CARO 2020

CARO

compulsory if applicable statements

Chapter ⇒ 8

Audit Report + CARO → Sec 143 (11)

CARO applicable or not? CARO applicable → 143(11)

CARO 2020. [Companies Auditor Report Order 2020]

~~Applicability~~

Introduction CARO 2020 :-

as per sec 143(11) it is the duty of the auditor to include CARO along with his audit report as an annexure.

Applicability of CARO 2020 :-

CARO 2020 - applies to every companies incorporated in India including a foregin company. Except

(i) Banking Company
(ii) Insurance Company
(iii) Small Company
(iv) One person Company
(v) Sec 8 company [Co. with charitable objects]
(vi) Private company → which full fills all the following conditions :-
 (i) not being a subsidary or holdinding Co. of a public Co.
 (ii) Having PUSC & R&S not more than 1 Crore (as on Balance sheet date) & and.
 (iii) Loans or Borrowings from Bank/FI shall not exceeds 1 crore (at any point of time during the FY) and
 (iv) Total revenue as disclosed in Sch III of the companies Act [Including revenue from discontinuing Operations] shall not exceed 10 Crore during the FY as per FS.

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CARO → End of Audit Report + Reporting on other L & R requirement
Annexure → attached with audit Report
Annexure → Reference → Report on other L & R req.

Date / /

Content in Auditors Report Paragrap 3.

Paragraph 3 of the order includes matters or clauses which needs to be consider & reported by the auditor i.e.,

clauses : Property, Plant and Equipment [PPE]:- SQ (A) (A) (A)

adequacy of records
- Company is maintaining proper records of :
  - (i) Quantity & situations of PPE.
  - (ii) full particulars on Intangible assets

physical verification
- whether PPE are physically verified by the mgmt at reasonable intervals, If any material discrepancies noticed, it is properly dealt with books of a/cs.

Title deed (A)
- whether the title deeds of all the Immovable property (other than properties where the Co. is the lessee - Lease agreements are duly executed in favour of the lessee) disclosed in the FS are held in the name of Co, If not, provide the details thereof in the format below :-

description of Property	Gross carrying value (GCV)	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 Co.
					also indicate if in dispute

revaluation (A)
- whether comply has revalued its PPE or intangible asset
  - (i) Revaluation done by a registered valuer
  - (ii) specify the change in amount if it is 10% or more in the aggreate of net carrying value for each class.

Benami property (A)
- whether any proceedings have been initiated or are pending against the Co. for holding any benami property. If yes ensure that Co. has disclosed this in FS.

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Clause 2 :- Inventory :- (Refer SA 501) SO

physical verification

- Whether inventories are physically are physically verified by the mgmt at reasonable intervals. The coverage & procedure by mgmt is appropriate as per auditor.
  Whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed & if so then properly dealt with the books of accounts.

Working capital

- Whether at any point, the co. has been sanctioned WC limits more than 5 Crore in aggregate, from Bank/FI on the basis of security of current assets.
  Whether the quaterly return or statement filed by the Co with such Bank/FI are in agreement with the books of a/cs of the Co, if not, give details.
  {checked by statutory auditor of Co.}

Clause 3 :- Loans, Advances, Investment made by Co or security of Guarantee provided :- SO

- Aggregate amount during the CY (+) O/s Bal as on B/s date given to (a) Subsidiary, Associate and Joint venture
  (b) Any other Entity
- Whether Loans, Guarantee or securities are not against prejudical to interest of Co.
- In respect of loan & advance in the nature of loans, whether shedule of repayment of principal & interest has been stipulated. बताना।
- Whether repayment or receipts are regular. If overdue for more than 90 days then whether the Co has performed reasonable steps for recovery of amount from RP's or not.

Clause 4 :

Clause 5 :

Clause 6 :

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- Specify the amount involved & settled & % of total loans of any renew or extention or fresh loan granted to settle the overdues of existing loans given to same parties.
- Specify the amount & % of total loans if loan granted to promoters, RP's etc which are repayable on demand or without specifying any terms or period of payment.

Clause 4 :- Investment, loan, Guarantees, Securities :-

- Whether provisions of sec 185 & 186 of Companies Act have been complied with, if not, provide the details thereof.

Clause 5 :- Acceptance of Public deposits :- SQ

- Auditor needs to report whether entity has accepted any deposit or deemed deposits from public, then whether they has complied with (a) RBI direction
(b) Sec 73 to 76 to Companies Act 2013,
if not then details of such contravention should be stated.
- Whether the Co has complied with order of
  - (a) NCLT [National Company law Tribunal]
  - (b) CLB [Company law Board]
  - (c) RBI [Reserve Bank of India]
  - (d) any other court or Tribunal

Clause 6 :- Cost Recorders :-

- Whether cost records prepared & maintained by the Co. notified u/s 148 sub sec 1 by central government.
148(1)

Clause 7 :-> Statutory dues :- SQ

(a) Undisputed :-> Generally co. should be regularly in their payment. if not, auditor is required to disclose/report the extent of arrear ie o/s amount as on last day of FY if such amount is o/s for more than 6 months from the date they become payable (due date).

(b) Disputed :-> disclose the amount involved, forum where dispute is pending, nature of due, relevent period and name of statute.

Clause 8 :-> Unrecorded tx^n :-> Refer

- Reporting on disclosure of tx^n that were not recorded in Books but have been surrendered or disclosed as income in Tax Assesement.

Clause 9 Repayment of Term loans :->

- Reporting whether Co is declared willful defaulter by an bank / FI / other lender.
- Reporting whether funds raised for short term have been utilised for long term purpose, if yes, then amount & nature for the same.
- Reporting on whether the Co has taken any funds from entity or person on account of (Or) to meet obligations of its subsidaries, JV, associates, if any, yes - then amount & nature of the same.
- Reporting whether the Co. has raised loans on the pledge of securities held in its subsidaries, JV, associate, if yes, then give details & also report any default in repayment, if any.

nature of Borrowings including debt securities

clause 10 :-> Mo

- Reporting an default in repayment of Principal or Interest amount of loans or borrowings, if yes, then amount & period of default to be reported.

nature of Borrowings including debt securities	Name & Lender	Amount not paid on due date	whether Principal or interest	no. of days delay or unpaid	Remarks, if any.
	lenderwise details to be provided in case of default to bank/FI				

Clause10 :- Money raised through Public offer or Private placement

- whether money raised from IPO/FPO utilised towards the purpose for which it was raised? if not, report the delay or defaults & subsequent ratification approvaldena.
- whether the co has made by prefential allotment or private placement of shares or convertiable debentures (F/P) & if so, whether sec 42 & sec 62 are complied?
  with respect to private placement or prefential allotment whether funds have been used for the purpose for which the funds were raised, if not provide details in respect of amount & involved & nature of non-compliance.

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Clause 11 :→ Reporting on fraud :→ SQ (8) (8) (8)

- Whether any fraud by the Company or any fraud on the Co. has been noticed or reported during the year, if yes, the nature & the amount involved to be indicated.
- Whether any report u/s 12 & sec 143 of the Companies Act 2013 has been filed by the auditors in form ADT 4 with the central govt.
- Whether auditor has considered whistle blower complaints, if any.

Clause 12 :→ Nidhi Companies :→ May 24.

- Net owned funds to deposits in the ratio of 1 : 20 to meet out the liability.
- atleast 10% unecumbered term deposit should be maintained with bank to meet out the liability. (Similar to SLR requirement for Banks)
- whether there has been any default in payment of interest on deposits or repayment thereof for any period & if so, state the details.

Clause 13 :→ RPT's :→ (Refer SA 550)

- Whether all txn with RP's are in compliance with sec 177 & 188 of companies act.
- Details have been disclosed in the FS, etc are required by the applicable AS.

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Clause 14 :- Internal Audit :- (when Sec 138 is applicable)

- Whether Internal Audit System is ~~commensurate~~ suitable with the size & nature of the Co.
- Whether reports of Internal auditors were considered by the statutory auditor.

Clause 15 :- Non Cash tx^n :-

- Whether the provisions of sec 192 of Companies Act have been complied for non-cash tx^n with director or person associated.

Clause 16 :- Registration with RBI :-

- Whether the Co. has conducted NBFC activities a valid certificate of registration from RBI under RBI act, 1934.
- Whether the Co is a Core Investment Co [CIC] as defined in the regulations made by RBI, if so, whether it continues to fulfill the criteria of a CIC.
- In the case of Co. is an exempted or unregistered CIC, whether it continues to fulfill such criteria.
- Are there more than 1 CIC in the group if yes then report.

Clause 17 :- Cash losses :- SQ

CY+PY

- Whether the Co. has incurred losses in the FY of in the immediately preceding FY, if so, state the amount of cash losses.

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Clause 18 :- Resignation by statutory auditor :-

- If ~~statutory~~ auditor (Ex-old) during the year has resigned ?, whether the auditor (new) has taken into consideration the issues, objections or concerns raised by outgoing or old auditor. [NOC — No Objection Certificate]

Clause 19 :- Board & mgmt Plans :-

- auditor on the basis of following has to report in CARO that whether in his opinion no material uncertainity exists as on the date of audit report that the co is capable of meeting its liabilities existing as at B/s date as on when they fall due within next 12 months i.e. a period of 1 year from B/s date.
- This will be on the basis of
  a) financial ratios
  b) Ageing analysis
  c) Expected date of realisation of financial assets
  d) Payment of financial liabilities
  e) Other info^n accompanying the F.S. → available
  f) auditors knowledge & understanding of BODs & mgmts future plans etc.

Clause 20 :- Corporate Social Responsibility (CSR)

~~........~~ etc

- whether the co has transferred unspent amount to fund specified in sch ~~VIII~~ of the companies Act within a period of 6 months of the expiry of FY in compliance of sec 135(5)

Clause 21 :-

F.S → CFS → CARO 2020 (✗) except clause xxi
SFS → CARO 2020 (✓)

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- whether any amount remaining unspent u/s 135(5) of the companies Act, pursuant allocated to any ongoing project, has been transferred to special account as per sec 135(6).
- In case of ongoing Projects sec 135(6) — any amount remaining unspent, pursuant to any ongoing project, undertaken by a co in pursuance of its CSR policy, shall be transferred by the co within a period of 30 days from the FY to a special a/c to be opened by the co. in that behalf for that that FY in any sch bank to be called unspent CSR a/c.
- In case of project other than ongoing sec 135(5) – If the co fails to spend CSR amount, board shall transfer such unspent amount to a fund specified in sch VII, within a period of 6 months of the expiry of the FY.

Clause 21 :- Adverse remark by auditor (XXI) :-

- CARO 2020 [order] shall not apply to the auditors report on CFS except clause (XXI)
- In case of CFS audit report, auditor is required to report details of companies, respective CARO paragraph no. or no. where adverse remark or qualification has been given by their respective auditor in CARO for SFS (standalone - individual FS)
  (eg - Holding, subsidiary, Associates of auditor)

FS
→ CFS → CARO 2020 (X) except clause XII
→ SFS → CARO 2020 (✓)

COMPANIES ACT 2013

REFER CH- AUDIT AND AUDITORS [INTER LAW]

SA 21 SA 2 SQC 1 SA 300

Companies Act 2013 Sec 143
Audit & Auditors Report → Refer Ankita Pandey Maam Chart Book or Note

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Companies Sec 143

Sec applicable → in Audit

Sec 143 (Power & duties of the auditors)

Sec 143(1) : ~~Duties to make Enquiries~~ Powers of Auditors :→

Matters of Inquiry.

ⓐ Whether loans and advances made by companies on the basis of security and it have been properly secured & whether the term on which they have been made or prejudical to the interest of the Co or its members.

ⓑ Whether txn of the company which are presented mearly by books entries are prejudical to the interest of the Co.

ⓒ Whether the co not being an investment Co or a banking Co, whether so much of the all assests of the Co as consist of shares, debentures & other securities have been sold at a price less than that at which they were purchased by the Co.

ⓓ Whether loans & advances made by the Co have been shown as deposits.

ⓔ Whether personal expense have been charged to revenue account.

ⓕ ~~whether~~ where it is stated that in the books of a/cs & documents of the Co that any shares have been allocated for cash, whether cash has actually been received in respect of such allotment, & if no cash has actually been so received whether the position as stated in the account books & the B/s is correct, regular & not misleading.

(Note): It is compulsory to report the outcome of these inquires in the auditors report?
As per opinion of research committee of ICAI auditor is not required to compulsory report on these matter in his audit report $\boxed{\text{unless}}$ auditor has any special comments (adverse in nature) regarding the same.

Sec 143(2): Duty to provide report on the accounts examined

~~It~~ is the duty of the auditor to make a report to the members of the company on (accounts examined & on FS, (his report should be as per SA's & should also include other matters as required by applicable law such as 143(4) & 143(11).

Sec 143(3): Duty to report on principal assertions or matters

These matters when applicable should be include under the heading "Report on Other L & R requirement" in the audit report:
Whether auditor has sought & obtained all the info & explanation which to the best of his knowledge & belief were necessary for the purpose of his audit & if not then the details & their effect of FS should be provided.

whether Co has adequate Internal financial control with respect to FS in place & whether such controls were operating effectively.

(Note): If 143(3)(i) is applicable then auditor should include ~~seperate~~ a seperate annexure with his audit report which shall include his opinion on such controls.

(Note): 143(3)(i) shall not apply to private co which is a
(i) OPC or
(ii) Small co or
(iii) Co having T/o less than ₹50cr as per latest audited FS &
which has aggregate borrowing from Bank/FI / anybody corporate at any point of time during the FY less than ₹25 cr.

If auditor comes across any financial txn or matter which have adverse effect on the functioning of the Co then his observation or comment (modification or EOM or material uncertainty related to going concern) should be included in his audit report.

(note): In case of a pending Litigation auditor has included this matter under EOM paragraph.

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When auditor is including any qualification, adverse remark or reservation (Disclaimer of opinion) relating to maintenance of Books of a/c & other related matters, then auditor should ~~respect~~ ~~repo~~ the following in his audit report

Such other matters as prescribed in Rule 11:-
matters covered under Rule 11:-
(i) whether co has disclosed impact of pending litigations in its FS.
(ii) Whether Co has made appropriate provision for all material foreseeable losses related to long term contracts including derivative contract.
(iii) whether there has been any delay in transfering amount which is required to be transferred to IEPF [Investor education Protection Fund].
(iv)

NOT SURE ABOUT WHICH SECTIONS ARE INCLUDED SEC 143; 126 OR MORE SO REFER ICAI MODULE