

Reporting Under Companies (Auditor's Report) Order, 2020 [CARO 2020]

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Section 143 of Companies Act, 2013

(11) The Central Government may, in consultation with the National Financial Reporting Authority, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.

INTRODUCTION

- ▶ Vide Order dated 25th February 2020, Ministry of Corporate Affairs has issued an order - Companies (Auditors Report) Order 2020 in exercise of the Powers under Section 143(11) of the Companies Act, 2013.
- ▶ This Order has been issued in suppression of the earlier Companies (Auditors Report) Order, 2016.

Applicability of the Order



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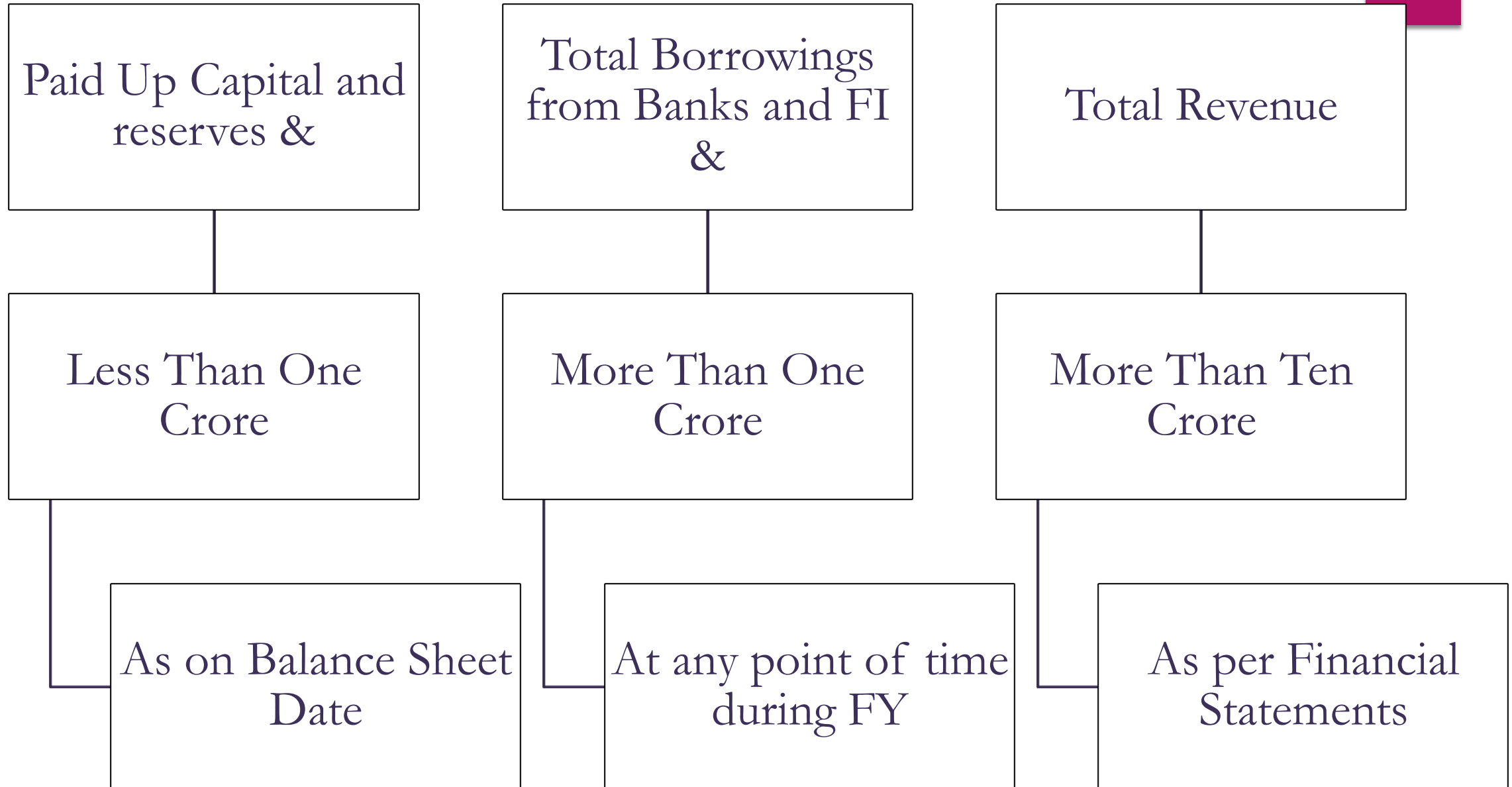
Applicable to all companies
(including a foreign company)

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**APPLICABLE FOR AUDIT REPORTS ISSUED ON OR
AFTER 01st APRIL 2021**

Exemptions

- ▶ Banking Companies (Under Banking Regulation Act, 1949)
- ▶ Insurance Companies
- ▶ Section 8 Companies
- ▶ One person Company (Section 2(62))
- ▶ Small Companies (Section 2(85))
- ▶ Private Limited Company (not a Subsidiary or Holding of Public Company) and having...



Audit Approach

- **MATERIALITY**
- **JUDGEMENT**
- **AUDITORS
RESPONSIBILITIES**



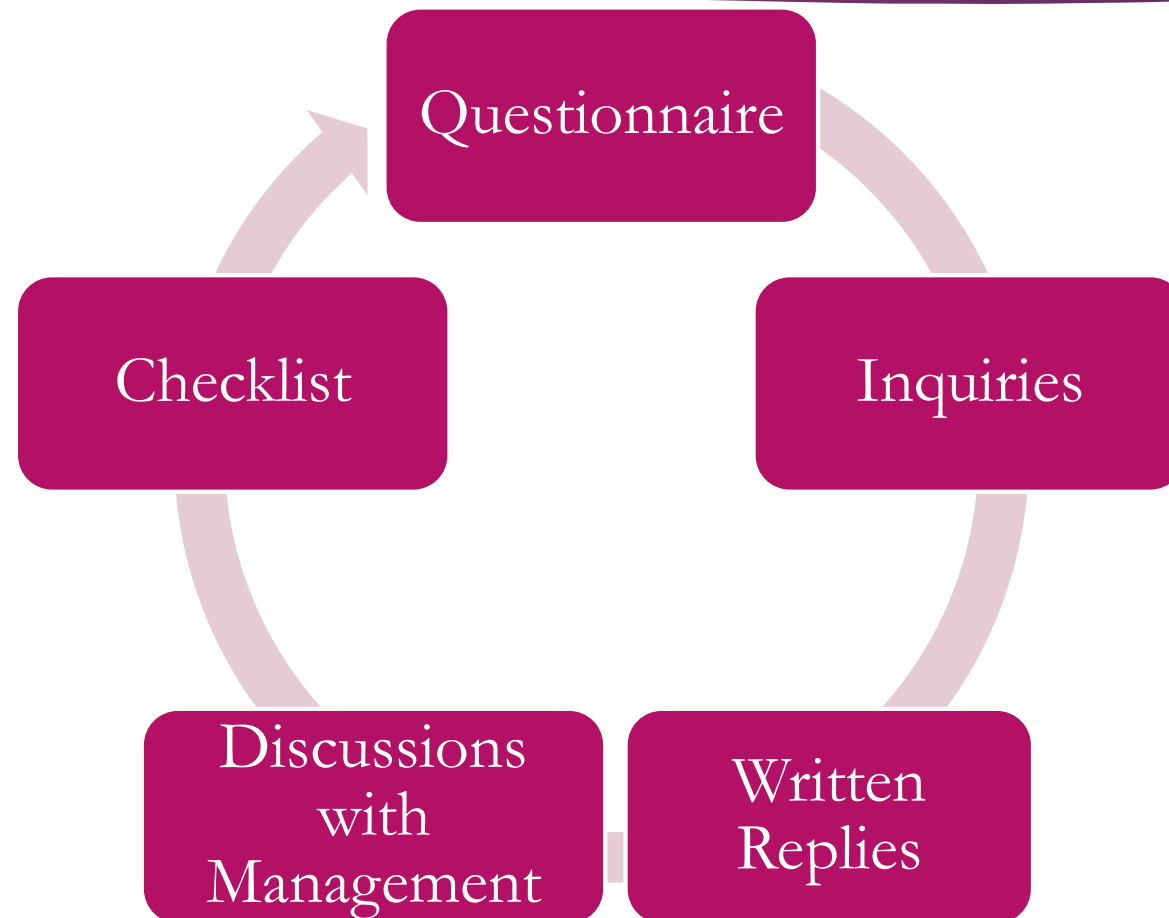
Expression of Opinion must be based on
Audit Evidence

Due Cognizance to the Information and
explanations received from the company

Evidences must be full and complete

Evidences to be subject a reasonable test
to verify accuracy and completeness.

Audit Documentation



Applicability of the Order to the Consolidated Financial Statements

- ▶ The order specifically provides that it shall not apply to the auditor's report on consolidated financial statements except for clause (xxi) of paragraph 3.
- ▶ This means that the auditor will need to give a CARO report on the consolidated financial statements with respect to clause (xxi) of the order only. Thus, the auditor is not required to report on rest of the clauses of paragraph 3.

Period of Compliance

Whether as to the
Position Existing as on
Balance Sheet Date/
date of Report ? Or

Whole Accounting Year ?

Matters to be
Included in
Auditors
Report

PARAGRAPH 3

CLAUSES- 21

SUB- CLAUSES-47

Matters to be included in Auditors Report

(i) (a) (A) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment;

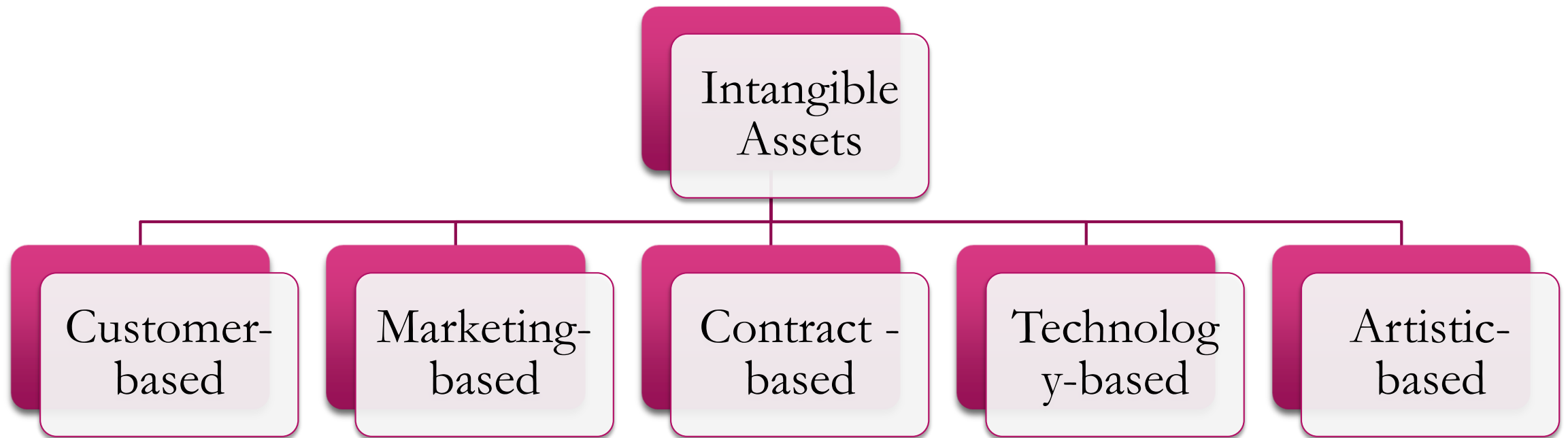
(B) whether the company is maintaining proper records showing full particulars of intangible assets

Matters to be included in Auditors Report

Property, Plant & Equipment's

- ▶ Fixed Asset Register to be Verified
- ▶ No Specific Format has been specified. But it shall contain certain particulars
- ▶ Figures should Match with those as per Financial Statements Fixed Asset Schedule/ Books of Accounts.

Matters to be included in Auditors Report



Audit Procedures

- ▶ The auditor may have to consider the applicable documentation requirements of intangible assets as laid down in, inter alia, Copyright Act, 1957, Patents Act, 1970, Trade Marks Act, 1999, Designs Act, 2000, Information Technology Act, 2000 and so on.

Audit Procedures

The auditor while reporting under this clause should consider:

- ▶ Self-generated intangible assets to the extent permitted by relevant accounting standards and their classification.
- ▶ Acquired intangible assets and their classification.

Matters to be included in Auditors Report

(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.

Audit Procedures

- ▶ Physical verification of the assets is the responsibility of the management and, therefore, has to be carried out by the management itself and not by the auditor.
- ▶ Reasonable intervals depends upon the circumstances of each case.
 - ▶ While an annual verification may be reasonable, it may be impracticable, such cases the verification should be such that all assets are verified at least once in every three years.

Matters to be included in Auditors Report

(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 favors 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:-

Matters to be included in Auditors Report

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

Audit Procedures

- ▶ The Auditor must obtain the confirmation of the deeds that is mortgaged by the company with banks and financial institution.
- ▶ If the deeds were lost accidentally or otherwise, the auditor must verify the documents available with the company and details about the FIR filed about the loss of such documents.
- ▶ The PPE must be check with the title deeds available , there may be discrepancies which should be examined.

Matters to be included in Auditors Report

(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

Matters to be included in Auditors Report

(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.

Matters to be included in Auditors Report

(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

Matters to be included in Auditors Report

- ▶ Observation of physical verification/ examination of records of physical verification of inventory is the primary source of evidence for the purpose of reporting under this clause.
- ▶ Physical verification of inventory is the responsibility of the management of the company which should verify all material items at least once in a year and more often in appropriate cases.

Matters to be included in Auditors Report

- ▶ wherever practicable, all the material items of inventories should be verified by the management of the company at least once in a year.
- ▶ What constitutes “appropriate” is a matter of professional judgment.
- ▶ Classification of inventories - raw materials and components, work in progress, finished goods, stores and spares, and loose tools.

Matters to be included in Auditors Report

(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

Matters to be included in Auditors Report

- ▶ Both fund based and non-fund based credit facilities availed by the company should be considered for the purpose of checking the limit.
- ▶ Obtain a list of the statements or returns which are submitted to the banks/ financial institutions.
- ▶ The auditor is not required to audit such quarterly returns/ statements, but only required to compare the same with the books of account and report disagreement, if any.
- ▶ Return/Statements- stock statements, book debt statements, credit monitoring arrangement reports, statements on ageing analysis.

Matters to be included in Auditors Report

(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

Matters to be included in Auditors Report

(a) Whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate;

(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;

Matters to be included in Auditors Report

(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

Audit Procedures

- ▶ Amount to be determined during the year. Squared off loans also to be considered for reporting.
- ▶ Both Loans in Cash and as well as Kind to be Considered for reporting

Reporting Format

	Guarantees	Security	Loans	Advances in nature of loans
Aggregate amount granted/ provided during the year				
-Subsidiaries				
-Joint Ventures				
-Associates				
-Others				
Balance outstanding as at balance sheet date in respect of above cases				
-Subsidiaries				
-Joint Ventures				
-Associates				
-Others				

Matters to be included in Auditors Report

(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;



Matters to be included in Auditors Report

(c) in respect of loans and advances in the nature of loan, whether the schedule of repayment of principal and payments of interest has been stipulated and whether the repayments or receipts are regular;

Reporting Format

- ▶ Auditor to Report in 3(iii)(c) if no Schedule of Repayment exists.
- ▶ Suggested Format of Reporting is as follows:

Name of the Entity	Amount	Due Date	Extent of Delay	Remarks, if Any

Matters to be included in Auditors Report

(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;

Reporting Format

No. of cases	Principal Amount Overdue	Interest Overdue	Total Overdue	Remarks (if any)

Matters to be included in Auditors Report

(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 and advances in the nature of loans or advances in the nature of loans granted during the year[not applicable to companies whose principle business is to give loans];

Reporting Format

Name of the parties	Aggregate amount of over dues of existing loans renewed or extended or settled by fresh loans	Percentage of the aggregate to the total loans or advances in the nature of loans granted during the year

Matters to be included in Auditors Report

(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 of loans granted to promoters, related parties as defined in clause (76) of section 2 of the Companies Act,2013;

Reporting Format

	All Parties	Promoters	Related Parties
Aggregate amount of loans/ advances in nature of loans - Repayable on demand (A) - Agreement does not specify any terms or period of repayment (B)			
Total (A+B)			
Percentage of loans/ advances in nature of loans to the total loans			

Matters to be included in Auditors Report

(iv) In respect of loans, investments, guarantees, and security, whether provisions of sections 185 and 186 of the companies act have been complied with, if not, provide the details thereof

Matters to be included in Auditors Report

- ▶ Form MBP-1 to be Obtained. Ascertain Compliance of Section 185 of the Companies Act, 2013
- ▶ Form MBP-2 Register of loans, guarantee, security and acquisition made by the company to be obtained and Verified.
- ▶ Ascertain Compliance of Section 186 of the Companies Act, 2013

Reporting Format

SI.NO	Particulars	Name of Company / Party	Amount Involved	Balance as per Balance Sheet Date	Remarks if any
1.	Investment through more than two layers of investment companies				
2.	Loan given or guarantee given or security provided or acquisition of securities exceeding the limits without prior approval by means of a special resolution				
3.	Loan given at rate of interest lower than prescribed				
4.	Any other default				

Matters to be included in Auditors Report

- ▶ (v) in respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been complied with, if not, the nature of such contraventions be stated; if an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not;

Matters to be included in Auditors Report

- ▶ Auditor is required to ascertain compliance of section 73 to 76 of the Companies Act.
- ▶ Form DPT-3 to be obtained by the auditor.
- ▶ List of orders passed by NCLT/RBI if any to be obtained and compliance should be ensured.

Matters to be included in Auditors Report

(vi) whether maintenance of cost records has been specified by the Central Government under subsection (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained;



Matters to be included in Auditors Report

- ▶ Central Government has made rules in respect of a number of classes of companies to whom Cost Records are to be Maintained.
- ▶ The Companies (Cost Records and Audit) Rules, 2014 has defined “cost records” as books of account relating to utilization of materials, labour and other items of cost as applicable to the production of goods or provision of services as provided in section 148 of the Act, and these rules. These rules also prescribed the items of cost to be included in the books of account. As per these rules, the cost records are required to be maintained as per the Form CRA-1.

Matters to be included in Auditors Report

▶ The Order does not require a detailed examination of the cost records. The auditor should, therefore, conduct a general review of the cost records to ensure that the records as prescribed are made and maintained

▶ Reporting Format-

“We have broadly reviewed the books of account maintained by the company pursuant to the Rules made by the Central Government for the maintenance of cost records under section 148 of the Act, and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained.”

Matters to be included in Auditors Report

(vii) (a) whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;

Matters to be included in Auditors Report

- ▶ Any sum, which is to be regularly paid to an appropriate authority under a statute (whether Central, State or Local or Foreign) applicable to the company, should be considered as a “statutory due” for the purpose of this Clause
- ▶ Obligation to pay a statutory due is created or arises out of a statute, rather than being based on an independent contractual or legal relationship

Matters to be included in Auditors Report

- ▶ Non-payment of advance income tax would constitute default in payment of statutory dues.
- ▶ Auditor has to report on the regularity of deposit of statutory dues irrespective of the fact whether or not there are any arrears on the balance sheet date.
- ▶ penalty and/or interest levied under the respective laws would be covered within the term “amounts payable”. Eg. Sec. 50(1) of CGST Act, 2017, 234E of Income Tax Act.

Statement of Arrears of Statutory Dues Outstanding for More than Six Months

Name of the Statute	Nature of the Dues	Amount (Rs)	Period to which the amount relates	Due Date	Date of Payment	Remarks, if any

Matters to be included in Auditors Report

(b) where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute);

Statement of Disputed Dues

Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending	Remarks, if any

Matters to be included in Auditors Report

(viii) whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year;

Matters to be included in Auditors Report

- ▶ The emphasis under this clause is limited to examination of those transactions, which were hitherto unrecorded in the books of account and which were surrendered or disclosed as income in the tax assessments under the Income Tax Act, 1961. The emphasis is on the words surrendered or disclosed which implies that the company must have voluntarily admitted to the addition of such income, which can be demonstrated on the basis of the returns filed by the company.

Matters to be included in Auditors Report

- ▶ (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.				

Audit Procedures

- ▶ The auditor should report the amount of all defaults committed during the year and the number of days of default.
- ▶ Further, since the auditor is also required to report amounts remaining unpaid, the auditor should also report the period and amount of all defaults existing at the balance sheet date irrespective of when those defaults have occurred.
- ▶ 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.

Audit Procedures

- ▶ The auditor should obtain the confirmation of the concerned lender as to the status of the loan account including the overdue position as at the balance sheet date.
- ▶ Reschedulement of loan may be considered by the Auditor.
- ▶ Where loans/borrowings and/ or interest are repayable on demand and no repayment terms have been specified in the agreement, management representation letter should be obtained.

Matters to be included in Auditors Report

(b) whether the company is a declared wilful defaulter by any bank or financial institution or other lender;



Audit Procedures

- ▶ The auditor when obtaining confirmations of outstanding loans and interest from banks/ financial institutions may include a question whether the company has been declared a wilful defaulter.
- ▶ The auditor should obtain a signed declaration in this regard from the management. Details can be verified at <https://suit.cibil.com/>
- ▶ The auditor should also consider whether the company has been declared as willful defaulter as on the date of the audit report.

Matters to be included in Auditors Report

(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;

Reporting Format

Nature of the fund raised	Name of the lender	Amount diverted (Rs.)	Purpose for which amount was sanctioned	Purpose for which amount was utilized	Remarks

Matters to be included in Auditors Report

(d) whether funds raised on short term basis have been utilized for long term purposes, if yes, the nature and amount to be indicated;



Audit Procedures

- ▶ determination of direct relationship between particular funds and an asset from the balance sheet may not be feasible
- ▶ determine the overall picture of the sources and application of funds of the company unless an evident trail is available that enables the auditor in establishing a direct relationship between sources and application of funds
- ▶ auditor may review the cash flow statement to determine whether short term funds have been used for long term purposes

Matters to be included in Auditors Report

(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;

Reporting Format

Nature of fund taken	Name of lender	Amount involved	Name of the subsidiary, joint venture, associate	Relation	Nature of Transaction for which funds utilized	Remarks, if any

Matters to be included in Auditors Report

(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;

Audit Procedures

- ▶ The auditor should obtain and verify the documents related to charges created including any modification thereof.
- ▶ The auditor should verify the loan agreements or other documents such as term sheets to check the nature of security against such loans.
- ▶ The auditor may consider obtaining management representations in this regard.

Matters to be included in Auditors Report

(x) (a) whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;



Audit Procedures

- ▶ An examination of the offer document would provide the auditor an understanding of the proposed end use of money raised from public
- ▶ The auditor should obtain a representation from the management as to the completeness of the disclosure with regard to the end use of money raised as well as actual end utilization of money raised by initial public offer or further public offer (including debt instruments)

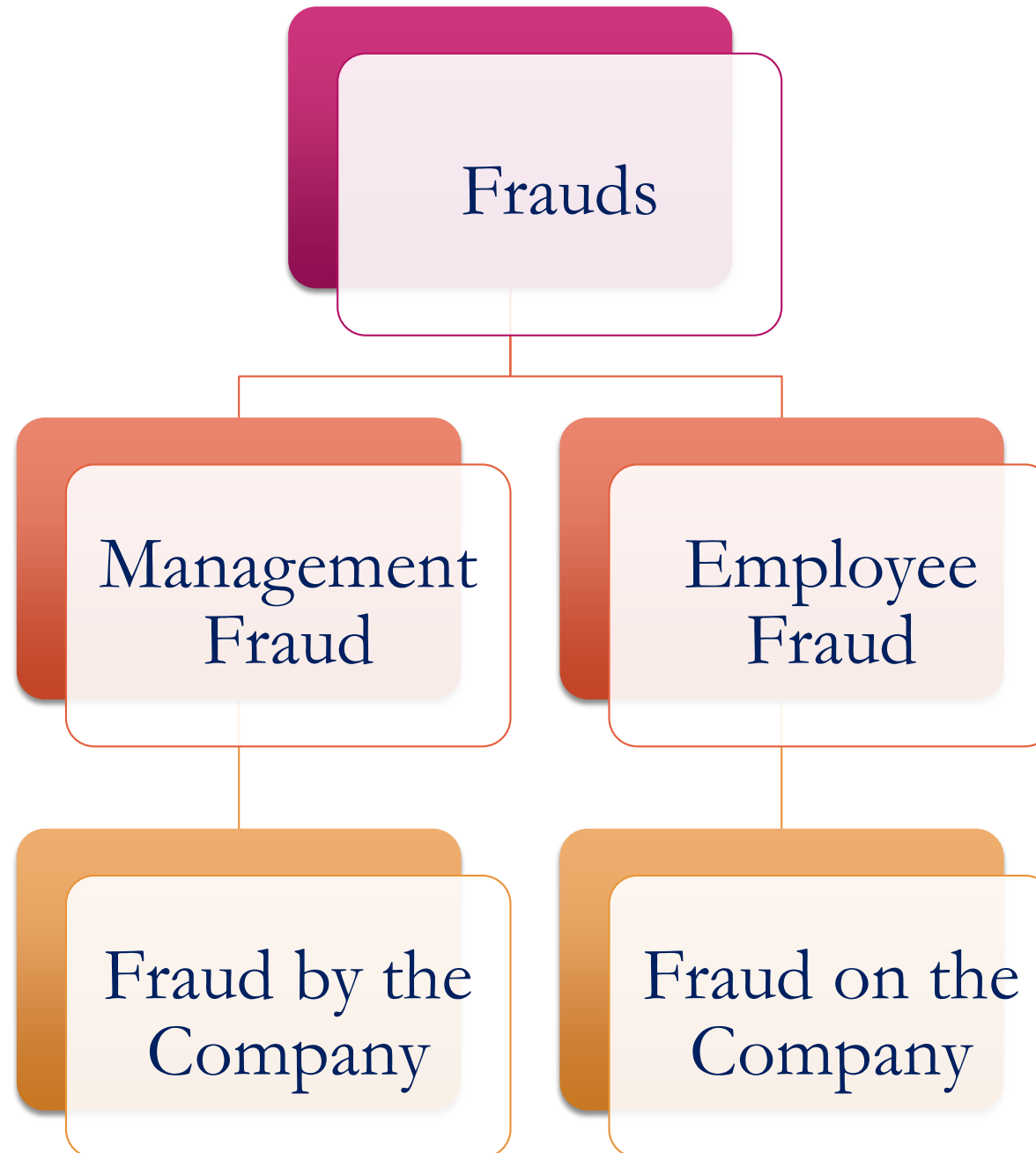
Matters to be included in Auditors Report

- ▶ (b) whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non-compliance;

Matters to be included in Auditors Report

(xi) (a) whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;





Audit Procedures

- ▶ This clause does not require the auditor to discover such frauds on the company and by the company
- ▶ The scope of auditor's inquiry under this clause is restricted to frauds 'noticed or reported' during the year.

Matters to be included in Auditors Report

(b) whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;

Matters to be included in Auditors Report

(c) whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;

Matters to be included in Auditors Report

(xii) (a) whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability;

Matters to be included in Auditors Report

(b) whether the Nidhi Company is maintaining ten per cent. unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;



Matters to be included in Auditors Report

c) whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;

Audit Procedures

- ▶ A question that arises is whether the scope of the auditor's enquiry would cover defaults made by the Nidhi company during the year under audit only or whether the defaults committed in previous years and continuing until the year under audit would also be covered. It is clarified that the auditor should report the period and amount of all defaults:
 - ▶ Existing as at the year-end; and
 - ▶ Defaults existing during any period and made good during the year.

Matters to be included in Auditors Report

(xiii) whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards;

Section 188

- ▶ Approval of Board of Directors/ Shareholders for All related Party Transactions.
- ▶ Exceptions
 - ▶ transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval
 - ▶ related party transactions entered into by the company in its ordinary course of business and on an arm's length basis.

Matters to be included in Auditors Report

(xiv) (a) whether the company has an internal audit system commensurate with the size and nature of its business;

Section 138

- ▶ Internal Audit Mandated for
 - ▶ Listed Companies
 - ▶ Unlisted Public Companies
 - ▶ Paid Up Capital > 50 Cr.
 - ▶ TO > 200 Cr.
 - ▶ Loans > 100 Cr
 - ▶ Deposits > 25 Cr.
 - ▶ Private Limited Companies
 - ▶ TO > 200 Cr, Loans > 100 Cr



Audit Procedures

- ▶ Size of Audit Department v/s Size of the Company
- ▶ Qualifications of the Persons
- ▶ Reporting Responsibility
- ▶ Scope of the Work Undertaken
- ▶ Technical Assistance to the Auditors

Audit Procedures

- ▶ Internal audit system must exist and also that it is functioning effectively.
- ▶ It is not sufficient that the internal audit system should merely point out errors in operation or deficiencies in the internal control system. It is equally necessary that there is an adequate follow-up system to ensure that the deficiencies pointed out are corrected and remedial action taken on the deficiencies reported upon.

Matters to be included in Auditors Report

(b) whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;

- ▶ Control Deficiencies pointed by the Internal Auditor may have Direct Impact on the internal financial controls over financial reporting (IFCoFR).

Matters to be included in Auditors Report

(xv) whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with;

Section 192 Prohibits Non cash Transactions

- Director/ Related Person Acquire Asset from Company
- Company Acquires Asset from Director/Related Person
- Prior Approval is required
- Valuation by Registered Valuer

MBP 1 Notice on Interest by directors.



MBP 2 Register of Loans, Guarantee, Security,
Acquisition

MBP 4 Register of contracts with related parties

Form MGT 15 Report on AGM

**Minutes of General Meeting and Board of
Directors**

Matters to be included in Auditors Report

(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;

Audit Procedures

- ▶ The Reserve Bank of India restricts companies from carrying on the business of a non-banking financial institution without obtaining the certificate of registration.
- ▶ 50-50 test must be applied by the Auditor
- ▶ The Auditor must also ascertain whether the company has net owned funds as required for the registration as NBFC.

Matters to be included in Auditors Report

(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;

Audit Procedures

- ▶ The auditor shall obtain written representation from the management and examine, whether the certificate of registration has been withdrawn/revoked/suspended/surrendered during the period under review and whether business is continued to be carried after such withdrawal/revocation/suspension/surrender.

Matters to be included in Auditors Report

(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

Audit Procedures

- ▶ The auditor shall examine the last audited balance sheet of the company to ascertain whether the company holds not less than 90% of its net assets in form of investment in equity shares, preference shares, bonds, debentures, debt or loan in group companies.
- ▶ CIC- ND-SI having Assets Not less than 100 Cr are required to be Registered with RBI.
- ▶ Other CIC-ND-SI are exempted from Registration with RBI.

Matters to be included in Auditors Report

(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;

Matters to be included in Auditors Report

(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;



Audit Procedures

- ▶ Cash Losses have not been defined anywhere.
- ▶ PAT Adjusted for non-cash transactions
 - ▶ Guidance for Cash Losses can't be drawn from Cash Flow Statements since they are adjusted for Interest and other items.
- ▶ Where the company has suffered cash losses in only one of the years referred to in this clause. In such a situation, the auditor is well advised to comment on the two years separately.

Matters to be included in Auditors Report

(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;

Audit Procedures

- ▶ Section 140(2) – Casual Vacancy for Resignation by Auditor
- ▶ ICAI Code of Ethics- prior communication required
- ▶ Implementation Guide on Resignation/ Withdrawal from an Engagement to Perform Audit of Financial Statements to be looked into

Audit Procedures

- ▶ SEBI Guidelines to be looked into in case of Listed Entities
- ▶ Incoming auditor should obtain a copy of letter of resignation stating the reasons as submitted to the management and copy of Form ADT 3 as submitted to ROC
- ▶ Change of Auditors pursuant to mandatory rotation requirements prescribed are not covered under this clause

Matters to be included in Auditors Report

(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;

Audit Procedures

- ▶ Presently, there is no legal requirement under the Act for the companies to provide explicit disclosure in the financial statements or in the Director's Report that whether material uncertainty exists about the company's capability of meeting its liabilities
- ▶ **The emphasis, therefore, is on the company's ability to meet its liabilities.**

Audit Procedures

- ▶ SA 570 on Going Concern to be taken into consideration
- ▶ The test of existence of material uncertainty is to be done as on the date of audit report for the position of liabilities existing at the date of balance sheet.- (SA 560- Subsequent Events)
- ▶ Auditor may draw guidance from Disclosure of ratios in the Financial Statements.

Obtain details of liabilities along with due dates



Verify Accuracy of Due Dates and subsequent Payments



Unpaid liabilities to be enquired with management



Ratios disclosed in financial statements to be corroborated



Guidance can be drawn from boards report, management discussion and analysis



Recoverability of Financial Assets to be tested



Interim financial information, MIS to be obtained



Evaluation to be done on overall basis



Obtain written representation from management.

Reporting Format

- ▶ According to the information and explanations given to us and on the basis of the financial ratios, ageing and expected dates of realization of financial assets and payment of financial liabilities, other information accompanying the financial statements, our knowledge of the Board of Directors and management plans and based on our examination of the evidence supporting the assumptions, nothing has come to our attention, which causes us to believe that any material uncertainty exists as on the date of the audit report that company is not 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. We, however, state that this is not an assurance as to the future viability of the company. We further state that our reporting is based on the facts up to the date of the audit report and we neither give any guarantee nor any assurance that all liabilities falling due within a period of one year from the balance sheet date, will get discharged by the company as and when they fall due

Matters to be included in Auditors Report

(xx) (a) whether, in respect of other than ongoing projects, the company has transferred 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;

CSR Applicability

- ▶ Section 135 Applies to Companies

- ▶ Net Worth > 250 Cr
- ▶ Turnover > 1000 Cr
- ▶ Net Profit > 5 Cr.

- ▶ 2 % of the Average Net Profits of the past 3 years to be spent as CSR.



Audit Procedures

- ▶ Unspent Amount on other than Ongoing Projects to be transferred to be transferred to Schedule VII Fund with 6 months from end of FY.
- ▶ The auditor should also report under this clause the noncompliance, if any, in respect of earlier financial year.

Matters to be included in Auditors Report

(b) whether any amount 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;

Audit Procedures

- ▶ In respect of Ongoing CSR Projects, amount remaining unspent shall be transferred within a period of thirty days from the end of the financial year to a special account to be opened by the company in that behalf for that financial year in any scheduled bank to be called the Unspent Corporate Social Responsibility Account.
- ▶ Such unspent amount shall be spent by the company within 3 years from the date of transfer
- ▶ Auditor may refer Annual Report on CSR Activities to be included in the Boards Report.

Matters to be included in Auditors Report

(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.

Audit Procedures

- ▶ Principal auditor would need to apply his professional judgement.
- ▶ There may be situations where the component auditor has reported on the financial statements of the component to the principal auditor but has not issued his statutory audit report by the date of the principal auditor's audit report. The name of the component and the fact that CARO report of that component has not been issued by its auditor till the date of principal auditor's report has to be mentioned.

Audit Procedures

- ▶ This clause requires reporting of qualifications or adverse remarks in the CARO reports of companies included in the consolidated financial statements. Accordingly, qualifications/adverse remarks given in the parent company's standalone CARO report are also required to be included while reporting on consolidated financial statements. Further, the requirement is to provide the paragraph numbers of the CARO report containing the qualifications or adverse remarks, accordingly, text of those paragraphs are not required to be reproduced.

Audit Procedures

- ▶ As mentioned earlier, the concept of materiality is relevant when reporting under CARO. However, if a qualification/adverse remark is given by any individual component, **there is a presumption that the item is material to the component.** Hence when reporting under clause 3(xxi), the auditor is not required to reevaluate the materiality from a consolidation perspective. Hence every qualification/adverse remark made by every individual component including the parent should be included while reporting under clause 3(xxii).

Reporting Format

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

Comments on Form of Report

- ▶ where an auditor is unable to express any opinion on any such matter which is applicable to the company, he is also 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 unfavorable or a qualified answer

Comments on Form of Report

- ▶ If any of the comments on matters specified in the Order are qualified/unfavorable, the auditor should consider whether his comments have a bearing on the true and fair view presented by the financial statements and, therefore, might warrant a modification in the report

General Reporting Format

- ▶ In terms of the information and explanations sought by us and given by the company and the books of account and records examined by us in the normal course of audit and to the best of our knowledge and belief, we state that.....
- ▶ “In our opinion” or “In our opinion and according to the information and explanations given to us during the course of the audit..

“ Has the Auditors
Responsibilities changed with
respect to change in the
Reporting Requirements ??? ”

Questions
??





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Thank
you