

Audit Ustavam Begins

Companies act – Compliance & Audit

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Suri & Co, Quality Control Wing

Suri & Co.
CHARTERED ACCOUNTANTS

Audit Ustavam – Things to be prepared

- Audit Trial – Applicable from 01-04-2022
- Managerial Remuneration
- Changes in Schedule III – From 01-04-2021
- Changes in Board Report
- CARO 2020 from 01-04-2021

SCHEDULE III Amendments

Audit Ustavam - Things to be prepared

Companies following Companies Accounting Std Rules 2006

Rounding off made mandatory: The financial statement of companies could present the figures in full or round off to nearest hundreds, thousands, lakhs etc based on their convenience earlier. However, the rounding off is made mandatory based on Total Income. The table for rounding off is as under:

Total Income	Rounding off
(a) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof.
(b) one hundred crore rupees or more	To the nearest lakhs, millions or crores, or decimals thereof.

Audit Ustavam - Things to be prepared

Promoters Shareholding details

Shares held by promoters at the end of the year				% Change during the year
S.No	Promoter Name	No of Shares	% of Total Shares	
Total				

Details shall be given separately for each class of shares

% Change shall be computed with respect to number at the beginning of the year

Audit Ustavam - Things to be prepared

Trade Payable due for payment

Particulars	Outstanding for following periods from due date of payment / date of transaction				Total
	Less than 1 Year	1-2 Years	2-3 Years	More than 3 Years	
(i) MSME					
(ii) Others					
(iii) Disputed Dues MSME					
(iv) Disputed Dues Others					

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Trade Receivable Ageing

Particulars	Outstanding for following periods from due date of payment / date of transaction					Total
	Less than 6 Months	6 months – 1 year	1-2 years	2-3 years	More than 3 Years	
(i) Undisputed TR – Considered good						
(ii) Undisputed TR – Considered Doubtful						
(iii) Disputed TR – Considered good						
(iv) Disputed TR Considered Doubtful						

Ind AS Balance Sheet:
 1. Considered Good
 2. Significant increase in Credit Risk
 3. Credit Impaired

Audit Ustavam - Things to be prepared

Disclosure of Ratios: Companies are required to disclose the following ratios:

- | | |
|--------------------------------------|----------------------------------|
| 1. Current Ratio, | 7. Trade payables turnover ratio |
| 2. Debt-Equity Ratio, | 8. Net capital turnover ratio, |
| 3. Debt Service Coverage Ratio, | 9. Net profit ratio, |
| 4. Return on Equity Ratio, | 10. Return on Capital employed, |
| 5. Inventory turnover ratio, | 11. Return on investment. |
| 6. Trade Receivables turnover ratio, | |

Items included in the numerator and denominator for computing the above ratios to be disclosed

Variance in ratio by more than 25% as compared to the preceding year to be explained

Audit Ustavam - Things to be prepared

CARO 2020 Requirement:

A new clause is inserted which requires auditors to report on company's ability to pay off existing liability over a period of next one year as and when they fall due based on Financial Ratios, Ageing and expected dates of realization of financial assets and payment of financial liabilities, other information accompanying the financial statements

We have an added responsibility to verify and report on financial stability of the company for next one year.

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CSR Disclosure: Where the company covered under section 135 of the Companies Act, the following shall be disclosed with regard to CSR activities: –

- amount required to be spent by the company during the year,
- amount of expenditure incurred,
- shortfall at the end of the year,
- total of previous years shortfall,
- reason for shortfall,
- nature of CSR activities,
- details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant Accounting Standard,
- where a provision is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year should be shown separately

Audit Ustavam - Things to be prepared

CARO 2020 Requirement:

A new clause requires us to report

whether unspent amount of CSR has been transferred to a special designated bank account (related to any ongoing project) and to a fund as specified in Schedule VII (where no specific project has been carried out or assigned) or not.

Audit Ustavam - Things to be prepared

Undisclosed Income (Reconciliation of Income Tax and Companies Act):

The Company shall now give 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 under the Income Tax Act, 1961, unless there is immunity for disclosure under any scheme and also shall state whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.

Audit Ustavam - Things to be prepared

CARO 2020 Requirement:

A new clause inserted which requires us to report whether previously non recorded Income has been recorded properly based on the outcome of the assessment under Income Tax Act.

Audit Ustavam - Things to be prepared

Disclosure on Loans/ Advance to Directors/ KMP/ Related parties:

Disclosures shall be made where Loans or Advances in the nature of loans granted to promoters, directors, KMPs and the related parties (as defined under Companies Act, 2013) either severally or jointly with any other person, that are:

- (a) repayable on demand or
- (b) without specifying any terms or period of repayment

Type of Borrower	Amount of loan or advance in the nature of loan outstanding	Percentage to the total Loans and Advances in the nature of loans
Promoters		
Directors		
KMPs		
Related Parties		

Audit Ustavam - Things to be prepared

CARO 2020 Requirement:

- 1) Coverage of reporting has been extended to reporting of Loans given to any party as against parties covered under section 189
- 2) New sub-clause (b) and (c) inserted which requires reporting on adequacy of terms and conditions regarding Investments made, securities given, guarantees provided and advances given in nature of loan.
- 3) Additional reporting in terms of Amount of loans or advance in nature of loan granted / guarantees and securities provided to group entities and to others and its balance outstanding as at balance sheet date
- 4) Additional reporting for any loan or advance in the nature of loan renewed or extended or fresh loans granted to settle the overdues of existing loans
- 5) Additional reporting for any loan or advance in the nature of loan granted either repayable on demand or without specifying any terms or period of repayment

Audit Ustavam - Things to be prepared

Reporting of Benami Transactions: In case, any proceedings have been initiated or pending against the entity under the Benami Transactions (Prohibitions) Act, 1988, the corresponding disclosures shall be provided in the financial statements.

The Company shall disclose the followings:

- Details of such property, including year of acquisition,
- Amount thereof,
- Details of Beneficiaries,
- If property is in the books, then reference to the item in the Balance Sheet,
- If property is not in the books, then the fact shall be stated with reasons,
- Where there are proceedings against the company under this law as an abetter of the transaction or as the transferor then the details shall be provided,
- Nature of proceedings, status of same and company's view on same.

Audit Ustavam - Things to be prepared

CARO 2020 Requirement:

New sub-clause (e) to Clause 1 (PPE) has been inserted which requires specific reporting on any proceedings initiated or pending against the Company under Benami Transactions (Prohibition) Act, 1988 for holding Benami Property.

Audit Ustavam - Things to be prepared

Every Company shall provide the details of the immovable property (other than properties where the Company is the lessee and the lease agreements are duly executed in favour of the lessee) whose title deeds are not held in the name of the Company in the prescribed format

Relevant line item in the Balance sheet	Description of item of property	Gross carrying value	Title deeds held in the name of	Whether title deed holder is a promoter, director or relative of promoter/director or employee of promoter/director	Property held since which date	Reason for not being held in the name of the company
PPE	Land Building					
Investment property	Land Building					
PPE retired from active use and held for disposal	Land Building					
Others						

Audit Ustavam – Things to be prepared

CARO 2020 Requirement:

Sub-clause (c) to Clause 1 (PPE) the following specific details are required to be given in case title deeds are not in name of the Company

- Description of property
- Gross carrying value
- Asset held in name of
- Whether held in name of promoter, director or their relative or employee
- Period during which it was not held in name of the Company
- Reason for not being held in name of company
- Where ownership of the Asset is in dispute, details of such dispute

Audit Ustavam - Things to be prepared

Amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of intangible assets) has to be shown as a column under the PPE Schedule. Similar requirement is needed for Intangible assets.

Where the Company has revalued its Property, Plant and Equipment, the company shall disclose as to whether the revaluation is based on the valuation by a registered valuer as defined under rule 2 of the Companies (Registered Valuers and Valuation) Rules, 2017

Audit Ustavam - Things to be prepared

CARO 2020 Requirement:

New sub-clause (d) to Clause 1 has been inserted which requires specific reporting on revaluation of PPE, 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.

Audit Ustavam – Things to be prepared

Disclosure with regards to Borrowings:

- Company now to disclose in detail if the borrowings from banks and financial institutions have not used for the specific purpose for which it was taken at the balance sheet date.
- Where any charges or satisfaction yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof shall be disclosed.
- Where a company is a declared wilful defaulter by any bank or financial Institution or other lender, following details shall be given:
 - Date of declaration as wilful defaulter,
 - Details of defaults (amount and nature of defaults),

Audit Ustavam - Things to be prepared

Disclosure with regards to Borrowings:

- Utilisation of Borrowed Funds and Securities Premium: Where company has advanced or loaned or invested funds (either borrowed funds or share premium or any other sources or kind of funds) to any other person(s) or entity(ies), including foreign entities (Intermediaries) with the understanding (whether recorded in writing or otherwise) that the Intermediary shall make a detailed disclosure of the same

Audit Ustavam – Things to be prepared

CARO 2020 Requirement:

- Default of repayment of loan, borrowings and Interest payment covered
- Coverage of reporting is expanded to include all types of lender as against Bank, FI, Government and Debenture holders as per old CARO (e.g. Default in repayment of Inter-corporate Loans also needs to be reported)
- New sub-clauses (b), (c), (d), (e) and (f) to clause 9 are inserted which requires additional reporting on:
 - Usage of long term and short term funds,
 - Details of Funds borrowed by holding company for the purpose of discharging obligations of group entities (components),
 - Details of Funds borrowed by pledging the securities held in its group entities (components) and defaults in its repayment
 - whether the company is a declared wilful defaulter by any lender

Audit Ustavam - Things to be prepared

Disclosure with regards to Borrowings:

Where the Company has borrowings from banks or financial institutions on the basis of security of current assets, it shall disclose the following:-

- whether quarterly returns or statements of current assets filed by the Company with banks or financial institutions are in agreement with the books of accounts.
- if not, summary of reconciliation and reasons of material discrepancies, if any to be adequately disclosed.

Audit Ustavam - Things to be prepared

CARO 2020 Requirement:

New sub-clause (b) to Clause 2 has been inserted which requires us to report whether the quarterly returns or statements filed by the company with banks or financial institutions are in agreement with the books of account for companies whose working capital limit is more than 5 Crs.

Other Amendments

Audit Ustavam - Things to be prepared

Amendment to Schedule V –
notification dated 18th March 2021

- MCA has amended the Schedule V of the Companies act, 2013 which deals with Managerial remuneration. Now the provisions of the schedule are not only applicable to Managerial persons but also to Directors.
- Sec 149 Amended to this requirement

Sl.No.	Where the effective capital (in rupees) is	Limit of yearly remuneration payable shall not exceed (in rupees) in case of other director
(i)	Negative or less than 5 crores.	12 lakhs
(ii)	5 crores and above but less than 100 crores.	17 lakhs
(iii)	100 crores and above but less than 250 crores.	24 lakhs
(iv)	250 crores and above.	24 Lakhs plus 0.01% of the effective capital in excess of Rs.250 crores:]"

Audit Ustavam - Things to be prepared

Disclosure Board Report:

The directors report will have a detailed explanation if the company has advanced or loaned or invested funds (either borrowed funds or share premium or any other sources or kind of funds) to any other person(s) or entity(ies), including foreign entities (Intermediaries) with the understanding (whether recorded in writing or otherwise).

The dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013

The company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions

Audit Ustavam - Things to be prepared

Audit Trial:

All companies which use accounting software for maintaining books of accounts should also ensure that there is sufficient recording of audit trial for transactions, log for changes made in the books of accounts and must ensure that the same is no facility to disable the same.

An audit trail is defined as a step-by-step sequential record which provides evidence of the documented history of financial transactions to its source. An auditor can trace the financial data of a particular transaction right from the general ledger to its source document with the help of the audit trail

Questions



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17/04/2021

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