Companies (Auditor's Report) Order, 2020

CARO 2020

- **Para 1** — Applicability
- **Para 2** — Report matters (Para 3 & 4) + N.A. to Audit of CFS except clause xxi
- **Para 3** — Reporting (21 clauses)
- **Para 4** — Qualified ans. ↳ Basis

Short Quiz:

Hera Pheri Pvt Ltd	Bhagam Bhaag Pvt Ltd	De Dana Dan Pvt Ltd
31.3.23 PUSC = 2.5 Cr ≤ 4 Cr ✓ T/o = 35 Cr ≤ 40 Cr ✓ ~~31.3.24 PUSC including R&S = 4 Cr T/o = 32 Cr Borrowings = 40 L~~ Exempt	31.3.23 PUSC = 3.5 Cr ≤ 4 Cr ✓ T/o = ~~42~~ Cr Small ✗ 31.3.24 PUSC including R&S = 90 L ✓ T/o = 9 Cr ✓ Borrowings = 55 L ✓ Exempt	31.3.23 PUSC = 4.5 Cr T/o = 55 Cr } Small ✗ 31.3.24 PUSC including R&S = 80 L ✓ T/o = 8 Cr ✓ Borrowings = 65 Lakhs [During the year 1.5 Cr was borrowed and repayed] ✗ Applicable

Small

→ H.P. Pvt Ltd subsidiary SK Pvt Ltd. Small Co ✗

Pvt Co. PUSC + R&S > 1 Cr ✓ ⇒ Applicable

T/o > 10 Cr ✓

Clause (i) Para 3 CARO 2020

a) **Proper Records**
- PPE (Ind AS 16)*
- I. Assets.

b). **Physically verified** PPE*
- Reasonable Intervals? [once in 3yrs]
- Material discrepancies ↳ properly dealt in Books?

c). **Immovable prop. (except lease)** → **Title Deed** ⇓ Name of Co.?

d) **Revaluation**
- Regd. valuer? & Amt
- change 10% or more in aggregate of Net carrying value of each class of PPE / I.A.

(e) Proceeding ↓ Benami Act ↓ Disclosed in FS?

PPT + Reval + Benami

eg P.P.E

	Book Net value (Figures)	Revalued Amt	
Machinery	100	109 ✗	9% $\left[\frac{109-100}{100}\times 100\right]$
Building	1000	1200	20%

* PPE + Ind AS 116 ROU Assets [Right of Use]
40 I.P. (Investment Prop.)
105 NCA → HFS [Non-Current Assets → Held for sale]

Eg

$$\text{Naughty Pavan} \xrightarrow{₹} \text{Client Co.} \xrightarrow{₹} \text{Building}$$

Benamidar

Legal owner : Client Co.

Beneficial owner : Pavan

Books? Client Co.

Proceeding under Prohibition of Benami Trans^n Act 1988

⇓

Disclosed in FS?

clause (ii) Inventory (AS 2 / Ind AS 2)

Physical verification
- Reasonable intervals? [Once a year] material inv.
- Coverage & procedure?
- ~~Mat~~erial discrepancy. 10% or more in agg. of each class of inventory.
  ⇒ A/cs

• Sanctioned [utilised ×)

↓

W.C. Loan > 5cr → ⊕ Non-funded [Letter of credit, Bank Guarantee)

(Bank / F.I.)

↓

• Qtrly Returns/Statements. agree with Books?

~~Apr~~ | ~~May~~ | June'25

option

P.V. 90 B.V. 100

I. $\frac{P.V. - B.V}{P.V} \times 100$

$= -11.11\%$ ✓

II. $\frac{B.V - P.V}{B.V} \times 100$

$= 10\%$

LIGS → Loans/Advances in nature of Loans/Investments/ Guarantee/ Security

Trade practices (-intt ✗)

clause (iii) a. LAGS. during year → SAJV [Subsy./Associate/JV]
↳ others

b. LIGS → T&Cs. prejudicial to Co's intt?

c. Loans → Schedule of repayment stipulated + Receipts regular?
(P + Intt) ✓✗

d. overdue >90 days? + Reasonable steps to recover?

why?

e. loan receivable during year
↓
REfresh [Renew | Extend | Fresh]
↓
• Amt + % to total loans issued in year

f. loan issued during year [✗T&Cs / repayable on demand]
↓
• Amt + % to total loans + R.P / Promoters.

* N.A for NBFC CARO Report

clause (v) Deposits Co. complied? → Sec 73-76 of Cos Act 2013 + Rules &
↳ RBI directives
↓
(Not)
Non-Compliance
↓
Complied? ← Order (CLB | NCLT | RBI)

Income earn → 5th day
first 4 days ↓ Expenses

clause (vi) Co. → Reqd. to maintain (Sec 148)? Cost records ⇒ Made & maintained?
Audit ✗

Six

clause (vii) Statutory Dues [Tax / GST / EPF / ESI ....]

Due date TDS → 7th Next month

→ Undisputed → regular? → (not) Amt overdue >6 months on last day of FY.

→ Disputed [Appeal]
∘ Amt.
∘ Forum where dispute is pending. [Eg Tribunal | Court]

Spl. case

Co. ← I.T. Deptt.: Show cause notice / Tax liab.

Co. → I.T. Deptt.: Reply (objection letter)

Representation to Deptt
↓
Dispute ✗

eg

	Due Date	Reported?
1. GST	15.1.25	✗ (2.5M)
2. Income Tax	29.9.24	> 6M
3. P.F.	15.10.24	✗ (5.5M)

Badi Cos.
lot of Employees → ESI / EPF
esn.
practically regular
Lumpsum
month
+ / (–) } ⇒ next month. adjust

Clause (viii) — Income (✗ Recorded in Book of A/cs) —surrender / disclosed→ I.T Assessment (IT Act 1961) → Income recorded in Books?

8 — Aath → I.T Authorities ne lagadi Co. ki vaat [Bad]

Clause (ix) [Loans taken by Co.] — 3²

a) Default in repayment of loans / Int.? ⇒ (yes) Details. (Table)

b) Declared as wilful defaulter? (why?)

c) Term loan ⇒ utilised for other purpose? [Amt + purpose]

d) S.T. loan → L.T purpose? (Nature + Amt)

S.A.JV

(e) Taken loan for obligations of S.A. JV. (Nature + Amt)

(f) loan on pledge of securities of S.A.JV (Details + Default)

₹ (9) → **Loans** → ₹ (3)

Clause (x)

(a) IPO / FPO during year? ⇒ (Money) ⇒ Applied for purpose raised?

↓ (NO)

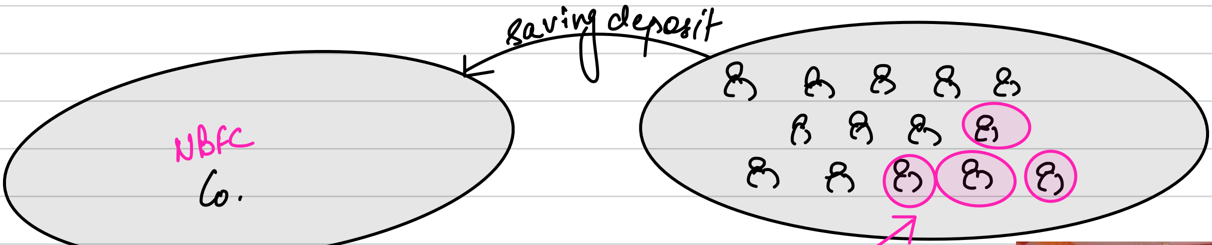
Details with delays / default + Subsequent rectification, if any.

(b) Preferential Allotment / Pvt. Placement during year? (Yes) ⇒ Sec. 42 & 62 complied?

\+ funds utilised for purpose? (NO)

Amt + Nature of non-compliance.

Clause (xii) Nidhi Co.



₹100 deposits

⇓

Min. ₹10 kept safe with scheduled commercial Bank

SLR

loan (₹)

Nidhi 12 Baje aane

a. Net owned funds (capital) : Deposits Ratio ⇒ Min. 1:20?

b. Min 10% unencumbered deposits to meet liability?

c. Any default in payment (deposit / Int) ⇒ (Yes) ⇒ Details?

13 Hone laga Hoon

Clause (xiii) R.P.Ts. → comply with Sec 177 & 188 of Cos. Act 2013?
\+
→ Disclosed in F.S. as AS. [AS-18 / Ind AS 24]

Clause (xiv) a. Co. → internal audit system → (as per) commensurate with the nature & size of business

b. Report of Internal Auditor ⇒ considered? [Controls ⇒ effective?]
Risk Assessment

Clause (xv) Non-Cash Transⁿ

Co. → Non-cash transⁿ with Directors / Connected persons?
↓
(yes)
Sec 192 complied?
- B.R ✓
- G.M. Notice (Details of transⁿ + value)
- Resolution pass ✓

Mgt. W.R ✓

Docs. verify?

- Fixed Asset Register (FAR)
- Minutes Books.

\+ • Register of Loans / Guarantee / security / Acquisitions by Co.
\+ • contracts with RPs.

Question 14

SPM Ltd., about to complete fifty years of age since its incorporation in the F.Y 2023-2024, decided during the F.Y year 2022-23 to upgrade its registered office at an important location in Mumbai city. As part of planned package, it decided to acquire a land very adjacent to the site of registered office, which had been owned by Mr. Parry, who is a director of the Company. Since he was reluctant to part with the ownership, he had been persuaded to convey the property in favour of the company in exchange of a site owned by the company located at the next street to the street where the registered office is situated, which is 1.50 times larger in area than that of the site owned by the director adjacent to the Registered office. Happier with what he was offered in negotiation, Mr. Parry agreed for transferring the property in favour of the company in a deed of exchange duly executed by authorized persons of the Board, and Mr. Parry. The registration formalities were completed by 31st December, 2022. Assuming that you are the engagement partner for the audit of the accounts of the company for the financial year ended on 31st March, 2023, give a list of additional audit procedures and reporting requirements, if any, that this transaction might trigger in your audit. [May'23]

Land
SPM Ltd ~~cash~~ Mr. Parry (Director)
1.5 times larger Site

- Clause (xv)
\+
- Clause (xiii)

(NBFCs) ~~...~~ Detail

Clause (xvi) — RBI

Registration

a. Co. regd.
↓
Regd. u/s 45IA of RBI Act 1934?
↓
(Yes)
Registration obtained?

b. Co. conducted any
- Non-Banking financial
or
- Housing financing activity
↓
without certificate of Registration.

Core Investment Co.

c. Co. is CIC?
↓
(Yes)
criteria fulfill?
&
(exempted)
criteria fulfill?

d. Group > 1 CIC?
↓
(Yes)
No. of CICs.

Core Investment Co.? NBFC → Business of Acquiring shares & securities
+
Satisfies all cond^n

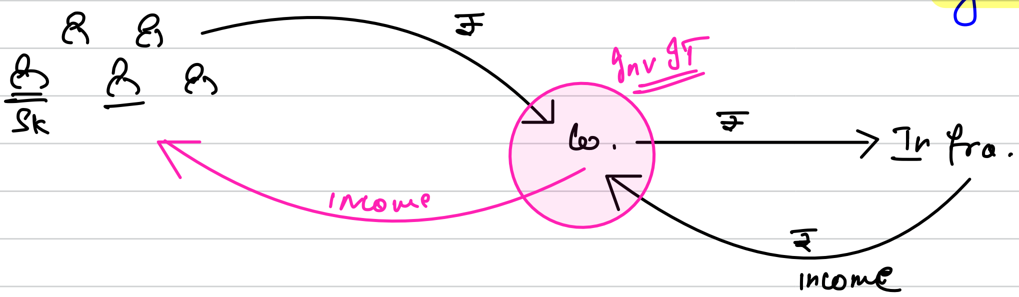
① ≥ 90% of Net Assets
⇓
[Equity, preference shares, bonds, debentures | loans in Group Cos.]

② ≥ 60% of Net Assets
[Investment in equity shares
+ InvITs
(Infrastructure Investment Trusts)]
(D.T)

③ Trade ✗ (Except block sale for disinvestment | dilution)

+

④ No other financial Activity except investment in Bank deposits | govt securities | loans to group Cos | Guarantee on behalf of group Cos.



Clause (xvii) (Satra → khatra)

Co. → cash loss? (CY & preceding F.Y) → (Yes) Amount (₹)

Eg PAT (-6Cr) / Depreciation (8Cr) } Report? No

Clause (xviii) Resignation by Auditor

Any resignation by statutory Auditor during year? → ADT-3 (Reasons)

⇓

(Yes)

Consider g.c.o. raised by outgoing auditor?
(issues, concern or objections)

CARD ka Chakravyuh

(xix) G.C.

(xiii) R.P. → (Pakda?)

(xiv) Internal Auditor

Cash → (xv) Non-cash transⁿ

cam? ← (xvi) RBI

khatra → (xvii) cash loss

↑ (xviii) Auditor Resigned

→ (xix) G.C.

Clause (xx) CSR

(a) Other than ongoing projects
↓
Co. trfrd. unspent amt to
↓
Schedule VII fund
within 6 months from end of FY.

(b) (ongoing project) [School/Hospital]
Amt unspent due to ongoing project
↓
Trfrd. to Special A/c?

IPL 20:20

(XXI) Qualifications in CFS

Any Qualification / Adverse remark → By Respective auditors in CARO Reports of cos included in CFS.

↓

(Yes)

Details of Co. + Para Nos. of CARO Report.

CARO 2020 Summary

Applicability: Every Co. (including foreign Co.) Except One Person Co & SSI Pvt Ltd.

Para(3) Reporting

Clause (i) → PPE/IA → PPT + Reval^n
- Regd. values + Benami [Proceeding → Holding B.P → DV]
- (₹) change → 10% or more (agg. → Net value → each class)

Clause (ii) → Inventory
- P.V. → R.I. coverage + Pro. | Disc. 10% or more
- W.C. Sanction >5 cr (B/FI) → Qtrly Returns agree with Books?

Clause (iii) → LLGS
- • SAJV & others
- • T&Cs → prejudicial?
- • Repay. sched. + Regular
- • O/S >90 days + Steps
- • Refresh → ₹ (Agg) / % to total year
- • Due date ✗ → ₹ / % (P/R.Ps)

Clause (iv) → LLGS → Sec 185 & 186 comply?

Clause (v) → Deposits → RBI directives + Sec 73-76 comply → Not → Order (CLB/NCLT/RBI) → comply?

Clause (vi) → Cost Records → Sec 148(1) Cg → made & maintain?

Clause (vii) → Stat Dues → Undisputed → Regular → O/S >6m on last day of FY
- ↳ Disputed (₹ + forum) [Rep^n → dispute ✗]

Clause (viii) → Income disclosed in I.Tax assessment → Recorded in Books?

Clause (ix) → Repay. of Loans
- • Details of default
- • Wilful defaulter?
- • Term Loan → purpose?
- • ST Loan → L.T?
- • Loan for SAJV
- • Loan → pledges of SAJV securities.

Clause (x)
- → IPO/FPO → funds → purpose? → ✗ → Details | ₹ | Rectification
- ↳ P.A. / Pvt. → Sec 42/62 + purpose? → ✗ → ₹ / Details

Clause (xi) Fraud → Any (By/on) + Sec 143(12) ADT-4 + Whistle Blower complaints.

Clause (xii) Nidhi Co. → NOF : Deposit 1:20 + 10% Unenc. deposits + Default → Int / Repay.

Clause (xiii) R.P.(s) → Sec 177 & 188 + A/c Stds.

Clause (xiv) I. Audit system → commensurate → Nature & size of Business
- ⊕ I/Audit Report considered → stat. auditor

Clause (xv) Non cash Trans^n → Any Director / connected P? → Sec 192?

clause (xvi) RBI → a) Regd. u/s 45IA ? Yes → Regd?
b) Conducted → N.B/H.F. Act w/o COR?
→ c) CIC?
d) >CIC → No. of CIC in group?

clause (xvii) cash loss (CY & P.Y) → (₹)

clause (xviii) Resignation by Auditor → consider 9/C/O of outgoing auditor?

clause (xix) Going concern → on basis of financial (A/L/R) + Plans + other info
to
due within
No M.U. for meeting liab. [B.S date → 1year]
(CL)

clause (xx) CSR Reporting → trfd unspent amt → Sched VII fund within 6m. of FY
→ ongoing project → spl. A/c.

clause (xxi) Qualification / Adverse remarks → CARO (Cos. → included in CFS)
⇓
Details of cos + para. nos.