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C.V.O.CA'S

NEWS & VIEWS

From President's Desk...



Dear Professional Colleagues and Readers,

My heartiest greetings to all of you on occasion of 73rd Republic day celebrated on Wednesday, it is celebration of what we have common to us all is Our **Indian-ness**. The diversity and vibrancy of our democracy is appreciated world-wide. It is this spirit of unity and of being one nation which is celebrated every year as Republic Day. This year's celebrations may be muted due to the pandemic, but the spirit is as strong as ever.

As in a family, so in a nation; one generation works hard to ensure a better future for the next generation. New opportunities await the next generation. Our youth have taken advantage of these opportunities and set new benchmarks of success. India is better placed today to meet the challenges of the future.

Indian Budget 2022 will be presented in the Parliament on 1 February 2022. The Union Budget is expected to put the economy on an accelerated growth path after the impact caused by the pandemic. Amendments in the tax law is expected to bring about sustainable growth, infrastructure investment, focus on R&D spending, nurturing incentives to the core sectors including manufacturing and services, tapping the huge experience of running captive centres are some of the priority items on the agenda of the Government as the preparation get underway to unveil the budget.

Ease of tax compliances, simplification and digitisation are the cornerstones to enhance the ease of doing business in India. Our new and positives hopes and wait is about to over on 1st February 2022, with Union Budget of 2022-23. With figure cross, let's hope for positive budget for betterment of society. *"Hope is Passion for what is Possible"*.

Our Organisation got an opportunity to submit Pre-budget memorandum to Dr. Bhagwat Kishanrao Karad, Minister of State, Ministry of Finance.

Overview of Economy Expected in 2022-23

India's economic recovery is on a solid path, amid rapid vaccination progress, less stringent social restrictions and still supportive fiscal and monetary stances. As the economy swings between good and bad news, we are optimistic and expect India's GDP to rebound in double digits in FY2022. Reducing infection, lowering fatality rates, and the possibility of releasing several highly effective vaccines could improve consumer confidence. The pent-up demand for more elastic discretionary goods, especially among the top 10 income percentile of the population, may spur private investment that has been contracting for five consecutive quarters now. The lagged buoyancy impact of government spending could further boost the economic recovery.

Upcoming Programme

By the time, you are reading this, Budget for 2022-23 would have been announced. We will get clarity as to in which direction our Hon. Finance Minister wants our nation to take to. From the moment Budget is announced, days will be hectic for every one of us and we at CVOCA will be no different.

Like every year, this year also CVOCA will be publishing English & Gujarati Budget Booklets compiled by its members. Also, we will be having Online Public Seminar on Impact of Budget on Capital Markets by CA Nilesh Shah on 5th February & Direct Tax Proposals – Union Budget 2022 by CA Nitin Maru on 6th February.

Thank you all..... Always in Gratitude

Stay healthy, Stay safe

CA Rahul Nagda

February 1, 2022

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“DUAL BURDEN OF TODAY “HUNGER AND OBESITY”



CA Dinesh Shah

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FROM THE DESK OF CHAIRMAN

The earth provides enough to satisfy every man's needs, but not every man's Greed “Mahatma Gandhi”

The world makes enough food to feed its people – but political, economic and geographical barriers stand in the way. Globally, political strife and climate changes have added to poverty as a major problem restricting access to food. In the past few years, the number of the hungry have increased. No country is free from hunger, however the Nos are more in developing and under developed countries.

India with the population of over 1.3 Billion has seen tremendous growth in the past two decades, inspite of increase in Gross Domestic Product by 4.5 times, per capita consumption by 3 times and increase in food production almost by 2 times, with phenomenal industrial and economic growth, India produces sufficient food to feed its population, but it is unable to provide access to food to a large number of people especially women and children.

India is home to the largest under nourished population in the world, 14% of our population is under nourished, 20% of children under 5 are underweight, 35% of children under 5 years of age are stunted and 51% women in reproductive age (14-49 years) are anemic.

On the other hand, it is estimated that nearly one third of the food produced in the world for human consumption every year gets lost or wasted. 40% of the fruits and vegetables and 30% of cereals that are produced are lost at the harvesting and post-harvesting stage, distribution and consumption stage, inefficient supply chain management stage etc. Such food could be saved by creating storage capacity, timely withdrawing it from the distribution network, aggregating it and then redirecting it to the people in need.

The pandemic has further interrupted food supply chains, put many people out of work, strained government resources and deepened food access problems. It has exacerbated child hunger and lowered nutrition for millions of children. Alongside, there is another food phenomena – in developed and middle-income countries, over-nutrition has become a major problem. Known as OBESITY

There is a large mismatch between the modern food environment and human evolution. In early human history, food was scarce much of the time. Biology adapted to this scarcity by developing mechanisms that drove people to whatever food was available and permitted them to eat more than their immediate needs, to store fat for long-term survival. Today, modern circumstances have made highly palatable, highly marketed and highly processed foods are abundant – when these foods interact with a biology that drives people to eating more, we have a very potent problem. Over-nutrition means an over-consumption of calories, causing chronic lifestyle-related diseases like obesity.

In India, rates of obesity and diabetes have risen over the last few years. And further, these are likely to rise even more severely. India is one of many countries dealing with what's termed "the dual burden" – the coexistence of hunger and obesity. There are multiple ways to solve these problems. In terms of under-nutrition, deepening agricultural research is very important. It is also very important to focus **Both More and Less** on the nutrition within foods to ensure that people actually access the right kinds of food.

A positive approach is to change the fundamental costs of unhealthy foods i.e. unhealthy foods should cost more and healthy foods should cost less higher taxes on sugared beverages, Liquor, Cigarettes, and other unhealthy diets,

It is possible to understand the regulation even within the context of a free market and individual choice. We give governments the permission to act on our behalf in a number of areas relevant to health – we permit high taxes on cigarettes to reduce consumption. We put limits on alcohol consumption behavior – people are not permitted to drive if they have consumed such beverages. We give government the permission to ensure that the food and water we consume are safe and clean. Governments thereby should also have the right to change the prices of food to protect the diet of the population. The rates of diet-related diseases around the world are both alarming and increasing. Many of these diseases are very serious – they are also preventable. Governments have a responsibility to act and protect people from these diseases.

**TREAT OTHER THE WAY YOU WANT TO BE TREATED
REMEMBER "THE SOUL IS ON THE JOURNEY "**

Thank you all..... Always in Gratitude

CA Dinesh Shah



INTRODUCTION TO AUDIT REPORTS



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Chapter 10 of the Companies Act 2013 (the Act), i.e. from Section 139 to Section 148, governs audit and auditors of the Company. Section 143 of the Act, specifically deals with the reporting framework of the auditor. Section 143 has in all 15 sub-sections.

Subsection 1 of section 143 deals with broader principles which an auditor shall enquire about and his certain basic rights. Subsection 2 casts a duty on the auditors to report, whether the accounts reflect the true and fair view, whereas subsection 3 requires an auditor to report on certain specific points as listed in the said subsection.

Further, Subsection 11 gives power to the Central Government to prescribe additional reporting requirements. In exercise of the powers, the Central Government notified Companies (Auditor's Report) Order, 2020 on 25 February 2020 (CARO 2020) after consultation with the National Financial Reporting Authority (NAFRA).

Historically, the Companies Act has always had such a clause giving power to the Central Government to direct the auditors to report on a certain aspect of the Company. In the erstwhile Act of 1956, the same was named as MAOCARO, which now has been renamed as CARO. CARO 2020 has been introduced with certain additional clauses and removal of certain redundant clauses. CARO report has also been through various amendments over the period including in the year 2003, 2015, 2016.

CARO 2020 was originally planned to be implemented for the statutory audits commencing on or after April 1, 2020 (i.e. for the financial year 2019-20 onward). However, considering, the prevailing pandemic situation, MCA vide order dated 17.12.2020, extended the applicability date by one more year, i.e. from the financial years commencing on or after the 1st April 2021. Accordingly, CARO, 2020 will be applicable from FY 2021-22.

Applicability for quarterly financial statements for the year 2021-22: CARO is applicable to the financial year commencing after the specified date and not the quarterly financial statements.

Applicability on financial years ending other than 31st March: For the first time CARO 2020 will be applicable for the full financial commencing on or after 1st April 2021. Accordingly, for a company, if the financial year is ending on a date other than 31st March, the applicability will be for the financial year 2022-23. For eg, if Company is following December as the year ending, then for such Companies, CARO will apply from the Financial Year 01st January 2022 to 31st December 2022.

There are certain clauses in the revised CARO 2020, which are very subjective and require professional judgment. For eg, the revised CARO requires an auditor to assess whether any amount disclosed as income in the tax assessment is properly recorded in the books of account. Whether income is recorded properly or not will always be subjective. Further, there can be cases, where accounting any transaction basis merely addition in the assessment may not be feasible. For instance, income disclosed for peace of mind and if such income is accounted in books of accounts, will lead to overstating the profit, without actual substance of income. An auditor's judgement will be key to such adjustments.

There are certain clauses in the new CARO, which have been reintroduced from earlier versions of CARO / MAOCARO. Reporting on the adequacy of the internal audit system (wherever applicable) has been reintroduced. Again there will be subjectivity as to how one interprets "commensurate". Internal Audit may seem commensurate to one auditor, may not be to another auditor.

The new CARO requires an auditor to assess the reason for the resignation of the previous auditor and should take into consideration the issues, objections or concerns raised by the outgoing auditors. Accordingly, it would be very important that the No-Objection communication with the previous auditor covers the reason of resignation and the same is adequately addressed in the audit report and the financial statements.

We will deal with all the clauses in the subsequent articles. For ease of understanding, these clauses has been grouped as Balance Sheet related clauses, Profit and Loss related clauses, other general administrative and compliance clauses. I would like to thank the committee for the timely issue on the subject.

Applicability of CARO:

CARO 2020 is applicable to all Companies, except the following:

1. Following Companies which are Governed by separate:
 - Banking Companies.
 - insurance company
2. Section 8 Companies.
3. One Person Companies.
4. Small Companies.
5. Companies not affecting larger section of the society.

The first 3 options, being fairly simple, may not need further discussion. We will discuss the exemptions available to small companies and companies not affecting larger section of society.

Small Companies:

With effect from 1st April 2021, the definition of small companies has changed drastically and thus covering many Companies in the revised definition. As per the new threshold limits, companies with a paid-up capital of INR 2 crore or less, and turnover of INR 20 crore or less come will be considered to be small companies.

Below is the comparison for new limits:

Particulars	Old Definition	Revised Definition
Paid-up share capital	50 lakhs	2 crores
Turnover	2 crores	20 crores

With this updated definition, it is believed that approx. 80% to 85% of the Companies will be out of CARO Coverage.

One should note that the following companies shall not be regarded as a small company:

- A public Company (irrespective of listed or unlisted)
- A holding company or subsidiary companies (including a private limited company). A Company may have a subsidiary which is non-operational or with very limited operation, in such case CARO will be applicable to both the holding and subsidiary company.
- Section 8 Companies.
- a company or body corporate governed by any special Act such as banking companies, insurance companies etc.

Since the amendment is effective from 1st April 2021, there will be no change in the filing requirement for the company for the year March 2021 and accordingly, in my view for the year 2020-21, older limits should apply.

Companies not affecting larger section of society.

A Company complying with the following conditions are exempt from reporting:

- a. It should be a private limited company. Accordingly, public companies, whether listed or unlisted are not exempt from CARO. CARO will be applicable to a public company irrespective of its size, its turnover and net-worth.
- b. The Company should not be a subsidiary or holding company of a **public** company. One should note that the restriction is on subsidiary / holding relation with a public company and not with a private limited company. Holding or subsidiary company of a private limited company can continue to claim an exemption under this clause subject to compliance with other conditions.
- c. As on the balance sheet date, the paid-up capital + reserves and surplus should not be more than 1 crore rupees.
 - Paid-up capital will here include preference share capital and shall exclude Share application money pending allotment.
 - Reserve and Surplus here shall include Revenue as well as capital reserves. Revaluation reserve shall also be included and carried forward balance of losses, if any, shall be deducted. In case Companies following IndAS, equity component of compound financial instrument, debt/equity instrument through other comprehensive income (OCI), the effective portion of cash flow hedges, exchange difference on translating the financial statement and other items of OCI are not considered to be part of reserve & surplus.

- d. Total borrowings from any bank or financial institution at any point of time during the financial year does not exceed 1 crore. One should note:
- The limit would apply in the aggregate to all borrowings and not with reference to each bank or financial institution.
 - Actual borrowing by the Company shall be considered and not the sanctioned limits. A Company that has the sanctioned limits but does not utilise it, will not be covered. Non-fund based credit facilities, to the extent such facilities have devolved and have been converted into fund-based credit facilities, should only be considered as outstanding borrowings.
 - Bank guarantees: guarantee(s) invoked and encashed shall only be considered as borrowing.
 - Accrued and due, interest shall also be considered as borrowing.
 - Unsecured borrowing from the bank or financial institution will also form part of borrowing. However, unsecured borrowings from members of the Company or its directors shall not be considered.
 - Borrowing from Government (Central or state) shall not be considered. Accordingly, subsidies from the government to be repaid over the years shall not form part of borrowing.
 - It has been clarified that the above limit shall be applied throughout the year and not at the beginning or end of the financial year. Accordingly, even if borrowing from the financial institution exceeds 1 crore for just one day, CARO will be applicable.
- e. Total revenue does not exceed 10 crores. Turnover shall mean, the aggregate of sales effected by the Company.
- Sales shall not include the sale of capital assets.
 - in case of commission agents, revenue shall mean commission revenue and not the total value of sales affected by the agents.
 - Taxes collected separately, trade discounts shall be excluded.
 - Sales return (irrespective of year of actual sale) shall also not form part of sales.

It may also be noted that in case a company is covered under the definition of a small company, it will remain exempted from the applicability of the Order even if exceeds the limits specified above.

With the revision of the definition of a small company, it is believed that exemption under point (e) will be almost redundant. Majority of exemption will be covered under the definition of Small Companies as against exemption in point (e).

Companies covered under CARO

Few examples of CARO being applicable:

- Foreign Companies.
- Project / Liaison Offices.
- Branches of Foreign Companies.

Other Points of Consideration:

Applicability on Government Audits:

CARO Report applies to the government audits too, irrespective of the directions given by the Comptroller and Auditor General of India (CAG) under section 143(5) of the Act. CARO Report will continue to form part of the annual report to the members of the Company and the replies to the questionnaires issued by the CAG will continue and will have to be answered.

Applicability to the Consolidated Financial Statements

CARO does not apply to the consolidated financial statements. However, clause (xxi) of the Report requires an auditor to comment on:

“whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.” Accordingly, the auditor is required to give a CARO report on the consolidated financial statements with respect to clause (xxi) of the Order only and is not expected to report on the rest of the clauses.

Materiality

While reporting on matters specified in the CARO, the auditor should consider the materiality. For example, while reporting on the repayment schedule of various loans granted by the company, the auditor examines the loan documentation of all large loans and conducts a test check, keeping in mind materiality.

Reporting

Where an auditor is unable to express any opinion on any clause, he is required to indicate in his report such a fact, together with the reasons as to why he is unable to express any opinion. The auditor is also required to give reasons for any unfavourable or qualified answer.

In case CARO is not applicable to the Company, it is advisable that the auditor's report include a statement giving an explanation that the order is not applicable to the Company. We as a practice also provide the reason. Similarly, in case any particular clause of the report is not applicable to the Company, it is advisable that the report brings out the relevant fact of non-applicability.

Management explanation on any unfavourable comment, need not be included by the auditor, unless where the auditor feels such inclusion is necessary. It is advisable to include management explanation in case the comment makes the reporting more meaningful and complete or the comment explains the fact that despite unfavourable comments, the true and fair view of the financial statements is not vitiated.

If any of the comments on matters specified in the Order are qualified or unfavourable, the auditor should consider whether his comments have a bearing on the true and fair view presented by the financial statements and, therefore, need to modify the audit report.

Section 227(3)(e) of the erstwhile Companies Act 1956, required an auditor to highlight the observation / unfavourable comment as Bold or italics. Similar provision is not included in section 143 of the Companies Act 2013. Accordingly, it is no more required to highlight the qualification separately.

Clarification on observation by the Board:

The board of directors shall be bound to give in its Director's report, all the information and explanations regarding reservation, qualification, adverse remark or disclaimer in the auditor's report. It is possible that, on the same facts, there may be a genuine difference of opinion between the auditor and the Directors. In such a case, each of them is entitled to hold his or their view. Therefore, the expression of a different opinion in the Board's report should not be regarded as any reflection on the opinion expressed by the auditor.

Subsequent articles will discuss, each clause of CARO 2020 in detail. We wish happy learning to all the readers.



CLAUSE COVERING AUDIT OF ASSET / LIABILITIES



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Clause 3(i)(a)(A):

Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment;

Modifications/ Additional Requirement:

The said clause has been there in the earlier versions too. CARO 2020 has changed the terminology from Fixed Assets to Property, Plant and Equipment to be in line with the Accounting Standards and Schedule III.

Points for Consideration:

- i. Though order does not define what constitutes proper records for PPE, these records have generally been referred as Fixed Asset Register ('FAR'). Records that a FAR should include to be determined as proper records is a matter of professional judgement. However, ICAI Guidance Note on CARO 2020 ('ICAIGN') provides a detailed list (not all inclusive) of records that FAR should include for Auditor's verification. The FAR should contain records in respect of all items of PPE, self-financed or right to use assets (under Ind AS 116) acquired through finance lease. If case records are not updated or inadequate, the auditor would have to seek alternative information for such portion. Based on materiality and other factors the auditor has to make judgement as regards reporting on adequacy in maintenance of proper records.
- ii. It is necessary that the aggregate original cost, depreciation to date, and impairment loss, if any, as per these records under individual heads should reconcile with the figures. In case of differences, based on materiality of the value, the auditor to make judgement as regards the criticality and relevance of the difference while reporting under the said clause.

Clause 3(i)(a)(B):

Whether the company is maintaining proper records showing full particulars of intangible assets:

Modifications/ Additional Requirement:

Requirement for reporting on maintenance of records for intangible assets has been newly introduced by CARO 2020. Similar to 3(i)(a)(A), this sub-clause requires reporting as regards, maintenance of proper records for intangible assets, however in case of intangible assets due to the nature of such assets, the specific point on quantity details and situations of assets is not applicable.

Points for Consideration:

- i. Refer comments at (i) for Clause 3(i)(a)(A) above for what constitutes proper record, auditors reporting in the absence of adequate records and non-reconciliation with books of accounts.
- ii. Many companies may not have a property detailed listing of the intangible assets and rights held by them except for payments made or expenses capitalized on an individual basis. This will create difficulties for the management to compile the comprehensive list item wise and right wise of all the intangible assets and reconciling the same with the books of account. Auditors should advise management to carry out a one-time exercise re-construct the records along with necessary corresponding documentation which will facilitate easy identification in future (by management) and verification (by auditor).
- iii. Auditor to cross check the existence and use of assets from sources like revenue generated, application made, registration under the relevant Act, license copies, payment receipts, legal agreement etc.
- iv. Auditor while reporting under this clause should consider self-generated intangible assets to the extent permitted by relevant accounting standards and their classification.
- v. Wherever required, an appropriate management representation should be obtained regarding the completeness of the data.

Clause 3(i)(b):

Whether these Property, Plant and Equipment have been physically verified 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;

Modifications/Additional Requirement:

The said clause does not have any change as compared to CARO, 2016.

Points for Consideration:

- i. Auditor to consider the following assets for the purpose of reporting under this clause:
 - right of use (ROU) assets covered under Ind AS 116, where the auditee, under a lease agreement, obtains the right to use an asset
 - investment property as defined under Ind AS 40
 - non-current assets held for sale as defined under Ind AS 105
- ii. Though physical verification is the responsibility of the management, it is necessary that auditor satisfies himself that such verification was actually done and that there is adequate evidence on the basis of which he can arrive at such a conclusion.

- iii. What constitutes “reasonable intervals” depends upon the circumstances of each case. The factors to be taken into consideration in this regard include the number of assets, the nature of assets, the relative value of assets, difficulty in verification, situation and geographical spread of the location of the assets, etc. The management may decide about the periodicity of physical verification of property, plant and equipment considering the above factors. There might be cases where annual verification is impracticable to carry out. However, ICAI's GN states that even in such cases verification programme should be such that all assets are verified at least once in every three years.
- iv. Where verification of all assets is not made during the year, it will be necessary for the auditor to report that fact, but if he is satisfied regarding the frequency of verification he should also make a suitable comment to that effect.
- v. The auditor is required to state whether any material discrepancies were noticed on verification and, if so, whether the same have been properly dealt with in the books of account. The latter part of the statement is required to be made only if the discrepancies are material. The auditor has, therefore, to use his professional judgement to determine whether a discrepancy is material or not.
- vi. If a material discrepancy has been properly dealt with in the books of account it is not necessary for the auditor to give details of the discrepancy or of its treatment in the accounts but he is required to make a statement that a material discrepancy was noticed on the verification of property, plant and equipment and that the same has been properly dealt with in the books of account.

Clause 3(i)(c):

Whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the format below:-

Description of property	Gross carrying value	Held in name of	Whether the title deed holder is a promoter, director or their relative or employee	Period held - indicate range, where appropriate	Reason for not being held in name of company*
					*also indicate if in dispute

Modifications / Additional Requirement:

- i. Said clause has been carried from CARO 2016, with the reporting requirements being more detailed and in prescribed tabular format to ensure consistency in reporting.
- ii. Further, in CARO 2016 there was no reporting required for non-availability of title deeds, where the company is a lessee and the lease agreement is executed in favour of the company.

Points for Consideration:

- i. Reporting of title deeds for immovable property not held in the name of the company (including prescribed tabular format) has been amended in Schedule III requirements. Accordingly, Auditor to ensure that CARO reporting and reporting in financials is the same. In case of deviation same to be pointed out by the auditor in the audit report wherever applicable.
- ii. Promoter and relative has not been defined by the Order. Identifying the promoters beyond what is reported in the financial statements by the Company will not be a straight forward exercise for the auditors. For the purpose compiling the information which is required to be updated in Column 4 of the prescribed tabular format Auditor may refer the following
 - definition of Promoter and Relative as per Section 2(69) and Section 2(77) respectively of Companies Act, 2013 ('Act')
 - reviewing the prospectus, annual return, secretarial and other records of the company
 - Management representation, even in a case where there are no such parties.
- iii. Investment property (as defined under Ind AS 40) and non-current assets held for sale (as defined under Ind AS 105) needs to be considered by the auditor for reporting under this clause.
- iv. Only those immovable property which are either classified as property, plant and equipment, investment property or non-current assets held for sale are covered in the scope of reporting in the said clause. Thereby, immovable properties classified inventory (by real estate Company) are outside the scope of verification and reporting under this clause. Further, Transfer Development Rights (TDRs), plant and machinery embedded in land, etc., are not considered as an immovable property.
- v. The Order is silent as to what constitutes 'title deeds'. In general, title deeds mean a legal deed or document constituting evidence of a right, especially to the legal ownership of the immovable property. In case of leased assets, title deeds would imply the lease agreements and related documents.
- vi. In many instances, the title deed document of the immovable properties are not available with the Company as same has been mortgaged with the banks/financial institutions etc. for securing the borrowings and loan raised by the company. External confirmation from the lender that the title deed of the company held by it as security needs to be obtained in addition to the verification of board resolution for pledging of the immovable properties as security. Recording of charges and borrowing sanction letter may be additionally reviewed.
- vii. In case original title deeds have been lost / misplaced, the auditor along with the reporting of the said fact may consider other evidences such as property tax challan, electricity bills, water bill, land records from municipal or other governmental department, FIR/complaint filed with for the loss of document, application for duplicate document etc.
- viii. Title deeds not in the name of the Company in case of jointly held, details to the extent of the Company's share to be reported.

- ix. In case of business combination or change in the name of the company, the procedural formalities for transfer of property in name of the company may be pending.

Clause 3(i)(d):

Whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;

Modifications / Additional Requirement:

This sub-clause requires the auditor to state whether the company has revaluated either PPE or intangible assets or both of the asset category and if so whether the revaluation is based on report of registered valuer. The amount of revaluation needs to be provided by auditor in cases whether the revaluation amount is greater than 10% (upward and downward) or more of the net carrying value of each class of PPE/intangible asset.

Points for Consideration:

- i. For the purpose of reporting under this clause, revaluation shall not include:
 - Fair valuation of PPE upon first time adoption of Ind AS, acquisition of assets/business on slump sale or under business combination
 - Re-measurements (i.e., changes in value due to interest or foreign exchange rates).
 - Changes to ROU assets due to lease modification as per Ind AS 116.
- ii. Revaluation should be based on report by registered valuer. All the basic data, assumptions and details submitted to the valuer are correct. Auditor using the work of registered valuer does not tantamount to using the work of an auditor's expert as laid out in SA 620, "Using the Work of an Auditor's Expert". However, the auditor shall consider the principles enunciated in SA 500, "Audit Evidence", with regard to using the work done by a management's expert.
- iii. The auditor should check the computation as regards the change in % since reporting is required if the change is 10% or more. Revaluation shall not include changes in value due to exchange differences, capitalisation of borrowing cost, etc.
- iv. If company has carried out multiple valuation for different purposes; such as submission to bank, for the purpose of impairment testing and for the revaluation; then the auditor would have to exercise his professional judgement to confirm the management's explanation for the difference in valuation reports and whether the difference itself is material in nature or not.
- v. Similar disclosure requirements have been mandated for the company in the financial statements under amended Schedule III requirements. Accordingly, auditor needs to ensure that there is no material inconsistency between the financial statements disclosures (by company) and in Order (by auditor).

Clause 3(i)(e):

Whether any proceedings have been initiated or are pending against the company for holding any Benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements;

Modifications / Additional Requirement:

Reporting under this clause and reviewing the applicability of the aforesaid Act has been made applicable for the first time in CARO 2020. It may be noted that reporting under this clause is limited to the adequacy of disclosure in the financial statements and to cases where proceedings are initiated with the company being treated as a benamidar.

Points for Consideration:

- i. The reporting is applicable only when proceedings are initiated or pending against the company as 'benamidar'. Hence if notice is received but no proceedings are initiated then no reporting is applicable under the said clause. Further, the reporting is also not applicable where the notice is received by the company as a beneficial owner.
- ii. In addition to inquiring with the management and obtaining management representation letter whether all proceedings initiated / pending auditor may also review the following:
 - Scrutinise the legal expense account to ascertain whether any expenses have been incurred by the company in respect of a proceedings under the aforesaid Act.
 - Review the minutes of the board of directors, audit committee, risk management committee and other secretarial records to verify whether any reference to proceedings against the company under the aforesaid Act has been made.
- iii. This is a new topic for the auditor and auditor would have to familiarise himself with the legal requirements of the aforesaid Act. Auditor may also obtain independent confirmation from the legal counsel as to whether any proceedings are initiated or pending against the company, especially where proceedings are for the properties for those not reflected in the books of account.
- iv. Information regarding the proceedings for the Benami Property has also been added in the revised Schedule III. Auditor is to review the said disclosure and ensure the completeness and appropriateness of the said disclosure and report in the Order accordingly.
- v. Depending on facts and circumstances of each case auditor needs to exercise its professional judgement to determine whether any liability needs to be recognised or a mere disclosure in contingent liability would suffice.
- vi. Where the proceedings are initiated post balance sheet date but before the signing of the auditor's report, the auditor should consider the requirements of SA 560, "Subsequent Events" for the purpose of reporting under this clause.

Inventories and other current assets**Clause 3(ii)(a):**

Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;

Modifications / Additional Requirement:

- i. Commenting on whether management has carried out physical verification of the inventory at reasonable intervals is the same as required under CARO 2016.
- ii. Now whether the procedures followed and coverage of verification were in order or not is an additional requirement when as compared to CARO 2016. Same has been reinstated from CARO 2015.
- iii. Further, CARO 2016 required to comment whether material discrepancies between book stock and physical stock were noticed and properly dealt with in the books or not. What is material was again a subjective matter and accordingly same has been replaced by CARO 2020 with objective measurement criteria of discrepancies of 10% or more.

Points for Consideration:

- i. What constitutes "reasonable intervals" depends on circumstances of each case. Based on the size, nature, complexity of the business, nature of inventories, their location and feasibility of conducting physical verification an auditor would have to determine what would satisfy as 'reasonable interval'. Wherever practicable, all the material items of inventories should be verified by the management of the company at least once in a year.
- ii. To ensure that the coverage and procedures of physical verification is appropriate an auditor may review the instructions provided by management for the physical verification exercise, cut-off procedures properly followed or not, controls in place to avoid double counting and minimisation of the movement of the items.
- iii. Auditor can confirm whether the difference between the book stock and physical stock has been properly dealt in the books as far as quantitative impact is considered. However, in the absence of specific reason for the differences, i.e. whether on account of normal processing/handling loss or some other reasons, auditor cannot confirm the nature of impact in the financial statements for the said differences.
- iv. The threshold limit of discrepancies of 10% should be applied to the value and not to the quantity. If the inventory has been valued at net realisable value ('NRV'), then the discrepancy of 10% needs to be compared with NRV only.

Clause 3(ii)(b):

Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details;

Modifications / Additional Requirement:

- i. This is a new reporting requirement wherein the auditor has to review quarterly returns or statements filed by the company with banks and financial institutions in case the sanctioned working capital limits with them are in excess of Rs. 5 crores in aggregate and to report if these are not in agreement with the books of accounts.

Points for Consideration:

- i. Reporting is applicable when the total sanction limit (both fund based and non-fund based) and not utilisation exceeds 5 crores. Utilisation can be less than the sanctioned limit of 5 crores and reporting is still applicable since sanctioned limit is 5 crores. Alternatively, sanctioned limit may be less than 5 crores and utilisation may exceed 5 crores due excess withdrawn. However no reporting is applicable since sanctioned limit is less than 5 crores.
- ii. Sanctioned limit is to be tested at any point in time during the year i.e. even for a single day and not at the end of the year. Further sanctioned limit would include fresh sanction as well as renewal during the year. Also working capital limits sanctioned to the company without the security of the current assets is to be excluded for the purpose of threshold limit of 5 crores.
- iii. The auditor should obtain a list of the statements or returns which are submitted to the banks/ financial institutions and compare the same with the books of account as to its accuracy or otherwise. The auditor is not required to audit the statements/returns of books of account based on which statements/ records have been prepared but only report the discrepancies, if any.
- iv. Additionally the auditor may inquire/ review the process of compiling the information for quarterly submission. Inquire the checks and balances adopted by the Company to ensure accuracy at the time of preparing statements. Quarterly closing of books and locking of trial balance that would restrict backdated entry/ changes in financial information submitted to the banks/ financial institutions. This would give satisfactory comfort to the auditors in terms of reporting positively in the said clause.
- v. Auditor is supposed to compare all the financial information and not inventory details alone which included in Statements/ return submitted to banks/ financial institutions.
- vi. The auditor needs to exercise his professional judgement to determine the materiality and the relevance of the discrepancy to the users of financial statements while reporting under this clause.
- vii. Under schedule III, the disclosure requirement scope is much broader as compared to CARO 2020 since it requires disclosure irrespective of the quantum of sanctioned limit of Rs 5 crores.

Investments, Loans, Advances and Guarantees

Clause 3(iii):

Whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so,-

Clause 3(iii)(a):

- (A) the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;
- (B) the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates;

Modifications/ Additional Requirement:

Bifurcation of aggregate amount and balance outstanding of loans, advances, guarantee and security given between subsidiaries, joint ventures, associates and other parties is the new requirement. Reporting is extended to all parties and not only the parties covered in the register maintained under Section 189 of the Act.

Points for Consideration:

- i. The reporting is required only if the specified transactions have been entered into 'during the year'.
- ii. Loans and advances given during the year and squared off during the year also needs to be consider while reporting under the said clause.
- iii. Reporting is only limited to Financial Guarantees i.e. guarantee given by company to banks of financial institutions for the loan taken by third party.
- iv. Disclosure of the requisite information is to be given for all kinds of loans whether long term or short term, secured or unsecured, given in cash or in kind etc.
- v. The auditor should ensure compliance with all the requirements of sections 179, 180, 185, 186, 187 of the Act and rules there under.
- vi. Auditor may also refer the ICAI's Guidance Note on Audit of Investments, Audit of Loans and Advances and Audit of Liabilities. These may be used for planning and performing the audit procedures for loans, advances, guarantee and security provided by the company.
- vii. Auditor should obtain a written representation from the management that (i) there are no guarantees issued up to the year-end which are yet to be recorded; and (ii) all obligations in respect of guarantees have been duly recorded in the register of guarantees and disclosed.

Clause 3(iii)(b):

Whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;

Modifications / Additional Requirement:

In CARO 2016 reporting was required whether loans given by the company are prejudicial to the interest of the company or not. CARO 2020 has expanded the scope by covering investments made, guarantee or security provided and also advances granted in the nature of loans.

Points for Consideration:

- i. What tantamount to advances is in the nature of a loan would depend upon the facts and circumstances of each case and involve significant judgements of the auditors based on their past experience and understanding of the business.
- ii. In case of loans/advances in nature of loans, the "terms and conditions" would primarily include rate of interest, security, terms and period of repayment and restrictive covenants, nature of entity i.e. whether given to a start-up or an entity having established track record etc.
- iii. To assess whether investments made by the company are prejudicial to the interests of the company or not, auditor needs to consider various factor such as nature of investment, financials and business profile of the investee, investment made from owned funds or borrowed funds, asset liability mismanagement, etc.
- iv. Holding company supporting the financial position of its loss-making subsidiary by infusing equity would not construed as prejudicial to the interest of the holding company.
- v. Whether the guarantee is prejudicial to the interest of the company, the auditor needs to consider various factor such as financial standing of the party on whose behalf the company has given the guarantee, party's ability to borrow, the nature of the security offered by the party, the availability of alternative sources of finance and the urgency of the borrowing, if available, for which the company has given guarantee and so on.

Clause 3(iii)(c):

In respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

Modifications / Additional Requirement:

CARO 2020 has extended the scope of clause by including advances in the nature of loan in additions to loan.

Points for Consideration:

- I. Auditor needs to examine the relevant document such as loan agreement, letter of understanding/arrangement wherein the schedule of repayment of principal and payment of interest has been stipulated.

- ii. As per ICAIGN, if no such relevant document is available which contains the schedule of repayment auditor shall report that there is no stipulation of schedule of repayment of principal and payment of interest and may report that he is unable to make specific comment on the regularity of repayment of principal & payment of interest.
- iii. In case management reports that repayment terms are as per verbal mutual understanding with the borrower, then auditor may adopt alternative audit procedures such as obtaining the said confirmation from the borrower, review the cash flow from the borrower, etc. Based on the alternative audit procedures, auditor may exercise his professional judgement and report accordingly.
- iv. The word 'regular' would mean that principal and interest are received as and when they are due as per the agreed terms.
- v. In case where the schedule of repayment of principal and payment of interest is stipulated but repayment of principal or payment of interest is not regular then the auditor may report the fact and may give number of cases and remarks, if any.
- vi. Said clause is applicable to NBFC's as well. Accordingly, there might be instances where NBFC has restructured loans and advances (in compliance with RBI guidelines) more specifically during Covid-19 times. These may results in moratorium on repayments or conversion of overdue interest into funded interest term loans. In such cases auditor will have to report under the said clause since original stipulated terms are not adhered to

Clause 3(iii)(d):

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;

Modifications / Additional Requirement:

There is no changes in clause as compared to CARO 2016 except for the fact that advances in the nature of loans is also included now.

Points for Consideration:

- i. Auditor to report amount overdue for ninety days and not outstanding as the year end reporting date. An amount is considered as overdue when the payment has not been received on the due date as per the lending arrangement or any other specified document.
- ii. Auditor to take into consideration the facts and circumstances of each case to determine whether 'reasonable steps' have been taken by the management for the recovery of the overdue amounts. Auditor to review the documents such as demand letter, reminders or despatch of advocate's or solicitor's notice, communication to increase the security for delay, recovery notice etc. Reasonable steps need not necessarily be legal action only.
- iii. Auditor to comment whether reasonable steps have been taken by management for recovery even in case where overdue is not more than 90 days.
- iv. In case of NBFC, where there is any non-payment of instalments (including interest) during the moratorium period shall not be construed as 'overdue' for the purpose of this clause. However, the auditor may bring out this fact while reporting under the said clause.

Clause 3(iii)(e):

Whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the over dues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans];

Modifications/ Additional Requirement:

This clause is a new reporting requirement as per CARO 2020. This clause is inserted to identify instances of 'ever greening' of loans/ advances in the nature of loans.

Points for Consideration:

- i. In respect of loans falling due as on the balance sheet date and which were renewed/ extended/ settled post balance sheet date and before the date of audit report, the same should also be considered for reporting under this clause. Further, same matter would also get reported next year.
- ii. Percentage of loans renewed / extended should be calculated on the loans and advances in the nature of loan granted during the year and not on the outstanding balances as on the date of renewal/extension.
- iii. Loans falling due on or before the balance sheet date, but renewed or extended after the balance sheet date but before the date of the audit report (events occurring after the balance sheet date) needs to be considered and reported in the said clause in the financial year in which it falls due. Same again needs to be reported in the financial year in which it is renewed/ extended.

Clause 3(iii)(f):

Whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013;

Modifications / Additional Requirement:

This is new clause reporting requirement.

Points for Consideration:

- i. Auditor to obtain the list of promoters as per Section 2(69) and relatives as per Section 2(76) of the Act and compare the same with loans/ advances in the nature of loans schedule.
- ii. Auditor to review the loan agreements/ mutually agreed letter of arrangement to test whether the specified documents does contain any schedule of repayment or not or whether the lending arrangement is repayable on demand.
- iii. In the absence of the specified document auditor to inquire with the management, borrower for the repayment terms and report accordingly in the said clause.

Deposits, Loans and Borrowings

Clause 3(ix)(a):

Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as per the format below:-

Nature of borrowing, including debt securities	Name of lender*	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any
	*lender wise details to be provided in case of defaults to banks, financial institutions and Government.				

Modifications / Additional Requirement:

In CARO 2020, scope of the clause has been expanded to all borrowings and not just restricted to borrowings from financial institutions, bank, government or dues to debenture holders.

Points for Consideration:

- I. For the purpose of reporting under the said clause borrowings do not include public deposits as the reporting on public deposits is covered by clause (v) of the Order. Further preference share capital should also not be considered as borrowings even if classified as borrowings in the Ind AS financial statements as per Ind AS 32.
- ii. Default has not been defined in the order, however a default would mean non-payment of dues to lenders when the same is due. Even a single day delay would amount to delay for the purpose of delay.
- iii. Auditor should report the following defaults to be in compliance with the reporting requirement with description of the default in the remarks column for understanding the nature of default.
 - Defaults committed during the year and outstanding at the end of the year
 - Default committed during the year and the same is made good before the end of the year
 - Opening default not made good till the end of the year.
- iv. The auditor should consider the period up to the date of the audit report for reporting of the delay in number of days or the amount that remains unpaid and may provide appropriate remarks for the same.
- v. Submission of application for rescheduling does not mean that no default has occurred. If the rescheduling has been approved by the lender before the balance sheet date the auditor should state the fact of rescheduling of loan in the CARO report.
- vi. Where reschedulement of the loan has been approved subsequent of the balance sheet date, the auditor should report the defaults during the year. However the fact of reschedulement may be mentioned in the remarks column.

- vii. Rescheduling of loans on account of Covid-19 package would not be considered as default.
- viii. In case there is default on repayment as per the prevailing terms and conditions due to a dispute with the lender, same needs to be considered as default for the purpose of reporting under the said clause. Additionally, a brief nature of the dispute can be mentioned in the remarks column.
- ix. Where there is no repayment schedule specified or repayable on demand, auditor needs to obtain a representation from the management stating there has been no demand from the lender for loans/borrowing/ interest. If the nature and quantum of such loan is substantial then auditor may obtain the said confirmation from the lender itself instead of management representation.

Clause 3(ix)(b):

Whether the company is a declared wilful defaulter by any bank or financial institution or other lender;

Modifications / Additional Requirement:

This a new clause reporting requirement in CARO 2020

Points for Consideration:

- i. For the purpose of this clause reporting should be restricted to the declaration of wilful defaulter by banks and financial institutions based on the transparent mechanism implemented by Reserve Bank of India for identification of wilful defaulters. Further, in case of other lender declaration of wilful defaulter should be restricted by that of government/ government authorities only.
- ii. When an auditor is obtaining confirmations of outstanding loans and interest from banks/ financial institutions may include a question whether the company has been declared a wilful defaulter.
- iii. Auditor may also confirm whether the company has been declared as wilful defaulter by calling for company's CIBIL score. Additionally, auditor may also access the information available on the websites of credit information companies (CIBIL, CRIF, Equifax and Experian) to obtain insights whether company has been reported as wilful defaulter or not.
- iv. If the company has not been declared a wilful defaulter but has received a show-cause notice in accordance with the RBI Circular, the auditor may consider disclosing this fact in his report under this clause. Auditor to obtain signed representation letter from the management that the company has neither been declared as a wilful defaulter nor has received any show cause notice.
- v. If the company has been declared as wilful defaulter after the balance sheet but before the date of audit report, then the auditor needs to report the same in the said clause.

Clause 3(ix)(c):

Whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;

Modifications / Additional Requirement:

This a new clause reporting requirement in CARO 2020

Points for Consideration:

- i. Term loan has not been defined by the Order. Term loans normally have a fixed or pre-determined repayment schedule. Cash Credit, overdraft and call money accounts/deposits are not considered as termed loans.
- ii. The order is silent as to whether term loans from entity/person other than banks/financial institutions would also be covered in the clause reporting or not. Going by literal interpretation of the clause term loan even sanctioned by entity/person other than banks/financial institutions also needs to be examined for the purpose of reporting in the said clause.
- iii. Diversion of funds has also not been defined by the Order. However RBI has defined diversion of funds in its master circular RBI/2014-15/73 DBR.No.CID.BC.57/20.16.003/14-15 dated July 1. 2014 on "Wilful Defaulters" (as updated from time to time)
- iv. Auditor should ascertain the purpose for which term loans were sanctioned and compare the same with actual utilisation of loans. Auditor needs to report the fact if funds were not utilised for the purpose for which they were obtained.
- v. It is not necessary or not possible to establish a one-to-one relationship with the amount of term loan and its utilisation. Since quite often the amount of term loan obtained is deposited in the common account of the company wherein it loses its individual identity and from utilisation is made in future. In such cases, one should not conclude that the term loan has not been utilised for the purpose for which it was obtained.
- vi. At time funds are temporarily invested to reduce the borrowing cost or other business purposes. The auditor should state the fact that pending utilisation of the term loan for the stated purpose, the funds were temporarily used for the purpose other than for which loan was sanctioned but were ultimately utilised for the stated end-use.
- vii. Term loans may not be utilised for the stated purpose in the year under consideration as it was received during the fag end of the year. Auditor needs to report that term loan obtained during the year has not been utilised for the stated purpose as it was received at fag end of the year. However while reporting under the said clause auditor also needs to considered the status of term loan utilisation as on the date of audit report i.e. events occurring after the balance sheet date.
- viii. In a case where it is concluded that term loan has not been utilised for the stated purpose then auditor needs to report the fact that term loan was not utilised for the stated purpose, amount of term loan, amount diverted and the purpose for which it was used.
- ix. Under Ind AS certain loans may be determined as compound financial instrument and a portion of it may be classified as equity as a result of split accounting. However, auditor needs to consider the entire proceeds (transaction value) for the purpose of reporting under the said clause.

Clause 3(ix)(d):

Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;

Modifications / Additional Requirement:

This is a new clause in CARO 2020 compared against CARO 2016. However, the said requirement was there in the CARO version earlier to CARO 2016.

Points for Consideration:

- I. Clause requires the auditor to comment whether there is asset-liability mismanagement. Since there would be liquidity problems as soon as short term sources of fund fall due for payment but realisation of funds is blocked in long term assets.
 - ii. Money being fungible, it may not be possible to establish a direct linkage between the funds and its utilisation. To assess whether short term funds have been used for long term purposes, auditor will have to examine the sources and deployment of fund on an overall basis only.
 - iii. Auditor may review/examine the following to assess whether short term funds have been utilised for long term purposes:
 - Difference between long term funds and long term assets would indicate the extent to which short term funds have been used to finance long-term assets of the company.
 - Generally, current ratio of less than 1 indicates that the short-term funds has been used for long term purposes.
 - Review the Ind AS 107 disclosure of maturity analysis of financial liabilities showing contractual repayment within various time bucket under liquidity risk management disclosure.
 - Cash flow statement to be reviewed to understand the sources and application of fund during the year under consideration.
 - iv. Based on his overall examine auditor concludes that short term funds have been utilised for long term purposes then nature of funds need to be reported. Nature of application of funds is only possible when there is a direct linkage between the fund and its utilisation. Hence it would be difficult for the auditor to report the nature of funds in the absence of adequate audit evidence supporting the said reporting.

Clause 3(ix)(e):

Whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case;

Modifications / Additional Requirement:

This is a new clause reporting requirement in CARO 2020.

Points for Consideration:

- i. Funds have not been defined by the Order leaving ambiguity as to whether funds would cover both borrowed funds and share capital as well. On simple reading of the clause suggests that even funds raised by issue of shares should be considered for examination by the auditor.
- ii. Auditor to report under the said clause if the company has taken any funds (long term or short term) and has also granted loans or advances to or investments in its subsidiaries, associate companies or joint ventures during the year. If during the year company has not given any loans or advances or made any investments in the subsidiaries, associate companies or joint ventures, then auditor need not report under the said clause.
- iii. Order does not define 'Obligation'. However, obligation would generally mean a debt security or a commitment to pay a particular sum of money. Therefore, obligation of subsidiary, joint venture or associate would mean the amounts that such subsidiaries, joint venture or associate companies are required to pay themselves either to their vendors, lenders, employees, or statutory authorities.
- iv. If as per the cash flow statement, company has cash inflows from operation activities, cash inflows from investing activities and cash flow from issue of equity instruments, then auditor may conclude that borrowed funds have not been utilised for funding the obligations of subsidiary, associate companies and joint venture.
- v. If company has paid to any vendors or other parties on behalf of the subsidiary, associate companies or joint ventures then the same would get covered for the purpose of reporting under the said clause.
- vi. For the purpose of this clause all funds taken during the year whether repaid or outstanding at year end or taken in earlier years and repaid or outstanding at the end of the year needs to be considered.
- vii. Auditor is supposed to report the nature and amount of transactions where company has obtained funds to meet the obligation of its subsidiary, associate companies and joint venture. Nature of application of funds is only possible when there is a direct linkage between the fund and its utilisation. Hence it would be difficult for the auditor to report the nature of funds in the absence of adequate audit evidence supporting the said reporting.

Clause 3(ix)(f):

Whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised;

Modifications / Additional Requirement:

This is a new clause reporting requirement in CARO 2020.

Points for Consideration:

- i. Auditor needs to report whether the company has defaulted on the loans obtained by pledging the securities held by it in its subsidiaries, joint venture or associate companies. Auditor only needs to mentioned yes or no and not give details of default as the same is already provided in clause 3(ix)(a).

- ii. Reporting is required only for loans taken during the year irrespective of the fact whether the same has been repaid or outstanding at the year end. Further, loans taken in the earlier years and outstanding as at the balance sheet date need not be considered for the purpose of this clause.
- iii. Default would include both repayment of principal and interest as well.
- iv. Clause mentions pledging of securities of subsidiary, associate companies and joint venture. Security has not been defined by the Order. However, as per the definition of securities as per Companies Act, 2013 securities is not restricted to equity shares alone.

Conclusion

Amendment of CARO 2020 has brought in major changes, leading to a stringent and vigilant approach to Auditor's quality of reporting. Reporting in CARO 2020 is also more objective (quantitative reporting) than subjective (yes or no) as was required in CARO 2016. Management will be preparing itself for reporting in the financial statements for the additional requirements as per Schedule III amendment which are mirror reporting for few clauses added in CARO 2020. Since this is the first time of testing and examining of the additional and modified clauses, it would be efficient if auditor proactively shares the list of documents and additional details it would require to sign off the CARO 2020 reporting framework.



COMPLIANCE TO OTHER STATUTE



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Background

Auditors have regularly come under the scanner of market regulators due to the scams unearthed at large corporates, including financial institutions such as the most recent ones at Infrastructure Leasing & Financial Services (IL&FS) and Dewan Housing Finance Corporation Ltd. (DHFL). These scams could have been identified at a much early stage if the auditors acted as independent vigilantes and if internal control measures were not compromised with, frequently.

With a view to plug these gaps, the Ministry of Corporate Affairs (the "MCA") has notified the Companies (Auditor's Report) Order, 2020 (the "Order") on February 25, 2020, superseding the Companies (Auditor's Report) Order, 2016 (the "CARO 16"). Under this Order, every auditor is required to include all matters prescribed therein while preparing the annual audit report of a company. Initially this requirement was applicable on all audit reports prepared by auditors from the financial year April 01, 2019 onwards. However, due to the on-going COVID-19 pandemic and with a view to relax the compliance burden of companies, the MCA by a notification dated March 24, 2020 postponed the applicability of the Order to all audit reports prepared from the financial year April 01, 2020 onwards. The New Clauses are highlighted in *Italics*

I. Reporting for Nidhi Company: Clause (xii)

Within one year of incorporation, a Nidhi company must satisfy the following conditions and the same needs to be reported in CARO under Clause 3 (xii):

- **Minimum number of Members:** The minimum number of members must be 200.
- **Net owned funds:** The Net owned funds must be Rs. 10 lakhs. (Net owned funds is the aggregate of paid-up capital and free reserves reduced by the accumulated and intangible assets as appearing in the last balance sheet.)
- **The ratio of net owned fund to deposit:** The net owned funds and the deposits shall be in a ratio not exceeding 1: 20 that is Net Owned Funds: Deposits = 1:20.
- **Unencumbered Term Deposit:** Unencumbered term deposits should be not less than 10% of the outstanding deposits as specified in Rule 14 of Nidhi Rules 2014.

Auditors Certificate: *Every Nidhi Company is required to have an Auditor Certificate certifying whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof.* The auditor should ask the management for computation of deposit liability and net owned fund based on requirement given this helps him to verify that the ratio of deposit liability to net owned fund based on requirement given this helps him to verify that the ratio of deposit liability to net owned funds is by the requirements. Comments of the auditor should be based upon a statement provided by management and verification of the same by the auditor. The Auditor Certificate shall be annexed to the Auditor report of the Company.

II. Compliance to RBI – NBFC Rules Clause (xvi)

- (a) whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained;

Check the financials for the year under consideration.

Check if the: (i) income from financial asset is 50% or more of its total income and (ii) financial assets are 50% or more of its total assets.

- (b) whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934;

If both the above conditions are fulfilled, or if the company is engaged in housing finance activities: If yes, check if it is registered as an NBFC. If not applicable, report that it is not required to be registered

- (c) whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria;

Check if the criteria as a CIC is fulfilled. If yes, report that it continues to fulfil the criteria. If not, report accordingly

- (d) whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group;

If more than one CIC companies, in the group, report accordingly.

III. Undisclosed Income as per Income Tax Act

Reconciliation of Income Tax and Companies Act: Details of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments.

It is in the imperative interest of the Management to disclose all the tax filings, assessment orders where an addition is made on the undisclosed income by the Assessing Officer. Any communication between the management and the Income Tax Department, where Management has defended the claim of undisclosed income should also be disclosed.

Usually Assesses doesn't recognise Undisclosed Income in its Books of Accounts though the same has been offered to tax in Income Tax Assessment. Such Assessment may arise mainly on account of Survey, Search and Seizure provision attracted under Income Tax Act, Surrender or disclosure under Laws related to Benami Properties or Black Money provisions.

This clause requires that the Auditor will state whether the Company had been recognised Undisclosed Income in its Books of accounts if the same has been disclosed in any Income Tax Assessment during the year. Hence users of Auditor's Report will be aware of Undisclosed Incomes of the company.

With this regard, a new clause is inserted which requires auditors to report whether previously non recorded Income has been recorded properly based on outcome of the assessment under Income Tax Act.

To Conclude:

CARO 2020 has ushered a new standard of transparency in reporting the health of an auditee company. Some of the new items included in the Auditor's Report will also facilitate identification of early warning signals and early reporting of frauds to the Reserve Bank of India. The benefits of the new reporting would outweigh the additional compliance burden.



OTHER MISC. CLAUSES



CA Hardik Bauva

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On 25th February, 2020, MCA (Ministry of Corporate Affairs), in consultation with the NFRA (National Financial Reporting Authority) and by virtue of Section 143(11) of Companies Act, 2013 (Companies Act), has issued Companies (Auditor's Report) Order, 2020 (CARO, 2020) which supersedes Companies (Auditor's Report) Order, 2016 (CARO, 2016).

The legacy of such reporting by auditors dates back to 1988 when it first started with reporting on about 24 clauses under the Manufacturing and Other Companies (Auditors Report) Order, 1988. However, with the passage of time, such reporting has seen many amendments; the reporting was reduced to 12 clauses in 2015 but then increased to 16 in 2016. With the changing environment, increasing corporate scams and misstatements in financial reporting by corporates, the authorities felt the need for the auditors of companies to provide greater insight and information to the stakeholders and users on specific matters relating to financial statements and business, which has given rise to CARO 2020. The order now requires auditors to report on various matters contained in 21 clauses and 38 sub-clauses.

The said order is applicable for reporting on financial statements of companies whose financial year commences on or after 1st April 2021.

Below are the brief summary for few clauses which highlight requirements of few newly inserted reporting requirement in this Order:

Paragraph 3(xiv)

- (a) **Whether the company has an internal audit system commensurate with the size and nature of its business;**
- (b) **whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;**
 - The clause requires a comment on internal audit system- where such system commensurate with the size and nature of company's business
 - Applicability – As per section 138 of the Companies Act, 2013, internal audit is applicable on listed companies, unlisted public companies (with PUSC of INR 50 cr or turnover of INR 200 or outstanding borrowings exceeding INR 100 cr), or private companies (with turnover of INR 200 cr or outstanding borrowings exceeding INR 100 cr).

- Some of the factors which needs to be considered while evaluating the design of internal controls functions :-
 - The size of the internal audit team
 - Qualifications of internal auditors
 - Reporting responsibilities of an internal auditor
 - Involvement of audit committee
 - Scope of internal audit and extent of coverage
 - Assessment and remedial actions taken on the impact of the controls deficiencies, if any pointed by internal auditors.
 - The Guidance note requires management to consider internal audit observations that has financial impact
 - Evidence of evaluating the reports of the internal auditors and conclusions thereon

Paragraph 3 (xvii)

Whether the Company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses;

- The term cash losses in not defined in the 2013 Act/Ind AS/ AS
- Companies following Ind AS, profit and loss to be considered excluding Other Comprehensive Income (OCI) - however consider realized cash profits or losses recognized in OCI
- Net Profit/Losses should be adjusted for non-cash transaction such as depreciation and amortization to compute cash losses.
- Net Profit/Loss would also require adjustments for
 - Deferred taxes
 - Foreign exchange loss/gain
 - Fair value changes
- It may not be appropriate to consider cash flow from operating activities from cash flow statement for the clause
- The amount of cash loss to be adjusted for qualification in audit report to the extent qualified
- in case of restatement in the financial statement , consider restated profits.

Paragraph 3 (xviii)

Whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors

- the clause is applicable in case of resignation of auditors
- consider the reasons for resignation of order

- the incoming auditor would consider the potential impact of the resignation by the outgoing auditor on audit strategy and reporting
- management must provide
 - Letter of resignation of predecessor auditor and Form ADT 3
 - Minutes of board meeting
 - Audit committee presentation by predecessor auditors

Paragraph 3 (xix)

On the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date;

- The clause requires reporting on company's ability to meet the liabilities falling due within one year
- Auditor to consider the paragraph on material uncertainty or key audit matters on going concern
- The test of existence of material uncertainty to be performed as on the date of audit report for the position of liabilities existing as at the date of balance sheet
- Reporting under this clause not exactly the same as assessing going concern assumption
- Evaluate all liabilities and status of subsequent payments, interim financial information after the balance sheet date, minutes of audit committee and board meeting held after the balance sheet date
- Consider financial ratios e.g. liquidity ratio (current ratio, acid ratio, cash ratio) efficiency ratio (asset turnaround ratio, inventory turnaround ratio, accounts receivable turnaround ratio)

Paragraph 3(xxi)

Whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.

- Reporting under this clause is only required for those entities included in the consolidated financial statement to whom CARO 2020 is applicable
- CARO report is to be included as separate annexure in audit report to consolidated financial statements
- Assessments of responses by component auditors as 'qualification/adverse remark required application of professional judgment
- Qualification/adverse remark gives parent company's standalone CARO report are also required to be included

- Every qualification/adverse remark made by the individual component should be included
- In case of audit report of the components has not yet issued by its auditor, then the principal auditor would include the fact in his/her report

Conclusion:

While the intent of the government seems to put a strict check on several crucial transactions entered into by the company which has a close nexus with the solvency/ financial risks existing in the company, the additional reporting requirements would require additional details from the management and thus it is very important that an auditor should have a dialogue with the management immediately for the latter to gear up. It is also important for the auditor to understand the process followed by the management for collection and processing of the required information and its control environment which will give him comfort while complying with the reporting requirements. Lastly, it is important for the auditor to take suitable management representations wherever accuracy and completeness of information provided by the management cannot be confirmed by the auditor to safeguard his position. The auditor would have to factor in additional efforts for reporting and the documentation which will have to be robust and fool-proof for future reference and as a safeguard against the enhanced reporting responsibility.



Compliance under Companies Act 2013 vis-a-vis CARO 2020 and related Audit procedures



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This article primarily intended to highlight the Compliance requirement of CA 2013 ("CA 2013") with respect to CARO 2020 and the related audit procedures to be carried out during the course of Audit.

Lets discuss on some of the important Clauses as below:

1. Clause iv: Compliance with section 185 & 186 of CA 2013

Provisions as per CA 2013:

Section 185 of CA 2013 deals with prohibitions, relaxations & exemptions on the part of companies towards lending of loans, providing security & guarantees to the directors of such a company or any other person in whom the directors are interested.

Section 185 states that,

- A company cannot advance loans to its directors, relatives or partners or firm in which a director is a relative or a partner. Any security or guarantee with connection to such loans can also not be provided to them.
- However, loans, guarantees or security can be given to the person in whom the director of the company is interested provided a resolution is passed in the general meeting.

Only the persons & entities mentioned in section 185(2) are considered as persons in whom the director of the company is interested. Hence, the company is required to check if the persons to whom they want to grant loans comes under the list of persons mentioned in section 185(3) of CA 2013.

Further, Section 186 of the CA 2013 provides for the loans & investments that can be made by a company. It states that a company cannot make investments through more than two layers of investment companies.

It also states that a company cannot directly or indirectly:

- Give loan to any person or body person,
- Give any security or provide a guarantee in connection with a loan to any other person or body corporate, & acquire by way of purchase, subscription or otherwise, the securities of any other body corporate exceeding 60% of its paid-up share capital, free reserves & securities premium account or 100% of its free reserves & securities premium account, whichever is more.

Provisions as per CARO 2020 - Clause iv:

According to CARO 2020, clause (iv), the Auditor needs to report, if the company has given any loan to directors or any other person in whom the director is interested, or made any investments, whether the company has complied with the provisions governing such loans, investments & guarantees.

Audit Procedures

- a. Scrutiny of Financial Statements for identifying whether company has granted any loans or advances to the Directors.
- b. Where company has granted loans or advances, inquire with management, scrutiny of agreement for identifying the purpose of loan or advances.
- c. Obtaining copy of special resolution wherever required as per the requirement of Section 185 of CA 2013.
- d. Check whether the Rate of Interest at which the loan is granted is equivalent to the Rate of Interest on GOI security of closest tenure.
- e. In case of loans, investment or guarantee covered U/s 186 of the CA 2013, obtaining Board resolution, passed by a unanimous vote, special resolution (in case limits are exceeded) & approval of Bank/PFI in case of term loan taken from them (in case limits exceeded or default made by company).

2. Clause v: Deposits**Provisions as per CA 2013:**

Provisions U/s 73 to 76 of the CA 2013 & the Companies Acceptance of Deposits Rules, 2014 shall apply to all companies except:

- Banking Companies
- NBFCs registered with RBI
- Notified companies, by central Government after consultation with RBI

A Company can accept the deposits from members as well as from public in accordance to section 73 to 76 of CA 2013. However only eligible companies are permitted to accept deposit from the public, in addition to their members.

Maximum Amount of Deposits:

An eligible company is permitted to accept or renew deposits as under:

- **From its members:**

The amount of such deposit together with outstanding deposits from the members as on the date of acceptance or renewal can be maximum 10% of the aggregate of its paid-up share capital, free reserves & securities premium account.

- **From persons other than its members:**

The amount of such deposit together with outstanding deposits (excluding deposits from

members) as on the date of acceptance or renewal can be maximum 25% of the aggregate of its paid-up share capital, free reserves & securities premium account.

- **Eligible Government Company:**

Such company is permitted to accept or renew any deposit together with the amount of other outstanding deposits as on the date of acceptance or renewal maximum up to 35% of the aggregate of its paid-up share capital, free reserves & securities premium account.

Provisions as per CARO 2020 - Clause v:

According to CARO 2020, clause (v), the Auditor needs to report in case the company has accepted deposits or deemed deposits,

- Whether the company has followed the directives of the RBI
- Compliance with the provisions prescribed for accepting deposits U/s 73 to 76 of CA 2013.
- The nature of contraventions, if the above provisions are not followed.
- Compliance with any order passed by any court or tribunal.
- Reporting of any non-compliance with the provisions of CA 2013.

Audit Procedures

- a. Checking whether company is eligible for accepting deposits as per the criteria specified U/s 73 of the CA 2013.
- b. Obtaining copy of resolution passed by the members at the General meeting (wherever required).
- c. Checking whether deposits accepted are within the limits specified U/s 73 of the CA 2013.
- d. Checking compliance of company with the payment of interest & repayment of deposit as & when due & in case of default, disclosure of the same.
- e. Where the depositors have filed an appeal to the Tribunal, obtaining copy of the order & checking whether order of tribunal has been complied with.
- f. Checking balance in deposit repayment reserve account, whether 20% of the maturing amount of deposits kept in the scheduled bank account.

3. Clause vi: Cost Records

Provisions as per CA 2013:

Section 148 of the CA 2013 contains provisions relating to the cost records to be maintained & cost audit applicability under the Companies Act.

The maintenance of Cost record are mandatory if the following conditions are satisfied –

1. The company is engaged in manufacturing goods or provision of services which are listed in Table A or Table B as below:

- a) Table A specified goods/ services –
 - i. Overall annual total turnover of the company from all the products/ services is INR 50 crores or more; &
 - ii. Aggregate turnover from the individual product/ services for which cost records are required to be maintained is INR 25 crores or more.
 - b) Table B specified goods/ services –
 - iii. Overall total turnover of all the products/ services should be INR 100 crores or more; &
 - iv. Aggregate turnover from the individual product/ service for which cost records are required to be maintained is INR 35 crores or more.
2. Total aggregate turnover of the company from all its production or service is more than INR 35 crore in the preceding financial year.

Provisions as per CARO 2020 - Clause vi:

If company satisfies the conditions & is required to maintain the cost records, the Auditor shall report whether the cost records have been maintained during the year & non-compliance, if any under clause (vi) of CARO 2020,

Audit Procedures

- a. Checking turnover of the company from the signed Financial Statements of previous year to check whether company is required to maintain cost records.
- b. If yes, whether cost records are maintained in FORM CRA-1.
- c. Checking whether company is required to get its cost records audited as per section 148 of CA 2013.
- d. Obtaining copy of Cost Auditors report for identifying any adverse remarks in their report.

4. Clause xi: Fraud Reporting

Provisions as per CA 2013:

Section 143(12) of the CA 2013 provides that if an auditor of a company, in the course of the performance of his duties as auditor, has reasons to believe that an offence involving fraud is being or has been committed against the company by officers or any employee of the company, he shall report the matter to the Central Government immediately within such time & in such manner as may be prescribed in the CA 2013.

The auditor will have to report any fraud by the company or any fraud on the company with the nature of fraud & amount involved. Any report under subsection (12) of section 143 of Companies Act has been filed by the auditors in Form ADT – 4 as prescribed under rule 13 of Companies (Audits & Auditors) Rules, 2014 with the Central Government has to be reported by the auditor.

Provisions as per CARO 2020 - Clause xi:

The auditor should report under clause (xi) of CARO 2020, whether there has been any fraud done on the company. If any such fraud has been noticed or reported any time of the year. If yes, nature & amount

involved have to be reported. Whether the auditors of the company have filed a report in Form ADT-4 with the Central Government as prescribed under the Companies (Audit & Auditors) Rules, 2014. In case of receipt of whistle-blower complaints, whether the complaints have been considered by the auditor.

Reporting the whistle-blower complaints is an additional responsibility for auditors which was not there in CARO 2016.

Audit Procedures

- a. Obtaining reports of Internal auditor, cost auditor, secretarial auditor, or report by any other institute for identifying any instance of fraud on the company or by the company, reported therein.
- b. In case of any fraud identified by the auditor, checking the requirements of section 143(12) of the companies for the reporting of the fraud to the Central Govt.
- c. Obtaining reasons & clarification from the Board/ Audit committee regarding the nature, amount & parties involved.
- d. Checking whether the same is disclosed in the Board Report.
- e. Where the company is required to establish vigil mechanism, checking management's action on the whistleblower complaints received.

5. Clause xiii: Related Party Transactions

Provisions as per CA 2013:

Section 188 of CA 2013 is about related party transactions & the same is applicable to both Private & Public limited company. A Company shall disclose all related parties & related party transactions, in their Financial Statements, whether the same is at arms-length price or not. The party need not be a related party at the ended of the year or during the whole year, it can be a related party any given point of the financial year.

Important pointers to be noted in a related party transaction

- If the transaction is in the ordinary course of business & done on an arm's length basis it shall not require the approval of the board of directors or the company.
- No member shall vote in the special resolution if such member is a related party.
- Details of every contract entered into shall find a reference in the board's report along with justification about the same.
- Ratification of the transaction may be done by the Board or the shareholders within three months. If the same is not done, then the contract is voidable at the option of the board.
- If the contract is with anyone related to the director or is authorized by any other director, the directors concerned shall make good to the company for losses if any caused by the company.

Provisions as per CARO 2020 - Clause xiii:

Auditor shall report under clause (xiii) of CARO 2020, whether all transactions with related parties are in compliance with section 188 of CA 2013 where applicable & whether the details have been disclosed in the Financial Statements, etc., as required by the applicable Accounting Standards.

Audit Procedures

- a. Checking signed Financial Statements of previous year for requirement of establishing audit committee.
- b. Where audit committee is established, whether requisite no. of directors & composition is present.
- c. Scrutiny of Financial Statements for identifying transactions with Related Parties. Inquiry of management of its method of identifying related party transactions.
- d. Checking audit committee minutes for approval of audit committee for entering into transaction with the related parties.
- e. Obtaining copy of board resolutions passed.
- f. Where the transaction carried out exceeds the threshold limit specified U/s 188 of the CA 2013, checking whether approval of members via a resolution is taken & obtaining a copy thereof.
- g. Comparing transaction entered with such related parties, vis-a-vis transaction carried out with other parties to check whether the same is at Arm's length price. In case there are no transaction entered with other parties, alternate procedures needs to be performed.

6. Clause xv: Transaction with Directors**Provisions as per CA 2013:**

Section 192 of CA 2013 states restriction on entering in a non-cash transactions involving the directors or their relatives.

A company shall not enter in to any arrangement by which director of the company or its holding company or any person connected with him can acquire assets for consideration other than cash from the company & vice versa without the approval of the Company in General meeting.

Where the director or connected person is a director of its holding company, the resolution from holding company will also be required.

Provisions as per CARO 2020 - Clause xv:

Auditor shall report under clause (xv) of CARO 2020, whether the company has entered into any non-cash transactions with directors or persons connected with him & if so, whether the provisions of section 192 of CA 2013 have been complied with.

Audit Procedures

- a. Obtaining copy of resolution passed for entering into non-cash transaction with the directors by the company as specified U/s 192 of the CA 2013.
- b. In case such transaction involves transfer, purchase, or sale etc. of assets, obtaining report of registered valuer & checking whether the same value is mentioned in the notice of approval.



SAMPLE REPORT ON CARO 2020



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Annexure xx to the Independent Auditors' Report

As required by the Companies (Auditor's Report) Order, 2020 ("the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give a statement on the matters Specified in paragraphs 3 and 4 of the Order, to the extent applicable.

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of its property, plant and equipment and its intangible assets.
- (b) The Company has a programme of physical verification of its fixed assets under which all fixed assets are verified in a phased manner. In our opinion, the periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed in such verification. **(OR)** *The material discrepancies noticed on physical verification has been properly adjusted in the books of accounts.*
- (c) In our opinion and according to the information and explanations given to us and on the basis of our examination of the records of the Company, the title deeds of following immovable properties (properties where company is the lessee, and the lease agreement are duly executed in favor of the lessee) are not held in the name of the Company.

Description of property	Gross carrying value	Held in the name of	Whether promoter, director or their relative	Period held	Reason for not being held in the name of company

- (d) The company has during the financial year, revalued its property, plant and equipment (including right of use asset) and intangible assets based on the valuation obtained by a Registered valuer. Based on the re-valuation carried out, there is an upward/ downward change of Rs xxx constituting xx% in aggregate of the net carrying value of (class of asset) outstanding as on March 31, 2022.
- (e) According to the information and explanations given to us and on the basis of our examination of the records of the Company, the company has appropriately disclosed in the financial statements, details of the proceedings initiated against the Company for holding Benami property *under the "Benami Transactions (Prohibition) Act, 1988 and Rules made there under.*

(OR)

- (e) According to the information and explanations given to us and on the basis of our examination of the records of the Company, no proceedings have been initiated against the Company for holding Benami property *under the "Benami Transactions (Prohibition) Act, 1988 and Rules made there under.*
- (ii) (a) The Inventories have been physically verified during the year by the management. In our opinion, the frequency of such verification is reasonable. As informed, the discrepancies noticed on verification between the physical stocks and the book records were not material.
- (b) During the year the company has been sanctioned working capital limit of Rs xxx, from (name of bank) on the basis of security of current assets. Based on our examination of the records of the company, the quarterly returns/ statements filed by the company with the bank are in agreement with the books of accounts of the company.
- (OR)**
- (b) The Company is in the business of providing services and does not have any physical inventories. Accordingly, the provision of this clause of the Order is not applicable to the Company.
- (iii) (a) During the year, the company has made the following investment in, provided guarantee/ security to companies, firms, limited liability partnerships:

(iv)

Name of the Party	Aggregate amount during the year	Balance outstanding as on

- (b) In our opinion and according to the information and explanations given to us and on the basis of our examination of the records of the Company, the terms and conditions of the grant of all loans and advances are not prejudicial to the company's interest.
- (c) In respect of loans and advances in the nature of loans, the schedule of repayment of principal and payment of interest has been stipulated and repayments are regular.
- (OR)**
- (c) All the loans and advances in the nature of loans are repayable on demand and the repayments of such loans has been regular during the year.
- (d) In our opinion and according to the information and explanations given to us, there is no amount overdue for more than ninety days.
- (e) During the year, the following loan or advance has fallen due during the year, has been renewed, extended, fresh loan granted to settle the overdue of existing loans given to the same parties.

Name of the Party	Aggregate amount of due renewed, extended, fresh loan granted to settle the overdue	% Of the aggregate to the total loans or advances

- (f) During the year the company has granted following loans & advances in the nature of loans that are repayable on demand.

Name of the Party	Aggregate amount	% Of loan to the aggregate to the total loans	Amount of loan granted to Promoters, Related Parties

(OR)

- (f) According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Act. Accordingly, the provision of this clause of the Order is not applicable to the company.
- (v) In our opinion and according to the information and explanations given to us, the Company has in respect of loans, investments, guarantees and security, complied with the provisions of section 185 and 186 of the Act.

(OR)

According to the information and explanations given to us, the Company has not granted any loans, made investments or provided guarantees under section 185 of the Act and has complied with the provisions of section 186(1) of the Act. The Company being a NBFC, nothing contained in Section 186 is applicable, except subsection (1) of that section.

- (vi) In our opinion and according to the information and explanations given to us, the Company has, in respect of deposits accepted by the Company, complied with 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 there under.

(OR)

According to the information and explanations given to us, the Company has not accepted any deposits from the public to which the directives issued by the Reserve Bank of India and the provisions of Section 73 to Section 76 or any other relevant provisions of the Act and the rules framed there under apply.

- (vii) We have broadly reviewed the books of account maintained by the Company as specified under Section 148(1) of the Act, for maintenance of cost records in respect of products manufactured by the Company, and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the cost records with a view to determine whether they are accurate or complete.

(OR)

The Central Government has not prescribed the maintenance of cost records under sub section (1) of section 148 of the Act for any of the services rendered by the Company. Accordingly, the provision of this clause of the Order is not applicable.

- (viii) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Income-tax, Sales-tax, Service tax, Goods and Service Tax, Cess and other material statutory dues generally have been regularly deposited during the year by the Company with the appropriate authorities. There are no undisputed statutory dues payable in respect to the above statues, outstanding as at March 31, 2022, for a period of more than six months from the date they became payable.
- (b) According to the information and explanations given to us and on the basis of our examination of the records of the Company, the details of dues which have not been deposited as on March 31, 2022, on account of disputes are as under:

Nature of Statue	Nature of Dues	Period to which the Amount Relates	Forum where Dispute is Pending	Amount (Rs. in Lakhs)

- (ix) In our opinion and according to the information and explanations given to us, no transactions not recorded in the books of account have been surrendered or disclosed by the company as income during the year in the tax assessments under the Income Tax Act, 1961.
- (x) (a) According to the information and explanations given to us, the company has defaulted in repayment of loans or other borrowings and in the payment of interest thereon to the following lenders:

Nature of borrowing (including debt securities)	Name of the Lender	Amount not paid on due date	Whether interest or principal	No. of days delay or unpaid

(OR)

- (a) In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of loans or borrowings to financial institutions, banks, government or debenture holders.
- (b) The company has not been declared as a wilful defaulter by any bank or financial institution or other lender.
- (c) Following terms loans obtained by the company have been applied for purposes other than for which the said term loans were obtained.

Name of Lender	Amount borrowed	Purpose for which it is used	Amount of loan diverted

- (d) The funds raised by the company on short term basis have not been utilised for long term purpose.
- (e) The company has not borrowed funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates, or joint ventures.
- (f) The company has raised loans from the following parties on the pledge of securities held by the company in its subsidiaries, associates, and joint ventures.

Name of Lender	Amount borrowed	Name of Subsidiary/ Associate/ Joint venture	Nature of security pledged	Default (if any) in repayment of loan

- (xi) (a) In our opinion and according to the information and explanations given to us, the amount raised by the company by way of initial public offer/ further public offer (including debt instruments) during the year were applied for the purposes for which those are raised.

(OR)

- (a) The funds raised during the year were partially utilised for the purpose for which they were so raised and the balance funds, pending utilisation, are temporarily invested in short term fixed deposits with bank.
- (b) The preferential allotment/ private placement of shares/ convertible debentures during the year are in accordance with the requirement of Section 42 and Section 62 of the Companies Act, 2013 and the funds raised have been used for the purposes for which the funds were raised.

(OR)

- (b) The Company has not made any preferential allotment of shares to parties or companies. The Company has not raised any money by way of initial public offer or further public offer during the year.
- (xii) (a) According to the information and explanations given to us, no fraud by the Company or on the Company by its officers or employees has been noticed or reported during the course of our audit.
- (b) No report under sub-section 12 of Section 143 of the Companies Act has been filed by us in Form ADT 4 as prescribed under Rule 13 of Companies (Audit and Auditors) Rules 2014 with the Central Government.
- (c) We have considered the whistle blower complaints received during the year by the Company.

(OR)

- (c) We have been informed that the accountant of the Company had misappropriated funds amounting to Rupees ten lakhs during the preceding year and the year under audit. Investigations are in progress and the accountant has been dismissed and arrested. The Company has withheld his terminal benefits and it is estimated that the amount misappropriated may not exceed the terminal benefits due to the accountant. The Company is also adequately covered by fidelity insurance cover.
- (xiii) (a) In our opinion and according to the information and explanations given to us, the company, being a Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability.
- (b) The company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability.
- (c) There has been no default in payment of interest on deposits or repayment thereof for any period.

(OR)

- (c) In our opinion and according to the information and explanations given to us, the Company is not a Nidhi company. Accordingly, paragraph 3(xii) of the Order is not applicable to the Company
- (xiv) According to the information and explanations given to us and based on our examination of the records of the Company, transactions with the related parties are in compliance with Sections 177 and 188 of the Act where applicable and details of such transactions have been disclosed in the standalone Ind AS financial statements as required under applicable Indian Accounting Standard (Ind AS).
- (xv) (a) In our opinion, the company has an internal audit system commensurate with its size and nature of its business.
- (b) We have considered, during the course of our audit, the reports of the Internal Auditor(s) for the period under audit.

(OR)

(b) The provisions relating to internal audit are not applicable to the Company.

(xvi) According to the information and explanations given to us and based on our examination of the records of the Company, the Company has not entered into non-cash transactions with directors or persons connected with them.

(xvii) (a) In our opinion, the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934. Accordingly, company has obtained valid registration under the said section.

(b) The Company has not conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration from the Reserve Bank of India as per the Reserve Bank of India Act 1934.

(c) the Company is a Core Investment Company (CIC) as defined under the Regulations by the Reserve Bank of India and continues to fulfil the criteria of a CIC.

(d) The company being part of xxx Group, has xxx no. of CICs as part of its group.

(OR)

(d) According to the information and explanations given to us, the Company is not required to be registered under Section 45 - IA of the Reserve Bank of India Act, 1934. Accordingly, paragraph 3(xvi) of the Order is not applicable to the company.

(xviii) In our opinion and according to the information and explanations given to us, the Company has incurred a cash loss of Rs xxx in the financial year and of Rs xxx in the immediately preceding financial year.

(OR)

The Company has been registered for a period of less than five years and hence we are not required to comment on whether or not the accumulated losses at the end of the financial year is fifty per cent or more of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year.

(xix) According to the information and explanations given to us and based on our examination of the records of the Company, there has not been any resignation of the statutory auditors of the company during the year.

(OR)

During the year, M/s XXX, the Statutory auditors have resigned w.e.f. from <date> and we have taken into consideration the issues, objections or concerns raised by the outgoing auditors.

(xx) In our opinion and according to the information and explanations given to us and on the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, our knowledge of the Board of Directors and management plans, we are of the opinion that no material uncertainty exists as on the date of the audit report and that the company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date.

- (xxi) (a) According to the information and explanations given to us and based on our examination of the records of the Company, the company has in respect of other than ongoing projects, transferred the unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub section 5 of section 135 of the said Act.

(OR)

According to the information and explanations given to us and based on our examination of the records of the Company, the company is not required to transfer any unspent amount to a Fund specified in Schedule VII to the Companies Act in compliance with second proviso to sub section 5 of section 135 of the said Act

- (b) An amount of Rs xx remaining unspent under sub section 5 of section 135 of the Companies Act pursuant to any ongoing project, has been transferred to special account in compliance with the provision of sub section 6 of section 135 of the said Act.

- (xxii) According to the information and explanations given to us and based on our examination of the records of the Company, there have been no qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order reports of the companies included in the consolidated financial statements.

(OR)

The Auditor can give the details in the following table in the Consolidated Audit Report

Sr. No.	Name	CIN	Holding Company/subsidiary/ Associate/ Joint Venture	Clause number of the CARO report which is qualified or adverse

For ABC Firm

Chartered Accountants

FRN:

(Name of Engagement Partner)

Partner

ICAI Membership No:

UDIN:

Place:

Date:



"DREAMZZ UNLIMITED": STORIES THAT INSPIRE



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Journey Matters, Success Is Incidental

What ultimately matters is not the result or the success or failure but the quality of the work done, the passion that is brought to bear upon anything that one takes in hand.

Lord Halden (Quoted from Roses in December – Justice M.C. Chagla)

Being born to parents (Maniben and Late Dungarshi Gangji Lalan) after 20 years of their marriage does entitle one to certain privileges and I can say with a lot of satisfaction that I have nothing much to complain about life in general as God has been very kind with me in bestowing his blessings. My parents tried to always provide the best of what was available to the extent it was in their parameters of being permitted.

I was admitted to a convent school near our home at that time despite my parents not being conversant with English language. Thus, had to rely upon tuition teachers since beginning. The real change came, and I would say a welcome one, when in 1976 one of my father's friend staying in our area retired from the railways. His name was Hussein Khan. He was concerned about spending his spare time and my mother suggested that he take tuitions, whereas all my earlier tuition teachers were school teachers. Thus, began my first real learning, beyond just memorising, from a person who had seen life at very close quarters. Apart from learning from him, I also developed a liking to read newspapers and other magazines, writing essays with meaningful contents and also about some history of early twentieth century as witnessed by the tutor. The habit of reading developed thus, has stood me in good stead till date.

It was around same period that I had a first brush with accounting, in crude form. I started helping my father at our ration shop by preparing bills, cancelling PDS cards, tallying stock and cash collection at the end of the day. At times this also involved measuring food grains, oil, kerosene etc. This continued for about three years from 1976-79. The Rationing Officer who used to come to our shop for regular inspections advised my parents to stop the practice of my being involved in the shop and let me continue with my further studies. But yes, in this period I did learn about maintaining books, if I may say so.

After passing tenth another tectonic shift took in my life. I got admission to Ruparel College which had just started commerce stream a year back and therefore had all the three streams in vogue then. Majority of my class mates were from either Balmohan Vidhyamandir or Raje Shivaji Vidhyalaya. I must admit these were the best five years of my life and I enjoyed college life to the fullest. The exposure that I got in the college days, opportunity of interacting with students of other faculty also kindled my liking towards reading even more. I had taken Marathi as second language in junior college and though initially I struggled with higher level language, with the help of kind lecturer who took personal interest in my study of the language I could overcome the difficulty. This is one decision I believe has had a very big impact on my life overall, as I am able to communicate proficiently in the Marathi language and it also introduced me to some of the

richest literature of the language. The college itself had a great library and I was also introduced to the circulating library during that time. Had I given my entrance exams after 12th possibly I would have joined a CA firm and missed the enjoyment of college life. Ofcourse, during this period I had my second exposure to accounting and to a CA practice, when after my 12th standard exams I joined a firm in Fort for a brief period of about 8 months.

In the meantime during my F.Y.Bcom. I also joined the NCC unit of the college. The unit was headed by Major M.R. Londhe (Retd.). Though a teacher of Physics in the college, he was very passionate about his duties as incharge of the NCC unit and he used to take upon himself the responsibility of development of each cadet personally. His dedication and passion has changed life of many boys and this was an important learning for many of us and that is what I have quoted in the beginning of this write-up. During my 3 years in NCC I attended almost 12 different types of camps which included an army attachment camp of 21 days with an battalion of Dogra Regiment, an agricultural camp and a long duration trekking camp to Garhwal.

One of the highest point of my life (and also most cherished one) was being selected to represent the Maharashtra NCC Directorate in Map Reading in All India Army Events competitions at Gurgaon (which was then a village). These competitions are part of Republic Day events, where on overall performance of contingents of various state, best Directorate of the year is selected. The Blazer that I earned for being thus selected as part of Maharashtra contingent remains the most prized possession of mine till date, though I don't fit into it now.

This was a very important formative period of my life where I made great friends, learnt many things about weapons, warfare, armed forces etc. and met many a top brass in the army. In fact I had made up my mind to join the army and also filled up the form for the Combined Defence Services exam after the final year examination. However, I was not destined to be there as my eyesight had significantly deteriorated by the end of the college. Though a bit disappointed, I wasn't dejected. I think my years at NCC had thought me enough to face the challenges of life and also inculcated leadership abilities along with great values of life in me.

One fallout of being so much involved in NCC was that my studies took a backseat and I must admit that I scored just enough (because of rounding-up) for being eligible to join the Chartered Accountancy course. Thus, began another period of learning under the guidance of new friend (nay colleagues as we call them in CA firms) under the able guidance of the Shri C. S. Nandu, Past President of the CVOCA - a CA of very high principles, well read with love for literature and great drafting skills. Ofcourse had great guides in form of senior colleagues in the office and all of us enjoy the family bonding till date. As a student I was also introduced to the CVOCA for the first time as part of the student member of the managing committee. One intriguing aspect of my life which I keep on still wondering is, whether it was just a coincidence or was it a destiny that I had privilege of company of people with love for reading and who possessed deft drafting skills. I take it as a blessing, as I consider it to be one of the strong points of my overall personality.

Immediately on qualifying I started practice in partnership. During the period between articleship completion and passing, I did a small stint in a firm which gave me some good exposure to audit. Having engaged in the routine compliance practice in the beginning, I kept my academic interest alive by spending some part of the day in reading professional journals and reviews. I also started attending activities of the BCAS and CVOCA on regular basis. Later on I joined the sub-committees and thereafter managing

committee of the CVOCA and Chamber of Income-tax Consultants (as known then). It was in CVOCA for the first time that I got different opportunities to hone various skills, by writing for the Newsletter, leading group discussions at the RRCs and Study Circle. I would advise young members to avail the benefit of this platform to the fullest as more than the association and others, it will benefit your own all-round personal growth.

In the interim, I was also very closely involved in the election process of the ICAI when CA. Atul Bheda was contesting for the WIRC. After his term was over, I contested the election to the WIRC and with love & support of all the friends got elected thrice. I was Secretary of the WIRC in the year 2004-05 and Chairman in the year 2010-11. This gave me further opportunities to serve the profession, members and students as also my own personal development. Being part of various committees and groups the engagement with different members as well as experts helped in further opening my own outlook overall. Engaging with eminent people has its own empowering impact on one's personality as well as broadening one's sphere of influence not only amongst professional but also in geographical reach.

During this period I also joined hands with another partnership firm for a period of nine years, where my role was fully relating to representation before different income-tax authorities and in the ITAT. However, I still kept my interest in reading, academics and keeping abreast with the latest professional developments including in auditing and accounting. One thing we CAs need to remember that we are in practice of accountancy and all other practice areas are incidental to this expertise. I sometime feel agitated if some member says that he/she has very little to do with accounting and auditing. While I can delve at length on this issue, but suffice to say for the present that some of the problems presently faced by the profession stem from this very attitude.

For last six years I am part of the reputed firm, GBCA & Associates LLP (formerly Ghalla & Bhansali) and handling taxation and auditing work. People often ask me how the transition has been for me, especially when I was earlier doing only taxation. Frankly, after one has worked in professional bodies and if one has developed an ability to be flexible in the given circumstances there are no challenges which are unsurmountable. Also, keeping oneself abreast of the developments outside one's own comfort zone helps in switch overs without much adjustments to be made.

To sum up my journey in life and as a professional, I would like to sign-off with following summation-

- (1) Continuous learning is an essential part of one's development process throughout the life. It can take different forms or avatars and can come from unexpected sources, but in every situation there are some takeaways for the future. Some to be cherished and some to be discarded. Learn, unlearn, relearn is a norm.
- (2) Reading and language skills are very important tools which one needs to continuously endeavour to sharpen. Knowledge of different languages broadens oneself to different facets and helps in meaningfully communicating with a wider audience. Make a rule of reading at least 20 pages on daily basis on subject other than relating to your profession.

- (3) Networking and interaction with others is an essential part of a professional's life. Do not bind yourself into a temporary cocoon of comfort zone. This is very important for those in employment who feel a vacuum in case of sudden changes. We are living in a very dynamic world where business cycles are short.
- (4) Always be in the state of preparedness as opportunity can present itself in any manner and at any time. Whenever any opportunity for work, writing, speaking or presenting arises try to take out time for the same. Making excuses does not help.
- (5) There are controllable and uncontrollable variables in every situation or circumstance. Do not get bogged down by the uncontrollable variables or procrastinate over spilled milk. Learn to move forward. What is important is giving one's best shot to what is in hand.
- (6) Continuously keep building over your own strength, rather than training your guns on weaknesses alone. No one can beat you on your own strength.
- (7) Make your journey of profession and life enjoyable and travel light without carrying much burden on your mind.

Life is all about appropriate knowledge for cultivating appropriate vision thereby leading to appropriate behaviour (सम्यक् ज्ञान, सम्यक् दर्शन, सम्यक् चरित्र). Appropriate is not just about being right, but it is about how one responds to given circumstances during a given time. What is appropriate in one circumstance may not hold good in another circumstance. What is appropriate for a given circumstance at one point of time may not be appropriate at another point of time even if the circumstance is similar.

Finally, in my journey till now, I have been guided by my family, friends, well-wishers and many other people. I owe large part of whatever I have achieved to their unstinted support and belief in me. They have made my life more meaningful and enriched it from time to time. Though I could not name all of them, they all deserve a special thanks from me for the same.

