



LEARN WITH

AUDIT-95

CA Final & CA Inter Audit

Abki Baar Audit Mei Exemption Paaar!



CA Ankush Chirimar
AIR 5,6,32

*Free Revision
Videos &
Notes*

Brief about Author

- All India Ranker at all 3 levels of CA
- Scored 95 Marks in Audit - Highest marks in history of ICAI till Nov 23
- Articleship at KPMG, Mumbai in Statutory Audit Domain
- Industrial Training at DBS Bank

Follow us on :



<https://linktr.ee/ankushchirimar>

#Hum_CA_Banenge!

Companies (Auditor's Report) Order (CARO), 2020

Applicability - Every co. including foreign co. **except** -

<ul style="list-style-type: none"> • 1 Person Co. • Insurance co. • Banking co. • Small co. • Section 8 Co. 	<ul style="list-style-type: none"> • Private co., not being subsidiary or holding co. of public co., having - • Paid up capital & reserves & surplus not > Rs 1 crore as on B/S date & • Total borrowings not > Rs. 1 crore from any bank or financial institution at any point of time during FY & • Total revenue (including discontinuing operation) not > Rs 10 crore as per FS
---	--

CARO shall **not apply** to report on **Consolidated FS except** clause (xxi) of para 3

Para 3 - Matters to be included in auditor's report

(i) PPE & Intangible Assets

- (a) (A) Whether co. is maintaining **proper records** showing full particulars, including quantitative details of **PPE**
- (B) Whether co. is maintaining proper records showing full particulars of **intangible assets**
- (b) Whether PPE is **physically verified** by Mgt at **reasonable intervals**, whether **material discrepancies** were noticed & if so, whether same is properly dealt with in BOA
- (c) Whether **title deeds** of all immovable properties (other than leased properties) disclosed in FS are **held in name of co., if not**, provide details thereof in format below -

Description of Property	Gross carrying Value	Held in name of	Whether promoter, director or their relative or employee	Period held	Reason for not being held in name of co. (also indicate if in dispute)
-------------------------	----------------------	-----------------	--	-------------	--

- (d) Whether co. has **revalued** its PPE or intangible assets during year & if so, whether revaluation is done by **Registered Valuer**. Specify amount of change, if **change is 10% or more** in aggregate of net carrying value of **each class** of PPE or intangible assets
- (e) Whether any **proceedings** are initiated or pending against co. for holding **benami property** & if so, whether co. has **appropriately disclosed** details in its FS

(ii) Inventory

- (a) Whether **physical verification** of inventory is conducted at reasonable **intervals** by Mgt & whether coverage & procedure of verification is appropriate, whether any **discrepancies of 10% or more** in aggregate for **each class** of inventory were noticed & if so, whether they are properly dealt with in BOA
- (b) Whether at any time of year, co. was **sanctioned working capital limits > Rs. 5 crores**, in aggregate, from banks or financial institutions on basis of security of current assets, whether **quarterly statements** filed by co. are as per BOA, if not, give details

(iii) Loans, Investments, Guarantee & Security - Whether co. has made investments in, provided guarantee or security or loans or advances, secured or unsecured, to co., firms, LLPs or other parties, if so -

- (a) Whether co. has provided loans or advances, or guarantee, or security **to other entity [not applicable to co. whose principal business is to give loans]**, if so, indicate - **Aggregate amount**

during year & **balance outstanding** at B/S date for loans or advances & guarantees or security to

(A) Subsidiaries, joint ventures & associates

(B) Other parties

- (b) Whether investments, guarantees, security & terms & conditions of loans & advances & guarantees are **not prejudicial to co.'s interest**
- (c) For loans & advances, whether **schedule of payment** of principal & interest is stipulated & whether **receipts are regular**
- (d) If amount is **overdue**, state total amount overdue for **> 90 days** & whether **steps** are taken by co. **for recovery** of principal & interest
- (e) Whether loan or advance granted which has fallen due during year, is **renewed or extended or fresh loans** granted **to settle overdues** of existing loans given to same party, if so, specify **aggregate amount** of such dues & **% of aggregate to total loans** or advances granted during year [**not applicable to co. whose principal business is to give loans**]
- (f) Whether co. has granted loans or advances either **repayable on demand or without specifying period of repayment**, if so, specify aggregate **amount, %** to total loans granted, aggregate amount of loans granted to **Promoters, RP**

(iv) **Loans, Investments, Guarantee & Security** - For loans, investments, guarantees, & security, whether **sections 185 & 186** of Co. Act are complied, if not, provide details thereof

(v) **Deposits** - For deposits/deemed to be deposits accepted by co., whether **directives of RBI & Sections 73 to 76** of Co. Act are complied, if not, nature of contraventions be stated. Order of Co. Law Board/RBI/etc is complied with or not

(vi) **Cost Records** - Whether maintenance of cost records is **specified by CG u/s 148** of Co. Act & whether such records are maintained

(vii) Statutory Dues

- (a) Whether co. is **regular** in depositing undisputed statutory (govt) dues & if **not, outstanding** statutory dues for **> 6 months from due date as on last day** of FY, shall be indicated
- (b) Where statutory dues are not deposited **due to dispute**, then **amount & forum** where dispute is pending shall be mentioned (mere representation to dept shall not be treated as dispute)

(viii) **Income Tax** - Whether **transactions not recorded** in BOA are **disclosed as income** in Income tax assessments, if so, whether unrecorded income is properly recorded in BOA during year

(ix) Loans & Borrowings

- (a) Whether co. has **defaulted in repayment** of borrowings or interest to lender, if yes, period & amount of default to be reported as per format below -

Nature of borrowing	Name of lender (lender wise details to be provided in case of banks, financial institutions & Govt)	Amount not paid on due date	Whether principal or Interest	No. of days delay or unpaid	Remarks, if any
---------------------	---	-----------------------------	-------------------------------	-----------------------------	-----------------

- (b) Whether co. is declared **wilful defaulter** by any bank or financial institution or other lender

- (c) Whether term **loans were applied for purpose** obtained, if **not**, **amount** of loan diverted & **purpose** for which it is used to be reported
- (d) Whether **funds** raised on **short term** basis are **utilised for long term** purposes, if yes, **nature** & **amount** to be indicated
- (e) Whether co. has taken any **funds to meet obligations** of its **subsidiaries, associates or joint ventures**, if so, details with nature of such transactions & amount in each case
- (f) Whether co. has raised loans on **pledge of securities held** in its **subsidiaries, joint ventures or associate** co., if so, give details & report if co. has **defaulted in repayment** of such loans

(x) IPO

- (a) Whether money raised by way of IPO or FPO (including debt) during year were **applied for purpose** raised, if **not**, **details** with default & **subsequent rectification**, if any, be reported
- (b) Whether co. has made any **preferential allotment or private placement** of shares or convertible debentures (fully, partially or optionally) during year & if so, whether **Section 42 & 62** of Co. Act are complied with & **funds** raised are **used for purpose raised**, if not, provide details for amount & nature of non-compliance

(xi) Fraud

- (a) Whether any fraud **by co. or** any fraud **on co.** is **noticed or reported** during year, if yes, nature & amount involved is to be indicated
- (b) Whether any report **u/s 143(12)** of Co. Act is filed by auditors in **Form ADT-4 with CG**
- (c) Whether auditor has considered **whistle-blower complaints** received during year by co.

(xii)Nidhi Company

- (a) Whether Nidhi co. has complied with **Net Owned Funds to Deposits in ratio of 1:20**
- (b) Whether Nidhi co. is maintaining **10% unencumbered term deposits**
- (c) Whether there is any **default in payment of deposits** or interest & if so, details

(xiii) Related Party - Whether all transactions with RP are as per **Sections 177 & 188** of Co. Act & details are disclosed in FS, etc., as required by applicable a/cing standards

(xiv) Internal Audit

- (a) Whether co. has IAF as per **size & nature of business**
- (b) Whether **reports of IA** for audit period were **considered by statutory auditor**

(xv)Non-Cash Transactions - Whether co. has entered into non-cash transactions **with directors or persons connected with him** & if so, whether **Section 192** of Co. Act is complied

(xvi) RBI - Core Investment Companies (CIC)

- (a) Whether co. is **required to be registered u/s 45-IA** of RBI Act & if so, whether registration is obtained
- (b) Whether co. has conducted any **NBFC or HFC activities without valid Certificate of Registration** from RBI

- (c) Whether co. is **CIC**, if so, whether it continues to **fulfil criteria** of CIC & if co. is **exempted or unregistered CIC**, whether it continues to fulfil such criteria
- (d) Whether **Group has > 1 CIC**, if yes, indicate **number** of CICs which are part of Group

(xvii) **Cash Losses** - Whether co. has incurred cash losses **in FY & in immediately preceding FY**, if so, state amount of cash losses

(xviii) **Statutory Auditor Resignation** - Whether there is any resignation of statutory auditors during year, if so, whether auditor has taken into consideration **concerns raised by outgoing auditors**

(xix) **Going Concern** - On basis of financial ratios, ageing & expected dates of realisation of financial assets & payment of financial liabilities, other info, auditor's knowledge of Mgt plans, whether auditor is of opinion that **no material uncertainty exists** as on date of audit report that co. is **capable of meeting its liabilities** existing at date of B/S as & when they **fall due within period of one year from B/S date**

(xx) **CSR**

- (a) Whether, for **other than ongoing projects**, co. has transferred **unspent** amount to **Fund specified** in Schedule VII to Co. Act **within 6 months of expiry of FY** as per section 135 (CSR)
- (b) Whether any amount remaining **unspent** in CSR, for **ongoing project**, is transferred to **special a/c** as per section 135

(xxi) **Consolidated FS (CFS)** - Whether there are any **qualifications or adverse remarks** by auditors **in CARO reports of companies included in CFS**, if yes, indicate details of co. & **para numbers** of CARO report containing qualifications or adverse remarks

Reasons to be stated for unfavourable or qualified answers

- Where answer to any of questions above, is unfavourable or qualified, auditor's report shall also **state basis** for such **unfavourable or qualified** answer
- Where auditor is **unable to express** any **opinion** on any matter, his report shall indicate such fact with **reasons** as to why it is not possible for him to give his opinion

Duty of Auditor to Inquire on following matters – 143(1)

- a. Whether **loans** & advances made by co. are **properly secured** & whether terms are **prejudicial to interests** of co./members
- b. Whether **transactions** of co. represented **merely by book entries are prejudicial** to interests of co.
- c. Where co. **not being** investment co. or banking co., **whether assets** of shares, debentures & other securities are **sold at price less than purchase price**
- d. Whether **loans** & advances by co. are **shown as deposits**
- e. Whether **personal expenses** are charged to revenue a/c
- f. Where it is stated in books that **shares** are allotted **for cash**, whether cash has **actually been received** & if not, whether BOA is correct & not misleading
- Auditor should **make report** to members **only if** he finds **answer** to any of above matters **in adverse**
- Matters having **adverse effect on co.** mentioned in auditors' report shall be **read before co. in general meeting** & shall be open to **inspection** by any member of co.

Duty to audit report – 143(3) - Report under "**Report on Other L&R Requirements**" shall state -

- a. Whether he has **obtained all info** which to best of his knowledge & belief were necessary for audit & if not, details & effect of info on FS
- b. Whether **proper BOA as required** by law are kept by co. & proper **returns** are received **from branches** not visited by him
- c. Whether **report on branch** office audited by other person is sent to him & **manner** in which **he has dealt** with it in preparing his report
- d. Whether co.'s **B/S & P/L are in agreement with BOA** & returns
- e. Whether **FS** comply with **a/cing standards**
- f. Observations of auditors on **transactions having adverse effect** on co.
- g. Whether any **director is disqualified** u/s 164(2)
- h. Any adverse remark for **maintenance of a/cs**
- i. Whether co. has **adequate internal financial controls** in place & **operating effectiveness** of such controls - This clause shall **not apply to Private** co. -
 - (i) Which is **one person co. or small** co. or
 - (ii) having **turnover < Rs. 50 crores** as per latest Audited FS & having aggregate **borrowings** from banks or financial institutions or any corporate **at any point of time** during FY **< Rs. 25 crores**
- j. **Other matters** as prescribed under **Rule 11**, namely -
 - (i) Whether co. has disclosed **impact of pending litigations** on its financial position
 - (ii) Whether co. has made **provision for material foreseeable losses** on long term contracts
 - (iii) Whether there is any **delay in transferring amounts** to Investor Education & Protection Fund
 - (iv)(a) Whether Mgt has represented that **no funds are invested** by co. in any other person ("**Intermediaries**") with understanding that Intermediary shall invest in other persons **on behalf of co.** ("**Ultimate Beneficiaries**")
 - (b) Whether Mgt has represented that **no funds are received** by co. from any person ("**Funding Parties**") with understanding that co. shall invest in other persons **on behalf of Funding Party** ("**Ultimate Beneficiaries**")
 - (c) Nothing has come to auditor's notice that **representations** under above clauses **contain MM**
 - (v) Whether **dividend** declared/paid is **as per section 123**
 - (vi) Whether co. has used **a/cing software** for maintaining BOA having feature of **recording audit trail** & same was **operated throughout year** for all transactions & that it was **not tampered** & is preserved by co.
 - (vii) Statement as to whether **remuneration paid to directors** is as per this Act

Duty to report on frauds – Section 143 (12)

- **Reporting to CG** - If auditor has **reason to believe** that fraud involving **individually** amount of **Rs 1 crore or more**, was committed in co. by its **officers or employees**, he shall report to CG as below
 - (a) Auditor shall report to **Board** or Audit Committee **immediately** but **not later than 2 days** of his knowledge of fraud, seeking their **reply within 45 days**
 - (b) On receipt of such reply, he shall forward his report & reply along with his comments on such reply **to CG within 15 days from receipt of reply**
 - (c) If auditor **fails to get any reply** Board or Audit Committee within 45 days, he shall forward his **report to CG** with note containing details of his report that was earlier forwarded to Board or Audit Committee for which he has not received reply
 - (d) Report shall be sent **to Secretary, Ministry of Corporate Affairs** in **sealed cover** by Registered Post with Acknowledgement Due or by Speed Post **followed by e-mail** confirming same
 - (e) Report shall be **on letter-head of auditor** containing address, e-mail & contact number & be signed by auditor with his seal & indicating his **Membership Number** &
 - (f) Report shall be in **Form ADT-4**
- **Reporting to Audit Committee or Board** - If fraud involves **less than Rs 1 crore**, then auditor shall report matter to audit committee or Board **immediately but not later than 2 days** of his knowledge of fraud specifying - **Nature** of Fraud with description, Approximate **amount** involved & **Parties** involved
- **Disclosure in Board's Report** - Co. whose auditors have **reported frauds** to audit committee or Board, but **not to CG** (i.e. <1crore), shall disclose details in Board's report - **Nature** of Fraud with description, Approximate **Amount** involved, **Parties** involved (if remedial **action not taken**) & Remedial **actions taken**
- **Confidentiality** shall **not** be regarded as **contravened** by reason of fraud reporting by auditor if it is done **in good faith**
- **Fraud reporting** shall also apply, mutatis mutandis, to **cost auditor & secretarial auditor** If any auditor does **not comply** with Section 143(12), he shall be liable to **penalty of Rs 5 lakh in case of listed co. & Rs. 1 lakh in case of other co.**
- Auditor is also required to **report fraud** under **clause (xi) of CARO, 2020**

Duty to state reason for qualification in report - Where any matters required to be included in report is **answered in negative or with qualification**, report shall **state reasons**