

Chapter 10A

Question Bank

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- Q1. Eeyore Pvt. Ltd. was incorporated on 1st July, 2020. During the Financial Year ending on 31st March, 2021, the company did not opt for any borrowing at any point of time and have a total revenue of Rs. 60 Lakh. At the year end, it provides the following information regarding its paid-up capital and reserve & surplus

Particulars	Amount (in Rs.)
Paid-up Capital	
Consideration received in cash for equity shares (including unpaid calls of Rs. 5,00,000)	40,00,000
Consideration received in cash for preference shares	25,00,000
Bonus shares allotted	7,00,000
Share application money received pending allotment	10,00,000
Sub-Total	82,00,000
Reserve & Surplus	
Balance in Statement of Profit and Loss	15,00,000
Capital Reserves	10,00,000
Sub-Total	25,00,000
GRAND TOTAL	1,07,00,000

You are provided with the provisions regarding applicability of Companies (Auditor's Report) Order, 2020, (CARO, 2020) issued under section 143(11) of the Companies Act, 2013 to a private limited company that it specifically exempts a private limited company having a paid up capital and reserves and surplus not more than Rs. 1 crore as on the Balance Sheet date and which does not have total borrowings exceeding Rs. 1 crore from any bank at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 exceeding Rs. 10 crore during the financial year.

Considering the information given above, which of the following shall be considered as a reason regarding applicability or non-applicability of CARO, 2020?

- (a) Reporting under CARO, 2020 shall be applicable as the company is having a paid up capital and reserves and surplus of Rs. 1.07 crore i.e. more than Rs. 1 crore as on the Balance Sheet date.
- (b) Reporting under CARO, 2020 shall be applicable as the company is having a paid up capital and reserves and surplus of Rs. 1.02 crore i.e. more than Rs. 1 crore as on the Balance Sheet date.

	<p>(c) Reporting under CARO, 2020 shall not be applicable as the company is having a paid up capital and reserves and surplus of Rs. 0.92 crore i.e. not more than Rs. 1 crore as on the Balance Sheet date.</p> <p>(d) Reporting under CARO, 2020 shall not be applicable as the company is having a paid up capital and reserves and surplus of Rs. 0.82 crore i.e. not more than Rs. 1 crore as on the Balance Sheet date.</p> <p>(Sample MCQs) (RTP, May 2019, NA)</p>
	<p>Correct answer: (c) Reporting under CARO, 2020 shall not be applicable as the company is having a paid up capital and reserves and surplus of Rs. 0.92 crore i.e. not more than Rs. 1 crore as on the Balance Sheet date.</p>
Q2.	<p>The scope of the auditor's inquiry under clause (xi) of paragraph 3 of Companies (Auditor's Report) Order, 2020 is restricted to frauds 'noticed or reported' during the year. Explain.</p> <p>(RTP, May 2018, NA) (RTP, Nov 2019, NA)</p> <p>Reporting under Companies (Auditor's Report) Order, 2020 [CARO, 2020]: The auditor is also required to report under clause (xi) of paragraph 3 of Companies (Auditor's Report) Order, 2020, 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.</p> <p>The auditor is also required to report 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; and whether the auditor has considered whistle-blower complaints, if any, received during the year by the company</p> <p>The scope of auditor's inquiry under this clause is restricted to following:</p> <ol style="list-style-type: none"> a) frauds 'noticed or reported' during the year; b) reporting on filing of any report in Form ADT-4 during the year; and c) whistle-blower complaints, if any, received during the year <p>It may be noted that this clause of the Order, by requiring the auditor to report whether any fraud by the company or on the company has been noticed or reported, does not relieve the auditor from his responsibility to consider fraud and error in an audit of financial statements. In other words, irrespective of the auditor's comments under this clause, the auditor is also required to comply with the requirements of SA 240, "The Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements".</p> <p>Audit Procedures and Reporting under CARO:</p> <ol style="list-style-type: none"> 1) While planning the audit, the auditor should discuss with other members of the audit team, the susceptibility of the company to material misstatements in the financial statements resulting from fraud. While planning, the auditor should also make inquiries of management to determine whether management is aware of any known fraud or suspected fraud that the company is investigating. 2) The auditor should examine the reports of the internal auditor with a view to ascertain whether any fraud has been reported or noticed by the management. The auditor should examine the minutes of the audit committee, if available, to ascertain whether any instance of fraud pertaining to the company has been reported and actions taken thereon. <p>The auditor should enquire from the management about any frauds on the company that it has noticed or that have been reported to it. The auditor should also discuss the matter with other employees including officers of the company. The auditor should also examine the minute book of the board meeting of the company in this regard.</p> <p>The auditor should also enquire from the management about any whistleblower complaints received during the year by the company or that have been reported to it during the year. The</p>

	<p>auditor should also discuss the matter with other employees including officers of the company. The auditor should also examine the minute book of the board meeting of the company in this regard.</p> <p>3) The auditor should obtain written representations from management that:</p> <ul style="list-style-type: none"> • it acknowledges its responsibility for the implementation and operation of accounting and internal control systems that are designed to prevent and detect fraud and error; • it believes the effects of those uncorrected misstatements in financial statements, aggregated by the auditor during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. A summary of such items should be included in or attached to the written representation; • it has <ul style="list-style-type: none"> a) disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity; and b) it has disclosed to the auditor the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud. <p>4) Because management is responsible for adjusting the financial statements to correct material misstatements, it is important that the auditor obtains written representation from management that any uncorrected misstatements resulting from fraud are, in management's opinion, immaterial, both individually and in the aggregate. Such representations are not a substitute for obtaining sufficient appropriate audit evidence. In some circumstances, management may not believe that certain of the uncorrected financial statement misstatements aggregated by the auditor during the audit are misstatements. For that reason, management may want to add to their written representation words such as, "We do not agree that items constitute misstatements because [description of reasons]."</p> <p>The auditor should consider if any fraud has been reported by them during the year under section 143(12) of the Act and if so whether that same would be reported under this Clause. It may be mentioned here that section 143(12) of the Act requires the auditor to have reasons to believe that a fraud is being committed or has been committed by an employee or officer. In such a case the, auditor needs to report to the Central Government or the Audit Committee. However, this Clause will include only the reported frauds and not suspected fraud.</p> <p>5) Where the auditor notices that any fraud by the company or on the company by its officers or employees has been noticed by or reported during the year, the auditor should, apart from reporting the existence of fraud, also required to report, the nature of fraud and amount involved. For reporting under this clause, the auditor may consider the following:</p> <ul style="list-style-type: none"> • This clause requires all frauds noticed or reported during the year shall be reported indicating the nature and amount involved. As specified the fraud by the company or on the company by its officers or employees are only covered. • Of the frauds covered under section 143(12) of the Act, only noticed frauds shall be included here and not the suspected frauds. • While reporting under this clause with regard to the nature and the amount involved of the frauds noticed or reported, the auditor may also consider the principles of materiality outlined in Standards on Auditing.
<p>Q3.</p>	<p>Discuss the matters to be included in the auditor's report regarding statutory dues and repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders as per CARO, 2020.</p> <p>(RTP, May 2018, NA)</p> <hr/> <p>Matters to be included in the auditor's report- statutory dues and repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders (CARO, 2020)</p> <p>Statutory dues [Clause (vii) of Para 3 of CARO 2020]</p> <p>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</p>

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;

- 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);

Repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders [Clause (ix) of Para 3 of CARO 2020]

- 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.				

- b) whether the company is a declared wilful defaulter by any bank or financial institution or other lender;
- 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;
- d) whether funds raised on short term basis have been utilized for long term purposes, if yes, the nature and amount to be indicated;
- 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;
- 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;

Q4.

State the matters to be included in the auditor's report as per CARO, 2020 regarding -

- (i) Default in repayment of loans or borrowing to a financial institution, bank etc.
(ii) Fraud by the company or on the Company by its officers or employees.

(MTP1, May 2018, 4 marks) (MTP1, May 2019, 4 Marks) (MTP2, May 2021, 4 Marks) (MTP2, Nov 2021, 3 Marks)

OR

State the matters to be included in auditor's report as per CARO, 2020 regarding "Default in repayment of loan or borrowing to a financial institution, bank etc."

(MTP1, May 2022, 3 marks)

Matters to be included in the Auditor's Report under CARO, 2020: The auditor's report on the accounts of a company to which CARO applies shall include a statement on the following matters, namely-

i) Default in repayment of loans or borrowing to a financial institution, bank etc. [Clause (ix) of Para 3 of CARO 2020]

- 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.				

- b) whether the company is a declared wilful defaulter by any bank or financial institution or other lender;
- 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;
- d) whether funds raised on short term basis have been utilized for long term purposes, if yes, the nature and amount to be indicated;
- 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;
- 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;

ii) Fraud by the company or on the Company by its officers or employees. [Clause (xi) of Para 3 of CARO 2020]

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

Q5.

State the matters to be included in the auditor's report as per CARO, 2020 regarding-

- (i) in case the company has accepted deposits
(ii) Nidhi company

(MTP2, May 2018, 4 Marks)

Matters to be included in the Auditor's Report under CARO, 2020: The auditor's report on the accounts of a company to which CARO applies shall include a statement on the following matters, namely-

i) Deposits accepted

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

	<p>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;</p> <p>ii) <u>Nidhi Company</u></p> <p>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;</p> <p>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;</p> <p>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;</p>
Q6.	<p>State the matters to be included in the auditor's report as per CARO, 2020, regarding:</p> <p>(i) Private Placement of Preferential Issues.</p> <p>(ii) Utilisation of IPO and further public offer.</p> <p>(SA, May 2018, 4 Marks) (MTP2, May 2019, 4 Marks)</p> <p>OR</p> <p>State the auditor's reporting responsibilities under CARO, 2020 when –</p> <p>(i) The company has made private placement of shares.</p> <p>(ii) The company has raised money by public issue.</p> <p>(SA, Dec 2021, 4 marks)</p> <p>i) <u>Private Placement of Preferential Issues</u></p> <p>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 noncompliance;</p> <p>ii) <u>Utilisation of IPO and further public offer</u></p> <p>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</p>
Q7.	<p>State the matters to be included in the auditor's report as per CARO, 2020 regarding-</p> <p>(i) Property, Plant and Equipment</p> <p>(ii) statutory dues</p> <p>(MTP1, Nov 2018, 5 Marks) (MTP1, May 2020, 4 Marks)</p> <p>(i) Property, Plant and Equipment</p> <p>Reporting for PPE and Intangible assets - Clause (i) of Para 3 of CARO ,2020, requires the auditor to include a statement in the auditor's report on the following matters, namely -</p> <p><u>Proper records- PPE and intangible assets</u></p> <ul style="list-style-type: none"> • whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment; • whether the company is maintaining proper records showing full particulars of intangible assets; <p><u>Physical verification and material discrepancies</u></p> <ul style="list-style-type: none"> • 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;

Title deeds

- 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 favor of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the format below:-

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

Revaluation of PPE and intangible assets

- 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;

Proceedings for benami property

- 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;

(ii) As per clause (vii) of Para 3 of CARO, 2020, reporting requirements in respect of statutory dues are :

- 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;
- 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);

- Q8. Discuss the reporting requirements regarding Property, Plant and Equipment under CARO, 2020. **(MTP2, Nov 2018, 3 Marks) (SA, May 2019, 3 Marks) (RTP, Nov 2021, NA)**
- OR**
- Explain the Reporting requirements the auditor should ensure under CARO 2020 related to PPE and Intangible assets. **(RTP, May 2022, NA)**
- OR**
- As an auditor of the company, what matters you will report for Property, Plant and Equipment under CARO, 2020. **(SELF)**

Reporting requirements regarding PPE under CARO, 2020 are :

Proper records- PPE and intangible assets

- whether the company is maintaining proper records showing full particulars, including

quantitative details and **situation** of Property, Plant and Equipment;

- whether the company is maintaining proper records showing full **particulars of intangible assets**;

Physical verification and material discrepancies

- 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;

Title deeds

- 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 favor of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the format below:-

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

Revaluation of PPE and intangible assets

- 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;

Proceedings for benami property

- 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;

Q9. "The company has raised funds by issuing fully convertible debentures. These funds were raised for the expansion and diversification of the business. However, the company utilized these funds for repayment of long term loans and advances." Advise the auditor regarding reporting requirements under CARO, 2020.
(SA, Nov 2018, 4 Marks)(MTP1, Nov 2021, 3 Marks)

The auditor is required to report as per clause (x)(b) of paragraph 3 of CARO 2020, 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 noncompliance;

In view of the above clause, the auditor would report that funds raised by the company for expansion and diversification of business have not been used for the said purpose rather the company has utilized these funds for repayment of long term loans and advance.

Q10. Discuss which class of companies are specifically exempt from the applicability of CARO 2020.
(MTP1, Nov 2019, 3 Marks)

CARO 2020 specifically exempts the following class of companies:

- A banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;

	<p>ii) An insurance company as defined under the Insurance Act, 1938;</p> <p>iii) A company licensed to operate under section 8 of the Companies Act;</p> <p>iv) A One Person Company as defined under clause (62) of section 2 of the Companies Act;</p> <p>v) A small company as defined under clause (85) of section 2 of the Companies Act; and</p> <p>vi) a 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 one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one 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 Companies Act (including revenue from discontinuing operations) exceeding ten crore rupees during the financial year as per the financial statements.</p>
Q11.	<p>Correct/Incorrect</p> <p>Provision of CARO, 2020 is not applicable to ABC Pvt. Ltd., a subsidiary of XYZ Ltd. (a public company) having fully paid up Capital and Reserves & Surplus of Rs 50 lakhs, Secured loan from bank of Rs 90 Lakhs and Turnover of Rs 5 Crore, for the financial year 2021-22.</p> <p>(SA, Nov 2019, 2 Marks) (MTP2, May 2021, 3 Marks)</p> <p>The statement is Incorrect.</p> <p>The CARO specifically exempts a 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 one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one 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 Companies Act (including revenue from discontinuing operations) exceeding ten crore rupees during the financial year as per the financial statements.</p> <p>Conclusion: From the above, it is clear that ABC Pvt. Ltd. is a subsidiary of XYZ Ltd. and hence not exempt from CARO, 2020 although it is satisfying the conditions that allow exemption to private limited company which is not a subsidiary or holding company of a public company</p>
Q12.	<p>M Ltd. has given certain loans to related parties and also has accepted certain deposits. As an auditor, how will you include the above items in paragraph 3 of CARO, 2020?</p> <p>(SA, Nov 2019, 4 Marks) (MTP1, May 2021, 3 Marks)</p> <p>1. Clause (iii) of paragraph 3 of CARO, 2020 states whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so,</p> <p>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-</p> <ul style="list-style-type: none"> • 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; • 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; <p>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;</p> <p>c) in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;</p>

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

2. Further, **Clause (v) of paragraph 3 of CARO, 2020** states in case the company has accepted deposits,

- i) 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;
- ii) 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;

In the given situation, M Ltd. has given certain loans to related parties and also has accepted certain deposits. Thus, the auditor is required to report the same as per clause (iii) and (v) of Paragraph 3 of CARO, 2020.

Q13. The auditor's requirement to report under clause (xi) of paragraph 3 of the Companies (Auditor's Report) Order, 2020 is restricted to frauds noticed or reported during the year. Explain what auditors may consider for reporting under this clause?

(SA, Nov 2020, 3 Marks)

OR

Where the auditor notices that any fraud by the company or on the company by its officers or employees has been noticed by or reported during the year, the auditor should, apart from reporting the existence of fraud, also report under clause (xi) of paragraph 3 of Companies (Auditor's Report) Order, 2020, the nature of fraud and amount involved. Explain the considerations an auditor would keep in mind for reporting under this clause.

(RTP, May 2021, NA)

The auditor is required to report under **clause (xi)** of paragraph 3 of Companies (Auditor's Report) Order 2020,

Where the auditor notices that any fraud by the company or on the company by its officers or employees has been noticed by or reported during the year, the auditor should, apart from reporting the existence of fraud, also be required to report the nature of fraud and amount involved. For reporting under this clause, the auditor may consider the following:

- i) This clause requires all frauds noticed or reported during the year shall be reported indicating the nature and amount involved. As specified the fraud by the company or on the company by its

	<p>officers or employees are only covered.</p> <p>ii) Of the frauds covered under section 143(12) of the Act, only noticed frauds shall be included here and not the suspected frauds.</p> <p>iii) While reporting under this clause with regard to the nature and the amount involved of the frauds noticed or reported, the auditor may also consider the principles of materiality outlined in Standards on Auditing.</p>
Q14.	<p>Correct/Incorrect</p> <p>According to Para 3(1)(d) of CARO, 2020, an auditor needs to report 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 5% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets</p> <p>(RTP, May 2022, NA)</p> <p>Incorrect:</p> <p>According to Para 3(1)(d) of CARO, 2020, an auditor needs to report 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</p>
Q15.	<p>Proceedings have been initiated against the company ABC Ltd for holding one of its property as benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and the rules made thereunder. State the disclosure requirements to be complied with by ABC Ltd as per Schedule III to the Companies Act, 2013.</p> <p>(MTP2, May 2022, 4 marks)</p> <p>Details of Benami Property held</p> <p>Where any proceedings have been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and the rules made thereunder, the company shall disclose the following:-</p> <ol style="list-style-type: none"> 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.
Q16.	<p>State the matters to be included in auditor's report as per CARO, 2020 regarding - Verification of inventory and working capital limits.</p> <p>(MTP2, May 2022, 3 marks)</p> <p>OR</p> <p>Discuss the reporting requirements regarding Inventory under CARO, 2020.</p> <p>(SELF)</p> <p>Clause (ii) of Para 3 of CARO, 2020, requires the auditor to report <u>Physical verification, coverage and procedure</u></p>

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- 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;

Discrepancies of 10% or more

- 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;

Working capital limits

- 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;
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