

COMPANIES (AUDITOR'S REPORT)
ORDER, 2020

PRESENTED BY –

MOHIT BHUTERIA

Applicability of CARO, 2020

- Applies to all companies including foreign companies, but it does not apply to-
 - Banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949
 - Insurance company as defined under the Insurance Act, 1938
 - Company licensed to operate under section 8 of the Cos Act
 - One person company as defined under clause (62) of section 2 of the Cos Act
 - Small company as defined under clause (85) of section 2 of Cos Act
 - Private limited company, not being a subsidiary or holding company of a public company,
 - having a paid-up capital and reserves and surplus not more than 1 crore rupees as on the balance sheet date and
 - which does not have total borrowings exceeding 1 crore rupees from any bank or financial institution at any point of time during the financial year and
 - which does not have a total revenue as disclosed in Schedule III to the Act, exceeding 10 crores rupees during the financial year as per the financial statements.

Issues - Applicability

- Section 25 Company as per Cos Act, 1956
- Private Limited Company converted to Limited Liability Partnership
- Infrastructure Investment Trusts
- Real Estate Investment Trusts

Paid Up Capital & Reserve & Surplus

- Whether Preference Share Capital is considered as a part of Paid-Up share capital?
- Treatment of Call in arrears?
- Whether debit balance in P&L can be netted off with credit balance in R&S?
- Definition of R&S as per Schedule III (Division I)-
 - Capital Reserves;
 - Capital Redemption Reserve;
 - Securities Premium;
 - Debenture Redemption Reserve;
 - Revaluation Reserve;
 - Share Options Outstanding Account;
 - Other Reserves—(specify the nature and purpose of each reserve and the amount in respect thereof);
 - Surplus i.e., balance in statement of profit and loss.

Reserve & Surplus

Definition of R&S as per Schedule III (Division II)-

- Capital Reserve;
- Securities Premium;
- Other Reserve—(specify the nature and purpose of each reserve and the amount in respect thereof);
- Retained earning i.e., balance in statement of profit and loss.

Following shall not be included:

- equity component of compound financial instrument
- revaluation surplus
- debt/equity instrument through OCI
- effective portion of cash flow hedges
- exchange difference on translating the financial statement
- other items of OCI

Reserve & Surplus

- Definition of R&S as per Schedule III (Division III)-
 - Share application money pending allotment;
 - Equity component of compound financial instruments;
 - Statutory Reserves;
 - Capital Reserve;
 - Securities Premium;
 - Other Reserves (specify nature);
 - Retained Earnings;
 - Debt/Equity instruments through OCI;
 - Effective portion of Cash Flow Hedges;
 - Revaluation Surplus;
 - Exchange differences on translating the financial statements of a foreign operation;
 - Other items of OCI (specify nature);
 - Money received against share warrants.

Borrowings

- Borrowings – Fund Based or Non-Fund Based?
- Borrowings - limit in aggregate or individually?
- Overdraft against Fixed Deposit?
- Interest accrued and due?
- Interest accrued but not due?
- Credit card dues?

Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment? [Paragraph 3(i)(a)(A)]

- Property, Plant & Equipment – AS 10 & IND AS 16 ?
 - ROU assets as per AS 116 ?
 - Investment Property – IND AS 40 ?
 - Non-current Assets Held for Sale and Discontinued Operations – IND AS 105 ?
- What constitute 'Proper records'?
- Whether PPE that have been fully depreciated be included in FAR?
- Whether records can be maintained electronically?

Whether the company is maintaining proper records showing full particulars of intangible assets; [Paragraph 3(i)(a)(B)]

- Intangible Asset – AS 26 & IND AS 38
- What constitute ‘proper records’?
- Documentation requirement as per Copyright Act, Patent Act, etc.

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? [Paragraph 3(i)(b)]

- Whether physical verification should be conducted by the Auditor himself?
- Whether physical verification can be conducted by the third party?
- What constitute 'reasonable interval'?
- Consideration of materiality
- Method of verification – periodic or continuous or year-end or program spread over a period?

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 ? [Paragraph 3(i)(c)]

- What constitute 'Immovable Property'?
- What constitute 'Title deeds'?
 - Title deeds in the name of amalgamating /demerged company?
 - Title deeds mortgage with any bank/FIs
 - Title deeds lost
 - Title deeds under dispute
 - Title deeds in the name of partnership firm/LLP
- Leases where no lease agreements executed

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? [Paragraph 3(i)(d)]

- Whether revaluation has to be made every year?
- Fair valuation of PPE as per IND AS 101 be included?
- Re-measurement due to interest or foreign exchange included?
- Changes in ROU asset due to lease modification?
- Aspects to be considered by auditor for revaluation

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? [Paragraph 3(i)(e)]

- Definition of Benami Property - Prohibition of Benami Property Transactions Act, 1988
- What constitute appropriate disclosures?
- Where notice is received as beneficial owner – Applicability?

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? [Paragraph 3(ii)(a)]

- Inventories – AS 2 & IND AS 2
- Method of Physical verification – periodic or continuous or year-end?
- What constitute ‘reasonable intervals’?
- What constitute ‘appropriate’?
- Whether Auditor is required to be present at the time of verification?
- What constitute class of inventory?
- Discrepancies of 10% or more – Value or Quantity?

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? [Paragraph 3(ii)(b)]

- Definition – ‘Working Capital’?
- Current Asset – Schedule III?
- Borrowings – fund based or non-fund based?
- Whether limit is to be considered as at last day or during any day of the financial year?
- Excludes unsecured working capital limits?
- What constitute ‘returns/statements’?
- Reporting where monthly returns are furnished ?
- Consideration of materiality

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]? [Paragraph 3(iii)(a)]

- Applicability of Section 179, 180, 185, 186 and 187 of Cos Act, 2013
- Whether all types of guarantees are included?

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?[Paragraph 3(iii)(b)]

- What constitute 'terms and conditions'?
- Applicability of Section 186 and Section 185
- Loans to employees at concessional rate?
- Loan to director or relative of director ?

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?[Paragraph 3(iii)(c)]

- What does 'regular' mean?
- Loans repayable on demand?
- Loans carrying no stipulation?
- In case of NBFC, RBI directions need to be followed

Format:

Name of the Entity	Amount	Due Date	Extent of Delay	Remarks
...

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?[Paragraph 3(iii)(d)]

- What constitute 'reasonable steps'?
- Whether legal notice is pre-requisite?
- Whether overdue has to be considered as at balance sheet date or for any time during the year?

Format:

No of Cases	Principal Overdue	Interest Overdue	Total Overdue	Remarks
.....

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 overdues 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]?[Paragraph 3(iii)(e)]

Evergreening of loans - Fresh loan granted to repay existing loan ?

Loans falling due on balance sheet date and renewed post balance sheet date?

Format:

Name of Parties	Aggregate amount of overdues 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
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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?[Paragraph 3(iii)(f)]

- Promoters – Section 2(69) of Cos Act, 2013
- Whether repayment schedule exist?
- Loans granted at any point of during the year or outstanding as at year end?

In respect of loans, investments, guarantees, and security, whether provisions of section 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof ? [Paragraph 3(iv)]

- Form MBP – 1
- Register – Section 189 of Cos Act, 2013
- What constitute ‘indirect loan’?
- Disclosure as per Sec 186?

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 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; [Paragraph 3(v)]

- Deposits – Section 2(31) of the Cos Act, 2013
- Deemed Deposits - Rule 2(1)(c) of the Companies (Acceptance of Deposits) Rules, 2014
- NBFCs accepting deposits – Governed by RBI
- Compliance with order passed by any court or tribunal or RBI

Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained? [Paragraph 3(vi)]

- What constitute 'cost records'?
- Definition of the word – 'made' and 'maintained'?
- Qualification & Comments in Cost Audit Report

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?

[Paragraph3(vii)(a)]

- What constitute 'statutory dues' – Inclusive definition?
- Only Statutory dues that are required to be deposited regularly?
- Whether dividend payment will be considered?
- Whether import duty for removal of goods from warehouse will be covered?
- Non-payment of advance tax within stipulated dates?
- Whether or not there are any arrears as at balance sheet date?

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)?[Paragraph 3(vii)(b)]

- What constitute dispute?
- Whether departmental appeal to be considered as dispute?
- Whether demands that are stayed constitute disputed dues?
- Settlement of demand under various schemes?
- Provisions made for disputed dues?
- Disclosures as per AS - 4 & IND AS 37

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; [Paragraph 3(viii)]

- What constitute 'undisclosed income'?
- Additions made by AO admitted by assessee?
- Additions made during search and seizure?
- Implications under Sec 447/448?
- Accounting treatment as per AS-5 & IND AS - 8

Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender? [Paragraph 3(ix)(a)]

- What constitute 'default'?
- Whether borrowings includes public deposits?
- Whether preference share capital is considered under this clause?
- Whether default committed in previous years and continuing is also covered?
- Loans repayable on demand or where no repayment terms specified?
- What constitute 'any lender'?

Whether the company is a declared wilful defaulter by any bank or financial institution or other lender? [Paragraph 3(ix)(b)]

- Wilful default – RBI master circular RBI/2014-15/73DBR.No.CID.BC.57/20.16.003/2014-15 dated July 1, 2014
- Whether off balance sheet items are covered?
- Information through Credit Information Company, RBI sites, CRILC

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?
[Paragraph3(ix)(c)]

- What constitute 'term loans'?
- Diversion of Funds - Reserve Bank of India vide its master circular RBI/2014-15/73 DBR.No.CID. BC.57/20.16.003/2014-15 dated July 1, 2014
- Whether loans from entities other than Bank/FIs covered?
- Where term loan is deposited in common account and subsequently payment made?
- Loan not utilized as it was raised at the fag-end of the year?
- Funds invested temporarily?

Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated? [Paragraph 3(ix)(d)]

- Where quantum of long term funds is significantly less than long term assets?
- Where current ratio is less than 1?

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? [Paragraph 3(ix)(e)]

- Definitions of subsidiary, associate or joint venture – Cos Act, 2013
- Funds will include both long term and short-term funds?
- What constitute 'entity'?
- What constitute 'obligation'?
- Compliance with AS-18 & IND AS 24

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? [Paragraph 3(ix)(f)]

- Securities - section 2(h) of the SCRA, 1956
- What does 'pledge' means?
- Lender – whether any lender?
- Whether only loan taken during the year is to be considered?

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; [Paragraph 3(x)(a)]

- Securities - section 2(h) of the SCRA, 1956.
- Debt Instrument - SEBI (Issue and Listing of Debt Securities), Regulations, 2008
- Public offer – Section 23 of the Cos Act, 2013
- Requirements of SEBI (LODR) Regulations, 2015
- Funds invested temporarily?

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?[Paragraph 3(x)(b)]

- Private Placement – Section 42 of the Cos Act, 2013
- Preferential Allotment – not defined under the Act
- Compliance of Section 42 and Section 62
- Funds temporarily invested?
- funds were raised at the fag-end of the year and not utilized?
- Recent penalty orders of ROC

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? [Paragraph 3(xi)]

- Definition of Fraud – Section 447 of Cos Act , SA 240
- Management Fraud – fraud by the company
- Fraud by employee or third parties – fraud on the company
- Whether auditor is required to discover fraud?
- Reporting requirement as per Section 143(12)

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? [Paragraph 3(xi)(b)]

- Reporting under Section 143(12)
- Reporting by Cost Accountant appointed under Section 148
- Reporting by Company Secretary – Section 204

Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company? [Paragraph 3(xi)(c)]

- Whistle blower mechanism applicability?
- Requirement of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR Regulations)
- Vigil Mechanism – Section 177(9)
- Voluntary vigil/whistle blower mechanism

Whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability? [Paragraph 3(xii)(a)]

- Nidhi Company – Section 406 and Nidhi Rules
- Net owned funds – Rule 3(1)(d) of Nidhi Rules
- Whether default committed in previous years also covered?

Whether the Nidhi Company is maintaining ten per cent. unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability ?[Paragraph 3(xii)(b)]

- What constitute 'unencumbered term deposits'?
- Whether default made in previous year will also be covered?

Whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof ? [Paragraph 3(xii)(c)]

- Whether repayment terms and schedule made?
- Whether default made in previous years is also covered?

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; [Paragraph 3(xiii)]

- Audit Committee – Sec177
- Related Party Transaction – Sec 188
- Related Party – Section 2(76)
- Related Party Disclosure – AS 18 & IND AS 24

Whether the company has an internal audit system commensurate with the size and nature of its business? [Paragraph 3(xiv)(a)]

- Applicability of Section 138?
- Definition of Internal Audit – SA 610
- Adequacy of Internal Audit system

Whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor? [Paragraph 3(xiv)(b)]

- Consideration of Internal Audit Report
- Comment of Management on observation of Internal Auditor.

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? [Paragraph 3(xv)]

- What constitute 'Non Cash transaction'?
- Who are person connected with directors?

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? [Paragraph 3(xvi)(a)]

- Applicability of Section 45-IA of RBI Act
- What constitute 'principal business' – Press Release 1269/98-99 dated 08.04.1999
- Reasons for not obtaining registration.

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? [Paragraph 3(xvi)(b)]

- What constitute ‘NBFCs activities’?
- What constitute ‘Housing Finance Activities’?
- Why registration not obtained?

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? [Paragraph 3(xvi)(c)]

- CIC definition - RBI Master Direction – Core Investment Companies (Reserve Bank) Directions, 2016
- Whether all condition of RBI master direction complied?
- Company does not carry any other activity?
- What constitute ‘companies in the same group’?
- Non compliance by any of the CIC in the group

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? [Paragraph 3(xvi)(d)]

- What constitute ‘companies in the same group’?
- Only number of CICs in group to be indicated?

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? [Paragraph 3(xvii)]

- What constitute 'cash losses'?
- Cash Flow Statements – AS 3 and IND AS 7
- Profit and Loss adjusted with non-cash items

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? [Paragraph 3(xviii)]

- Applicability in case of Casual Vacancy
- Form ADT- 3 – reason for resignation
- Letter of Resignation
- Last audit report issued by the auditor

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?
[Paragraph3(xix)]

- Consideration of materiality
- Definition of Financial Asset & Liabilities – IND AS 32
- Status of financial assets or liabilities after the balance sheet date
- Provisions to be made for bad and doubtful debts
- Cash position of the company

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? [Paragraph 3(xx)(a)]

- Applicability of Section 135?
- Where audit report has been issued before expiry of 6 months from the end of F.Y.?
- Whether only for current financial year or for previous year also?
- Provisions in respect of unspent amount – AS 29 / IND AS 37

Whether any amount remaining unspent under section (5) of section 135 of Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with provision of sub section (6) of section 135 of the said Act? [Paragraph 3(xx)(b)]

Applicability of Section 135?

Where audit report has been issued prior to expiry of 30 days from the end of F.Y.?

Whether only for current financial year or for previous year also?

Provisions in respect of unspent amount – AS 29 / IND AS 37

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. [Paragraph 3(xxi)]

- Applicable only for Consolidated Financial Statement
- What constitute 'qualifications or adverse remarks'?
- Whether adverse remark given in Standalone FS of Parent Company is also covered?
- Whether auditor needs to re-evaluate materiality on the basis of CFS?

Thank You