

## CARO, 2020

### Applicability

It shall apply to every company including a foreign company (section 2(42)) of the Companies Act, 2013, except—

- A **banking company** as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;
- An **insurance company** as defined under the Insurance Act, 1938;
- A company licensed to operate under **section 8** of the Companies Act;
- A **One Person Company** as defined under clause (62) of section 2 of the Companies Act and a **small company** as defined under clause (85) of section 2 of the Companies Act; and
- 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 **₹ 1 crore** as on the B/S date and
  - which does not have **total borrowings** exceeding **₹ 1 crore from any bank or FI** at any point of time during the F.Y. and
  - which does not have a **total revenue** as disclosed in Scheduled III to the Companies Act, 2013 (including revenue from discontinuing operations) **exceeding ₹ 10 crore** during the F.Y. as per the FS.

### EXEMPTIONS FROM CARO

Companies exempted under this order are as follows:

- Banking Companies
- Not for Profit companies under Section 8
- Private Limited Companies satisfying certain conditions
- Insurance companies
- OPC
- Small Companies
- Specified private companies

### All About CARO

#### 1. Why CARO?

Section 143(11) confers power to the Central Government to issue order to the auditor of the company for matters to be included in his report. Under that section, Central Government has notified CARO (Companies Auditor Report Order, 2020) making it mandatory for auditor of companies covered under such order to furnish his comments on matters specified in this order.

#### 3. Limits or Enhances Responsibility? Exhaustive or Inclusive?

The requirements of the order are in addition (supplemental) to the existing provisions of section 143 of the act. Order not to limit, but requires a statement on specified matters to be included in the audit report.

#### 5. Compulsory Reporting or Exception Reporting?

Report to compulsory mention all the points in CARO, whether the comments are affirmative, qualifying, explanatory or the clause is not applicable.

#### 7. Whether CARO Report part of Auditor's Report?

The auditor's comments in the terms of order forms part of his report & therefore the board will be bound to give in its Director's Report under section 134 the fullest information & explanation regarding every adverse comment in the auditor's report, as required u/s 134 Director's Report in Directors Responsibility Statement.

#### 2. CARO - Financial or Propriety Audit?

Though an auditor is concerned with truthful and fairness of financial statements presentation, under CARO an auditor is also required to report on various other matters which are propriety in nature and not necessarily affect financial statement. Like delays in repayment of dues to lenders, statutory dues, etc.

#### 4. Report or Certificate? Test or 100% Check?

CARO is a report given by the auditor, & not a certification. Hence, auditor is expected to conduct test check only though being a specific order the sample size would be larger than usual. Further, CARO reporting is no guarantee and still suffers from risk of certain material misstatements remaining undetected by the auditor.

#### 6. Is CARO applicable to:

- a) **Government Company?**  
Applicable to government companies too and is in addition to directions given by the Comptroller and Auditor General of India in respect of government companies.
- b) **Branch Auditor?**  
Yes it is applicable to branch auditor as well

#### 8. Order on Companies or Auditor? Contravention of CARO would attract any penalty to company?

The Order contains certain matters on which the **auditors of companies** (except of those categories of companies which are specifically exempted under the order) have to make a statement in their audit report. **Thereby the order is direction to auditor and not the companies, for inclusion of certain matters in their auditor's report and accordingly auditor to modify their audit procedures.**

CARO: Private Limited Company: Exemption:			
Q. No	Questions: CARO applies? (Assume all other conditions of exemption are met)		Answer
1.	Company registered with unlimited liability (not limited by shares) which is a Private Co.		No Exemption as it is not a "Pvt. Ltd. Co.", means CARO applies.
2.	<b>Company registered as a "private limited company" and has a</b> <b>a) Parent Co. which is:</b> <ul style="list-style-type: none"> <li>a private Co.</li> <li>a public Co.</li> </ul> <b>b) Subsidiary which is:</b> <ul style="list-style-type: none"> <li>a private Co.</li> <li>a public Co.</li> </ul>		Eligible for exemption No exemption (Co. will be a deemed public Co.)  Eligible for exemption No exemption
3.	Public Ltd. Co. has its Parent Co. - a Pvt. Ltd. Co. & no subsidiaries		No Exemption as it is not a Pvt. Ltd. Co.
4.	ESC Paid Up R&S	120 lacs } as on B/S date (-) 30 lacs	Exemption available as Paid Up Cap. & R&S = 90 lacs.
5.	Sh Capital: (of Pvt Ltd. Co. with no H/S....) As on B/S date → Based on this CARO applicable?	Called Up 80 lacs Calls in Arrear 10 lacs Sh. Forfeiture 2 lacs Calls in Advance 5 lacs R&S 29 lacs	Paid Up Cap. = 80-10+2+0 = 72 lacs R&S = 29 lacs → >100 lacs No Exemption.
6.	Pvt Ltd Co. Paid Up SC Capital Reserve Security Premium Deb. Redemption Fund ESOP/SBP Reserve Provision for Legal Claims General Reserve PorL Cr. Bal.	50 lacs 5 lacs 10 lacs 10 lacs 5 lacs 6 lacs 10 lacs 10 lacs	Paid Up SC: 50 lacs R&S: 50 lacs Total 100 lacs Hence, Exemption available. (Provision for legal claim excluded in R&S)

7.	Borrowings:	Maximum O/S during the year	Closing Bal.	Treated as Borrowings A/cing adjustment & not treated as loan by FI till due & not paid. 35 + 20 + 20 + 20 + 5 = 100 hence, exemption available.
	> Bank Borrowings:	(Figure in lacs)		
	a) Term Loan	35	15	
	b) Working Capital Loan	20	25	
	c) O/D Limit sanctioned & drawn.	20	NIL	
	> FI: Unsecured Loan taken	20	20	
	> Relative: Secured Loan taken	21	10	
	> Debentures from public	22	20	
	> Interest on bank loan:			
	Due not paid	5	5	
	> Int. an Unsec loan (accrued not due)	2	2	
8.	SPL: Revenue from operations disclosed in SPL Other income Rev. from Discontinued Operations As per latest FS. What will be the amount of revenue for applicability of CARO?	9 crores 1 crore 1 crore		"SPL" Revenue is from all operations or only continuing operations? <b>Ans:</b> S-III: SPL – Revenue is only of cont. operations. Total Revenue for CARO applicability = 9 + 1 + 1 = 11 Hence, exemption NA.
9.	CARO applicable in FY 2023-24? Revenue (Gross) 23-24 Sales Return recd. in 23-24 : Out of 23-23 sales : Out of 22-24 sales	12 crores  1.50 crore 1 crore		Revenue a) 12    b) 10.50    c) 9.50 CARO N.A. as sales return recd. in C.Y. reduced from C.Y. sales irrespective of which year sales it relates to.

**COMPANIES (AUDITOR'S REPORT) ORDER, 2020**

Matters to be included in the auditor's report -

**I. Maintaining records of PPE and Intangible assets**

Topic	Provision	Limits
A. Adequacy of Records	(A) Whether the company is <b>maintaining proper records</b> showing full particulars, including quantitative details and situation of <b>Property, Plant and Equipment;</b>	Cost, Dep, Useful life or rate of dep. Reval, Impairment, Adj, Date, Qty, Components, Identification No (survey nos, reg no. etc.)
	(B) Whether the company is <b>maintaining proper records</b> showing full particulars of <b>intangible assets;</b>	Custody of PPE, Agreements & Litigations on IA E-records.

Topic	Provision	Limits
B. Physical verification	Whether these <b>Property, Plant and Equipment</b> have been <b>physically verified by the management at reasonable intervals</b> ; whether any <b>material discrepancies were noticed</b> on such verification and if so, whether the same have been properly dealt with in the books of account;	Based on risk, atleast once in 3 years
C. Title Deeds	Whether the <b>title deeds of all the immovable properties</b> (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, if not, provide the details thereof in the format below:- <b>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</b>	Only immovables classified as PPE and not inventory TDR, P&M affixed to Land – Not immovables Lost deed – FIR, MR, Certified Copies.
D. Revaluation of Property, Plant and Equipment	Whether the <b>company has revalued its Property, Plant and Equipment</b> (including Right of Use assets) or intangible assets or both during the year and, if so, whether the <b>revaluation is based on the valuation by a Registered Valuer</b> ; specify the amount of change, <b>if change is 10% or more</b> in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;	To be reported in Schedule 3 as well Companies (Registered Valuers and Valuation) Rules, 2017 set out valuation rules for valuation u/s 247
E. Proceedings for holding Benami Property	Whether <b>any proceedings have been initiated or are pending</b> against the company for holding any benami property under the <b>Benami Transactions (Prohibition) Act, 1988</b> (45 of 1988) and rules made thereunder, if so, whether the company has <b>appropriately disclosed</b> the details in its financial statements;	To be reported in Schedule 3 as well applicable where proceedings initiated against the company as benamidar (person who lends his name to own a property of a beneficiary) by Initiating Officer (AC/DC of IT) Property can be movable or immovable

### II. Physical Verification of Inventories

(a)	Whether <b>physical verification of inventory</b> has been <b>conducted at reasonable intervals</b> by the management and whether, in the opinion of the auditor, the <b>coverage and procedure</b> of such verification by the management is appropriate; whether <b>any discrepancies of 10% or more</b> in the aggregate for each class of inventory were noticed and if so, whether they have been <b>properly dealt</b> with in the books of account;	IndAS2 ABC based, once in a year atleast SA 501
(b)	Whether during any point of time of the year, the company has been <b>sanctioned working capital limits in excess of five crore rupees</b> , in aggregate, from banks or financial institutions on the basis of security of current assets; whether the <b>quarterly returns or statements</b> filed by the company with <b>such banks or financial institutions</b> are in agreement with the books of account of the company, if not, give details;	Only when limits are against security of current assets No need to audit, just compare with books. Only quarterly returns check even if company is submitting returns monthly.

### III. Repayment of investments, guarantee, security and loans granted by the company

Whether during the year the company has made <b>investments in, provided any guarantee or security or granted any loans or advances</b> in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or <b>any other parties</b> , if so,- {L – all (if principal biz loans then a & e N.A.), G or S – a and b, I – b only}		
(a)	Whether during the year the <b>company has provided loans or provided advances</b> in the nature of loans, or stood guarantee, or provided security to any other entity <b>[not applicable to companies whose principal business is to give loans]</b> , if so, indicate- (A) the aggregate amount during the year, and <b>balance outstanding at the balance sheet date</b> with respect to such loans or advances and guarantees or security to <b>subsidiaries, joint ventures and associates</b> ; (B) the aggregate amount during the year, and <b>balance outstanding at the balance sheet date</b> with respect to such loans or advances and guarantees or security to <b>parties other than subsidiaries, joint ventures and associates</b> ;	L-G-S : (Other than Principal Biz to give loans): Amt during the year and balance OS to : S/JV/A and Others
(b)	Whether the investments made, guarantees provided, security given and the <b>terms and conditions</b> of the grant of all loans and advances in the nature of loans and guarantees provided are <b>not prejudicial to the company's interest</b> ;	L-G-S-I – Prejudicial?

(c)	In respect of loans and advances in the nature of loans, whether the <b>schedule of repayment of principal and payment of interest</b> has been <b>stipulated</b> and whether the <b>repayments or receipts are regular;</b>	L – Repayment specified and regular? (Entity wise with extent of delay be reported)																								
(d)	If the <b>amount is overdue</b> , state the total amount overdue for <b>more than ninety days</b> , and whether <b>reasonable steps have been taken</b> by the company for recovery of the principal and interest;	L – Overdue? >90days? Reasonable steps taken? (Not Entity wise)																								
(e)	Whether any loan or advance in the nature of loan granted which has fallen due during the year, has been <b>renewed or extended or fresh loans granted to settle the overdues of existing loans</b> 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 [ <b>not applicable to companies whose principal business is to give loans</b> ];	L: ( <b>Other than Principal Biz to give loans</b> ): Renewed or extended or fresh loan to settle existing loan?																								
(f)	Whether the company has granted any loans or advances in the <b>nature of loans either repayable on demand or without specifying any terms or period of repayment</b> , if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to <b>Promoters, related parties</b> as defined in clause (76) of section 2 of the Companies Act, 2013;	L – Repayable on demand or without repayment terms <b>Suggested format for reporting under the clause:</b>																								
		<table border="1"> <thead> <tr> <th></th> <th>All Parties</th> <th>Promoters</th> <th>Related Parties</th> </tr> </thead> <tbody> <tr> <td>Aggregate amount of loans/advances in nature of loans</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Repayable on demand (A)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Agreement does not specify any terms or period of repayment (B)</td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>Total (A+B)</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>Percentage of loans/advances in nature of loans to the total loans</b></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>		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)				<b>Total (A+B)</b>				<b>Percentage of loans/advances in nature of loans to the total loans</b>			
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**IV. Compliance of Section 185 & 186**

In respect of <b>loans, investments, guarantees, and security</b> , whether provisions of <b>sections 185 and 186 of the Companies Act have been complied with</b> , if not, provide the details thereof;  (NA to Govt Co. engaged in defence production)	<b>S. 185</b> – Prohibition to give loan directly or indirectly to directors (Exception –Govt Co. obtaining ministry permission) – Check MBP 1 & Register u/s 189. Report non-compliance + Max O/S + Closing O/S with R'ship <b>S. 186 – LGS/I to any other person or body corporate and 2 Layers LGS</b> to another Co or <b>Investment</b> in Other Co (NA to banking / Ins / Housing Finance Co giving in ordinary course) – SR needed if anytime LGS&I > higher of: → 60% of Paid Up Cap + SP + Free Reserves OR → 100% of SP + Free Reserves Loans to be not given at lower than Govt. Securities yield for 1/3/5/10 year period. <b>Prohibition to make investments &gt; 2 Layers of Subs.</b>
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**V. Acceptance of deposits**

In respect of <b>deposits accepted by the company or amounts which are deemed to be deposits</b> , whether the directives issued by the <b>Reserve Bank of India</b> and the provisions of <b>sections 73 to 76 or any other relevant provisions</b> of the Companies Act and the rules made thereunder, where applicable, have been complied with, if not, the <b>nature of such contraventions</b> be stated; if an order has been passed by <b>Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal</b> , whether the same has been complied with or not;	Section 76 A public company, having: <b>Net worth of &gt;= 100crore rupees or Turnover of &gt;= 500 crore rupees</b> ; and Prior SR in GM ; and filed resolution with RoC can accept deposits from other than members. Check Systems, Compliance, IC and take MR
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**VI. Cost Records**

Whether <b>maintenance of cost records</b> has been specified by the Central Government under sub-section (1) of <b>section 148 of the Companies Act</b> and whether <b>such accounts and records have been so made and maintained</b> ;	Whether prescribed, is so accounts / statements made and records maintained. Applies irrespective of cost audit applicability
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**VII. Statutory dues**

(a)	Whether the company is regular in depositing undisputed statutory dues <b>including Goods and Services Tax</b> , provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and <b>any other statutory dues to the appropriate authorities</b> and if not, the <b>extent of arrears of outstanding statutory dues</b> as on the last day of the financial year concerned for a period of <b>more than six months</b> from the date they became payable, shall be indicated;	Bonded warehouse imported goods – Duty not payable, rent and interest may be payable and is a stat. due Interest / Penalty also covered Payable date – payable without interest.
(b)	Where <b>statutory dues referred to in sub-clause (a)</b> have not been deposited on account of any dispute, then the <b>amounts involved and the forum</b> where dispute is pending shall be mentioned (a mere representation to the concerned department shall not be treated as a dispute);	Mere representation – not disputed. Part disputed – balance treated as undisputed. Appeal to be filed, time expired – Treat undisputed. SCN – No due, unless demand notice issued.

**VIII. Disclosure of transactions not recorded in the books**

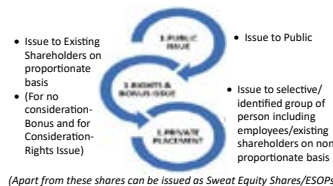
(a)	Whether any transactions not recorded in the books of account have been <b>surrendered or disclosed as income during the year in the tax assessments</b> under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been <b>properly recorded</b> in the books of account during the year;	S. 158B of IT Act – Undisclosed income.
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**IX. Default in repayment of loans or other borrowings**

(a)	Whether the company has <b>defaulted in repayment of loans or other borrowings</b> or in the payment of interest thereon to any lender, if yes, the <b>period and the amount of default</b> to be reported as per the format below: <ul style="list-style-type: none"> <li>• Nature of borrowing, including debt securities</li> <li>• Name of lender (lender wise details to be provided in case of defaults to banks, financial institutions and Government)</li> <li>• Amount not paid on due date</li> <li>• Whether principal or interest</li> <li>• No. of days delay or unpaid</li> <li>• Remarks, if any</li> </ul>	<b>Restructuring:</b> Application Submitted – treat as due Approved – Report the fact Approved after B/S date – Report delays of the year and state this fact.
(b)	Whether the company is a <b>declared wilful defaulter</b> by any bank or financial institution or other lender;	Report even if declared in P.Y. Report even if declared by govt. authorities or non-lending banks/FI. (Source – RBI Circular, Bank website, CIBIL, etc) Declared when unit fails to pay even when it has – funds to pay, misused funds, siphoned to another entity or disposed acquired assets.
(c)	Whether term loans were <b>applied for the purpose</b> for which the loans were obtained; if <b>not</b> , the amount of <b>loan so diverted</b> and the purpose for which it is used may be reported;	Term loan – Usually >36 months. Misutilisation includes Diversion. Temporary investment of excess funds not diversion, auditor to state the fact.
(d)	Whether <b>funds raised on short term basis</b> have been utilised for long term purposes, if yes, the nature and amount to be indicated;	
(e)	Whether the <b>company has taken any funds</b> from any entity or person on account of or to <b>meet the obligations of its subsidiaries, associates or joint ventures</b> , if so, details thereof with <b>nature of such transactions and the amount</b> in each case;	
(f)	Whether the company has <b>raised loans</b> during the year on the <b>pledge of securities held in its subsidiaries, joint ventures or associate companies</b> , if so, give details thereof and also report if the company has defaulted in repayment of such loans raised;	

**X. Moneys raised by IPO, FPO & preferential allotment/ private placement of shares or convertible debentures**

(a)	Whether moneys raised by way of <b>initial public offer or further public offer (including debt instruments)</b> during the year were applied for the purposes for which those are raised, if not, the details together with <b>delays or default and subsequent rectification</b> , if any, as may be applicable, be reported;
(b)	Whether the company has made any <b>preferential allotment or private placement of shares or convertible debentures</b> (fully, partially or optionally convertible) during the year and if so, whether the requirements of <b>section 42 and section 62 of the Companies Act, 2013</b> 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;



S. 62(1)(b) + S. 42	S. 55 + S. 42	S. 71 + S. 42
Equity & Convertibles	Preference Shares	Debentures

**XI. Fraud Reporting**

(a)	Whether <b>any fraud by the company or any fraud on the company</b> has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;	Covers all financial frauds Whether done by 3 <sup>rd</sup> parties or officer or employees of Co.
(b)	Whether <b>any report under section 143(12)</b> of the Companies Act has been filed by the auditors in <b>Form ADT-4</b> as prescribed under <b>rule 13 of Companies (Audit and Auditors) Rules, 2014</b> with the Central Government;	Clause viii and ii(b) could also be relevant 143(12) frauds reported by CS/CMA also to be reported here
(c)	Whether auditor has considered <b>Whistle-blower complaints</b> , if any, received during the year by the company (S.177(9));	Whistle blower mechanism required for all listed companies, companies accepting public deposits and companies borrowing funds of >50 crores from Bk or FI. SEBI – LoDR also requires (R. 4(2)(d))

**XII. Compliances by Nidhi Company**

(a)	Whether the Nidhi Company has complied with the <b>Net Owned Funds to Deposits in the ratio of 1:20</b> to meet out the liability;	Every Nidhi shall, within a period of 1year from date of incorporation, ensure it has—
(b)	Whether the Nidhi Company is maintaining <b>ten per cent. unencumbered term deposits</b> as specified in the Nidhi Rules, 2014 to meet out the liability;	(i) not less than 200 members;
(c)	Whether there has been any <b>default in payment of interest on deposits or repayment</b> thereof for any period and if so, the details thereof;	(ii) net owned funds of 20 lakh rupees or more;
		(iii) unencumbered term deposits of not less than 10% of the outstanding deposits; and
		(iv) ratio of net owned funds (as per last audited B/S) to deposits of not more than 1:20.

**XIII. Compliance with section 177 and 188**

Whether all transactions with the <b>related parties</b> are in <b>compliance with sections 177 and 188</b> of Companies Act where applicable and the details have been <b>disclosed in the financial statements</b> , etc., as required by the applicable accounting standards;	All specified RP transactions require approval of BoD and SH unless in ordinary course and arm's length and approved by AC. Transaction with 100% S then SH approval not needed. Specified transaction include relating to goods, services, property, agency but not amalgamation, etc. Ordinary Course – based on MoA, purpose, volume, transaction with other parties, frequency etc. AS 18/ IndAS24 compliance
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**XIV. Internal Audit System**

(a)	Whether the company has an <b>internal audit system</b> commensurate with the size and nature of its business;	State whether required to have under 138 Adequacy depends on –Size of IA department, Qualification of IA, Reports, Follow-up systems, IC systems, AC reviews, Documentation etc. SA 610.
(b)	Whether the <b>reports of the Internal Auditors</b> for the period under audit were considered by the statutory auditor;	

**XV. Non-cash transactions with directors**

Whether the company has <b>entered into any non-cash transactions with directors or persons connected with him</b> and if so, whether the provisions of <b>section 192 of Companies Act</b> have been complied with;	Restriction to enter in non-cash transaction with Director or party connected to him unless prior approval of resolution in GM obtained (incl of holding Co. if director in holding company) else voidable.
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**XVI. Registration with Reserve Bank of India**

(a)	Whether the company is required to be <b>registered under section 45-IA</b> of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the <b>registration has been obtained</b> ;	Refer chapter of NBFC
(b)	Whether the company has conducted any <b>Non-Banking Financial or Housing Finance activities</b> without a <b>valid Certificate of Registration (CoR)</b> from the Reserve Bank of India as per the Reserve Bank of India Act, 1934;	
(c)	Whether the company is a <b>Core Investment Company (CIC)</b> as defined in the regulations made by the Reserve Bank of India, if so, whether it <b>continues to fulfil the criteria of a CIC</b> , and in case the company is an <b>exempted or unregistered CIC</b> , whether it continues to fulfil such criteria;	
(d)	Whether the <b>Group has more than one CIC</b> as part of the Group, if yes, <b>indicate the number of CICs which are part of the Group</b> ;	

**XVII. Cash losses**

Whether the company has **incurred cash losses in the FY** and in the immediately preceding FY, if so, state the **amount of cash losses**;

**XVIII. Resignation of the 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;

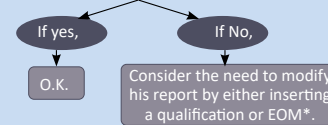


## NOTES TO ACCOUNTS Vs QUALIFICATION & AUDIT REPORT Vs CERTIFICATE

### Distinction between Notes on Accounts and Qualifications

#### Notes not substitute for qualification

- Notes represents MGT's stand on matter While, qualification represents auditor's disagreement on matter.
- Client MGT may-insist auditor- for not modifying opinion, if matter duly disclosed by way of notes.
- Auditor to exercise PJ & assess if disclosure alone would suffice,



- \*EOM- not a substitute for- modification of opinion.
- EOM- for matter appropriately presented & SAAE obtained.
- If auditor's modification is warranted-may refer to the specific note given by MGT and continue:
  - explaining more facts, and
  - his assessment on the matter including quantification and
  - impact on the various FS captions, to the extent possible.
- Auditor must express nature of qualification, in a clear and unambiguous manner.
- Where auditor answers any of the statutory affirmations in negative or with a qualification, report shall state the reasons for such answer.
- All qualifications should be contained in AR.

### Communication to Management and TCWG

Refer SA 260 for Communication with TCWG.

### Distinction between Audit Report and Certificate

- The term 'report' is used where an expression of opinion is involved.
- The term 'certificate' is preferable where the auditor comments on or verifies facts. (such as a verification of investment by inspection or the checking of ballot papers on a poll in a company meeting).
- Under Co. Act, 2013, where an auditor is required to issue a certificate rather than a report (u/s 66) - file a certificate in the tribunal where company is proposing for the reduction of capital.
- However, the report u/s 143 is an opinion-based report and is not a certificate.

### DID YOU KNOW?

Where notes of a qualifying nature appear in the a/c's, auditors should state all qualifications independently in their report so that user can assess the significance of these qualifications. A reference to the notes to a/cs in the AR does not automatically become a qualification. The report must categorically state the matter from the auditor's standpoint and not from the MGT stand point.



XIX.

Capability of company of meeting its liabilities existing at the date of balance sheet 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 MGT 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 B/S date;

### Following Ratios to be disclosed:-

- |                                       |                                    |
|---------------------------------------|------------------------------------|
| (a) Current Ratio,                    | (g) Trade payables turnover ratio, |
| (b) Debt-Equity Ratio,                | (h) Net capital turnover ratio,    |
| (c) Debt Service Coverage Ratio,      | (i) Net profit ratio,              |
| (d) Return on Equity Ratio,           | (j) Return on Capital employed,    |
| (e) Inventory turnover ratio,         | (k) Return on investment.          |
| (f) Trade Receivables turnover ratio, |                                    |

XX.

### Transfer of amount remaining unspent under section 135(5) to Fund specified in Schedule VII

(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 FY in compliance with second proviso to section 135(5) of the said Act;

(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 section 135(6) of the said Act;

### XXI. Consolidated FS

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. CARO report is given in Auditor's Report on standalone FS except this clause where reporting is given under Auditor's report on Consolidated FS.

### Reasons to be stated for unfavourable or qualified answers

- Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavourable or qualified, the auditor's report shall also state the basis for such unfavourable or qualified answer, as the case may be.
- Where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons as to why it is not possible for him to give his opinion on the same.

