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

In exercise of the powers conferred by section 143(11) of the Companies Act, 2013 – MCA Notifies Companies (Auditor's Report) Order, 2020 (CARO 2020). The CARO, 2020 is applicable for audit of financial statements of eligible companies for the financial **years commencing on or after** the 1st April, 2019.
CARO is applicable to **EVERY COMPANY** including a foreign company as defined in u/s 2 (42) ***except***

(i) Banking company;
(ii) Insurance company;
(iii) A company licensed to operate under **section 8** of the companies act;
(iv) A one-person company as defined u/s 2 (62);
(v) A small company as u/s 2 (85); and
(vi) A **private limited** company which fulfil ALL the following conditions.
Condition 1: Paid up capital and reserves and surplus ≤ ₹1 crore as on the balance sheet date;
Condition 2: Total borrowings ≤ ₹1 crore from any bank or financial institution **at any point of time** during the financial year; and
Condition 3: Total revenue as disclosed in Scheduled III to the Companies Act, 2013 (including revenue from discontinuing operations) ≤ ₹10 crore **during** the financial year as per the financial statements.

Let us discuss more about the three conditions.

Question 1
What does paid-up capital and Reserves and surplus include?
Answer
Paid up capital = Equity share capital + Preference share capital
It does not include Application money received pending allotment.
Reserves and Surplus includes all type of reserves i.e. revenue reserves (free reserves) and capital reserves which include general reserve, capital redemption reserve, debenture redemption reserve, revaluation reserve, dividend equivalisation reserve, **profit and loss debit balance**, etc.
We need not deduct miscellaneous expenditure or investments etc.

Question 2
What does Borrowings include?
Answer
Borrowing includes short & Long term and secured & unsecured loans. But these should have been taken by the company only either from banks or financial institutions. It includes bank overdraft, cash credit, term loans, bills discounted but not matured, etc.
It does not include Debentures issued, public deposits, creditors, outstanding liabilities which are not generally either from banks or financial institutions.

Question 3
What does Total revenue as per Schedule III include?
Answer
Total revenue includes – Revenue from operations and Other income only from continuing and discontinuing operations of the company.
It should be computed after deducting trade discounts and sales returns (*say PY sold goods are returns in CY – these sales return also should be deducted for calculating revenue)*
Cash discount and Sales commission should not be deducted. GST collected should not be taken into account if they are credited separately to sales tax payable account or excise duty payable account.

Question 4
Is this CARO applicable for branches of the company also?
Answer

Yes. No exemptions available. Branch auditor should provide necessary information to principal auditor to complete the report as a whole for the company.

Question 5
Is this CARO applicable for a private company which is a subsidiary of a public company?
Answer
YES. Private which is a subsidiary of an **Indian** public company is treated as PUBLIC company. There are no exemptions available for public companies.

Question 6
Is this report applicable for Consolidated financial statements?
Answer
NO. Only for standalone financial statements.

Go through the above discussion once again before trying the below concept capsules

Concept capsule 69
A Pvt. Ltd. is incorporated on 1st July, 2019. During the year ended 31st March, 2020, it had issued shares (fully paid up) of Rs. 40 lakhs, had borrowed Rs. 7.5 lakhs each from 2 financial institutions and its turnover (Net of excise Rs. 50 lakhs which is credited to a separate account) is Rs.475 lakhs. Will Companies Auditors Report Order, 2016 (CARO) be applicable to A Pvt. Ltd.?
Suggested answer
Company is "A" is a private limited company. The auditor need not comply with CARO if it satisfies all the 3 conditions discussed above *(Refer above discussion – you should write all three conditions in exam)*.
In the given case, as ALL conditions are satisfied – hence CARO reporting is NOT applicable.

Concept capsule 70
B Pvt. Ltd.'s paid up Capital & Reserves are less than Rs. 100 lakhs and it has no outstanding loan exceeding Rs. 100 lakhs from any bank or financial institution. Its sales are Rs. 11 crores before deducting Trade discount Rs. 10 lakhs and Sales returns Rs. 95 lakhs. The services rendered by the company amounted to Rs. 10 lakhs. The company contends that reporting under Companies Auditor's Reports Order (CARO) is not applicable. Discuss
Suggested answer
Company is "B" is a private limited company. The auditor need not comply with CARO if it satisfies all the 3 conditions discussed above *(Refer above discussion – you should write all three conditions in exam)*.
Total revenue as per Schedule III of the companies Act, 2013, includes other income and after considering trade discount and sales return = 11 – 0.1 – 0.95 +0.10 = ₹10.05 crore.
As one of the conditions is not satisfied - CARO reporting is APPLICABLE to the company.

Concept capsule 71
C Private Ltd had taken overdrafts from two banks with a limit of 50 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution of ₹9 lacs. The said loans were outstanding as at 31st March 16. The paid-up capital and reserves of the company as at that date was 40 lacs and its turnover during the financial year ended on 31st March 13 was 3 crores. The management of the company is of the opinion that CARO 2016 is not applicable to it because turnover and paid-up capital were within the limits prescribed and loans taken against the fixed deposits cannot be considered. The company further contended that loan limit is to be reckoned per bank or financial institution and ·not cumulatively. Comment.
Suggested answer
Loan against fixed deposit also considered in calculation hence total loan amount comes to ₹109 lakh. As one of the conditions is not satisfied - CARO reporting is APPLICABLE to the company.

Concept capsule 72

D Pvt. Ltd. is a subsidiary of a **listed** entity **incorporated outside India**. The management of the company believes that since, D Pvt. Ltd. is a Private Company and satisfies all condition under the Companies (Auditor's Report) Order, 2016, reporting under CARO is not applicable. Comment

Suggested answer

A private company which is subsidiary of Indian public company is treated as public company. But in the given situation, company "D" is NOT a subsidiary of Indian public company (it is subsidiary of foreign company). Hence it will be treated as private limited company as per the companies Act. As it is a private limited company and satisfies all the three conditions - CARO is NOT applicable.

Matters to be included in the auditor's report:

The Auditor of the company should report totally on 16 points. Auditor should comment on each point whether his findings are favourable or unfavourable (i.e. either positive or negative)

Let us look into each point and understand auditor's reporting duties. (try to remember each point – *it will be useful for other chapter vouching and verification (i.e. audit of financial statements)*)

(1) FIXED ASSETS

In this point auditor should report on 3 points.

(a) (i) whether the company is maintaining **proper records** showing full particulars, including **quantitative details and situation (location) of Property, Plant and Equipment (PPE)**;

If the PPE Register has the following details, it can be called as proper record

- *Asset description;*
- *Original cost;*
- *Year of purchase;*
- *Location (situation);*
- *Quantities;*
- *Classification (P&M, L&B and etc.);*
- *Life of asset*
- *Depreciation in CY;*
- *Accumulated dep;*
- *Revaluation reserve (if any);*
- *Impairment details (if any);*

(ii) whether the company is maintaining **proper records** showing full particulars of **Intangible assets**;

(b) whether these PPE 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;

Explanation

Physical verification of fixed assets is the duty of management. It can be performed by the employees; internal auditors of the company or management can delegate this duty to outside agencies.

Auditor may observe the physical verification (It is not mandatory). Auditor should obtain physical verification working papers from the management. He should obtain written representation letter from the management in this regard as per SA 580.

Question 7

What do you mean by "reasonable intervals"?

Answer

As per ICAI guidance – If the management performs physical verification **at least once in 3 years** – can be considered as reasonable.

Question 8
What is discrepancy?
Answer
If fixed assets mentioned in FAR are not available physically and confirmed, those fixed assets should be written off from books of account (charged to P&L). Auditor should enquire regarding these discrepancies and ensure that accounted accordingly.

(c) whether the title deeds of **immovable properties (*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**;

Explanation & Audit procedures
Auditor should Review & Identify immovable properties of the company; To ensure that immovable properties are held in the name of the company, he should verify registered sale deed, transfer deed, etc.;
If it is lease hold property – as specifically asked to ignore – Auditor need not verify lease hold property;

If the company lost registration documents, auditor should check FIR (First information report) & understand the reasons for the same. He should obtain written representation letter from the management in this regard as per SA 580.
If there is Any disputes on title, he should contact legal counsel (legal department of the company) to understand disputes report accordingly.

(d) **whether the company has revalued its PPE (including Right of Use assets) or intangible assets or both during the year and, if so,**

i. **whether the revaluation is based on the valuation by a Registered Valuer;**
ii. **specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of PPE or intangible assets;**

Explanation and Audit procedures

- As per AS 10, PPE can be revalued if the entity has adopted revaluation model for any class of PPE. As required by the standard, the entity performs the revaluation only when there is material difference between the carrying amount and fair value;
- As per AS 26 – Revaluation of intangible assets are prohibited. This point of intangible assets are applicable to the companies who are following Ind AS; (Applicable for CA final students).
- Revaluation can be upward or downward revaluation.
- Aspects to be considered by the auditor in this regard are:
    - Date of revaluation carried out by the company.
    - Name of the registered valuer or firm who carried out the valuation exercise, place and date of valuation report.
    - Membership/license number of the registered valuer (registered valuer are to be registered with the Insolvency and Bankruptcy Board of India).
    - Review of valuation report issued under Rule 8 of the aforesaid Rules, by such registered valuer.
    - Methods and significant assumptions applied in estimating fair values.
    - Extent to which fair values were determined directly or estimated.
    - Accounting treatment of revaluation surplus;
- As per SA 230, the auditor may also retain a copy of the valuation report carried out by such registered valuer;
- the auditor shall consider the principles enunciated in SA 500, "Audit Evidence", with regard to using the work done by a management's expert.

(e) The duty of the auditor under this clause is to report:

i. 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;

ii. If so, whether the company has **appropriately disclosed** the details in its financial statements;

Audit procedures

- the auditor is required to examine whether proceedings have been initiated during the year Or any proceedings are pending before any authority; For this purpose,
  - auditor should make inquiries with management and obtain management representation letter in this regard;
  - Review legal expenses account;
  - Review the minutes of meetings of BOD, Audit Committee, Risk management committee, etc.
- Appropriate disclosures include the following
  - Nature of property;
  - Carrying value of the property in the books of account;
  - Status of proceedings before the relevant authority;
  - Impact on financial statements which are decided by the company.
  - Any need of recognition of liability or disclosure of contingent liability.
- If proceedings are taken place after balance sheet date and before signing the audit report, auditor should apply SA 560;
- The auditor shall ensure compliance with the requirements of SA 250,

(2) INVENTORY

(a) whether **physical verification** of inventory has been conducted at **reasonable intervals** by the management and whether, in the opinion of the auditor,

(i) the coverage and procedure of such verification by the management is appropriate;

(ii) whether any discrepancies of 10% or more in the aggregate for each class of inventory any **material discrepancies were** noticed and if so, whether they have been **properly dealt** with in the books of account;

Explanation

- Physical verification of inventory is the duty of management. It can be performed by the employees; internal auditors of the company or management can delegate this duty to outside agencies.
- Auditor should review the instructions given to the employees, physical verification sheets authentication by responsible persons, Coverage with respect to value of inventory; etc.
- Auditor **shall observe** the physical verification as per SA 501 to satisfy the assertion of existence of inventory as on the balance sheet date. Auditor should obtain physical verification working papers from the management.

Question 9
What do you mean by "reasonable intervals"?
Answer
As per ICAI guidance – If the management performs physical verification at least **once in every year** – can be considered as reasonable.

Question 10
What is discrepancy?
Answer
If inventory mentioned in registers are not available physically as on the balance sheet date, that inventory should not be considered for valuation of inventory. Auditor should enquire regarding these discrepancies and ensure that accounted accordingly.

(b) whether **during any point of time of** the year,

i. the company has been sanctioned **working capital limits in excess of Rs. 5 crore**, in aggregate, from banks or financial institutions on the basis of **security of current assets**;
ii. 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;

Audit procedures

- The clause is talking about working capital **limit** (not the actual loan outstanding). It means, the utilised loan can be less than Rs. 5 Crores;
- If the company has given a charge of current assets for the loan, then only auditor should obtain the returns submitted and compare with the books of account and ask for reconciliation if required.

(3) LOANS and Advances, Guarantees / Securities given

Whether the company has made investments in, provided any guarantee or security or **granted (given)** any loans or advances in the nature of loan, **secured or unsecured** to companies, firms, Limited Liability Partnerships or any other parties, If so,

(a) **<u>whether during the year</u>** 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 –
  a. 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;
  b. 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;

(b) whether the investments made, guarantees provided, security given and **terms and conditions** of the grant of all such loans advances in the nature of loans and guarantees provided are **not prejudicial** (*damaging*)to the company's interest;

(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**; *(i.e. check whether the company is receiving the principal and interest as per the terms of the agreement)*

(d) if the amount is **overdue** *(Principal + Interest amount)*, state the total amount overdue **for more than 90 days**, and whether **reasonable steps** have been taken by the company for recovery of the principal and interest*; (Overdue means the number of days crossed the due date);*

(e) **whether any loan or advance in the nature of loan granted** *(See explanation below)* 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,
  a. specify the aggregate amount of such dues renewed or extended or settled by fresh loans; and
  b. 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
  a. the aggregate amount,
  b. 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;

Explanation and audit procedures

- Clause (a) talks about loans and advances given or guarantees / security provided to any subsidiary, associate or Joint venture and others.
- Remember this clause (a) applicable only if any such transaction took place during the year. (not related to PY);
- If the company has given loans and advances, guarantees and securities given to subsidiaries, associates, joint ventures, and others, report
  - Total amount of each item during the year; and
  - Balance outstanding as on the balance sheet date.
- Obtain list of loans and advances, guarantees / securities provided during the year and compare the closing balances with the balance sheet; Obtain the movement of such balances like opening balances, CY loans given, repayment received and closing balances;
- Understand the internal control system related to this i.e. authorisation by the responsible persons, checking the compliance of laws like sections 179, 180, 185, 186, 187 of the Companies Act 2013, etc.
- To ensure that terms and conditions are not prejudicial to the interest of the entity – he should consider the rate of loan, security received against the loan, period, repayment terms and etc., the same can be compared with market terms.
- If the company has given any advance for an order for goods or services – that is not in the nature of loan; But say order for goods = Rs. 1000 but the advance given is Rs. 2,500. In this case Rs. 1,500 (Rs. 2,500 -1,000) is considered as advance in the nature of loan;
- Clause (f) is applicable only if the company has given any on demand loans or loans without mention of terms and conditions – Granted to promoters and related parties. If any such loans to other than the above parties not required to be reported.

Question 11

In PY Company gave loan to related party at very low interest rate and the loan is returned to the company during the year (as on balance sheet date there is NO loan outstanding). Does auditor need to comment on this?

Answer

Yes. Auditor should consider all loans outstanding as well as granted and returned during the year also.

Question 12

What do you mean by "regular"?

Answer

If the entity is receiving the installments as and when it becomes due as per the agreement, it can be considered as paying regularly.

Question 13

What do you mean by "reasonable steps" for overdue amounts?

Answer

Sending reminders, advocate notices are considered as reasonable steps. It need not take a legal action.

(4) COMPLIANCE of Sec. 185 & 186

In respect of loans, investments, guarantees, and security whether provisions of section 185 and 186 have been complied with.

If not, provide the details thereof. [Paragraph 3(iv)]

Explanation

Section 185 discuss about "**Loan to directors, etc.**".

- It prohibits loans to any directors and directors interested entities;
- Few exceptions are given - if it is as part of ordinary business; approved scheme by members & along with other employees;
- Loans can be given to director's interested entities by passing a special resolution and those loans

should be used by borrowing company only for its principal business activities;
- Check the records for transactions with directors;

Section 186 discuss about "**Loan or investment by the company"**
- Obtain list of loans given to any person or body-corporate, etc.
- Total loans and investments should not be exceeding 60% of its (paid-up share capital + free reserves and securities premium account) **OR** 100% of its (free reserves and securities premium account), **whichever is more**.
- Auditor should compute the maximum limit – and check whether it crossed or not;
- If crossed the maximum limit, company should prior special resolution in general meeting;
- Interest rates should not be less than Government of India bond Yield rates;

(5) PUBLIC DEPOSITS

If the company has accepted **deposits** or **amounts which are deemed to be deposits**, auditor should verify **whether the following are complied with**

a) whether the directives issued by the Reserve Bank of India; and
b) Provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013;
c) the rules framed there under, where applicable.
d) Any order passed by Company Law Board or National Company Law Tribunal or RBI or any court or any other tribunal.

If not, the nature of such contraventions be stated in the report;

In this regard
Auditor should examine the repayment Internal control system;
Observe the documents and compliance.

(6) COST RECORDS

Whether maintenance of cost records has been specified by the Central Government u/s 148(1) of the Companies Act, 2013 and whether such accounts and records have been so **made and maintained**.

In this regard
Auditor should review the maintained cost records in general;
He should obtain written representation letter from the management in this regard as per SA 580.

(7) STATUTORY DUES

There are two points
a) Undisputed statutory dues;
b) Disputed statutory dues.

(a) whether the company is **regular in depositing undisputed statutory dues** with appropriate authorities**?**
If not, report dues outstanding for a period exceeding 6 months as on balance sheet date.

- *Statutory dues include provident fund, employees' state insurance, income-tax, GST, duty of customs, cess and any other statutory dues.*
- *These taxes should be deposited with appropriate government authorities whenever they become due.*

(b) If taxes are NOT deposited on account of any dispute, report
- Amount involved; and
- The forum where dispute is pending i.e. High court, Supreme court, tribunal, etc.

A mere representation to the concerned Department shall not be treated as a dispute.

(8) Undisclosed income as per Income tax act

Whether any transactions **not recorded in the books** *(undisclosed in books)* of account have been **surrendered or disclosed as income** during the year **in the tax assessments** under the Income Tax Act, 1961 (43 of 1961), if so,
whether the **previously unrecorded income** has been properly **recorded in the books of account** during the year;

Explanation and audit procedure

- For the purpose of examination, the auditor is required to review all the tax assessments completed during the year under audit.
- The auditor is also required to review the tax assessments completed subsequent to the balance sheet date but prior to signing of the auditor's report if the surrendered or disclosed income relates to the year under audit or prior years.
- The auditor should obtain a representation letter from the management that all the assessments completed during the year have been duly informed to the auditor.
- The surrender or disclosure of unrecorded income might relate to any assessment year under the Income Tax Act, 1961.
- The auditor needs to evaluate whether the surrendered or disclosed income is required to be classified as extraordinary items keeping in view the requirements of AS 5;
- Further, considering the materiality of the amount of income surrendered or disclosed, the auditor should also evaluate whether the internal financial controls are operating effectively, particularly with respect to recognition of revenue/ income (Review SA 315 again).

(9) DEFAULT OF REPAYMENT OF LOANS

(a) whether the company has defaulted in repayment of **loans or borrowing** to a financial institution, bank, government or dues to debenture holders?
If yes, report lender wise details

- the period of default; and
- the amount of default. (Principal + Interest)

Audit procedures–

- *Loan agreement, other documents, debenture trust deed, repayment schedule, etc.*
- *The auditor should verify the amounts and dates of payment with the underlying bank statements and/ or any advice received from the lenders. Such verification may be done on test check basis considering the materiality in accordance with the Standards on Auditing.*
- *The auditor should obtain the confirmation of the concerned lender as to the status of the loan account including the overdue position as at the balance sheet date;*
- *If there are any disputes between the company and lender, the auditor should consider the prevailing terms and conditions only;*

(b) Whether **the company is a declared wilful defaulter** by any bank or financial institution or other lender;

Audit procedures–

- *The auditor when obtaining confirmations of outstanding loans and interest from banks/ financial institutions may* ***include a question*** *whether the company has been declared a wilful defaulter;*
- *The auditor should enquire from the management whether the company has been declared a wilful defaulter or has been issued a show-cause notice by any bank.*

(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;

Audit procedures–

- *The clause does not mention the loan from whom? So, one should consider loan from any person i.e. even individual loans (if any);*
- *The auditor should examine the terms and conditions subject to which the company has obtained the term loans.*
- *Normally the end use of the funds raised by term loans is mentioned in the sanction letter or documents containing the terms and conditions of the loan;*
- *Observe the usage of loan amount and discussion with the management;*

(d) Whether funds **raised on short term basis have been utilised for long term purposes**, if yes, the **nature and amount** to be indicated; *(Not a good financial management and it may effect the financial strength of the company)*

(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;

(10) SHARE ISSUE USAGE

(a) Whether moneys raised by way of **initial** public offer **or further** public offer (including debt instruments) **and** term loans were **applied for the purposes for which those are raised**.
If not, Report

- delays;
- default; and
- subsequent rectification, if any, as may be applicable;

Auditor should obtain the offer documents or loan agreement and read & understand the purpose of obtaining funds. He should obtain understanding of usage of same funds.

(b) Has the company made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review?
If so, check

- Compliance of section 42 & 62 of the Companies Act, 2013; and
- the amount raised have been used for the purposes for which the funds were raised.

If not,
provide the details in respect of

- the amount involved; and
- nature of non-compliance;

(11) FRAUD

(a) whether any **fraud BY the company OR** any fraud **ON the Company** has been **noticed or reported** during the year;
If yes, report

- the nature of fraud; and
- the amount involved;

(b) Whether any report under **Section 143 (12)** 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 **<u>during the year</u>** by the company;

Audit procedures

- *Auditor should enquire about frauds with the management;*
- *Obtain a written representation letter from Board or Audit committee in this regard as per SA 580;*
- *The auditor should also examine whether vigil mechanism has been established;*
- *The auditor shall review the minutes of audit committee and board meetings to identify whistle blower complaints, if any.*

(12) NIDHI COMPANY

Is the company a Nidhi company *(Non-banking financing company),*
If yes, check the following compliance of

a) Net Owned Funds**:** Deposits in the ratio of 1: 20 to meet out the liability; and
b) Maintenance of 10% unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;
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;

Audit procedures

Auditor should compute the ratio and % as per the rules.
In case of short fall **-** *report short fall & actual ratio;*

(13) COMPLIANCE OF Sec. 177 & 188

Whether all transactions with the **related parties** are in compliance with section 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards;

Explanation

Sec. 177 - Discuss about constitution and other points like duties, etc. of "**Audit committee**" –
Sec. 188 - Related party transactions **related approvals** with BOD and prior special resolution if crossing the transactions amount cross the limit:

- Obtain written representation letter as per SA 580;
- Obtain list of parties & transactions in Sec. 188;
- Transactions with holding and subsidiary – NOT applicable;
- If it is in the normal course of business – NOT applicable;

(14) INTENAL AUDIT SYSTEM

a) Whether the company has an internal audit system commensurate with **the size and nature** of its business;
b) Whether the **reports of the Internal Auditors for the period under audit were considered** by the statutory auditor;

Audit procedures

- *the auditor should evaluate the size of internal audit system based on the size and operations of the entity i.e. multi locations, huge operations, etc.;*
- *Qualifications and experience of internal auditor; Team size, Team experience, etc;*
- *Reporting responsibility of the internal auditor; i.e. scope of work and periodicity, etc.;*
- *The auditor can do so by examining the reports submitted by the internal auditor.*

(15) NON-CASH TRANSACTIONS WITH DIRECTORS

Has the company entered into any non-cash transactions with directors or persons connected with him? if so,
Check the compliance of section 192 of Companies Act, 2013;

*Sec 192 - discuss about **restriction** on non-cash transactions with directors and related to them – It requires PRIOR ordinary resolution in general meeting.*

(16) NBFC Registration

a) Is the company required to be registered under section 45-IA of the Reserve Bank of India Act, 1934? if so,
whether the registration has been obtained.

Auditor should verify whether the NBFC obtained registration from RBI. Without registration it cannot start its activities.

b) **Whethe the company has conducted** any NBFC activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act 1934;

(c) Whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria;

(d) Whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group;

(17) CASH LOSSES

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

Explanation

- Cash losses are not defined by the CARO;
- Cash losses = Net profit/loss after taxes as per P&L + Non cash transactions like depreciation, amortisation, provisions, etc.

(18) RESIGNATION OF STATUTORY AUDITOR

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;

(19) REALISATION OF FINANCIAL ASSETS AND ABLE TO PAY FINANCIAL LIABILITIES

On the basis of the financial ratios,

- ageing and expected dates of r**ealisation** of financial assets and payment of financial liabilities, other information accompanying the financial statements;
- the auditor's knowledge of the Board of Directors and management 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 balance sheet date;

(20) Transfer of CSR unspent amount

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

b) Whether any amount remaining unspent under subsection (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 sub-section (6) of section 135 of the said Act;

c) 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.

Reasons to be stated for unfavourable or qualified opinions-
(1) Where, in the auditor's report, the findings for above 16 points are unfavourable or qualified, the auditor's report shall also state the basis for such unfavourable or qualified answer, as the case may be.

(2) 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.