

# **Companies (Auditor's Report) Order, 2020 u/s 143(11) of the Companies Act, 2013**

**Refresher session 2 on company audits**

**J. B. Nagar CPE Study Circle of WIRC of ICAI**

**1<sup>st</sup> September 2024**

# Coverage

Overview



Reporting requirement under each clause



Key considerations / points to be kept in mind



# Background

## Journey

MAOCARO 1988 to CARO 2020

## Objective

To enhance stakeholders' confidence

## New clauses added

Broadly to align with the disclosure as per Schedule III of the Companies Act, 2013

# Applicability

Applicable to companies including foreign company, except:

Unconditional  
exemptions [Para  
1(2)(i) to (iv)]

Banking  
Company

Small Company  
u/s 2(85)

Insurance  
Companies

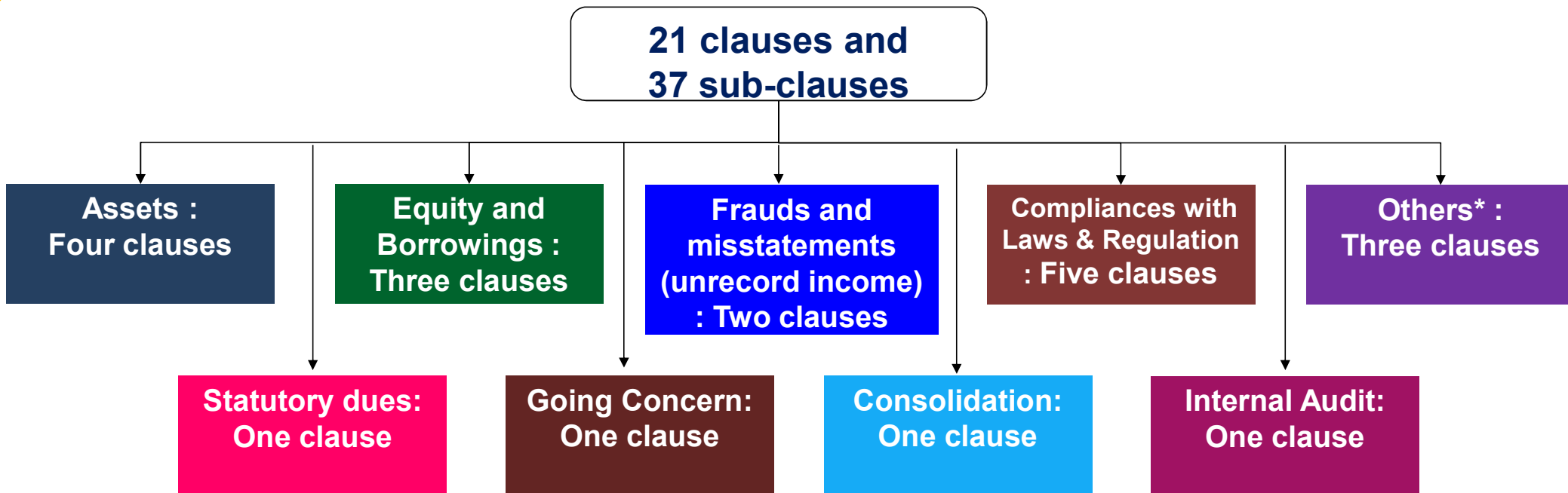
One Person  
Company

Section 8  
Companies

conditional  
exemptions to  
Pvt Ltd Co.  
[Para 1(2)(v)]

- Not Subsidiary or Holding of Public Company
  - Paid up capital + Reserves **not exceeding INR 1 Crore** -- B/S Date
  - Loan from Banks & FIs **not exceeding INR 1 Crore** -- At any point of time during the year (includes devolved non fund-based facilities)
  - Total Revenue during the year **not exceeding INR 10 crores**
- No change in applicability criteria as compared to CARO 2016
- Reporting on CFS introduced by CARO 2020

# Broad coverage of CARO 2020

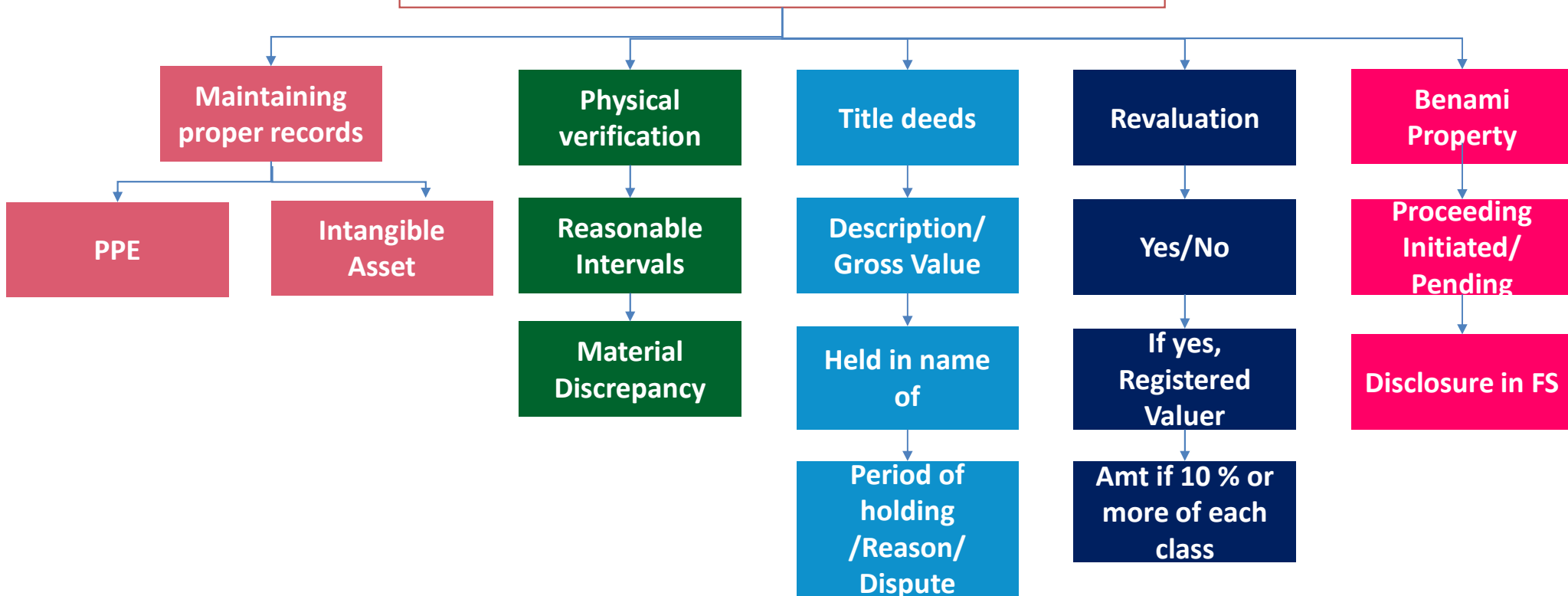


## \*Others

- Clause xv - Non-Cash transaction with director
- Clause xvii - Cash Losses
- Clause xviii - Resignation of Statutory Auditors

# Clause i Maintaining records of PPE & IA

## Property Plant and Equipment and Intangible Assets



## Key considerations / points to be kept in mind

- Reporting required is - Reasonable interval & not regular interval
- Only stating "we are informed" is not appropriate
- CWIP / ROU, investment property also needs to be covered
- Frequent changes in phased program

## Key considerations / points to be kept in mind

- Implication on IFC reporting if FAR not maintained adequately
- Reporting in case of mortgage property, property in old name etc.
- Inconsistency between internal audit report and CARO reporting



## Clause ii Inventories

Reporting on coverage, reasonable intervals & procedure followed for Physical verification;

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;

Reporting on mismatch in quarterly statements submitted to banks (applicable for working capital sanctioned limit > Rs. 5 crores secured against current assets)

## Key considerations / points to be kept in mind

Incomplete coverage [stock in-transit & at Job-worker site]

Computation of 10% based on value and not volume

Appointment subsequent to year end

Comment on adequacy missing

Mismatch in statement submitted to banks

## Clause iii Loans, investments, guarantees, securities

Earlier, reporting was required in respect of loans given to parties covered u/s 189 of the Act

**CARO 2020**

Reporting is required to be made for Investment made, Loans and Advances granted, Guarantees provided or Securities given for all the parties

Clauses in relation to investment's made, loans and advances granted, guarantees provided or securities given (covered in next slide)

Clauses in relation to only loans and advances granted (covered in next slide)

## Clause iii Loans, investments, guarantees, securities

**Investment made, loans and advances granted, guarantees provided or securities given**

Disclose total amount of transaction and closing balance of loans and advances granted, guarantees provided or securities given :

- Subsidiaries, associates and JVs' &
- Others.

Test of prejudicial

Our reporting is not only for loans but also for investments made, advances granted, guarantees provided or securities given

## Clause iii Additional reporting – Loans and advances granted

### Reporting in relation to loans and advances

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graph TD; A[Reporting in relation to loans and advances] --> B(Evergreening of loans - Details and percentage to be given for fresh loans granted to repay existing loans); A --> C(Loans regularity & overdue amounts - reporting continued); A --> D(Loans repayable on demand or without terms); D --> E[Disclose: a. Aggregate amount of such loans b. Percentage to total loans c. Loans to promoters d. Loans to related parties under section 2(76)];
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Evergreening of loans  
- Details and percentage to be given for fresh loans granted to repay existing loans

Loans regularity & overdue amounts  
- reporting continued

Loans repayable on demand or without terms

Disclose:

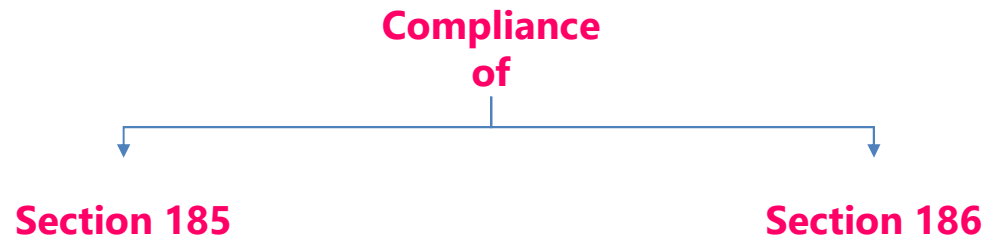
- a. Aggregate amount of such loans
- b. Percentage to total loans
- c. Loans to promoters
- d. Loans to related parties under section 2(76)

## Key considerations / points to be kept in mind

- Guarantees not covered while reporting
- RPT & other disclosures in FS not aligned with CARO
- Test of Prejudicial – interest free loan, guarantee commission not charged
- Practical issues for NBFC while reporting on regularity due to large volume
- Company securities mortgaged for loan taken by group companies
- Identification of transactions leading to evergreening of loans

# Clause iv Compliance of section 185 /186

## Loan/Investment/Guarantee & Securities



**Sec 185 & 186** - Loans, Investments, Guarantee & Security:

- Sec 185 - Loan to directors
- Sec 186 - Loan and Investment by Company

## Clause iv Compliance of section 185 /186

If non-compliance, then provide the concerned details

Sr No	Particulars	Name of Company	Amount Involved	Balance as at 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 special resolution				
3	Loan given at rate of interest lower than prescribed				
4	Any other default				



## Key considerations / points to be kept in mind

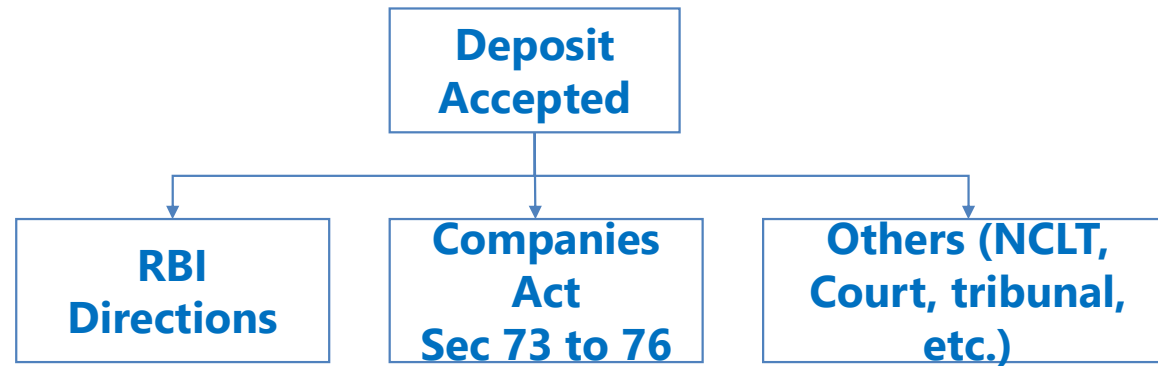
Running account balances with group companies , directors

Advances given to directors & relatives

Interest free loans leading to non-compliances

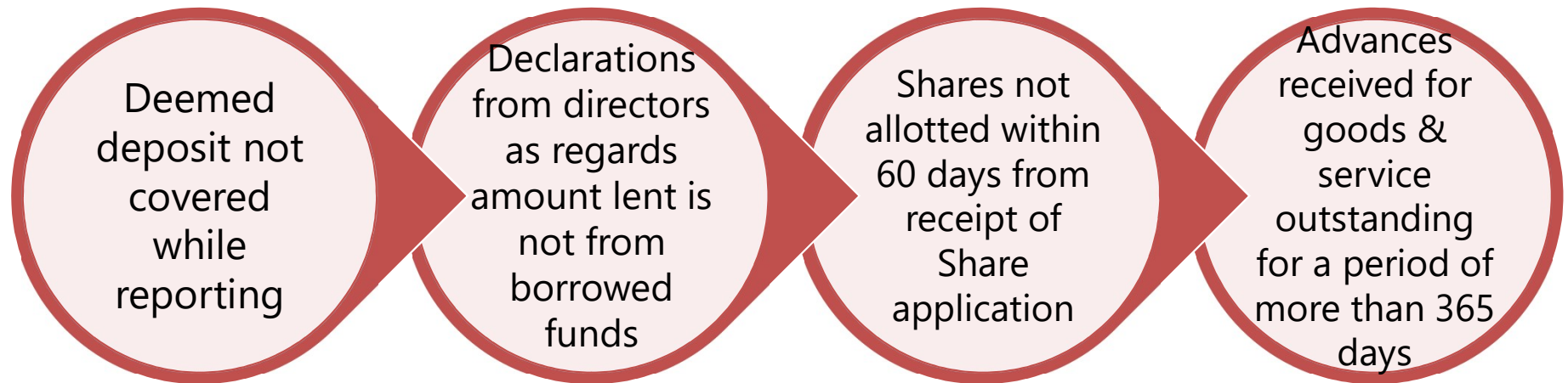
Guarantees, letter of comfort etc.

## Clause v Deposits



This clause requires the auditor to report on compliance with the requirements of aforesaid sections, provisions, rules and orders and also requires the auditor to report on non-compliance if any.

## Key considerations / points to be kept in mind



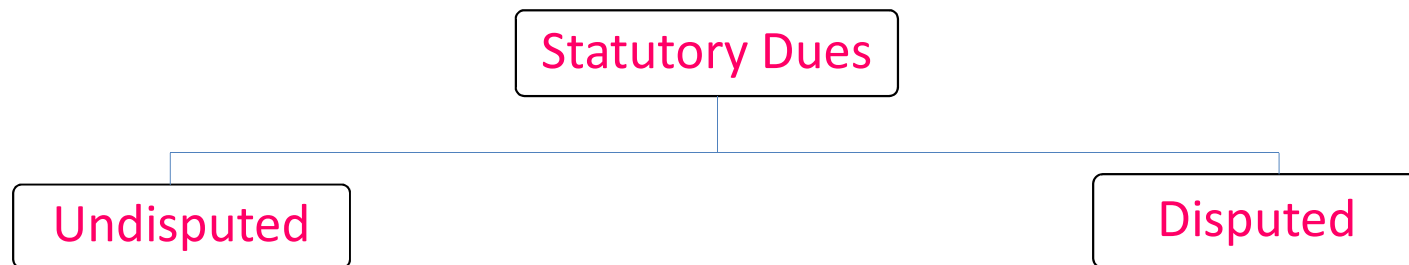
## Clause vi Cost Records

Maintenance of **cost records**  
as per section (1) of section  
148 of Companies Act

**and**

Accounts and records have  
been so **made and**  
**maintained.**

## Clause vii Reporting on Statutory Dues



### **Disputed.**

The amounts involved and the forum where dispute is pending.

### **Undisputed.**

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.

## Key considerations / points to be kept in mind

Generally regular vs regular

Widened scope

Align with contingent liability

Unpaid PF due to Aadhar no. not linked

Additional care to be taken items like property tax etc.

Clause vii(b) of CARO 2016 was covering dues of Income tax, sales tax, service tax or duty of customs or duty of excise or value added tax whereas CARO 2020 all applicable statutory dues.

## Clause viii Surrender of unrecorded income

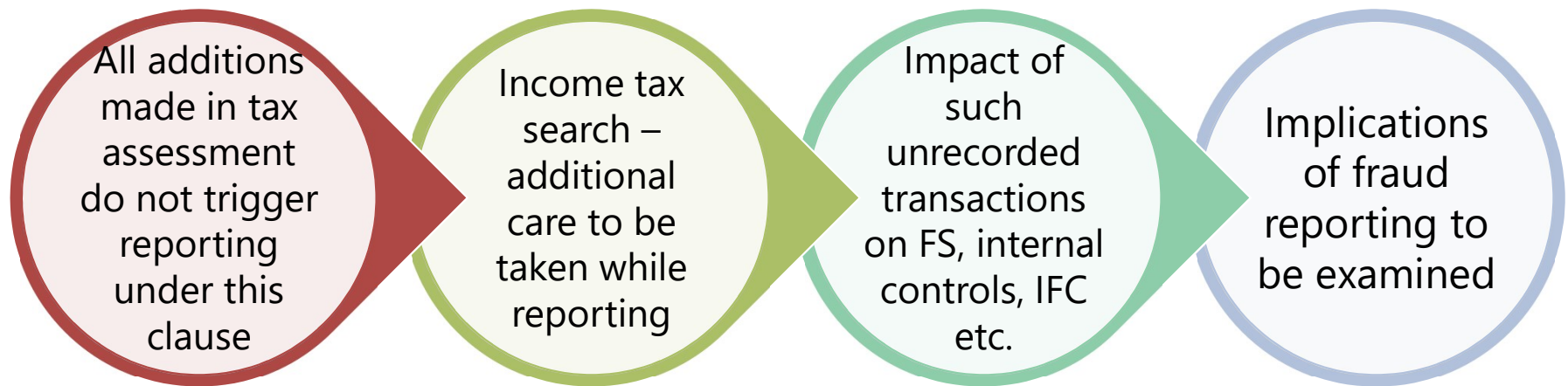


The transactions which are not recorded in the books of account which have been surrendered or disclosed as income during the year in the income tax assessment, if so,

E.g. (i) copy of the statements made in the course of search and survey  
(ii) examine the submissions and representations made by the company to the income tax authorities.

Auditor is required to report whether the same has been properly recorded in the books of account or not;

## Key considerations / points to be kept in mind





## Clause ix Loan taken

- Auditor is required to report whether the Company has defaulted in repayment of loan or other borrowings or in the payment of interest thereon **to any lender** (earlier, it was only to the extent of banks, FIs, government or dues to debenture holders). If yes, the period and the amount of default to be reported
- Additional reporting required under clause ix:

<b>Situation</b>	<b>What needs to be disclosed?</b>
If the company is a declared wilful defaulter by any bank / FI's / other lender (Mirror image of Schedule III)	Report
If term loan is utilized for other purpose	Amount + Usage of loan
If funds raised on short term basis which have been utilized for long term purposes	Amount + Nature
If the Company has taken any funds from any entity/person in order to meet the obligation of its subsidiary /Joint Venture / Associate	Amount + Nature
If the Company has raised loans during the year on the pledge of securities held in its subsidiary /Joint Venture / Associate	Details + report (if defaulted in repayment)

## Key considerations / points to be kept in mind

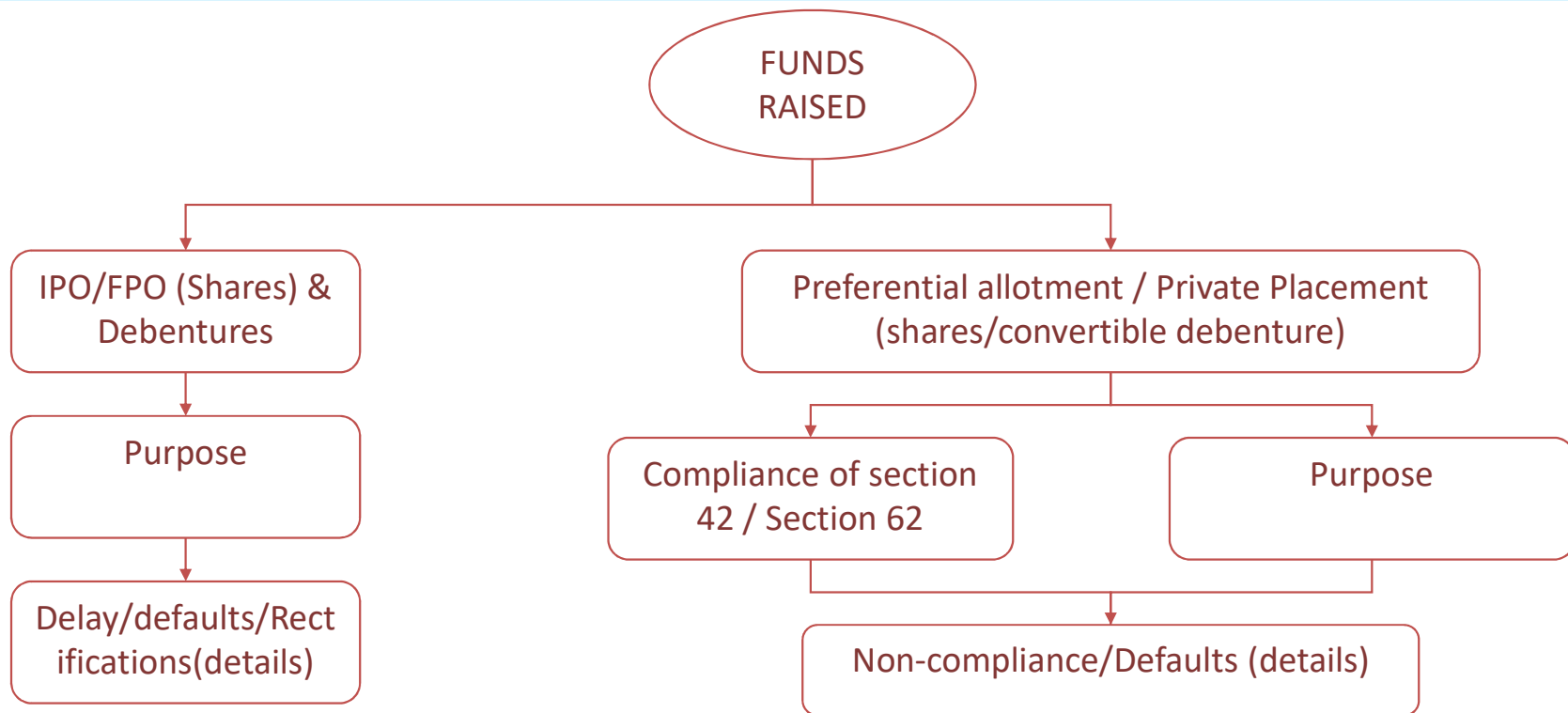
### Examples of diversion of funds:

- Short terms funds used for long term purpose
- deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned
- Direct or indirect transferring borrowed funds to the subsidiaries / Group companies or other corporates
- Routing of funds through any bank other than the lender bank

## Key considerations / points to be kept in mind

- Identification of issues (e.g.. Diversion) and completeness in reporting (due to voluminous transactions)
- Only uncorrected defaults are reported instead of requirement to report all defaults
- Existing defaults of earlier years not reported
- Reporting for funds borrowed to meet obligations of JV, subsidiary, associate is missed out

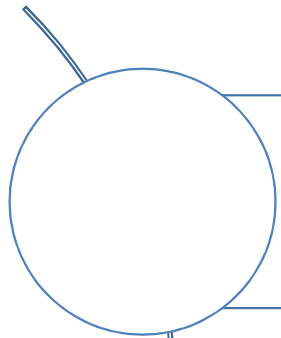
# Clause x Reporting on use of funds raised



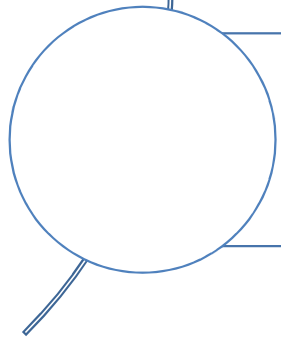
Section 42:- A company intending to issue securities to other than public can do so through a private placement.

Section 62:- is applicable on issue of shares or convertible only instruments under a private placement, which is termed as preferential allotment.

## Key considerations / points to be kept in mind



Separate bank account not opened



Valuation reports not obtained leading to non-compliance

# Clause xi Reporting of Fraud

## All frauds are to be reported

- In case of fraud on the Company or by the Company, Fraud on the company **by any person** has to be reported in this clause

- Amount + Nature

## Filing of form

- Assertive statement about filing of **ADT-4** u/s 143(12) of the Act
- Form to be filed by the auditor - Statutory auditor, Company Secretary and Cost Accountant

## Whistle blower

- Whether the auditor has considered **whistle blower complaints**, if any, received during the year by the company



## Key considerations / points to be kept in mind

- Scope of reporting is very wide & not limited to officers & employees of the company
- Lack of documentation to support that appropriate & adequate audit steps have been performed by the auditors
- In case of NBFC companies – auditors need to take into account the quarterly fraud reporting done by the management to RBI
- Section 143 (12) requires reporting of frauds by auditor identified by the auditor during the course of audit whereas CARO requires reporting of frauds noticed or reported during the year

To factor comments made under: Evergreening of loans, declaration of willful defaulter, diversion of fund, internal audit, whistle blower complaints, surrender of income during tax assessments / search

## Clause xii Reporting of Nidhi Companies



- Reporting on maintenance of **net owned funds** to deposits ratio of 1:20; and
- 10% of unencumbered term deposits
- Additionally, the auditor is required to report on default in **repayment of interest and deposit**
- Whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;



## Clause xiii Reporting on Transactions with related parties

Transactions with the related parties are in compliance with sec 177 and 188 of the Companies Act, 2013 where applicable.

Details have been disclosed in the FS as per applicable FRF

## Key considerations / points to be kept in mind

- Identification of related parties (completeness of the listing provided by the management)
- Changes in group structure – example ultimate parent which is incorporated overseas
- Lack of documentation & subjectivity as regards arms length price

## Clause xiv Reporting on Internal Audit System

Auditor required to report

whether the company has an **internal audit system** commensurate with the **size and nature** of its business;

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

## Clause xv Non-Cash Transaction with Directors

Any Non-cash transactions with the directors or persons connected with the directors.



Compliance section 192 of the Companies Act, 2013 have been complied with

## Clause xvi Registration with RBI

### **NBFC activities and RBI regulations**

- ❑ CARO 2020 covers reporting in respect of registration requirements as per Section 45-IA of the Reserve Bank of India Act, 1934
- ❑ Reporting has been laid down with regard to NBFC:
  - Conducting of NBFC/housing finance activities without a valid Certificate of Registration from RBI
  - If company is core investment company ('CIC')/exempted or unregistered CIC and whether continues to fulfill the criteria applicable to it
  - Indicate the number of CIC's which are part of the group

## Clause xvii Cash losses



Impact of qualifications and restatement made in previous year to be considered

### Reporting on cash losses

- Term 'cash loss' is not defined
- Non cash item
  - Ind AS - e.g. depreciation, amortization, impairment, unrealised exchange fluctuation, deferred tax, cash profit / loss adjusted in OCI
  - Others - depreciation, amortization, impairment, unrealised exchange fluctuation, deferred tax



## Clause xviii Resignation of statutory auditors

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



## Clause xix Opinion on liquidity

- On the date of audit report – SA 560 (Subsequent events)
- No material uncertainty as to repayment of current liabilities on balance sheet date

Assessment of Going Concern already covers these procedures – SA 570 (Going concern)

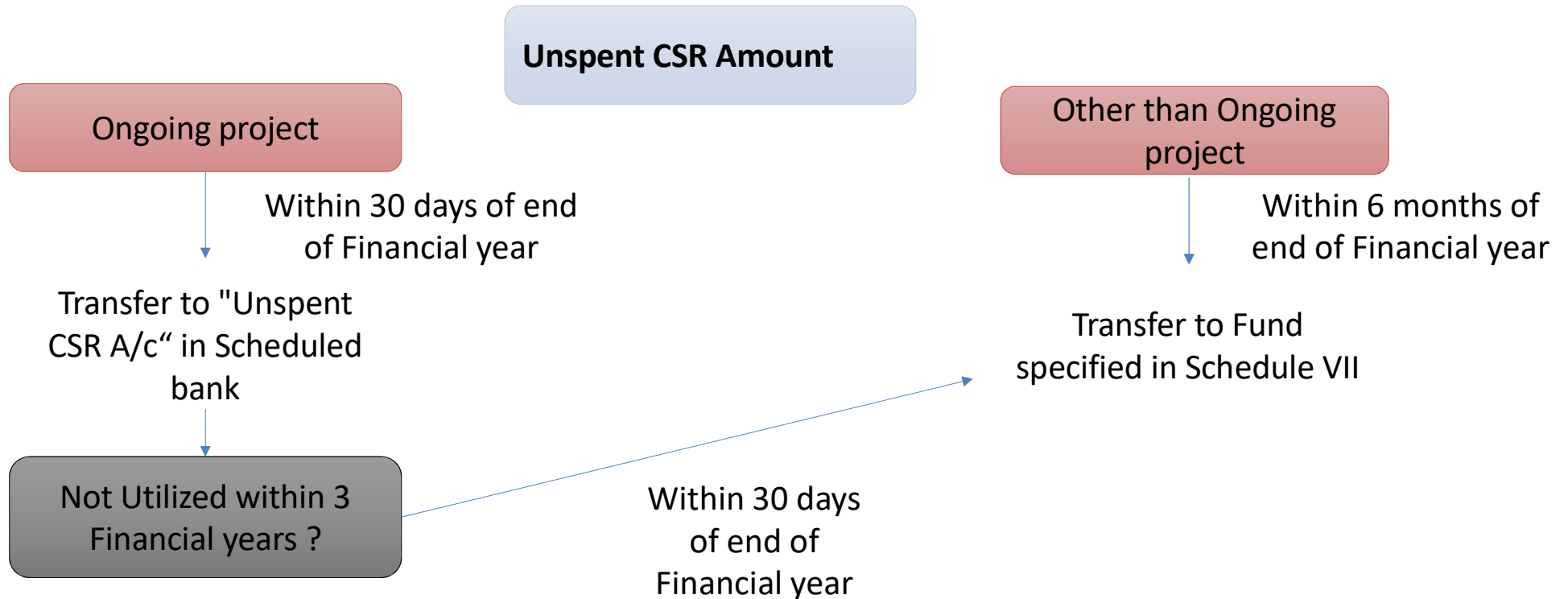
### Verify:

- Financial ratios;
- Ageing and expected dates of realisation of financial assets and financial liabilities;
- Other information accompanying the financial statements;
- Auditors knowledge of the Board and management plans



# Clause xx Corporate social responsibility

Auditors' Report shall include a statement on whether company has transferred any unspent amount to an Unspent Fund/Unspent CSR account, as the case may be



## Clause xxi Consolidated financial statement

**CARO Report of Company  
Included in CFS**

**Qualification or Adverse remarks as per SA 705**

**Indicate details**

**Name of Company  
Paragraph number of the CARO  
Reports**

## Practical tips

Avoid copy /paste

Checklist to be filled up during execution

Cover key aspect during planning stage

Cross reference CARO points with disclosures in annual report

Evaluate implication on main audit report / IFC report

Modification of audit procedures

## Reference material

- GN issued by ICAI on CARO 2020
- Reports issued by FRRB and QRB [which also covers non-compliances observed in CARO]
- Compilation Report issued by ICAI “Centre for Audit Quality Directorate” [Annual Series 2023]
- NFRA Circular dated June 2023 on auditor responsibilities in relation to Fraud Reporting
- CARO 2020 BCA Publication
- CARO 2020 E-book “Decoding the Perspective” published by ICAI -SIRC
- CARO checklist issued by ICAI as part of publication on “Audit working paper templates June 2023”

# Thank you

*Wish you all Successful and Impactful Audit Season*

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