii. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
- iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.
- iv. The disclosure requirements relating to holdings as well as dealings in specified bank notes were applicable for the period from 8 November 2016 to 30 December 2016, which are not relevant to these standalone financial statements. Hence, reporting under this clause is not applicable.

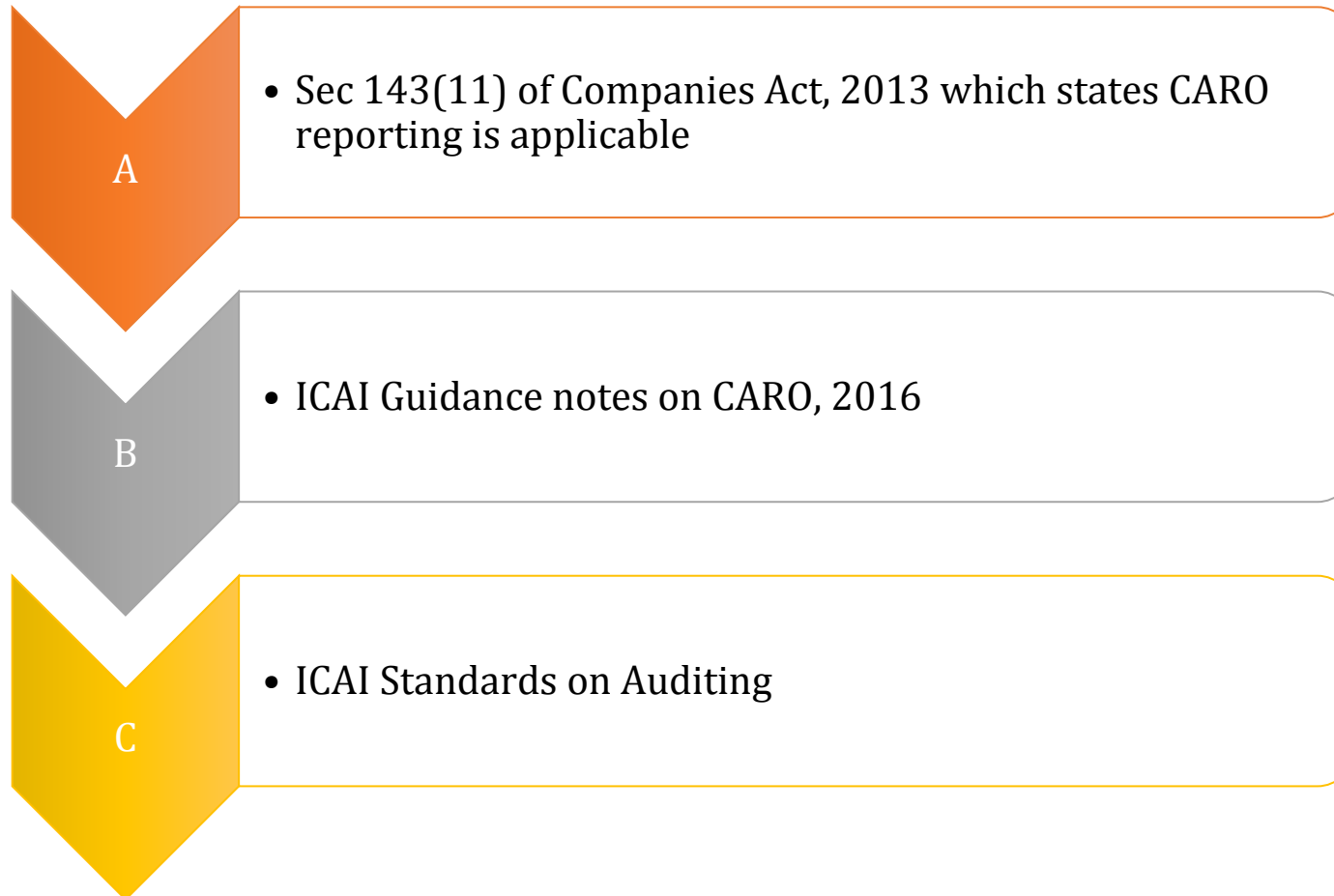


Years of dedicated service

Companies (Auditor's Report) Order 2016 [CARO]

20th August 2019

CA Hetal Malde



Applicable to every company including foreign company. it is applicable ONLY for standalone financial statements and not for Consolidated financial statements.

Exemptions from Applicability :

1. Banking Company
2. Insurance Company
3. Section 8 Company
4. One Person Company
5. A Private Company
 - not being subsidiary or holding company of a public company
 - not having net worth of more than Rs.1 crore as on balance sheet date
 - not having borrowings exceeding Rs.1 crore from bank or financial institution at any point during the financial year
 - not having total revenue as disclosed in Schedule III exceeding Rs.10 crores during the financial year as per the financial statement.

Reporting areas – Fixed Assets

Sr.	CARO	Particulars
1.	Fixed Assets	Matter to be included in report :
2.	Inventory	<ol style="list-style-type: none"> 1. whether the company is maintaining <u>proper records</u> showing full particulars, including quantitative details and situation of fixed assets; 2. whether these fixed assets have been <u>physically verified</u> by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account 3. whether the <u>title deeds of immovable properties</u> are held in the name of the company. If not, provide the details thereof
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	
13.	Related Party Transactions	
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – Inventory

Sr.	CARO	Particulars
1.	Fixed Assets	Matter to be included in report : whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	Documentation: a. Evidence of physical verification and to comment whether monthly/quarterly/annual physical verification is reasonable b. Adjustment of discrepancies in financial statement
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	
13.	Related Party Transactions	
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – Loans

Sr.	CARO	Particulars
1.	Fixed Assets	<p>Matter to be included in report :</p> <p>whether the company has granted any loans, secured or unsecured to companies, firms, LLPs or other parties covered in the register maintained under section 189* of the Companies Act, 2013. If so:</p> <ol style="list-style-type: none"> whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are Regular if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest <p><i>*Section 189 deals with Register of contracts or arrangements in which directors are interested</i></p>
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	Documentation:
13.	Related Party Transactions	<p>Get a copy of 189 register and verify the same. Check if repayment of interest and principal is regular. If overdue for more than 90 days, state the amount and steps taken for recovering the same.</p>
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – 185, 186

Sr.	CARO	Particulars
1.	Fixed Assets	<p>Matter to be included in report :</p> <p><u>Loans, Investments and Guarantees</u></p> <p>in respect of loans, investments, guarantees, and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof</p> <p><i>Section 185 deals with Loans to Directors</i></p> <p><i>Section 186 deals with Loans and Investments by a Company (60% of paid-up share capital, free reserves and securities premium / 100% of its FR and SP, whichever is more)</i></p> <p>Documentation:</p> <p>Check compliance with Section 185 and Section 186 of Companies Act 2013. Refer Company law checklist. Qualify if there is non-compliance with above sections.</p>
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	
13.	Related Party Transactions	
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – Acceptance of Deposits

Sr.	CARO	Particulars
1.	Fixed Assets	<p>Matter to be included in report :</p> <p><u>Acceptance of Deposits</u></p> <p>in case, the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed thereunder, where applicable, have been complied with? If not, the nature of such contraventions be stated; If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not?</p> <p><i>Section 73 prohibits a company to invite, accept or renew deposits from public except in the manner provided in this section</i></p> <p><i>Section 76 permits public companies having net worth=>100cr or turnover=>500cr to accept deposit from persons other than its members</i></p> <p><i>Section 186 deals with Loans and Investments by a Company</i></p> <p>Documentation:</p> <p>a. Check for compliance with directives issued by RBI</p> <p>b. Check for compliance with Section 73-76 of Companies Act</p> <p>c. Check whether order has been passed by CLB/NCLT and examine steps taken by company to comply with the order.</p>
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	
13.	Related Party Transactions	
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – Cost Records

Sr.	CARO	Particulars
1.	Fixed Assets	<p>Matter to be included in report :</p> <p><u>Maintenance of Cost Records</u></p> <p>whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.</p> <p><i>Section 148(1) deals with Audit of Items of Cost in Respect of Certain Companies engaged in the production of such goods and utilization of material and labour.</i></p>
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	<p>Documentation:</p> <p>Verify whether proper cost accounts and records are made and maintained by the Company as prescribed</p>
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	
13.	Related Party Transactions	
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – Statutory Dues

Sr.	CARO	Particulars										
1.	Fixed Assets	<p>Matter to be included in report :</p> <p>a. whether the company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income tax, sales-tax, GST, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated</p> <p>b. where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.</p> <table border="1" data-bbox="623 786 2005 968"> <thead> <tr> <th>Name of Statute</th> <th>Nature of dues</th> <th>Amount (Rs.)</th> <th>Period of which the amount relates</th> <th>Forum where dispute is pending</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table> <p>Documentation:</p> <p>a. Obtain list of statutory dues company is required to deposit regularly.</p> <p>b. Check if there are any arrears as on balance sheet date and whether the arrears are outstanding for more than six months as on balance sheet date.</p> <p>c. Identify legal tax related disputes by review of internal audit reports, board minutes. Disclose legal tax disputes in the CARO report.</p>	Name of Statute	Nature of dues	Amount (Rs.)	Period of which the amount relates	Forum where dispute is pending					
Name of Statute	Nature of dues		Amount (Rs.)	Period of which the amount relates	Forum where dispute is pending							
2.	Inventory											
3.	Loans											
4.	185,186											
5.	Deposits											
6.	Cost Records											
7.	Statutory Dues											
8.	Repayment of Dues											
9.	Moneys raised – Application											
10.	Fraud											
11.	Managerial Remuneration											
12.	Nidhi Cos											
13.	Related Party Transactions											
14.	Private Placements											
15.	Non Cash transactions											
16.	NBFCs											

Reporting areas – Appl. Money raised

Sr.	CARO	Particulars
1.	Fixed Assets	<p>Matter to be included in report :</p> <p><u>Application of funds received by IPO / Loans</u></p> <p>whether moneys raised by way of initial public offer or further public offer {including debt instruments) and term loans were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported</p>
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	<p>Documentation:</p> <p>Check and take copies of the documents like Prospectus which state the purpose for which money is raised. Ensure the actual spending is in line for each such purpose. Check Board minutes /agenda where the reporting for such expenditure has been made. List exceptions and report.</p>
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	
13.	Related Party Transactions	
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – Fraud

Sr.	CARO	Particulars
1.	Fixed Assets	Matter to be included in report : <u>Reporting on Frauds</u> whether any fraud by the company or any fraud on the company by its officers or employees has been noticed or reported during the year; if yes, the nature and the amount involved is to be indicated
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	
13.	Related Party Transactions	
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – Managerial Remuneration

Sr.	CARO	Particulars
1.	Fixed Assets	<p>Matter to be included in report :</p> <p><u>Managerial Remuneration</u></p> <p>whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act? If not, state the amount involved and steps taken by the company for securing refund of the same.</p> <p>*Section 197 prescribes that the maximum ceiling for payment of managerial remuneration by a <u>public company</u> to its directors, including managerial director and whole-time director shall not exceed 11% of the net profit of the company in that financial year</p> <p>As section 197 is applicable to Public companies only, it is not applicable to private companies. Hence reporting under this clause is not required.</p>
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	
10.	Fraud	Documentation:
11.	Managerial Remuneration	1. Review internal audit reports
12.	Nidhi Cos	2. enquire from the management about any frauds on or by the company that it has noticed or that have been reported to it.
13.	Related Party Transactions	3. Examine the minutes of the book of the board meeting, audit committee etc., of the company in this regard.
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – Nidhi Companies

Sr.	CARO	Particulars
1.	Fixed Assets	<p>Matter to be included in report :</p> <p>Whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability and whether the Nidhi Company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability.</p>
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	<p>Documentation:</p> <p>In case of Nidhi company check out the above matters and report; In other companies state ‘this clause is not applicable as it is not a Nidhi co.</p>
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	
13.	Related Party Transactions	
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – Related party transactions

Sr.	CARO	Particulars
1.	Fixed Assets	Matter to be included in report : whether all transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc.. as required by the applicable accounting standards <i>Section 177 deals with approval or any subsequent modification of transactions with related parties by Audit Committee</i> <i>Section 188 deals with disclosures of Related party transactions</i>
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	Documentation: <ul style="list-style-type: none"> Ensure transactions have been below the limits if any specified by AC/Board, if not then report
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	
13.	Related Party Transactions	
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – Private Placements

Sr.	CARO	Particulars
1.	Fixed Assets	<p>Matter to be included in report :</p> <p>whether the company has made <u>any preferential allotment or private placement of shares</u> or fully or partly <u>convertible debentures</u> during the year under review and if so, as to whether the requirement of section 42 of the Companies Act,2013 have been complied with and the amount raised have been used for the purposes for which the funds were raised. If not, provide the details in respect of the amount involved and nature of non-compliance</p> <p><i>*Section 42 deals with procedure for offer and invitation for subscription of Securities on Private Placement</i></p>
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	<p>Documentation:</p> <p>Applicable only if there has been a preferential allotment or private placement of shares or PCD or FCD. Check purpose of issue and see if complied with. List all exceptions and report</p>
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	
13.	Related Party Transactions	
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – Non Cash transactions

Sr.	CARO	Particulars
1.	Fixed Assets	Matter to be included in report : whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act, 2013 have been complied with <i>Section 192 deals with Restriction on Non-cash Transactions Involving Directors</i>
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	Documentation: <ul style="list-style-type: none"> • Check whether there are acquisitions of assets by Company from a director /connected persons or • Acquisitions of assets by director/connected persons from company and consideration is non cash (like issue of shares etc) • Check Board minutes, AC minutes etc • Check if Members’ resolution has been passed as required by Section and take a copy. If not complied with report
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	
13.	Related Party Transactions	
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Reporting areas – NBFCs

Sr.	CARO	Particulars
1.	Fixed Assets	<p>Matter to be included in report :</p> <p>whether the company is required to be registered under section 45 IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained</p> <p><i>a company will be treated as NBFC if its financial assets are more than 50% of its total assets (netted off by intangible assets) and income from financial assets should be more than 50% of its gross income.</i></p> <p><i>*Section 45 IA deals with registration of NBFC.</i></p>
2.	Inventory	
3.	Loans	
4.	185,186	
5.	Deposits	
6.	Cost Records	
7.	Statutory Dues	
8.	Repayment of Dues	
9.	Moneys raised – Application	<p>Documentation:</p> <p>Mainly Applicable for NBFC. If registered get a copy of Registration certificate. In some cases whether registration is required is itself a contentious matter and if so request Company to obtain a legal opinion</p>
10.	Fraud	
11.	Managerial Remuneration	
12.	Nidhi Cos	
13.	Related Party Transactions	
14.	Private Placements	
15.	Non Cash transactions	
16.	NBFCs	

Thank you!!!

When You Win,
We Win!



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