

CARO 2016

Applicable for Nov. 2021

**Detailed Notes,
Drone Chart,
Question Bank &
MCQs for
practice**

F.A.S.T
first attempt success tutorials

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CARO 2016

The Central Government, in exercise of the powers conferred, under sub-section (11) of section 143 of the Companies Act, 2013, has issued the Companies (Auditor's Report) Order, 2016 (hereinafter referred to as "the Order" or "CARO"). 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 modifying their audit procedures. The Report is effective for all audits of FS ending 31 March 2016 or later.

ALL ABOUT CARO

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, 2016) making it mandatory for auditor of companies covered under such order to furnish his comments on matters specified in this Order.
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
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.
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.
Compulsory Reporting or Exception Reporting?	Report to compulsory mention all the points in CARO, whether the comments are affirmative, qualificatory, explanatory or the clause is not applicable.
Report for the year or as on the reporting date?	The report given is not just on the year end but for the full year. Thereby provisions of CARO are not just to be checked for compliance at year end but for the whole year. For example, while reporting on regularity of statutory dues if auditor finds delays during the year he would be expected to report the matter even if the defaults are paid off by year end.
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.
Order on Companies or Auditor?	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.

Contravention of CARO would attract any penalty to company?	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.
Non - Compliance with CARO?	Section 147 (PENALTY FOR NON-COMPLIANCE BY AUDITOR WITH SECTIONS 143) imposes on auditor in willful default, be punishable with fine which may extend to 5 Lacs (25 Lacs in case of frauds).

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 rupees one crore as on the balance sheet date and which does not have total borrowings exceeding rupees one crore from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 (including revenue from discontinuing operations) exceeding rupees ten crore during the financial year as per the financial statements.

INTERPRETATION OF APPLICABILITY PROVISIONS	The order applies to all companies including companies under section 2(42) (foreign companies) except companies specifically exempted. Thereby the order applies to all the following categories of companies:- <ul style="list-style-type: none"> ➤ Foreign companies. ➤ Chit Fund company, Nidhi Company, Mutual Benefit Company ➤ Financial Institutions, NBFC, Investment Company 	
Will the order apply on NBFC which has converted itself into a bank at the year end?	NO, the Order would not apply in case of non-banking finance company, which converts into a banking company and as on the balance sheet date is a banking company.	
What is Section 8 Company?	Section 25 applies to companies which have been formed or are about to be formed as limited companies for promoting commerce, art, science, religion, charity or any other useful object and which apply or intend to apply their profits, if any, or other income in promoting their objects and prohibit the payment of any dividend to their members. Such companies are usually in the form of clubs, chambers of commerce, research institutions, etc.	
Is CARO applicable to Government Company?	Applicable to government companies too and is in addition to directions given by the Comptroller and Auditor General of India under section 619 in respect of government companies.	
Applicability On Branch Audit...	The Order is also applicable to the audits of branch(es) of a company under the Act since sub-section 3(a) of section 228 of the Act clearly specifies that a branch auditor has the same duties in respect of audit as the company's auditor. It is, therefore, necessary that the report submitted by the branch auditor contains a statement on all the matters	

		specified in the Order, except where the company is exempt from the applicability of the Order, to enable the company's auditor to consider the same while complying with the provisions of the Order.
	Is CARO applicable to Auditor of Public Financial Institution?	No, as the same is not a company but a body corporate

EXEMPTIONS FROM CARO

Companies exempted under this order are as follows :-

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

Exemption to PRIVATE COMPANIES	<ul style="list-style-type: none"> ✳ 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 rupees 1 crore as on the balance sheet date and ✳ which does not have total borrowings exceeding rupees one crore from any bank or financial institution at any point of time during the financial year and ✳ which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 (including revenue from discontinuing operations) exceeding rupees ten crore during the financial year as per the financial statements.
Key Interpretation of exemption to Private Companies	<ul style="list-style-type: none"> ✳ Order exempts only private limited company ✳ Private unlimited company not exempted under the order irrespective of the size of their paid-up capital and reserves, turnover, borrowings from banks/financial institutions. ✳ Companies that have accepted public deposits are not private companies hence always covered under the order ✳ Private company which is a subsidiary of a public company is treated as a public company u/s 3(1)(iv) hence not entitled to exemption, However holding of public companies even if private are not eligible for such exemption ✳ Paid Up Share Capital: <ul style="list-style-type: none"> • Includes- ESC, PSC, Share forfeiture, shares issued for other than cash, bonus shares • Excludes- Share warrants, Calls in advance, unpaid capital/calls in arrears, Share application pending allotment
RESERVES AND SURPLUS	<p>(i) Reserves and Surplus shall be classified as:</p> <ol style="list-style-type: none"> (a) Capital Reserves ; (b) Capital Redemption Reserve; (c) Securities Premium Reserve; (d) Debenture Redemption Reserve; (e) Revaluation Reserve; (f) Share Options Outstanding Account; (g) Other Reserves - (specify the nature and purpose of each reserve and the amount in respect thereof);

		<p>(h) Surplus i.e. balance in Statement of Profit & Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves etc.</p> <p>(ii) A reserve specifically represented by earmarked investments shall be termed as a 'fund'.</p> <p>(iii) Debit balance of statement of profit and loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.</p>
Additional Point Reserves	<ul style="list-style-type: none"> ❖ Both capital as well as revenue reserves should be taken into consideration ❖ Revaluation reserve, if any, should also be taken into consideration ❖ The credit balance in the profit and loss account should also be considered as a part of reserve ❖ The debit balance of the profit and loss account, if any, should be reduced from the figure of revenue & surplus (but not settled off from capital reserves). ❖ However, miscellaneous expenditure to the extent not written off should not be deducted from the figure of reserves ❖ ESOS outstanding is also considered as a part of Reserves and Surplus under Schedule III 	
TOTAL BORROWINGS	<ul style="list-style-type: none"> ❖ Loans from banks or financial institutions are normally in the form of term loans, demand loans, export credits, working capital limits, cash credits, overdraft facilities, bills purchased or discounted. Outstanding balances of such loans should be considered as loan outstanding for the purpose of computing the limit of 1 Crores ❖ Non-fund based credit facilities to the extent such facilities have devolved and have been converted into fund-based credit facilities should also be considered as outstanding loan. ❖ In case of term loans, interest accrued and due is considered as a loan whereas interest accrued but not due is not considered as a loan. Credit card dues from bank / FI also treated as loan ❖ Loans outstanding at any point of year to be checked as against other limits that are checked only on reporting / BS date 	
TOTAL REVENUE	<ul style="list-style-type: none"> ❖ Revenue to include Revenue form operations and other Revenue receipts too like interest dividends etc but excludes profit from sale of assets ❖ Revenue form discontinuing operations to be also included ❖ For ascertaining the limit of rupees 10 crores: <ul style="list-style-type: none"> (a) sales tax collected or excise duties collected should not be taken into account if they are credited separately to sales tax account or excise duty account; (b) trade discounts should be deducted from the figure of turnover; (c) commission allowed to third parties should not be deducted from the figure of turnover; and (d) Sales returns should be deducted from the figure of turnover even if the returns are from the sales made in the earlier years. 	
Period in relation to which the auditor should comment or report upon the matters specified in the Order - Position at year end or throughout the year?	<p>The better view, is to consider that the auditor is reporting on the state of affairs as they existed during the accounting year and compliance with the requirements of the Order should be judged with reference to the whole accounting year and not merely with reference to the position existing at the balance sheet date or the date at which he makes his report. However, in deciding whether or not to make an unfavourable comment, the auditor should consider what detrimental effect i.e. in substance whether it affects the interest of stakeholders.</p>	

CARO requires exercise of judgement by the auditor or application of a purely objective test?	Many of the matters covered by the Order require exercise of judgement by the auditor rather than the application of a purely objective test. For example, the auditor is required to state whether any material discrepancy noticed on physical verification of fixed assets have been properly dealt with in the accounts. This requires the exercise of judgement—firstly, in determining whether the discrepancies are material, and secondly, in deciding whether the accounting treatment is proper.
OTHERS	<ul style="list-style-type: none"> ❖ For a private limited company to be exempted from CARO, ALL above mentioned conditions to be satisfied ❖ CARO applicability is to be checked at every year end and not just once ❖ A Small company will always be exempted from CARO even if it is a private company and does not satisfy any of the above mentioned conditions ❖ Any negative comments on CARO to be supported with reasons ❖ CARO qualifications may or may not result in modification of Auditor's Opinion on FS

AUDIT AREAS UNDER CARO

- (i)
 - (a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
 - (b) whether these fixed assets 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;
 - (c) whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof;
- (ii) whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account;
- (iii) whether the company has granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013. If so,
 - (a) whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;
 - (b) whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;
 - (c) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;
- (iv) In respect of loans, investments, guarantees, and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof.
- (v) in case, the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed thereunder, where applicable, have been complied with? If not, the nature of such contraventions be stated; If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not?
- (vi) Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.
- (vii)
 - (a) whether the company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;

- (b) where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not be treated as a dispute).
- (viii) Whether the company has defaulted in repayment of loans or borrowing to a financial institution, bank, government or dues to debenture holders? If yes, the period and the amount of default to be reported (in case of defaults to banks, financial institutions, and government, lender wise details to be provided).
- (ix) 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, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;
- (x) whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;
- (xi) Whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act? If not, state the amount involved and steps taken by the company for securing refund of the same;
- (xii) whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability and whether the Nidhi Company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;
- (xiii) 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;
- (xiv) whether the company has made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and if so, as to whether the requirement of section 42 of the Companies Act, 2013 have been complied with 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;
- (xv) whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act, 2013 have been complied with;
- (xvi) whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.

Notes



SAMPLE AUDITOR'S REPORT - INFOSYS 2019 EXTRACT

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF INFOSYS LIMITED

Report on the Audit of the Standalone Financial State me nts

Opinion

We have audited the accompanying standalone financial statements of Infosys Limited ("the Company"), which comprise the Balance Sheet as at March 31, 2019, the Statement of Profit and Loss (including Other Comprehensive Income), the Statement of Changes in Equity and the Statement of Cash Flows for the year ended on that date, and a summary of the significant accounting policies and other explanatory information (hereinafter referred to as "the standalone financial statements").

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Companies Act, 2013 ("the Act") in the manner so required and give a true and fair view in conformity with the Indian Accounting Standards prescribed under section 133 of the Act read with the Companies (Indian Accounting Standards) Rules, 2015, as amended, ("Ind AS") and other accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2019, the profit and total comprehensive income, changes in equity and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit of the standalone financial statements in accordance with the Standards on Auditing specified under section 143(10) of the Act (SAs). Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Standalone Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India (ICAI) together with the independence requirements that are relevant to our audit of the standalone financial statements under the provisions of the Act and the Rules made thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the standalone financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements of the current period. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Ke y Audit Matte r	Auditor's Re sponse
<p><i>Evaluation of uncertain tax positions</i></p> <p>The Company has material uncertain tax positions including matters under dispute which involves significant judgment to determine the possible outcome of these disputes.</p> <p>Refer Notes 1.4b and 2.22 to the Standalone Financial Statements</p>	<p><i>Principal Audit Procedures</i></p> <p>Obtained details of completed tax assessments and demands for the year ended March 31, 2019 from management. We involved our internal experts to challenge the management's underlying assumptions in estimating the tax provision and the possible outcome of the disputes. Our internal experts also considered legal precedence and other rulings in evaluating management's position on these uncertain tax positions . Additionally, we considered the effect of new information in respect of uncertain tax positions as at April 1, 2018 to evaluate whether any change was required to management's position on these uncertainties.</p>

<p><i>Recoverability of Indirect tax receivables</i> As at March 31, 2019, non-current assets in respect of withholding tax and others includes Cenvat recoverable amounting to ₹ 503 crores which are pending adjudication.</p> <p>Refer Note 2.8 to the Standalone Financial Statements.</p>	<p><i>Principal Audit Procedures</i> We have involved our internal experts to review the nature of the amounts recoverable, the sustainability and the likelihood of recoverability upon final resolution.</p>
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Information Other than the Standalone Financial Statements and Auditor’s Report Thereon

The Company’s Board of Directors is responsible for the preparation of the other information. The other information comprises the information included in the Management Discussion and Analysis, Board’s Report including Annexures to Board’s Report, Business Responsibility Report, Corporate Governance and Shareholder’s Information, but does not include the standalone financial statements and our auditor’s report thereon.

Our opinion on the standalone financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the standalone financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the standalone financial statements or our knowledge obtained during the course of our audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Management’s Responsibility for the Standalone Financial Statements

The Company’s Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance, total comprehensive income, changes in equity and cash flows of the Company in accordance with the Ind AS and other accounting principles generally accepted in India. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Standalone Financial Statements

Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements. As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal financial controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Company has adequate internal financial controls system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Materiality is the magnitude of misstatements in the standalone financial statements that, individually or in aggregate, makes it probable that the economic decisions of a reasonably knowledgeable user of the financial statements may be influenced. We consider quantitative materiality and qualitative factors in (i) planning the scope of our audit work and in evaluating the results of our work; and (ii) to evaluate the effect of any identified misstatements in the financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

1. As required by Section 143(3) of the Act, based on our audit we report that:
 - a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books.
 - c) The Balance Sheet, the Statement of Profit and Loss including Other Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flow dealt with by this Report are in agreement with the relevant books of account.
 - d) In our opinion, the aforesaid standalone financial statements comply with the Ind AS specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014.
 - e) On the basis of the written representations received from the directors as on March 31, 2019 taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2019 from being appointed as a director in terms of Section 164 (2) of the Act.
 - f) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in "Annexure A". Our report expresses an unmodified opinion on the adequacy and operating effectiveness of the Company's internal financial controls over financial reporting.
 - g) With respect to the other matters to be included in the Auditor's Report in accordance with the requirements of section 197(16) of the Act, as amended:

In our opinion and to the best of our information and according to the explanations given to us, the remuneration paid by the Company to its directors during the year is in accordance with the provisions of section 197 of the Act.
 - h) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, as amended in our opinion and to the best of our information and according to the explanations given to us:
 - i. The Company has disclosed the impact of pending litigations on its financial position in its standalone financial statements.
 - ii. The Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts.
 - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.
2. As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government in terms of Section 143(11) of the Act, we give in "Annexure B" a statement on the matters specified in paragraphs 3 and 4 of the Order.

For **DELOITTE HASKINS & SELLS LLP**
Chartered Accountants
(Firm's Registration No. XXXXXX)

Partner
(Membership No. XXXXXX)

Bengaluru, April 12, 2019

ANNEXURE “A” TO THE INDEPENDENT AUDITOR’S REPORT

(Referred to in paragraph 1(f) under ‘Report on Other Legal and Regulatory Requirements’ section of our report to the Members of Infosys Limited of even date)

Report on the Internal Financial Controls Over Financial Reporting under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (“the Act”)

We have audited the internal financial controls over financial reporting of **INFOSYS LIMITED** (“the Company”) as of March 31, 2019 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

Management’s Responsibility for Internal Financial Controls

The Board of Directors of the Company is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to respective company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

Auditor’s Responsibility

Our responsibility is to express an opinion on the internal financial controls over financial reporting of the Company based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the “Guidance Note”) issued by the Institute of Chartered Accountants of India and the Standards on Auditing prescribed under Section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained, is sufficient and appropriate to provide a basis for our audit opinion on the internal financial controls system over financial reporting of the Company.

Meaning of Internal Financial Controls Over Financial Reporting

A company’s internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, to the best of our information and according to the explanations given to us, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2019, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

For **DELOITTE HASKINS & SELLS LLP**

Chartered Accountants

(Firm Registration No. XXXXXX)

P.R. RAMESH

Partner

(Membership No. XXXXXX)

Bengaluru, April 12, 2019

ANNEXURE 'B' TO THE INDEPENDENT AUDITOR'S REPORT

(Referred to in paragraph 2 under 'Report on Other Legal and Regulatory Requirements' section of our report to the Members of Infosys Limited of even date)

i. In respect of the Company's fixed assets:

- (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
 - (b) The Company has a program of verification to cover all the items of fixed assets in a phased manner which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the program, certain fixed assets were physically verified by the management during the year. According to the information and explanations given to us, no material discrepancies were noticed on such verification.
 - (c) According to the information and explanations given to us, the records examined by us and based on the examination of the conveyance deeds / registered sale deed provided to us, we report that, the title deeds, comprising all the immovable properties of land and buildings which are freehold, are held in the name of the Company as at the balance sheet date. In respect of immovable properties of land and building that have been taken on lease and disclosed as fixed assets in the standalone financial statements, the lease agreements are in the name of the Company.
- ii. The Company is in the business of providing software services and does not have any physical inventories. Accordingly, reporting under clause 3 (ii) of the Order is not applicable to the Company.
- iii. According to the information and explanations given to us, the Company has granted unsecured loans to two bodies corporate, covered in the register maintained under section 189 of the Companies Act, 2013, in respect of which:
- (a) The terms and conditions of the grant of such loans are, in our opinion, prima facie, not prejudicial to the Company's interest.

- (b) The schedule of repayment of principal and payment of interest has been stipulated and repayments or receipts of principal amounts and interest have been regular as per stipulations.
- (c) There is no overdue amount remaining outstanding as at the year-end.
- iv. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 185 and 186 of the Act in respect of grant of loans, making investments and providing guarantees and securities, as applicable.
- v. The Company has not accepted deposits during the year and does not have any unclaimed deposits as at March 31, 2019 and therefore, the provisions of the clause 3 (v) of the Order are not applicable to the Company.
- vi. The maintenance of cost records has not been specified by the Central Government under section 148(1) of the Companies Act, 2013 for the business activities carried out by the Company. Thus reporting under clause 3(vi) of the order is not applicable to the Company.
- vii. According to the information and explanations given to us, in respect of statutory dues:
- (a) The Company has generally been regular in depositing undisputed statutory dues, including Provident Fund, Employees' State Insurance, Income Tax, Goods and Service Tax, Customs Duty, Cess and other material statutory dues applicable to it with the appropriate authorities.
- (b) There were no undisputed amounts payable in respect of Provident Fund, Employees' State Insurance, Income Tax, Goods and Service Tax, Customs Duty, Cess and other material statutory dues in arrears as at March 31, 2019 for a period of more than six months from the date they became payable.
- (c) Details of dues of Income Tax, Sales Tax, Service Tax, Excise Duty and Value Added Tax which have not been deposited as at March 31, 2019 on account of dispute are given below:

Nature of the statute	Nature of dues	Forum where Dispute is Pending	Period to which the Amount Relates	Amount ₹ Crores
The Income Tax Act, 1961	Income Tax	Appellate Tribunal (1)	A.Y. 2010-11 to A.Y. 2012-13	1,031
	Income Tax	Appellate Authority up to Commissioner's Level	A.Y. 2008-09 to A.Y. 2016-17 and A.Y. 2018-19 to A.Y. 2019-20	4
Finance Act, 1994	Service Tax	Appellate Tribunal (2)	F.Y. 2004-05 to F.Y.2014-15	60
Central Excise Act, 1944	Excise Duty	Supreme Court (2)	F.Y. 2005-06 to F.Y. 2015-16	68
	Excise Duty	Appellate Tribunal	F.Y. 2015-16	-*
Customs Act, 1962	Custom Duty and Interest	Specified Officer of SEZ	F.Y. 2008 -09 to F.Y. 2011-12	5
Sales Tax Act and VAT Laws	Sales Tax and interest	High Court	F.Y. 2007-08	-*
	Sales Tax and interest	Appellate Authority up to Commissioner's Level (2)	F.Y. 2006-07 to F.Y. 2010-11, F.Y. 2014-15 and F.Y. 2016-17	2

(1) In respect of A.Y. 2012-13, stay order has been granted against the amount of ₹1,029 crores disputed and not been deposited.

(2) Stay order has been granted.

* Less than Rs. 1 crore.

- viii. The Company has not taken any loans or borrowings from financial institutions, banks and government or has not issued any debentures. Hence reporting under clause 3 (viii) of the Order is not applicable to the Company.
- ix. The Company has not raised moneys by way of initial public offer or further public offer (including debt instruments) or term loans and hence reporting under clause 3 (ix) of the Order is not applicable to the Company.
- x. To the best of our knowledge and according to the information and explanations given to us, no fraud by the Company or no material fraud on the Company by its officers or employees has been noticed or reported during the year.

- xi. In our opinion and according to the information and explanations given to us, the Company has paid/provided managerial remuneration in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Act.
- xii. The Company is not a Nidhi Company and hence reporting under clause 3 (xii) of the Order is not applicable to the Company.
- xiii. In our opinion and according to the information and explanations given to us, the Company is in compliance with Section 177 and 188 of the Companies Act, 2013 where applicable, for all transactions with the related parties and the details of related party transactions have been disclosed in the standalone financial statements as required by the applicable accounting standards.
- xiv. During the year, the Company has not made any preferential allotment or private placement of shares or fully or partly paid convertible debentures and hence reporting under clause 3 (xiv) of the Order is not applicable to the Company.
- xv. In our opinion and according to the information and explanations given to us, during the year the Company has not entered into any non-cash transactions with its Directors or persons connected to its directors and hence provisions of section 192 of the Companies Act, 2013 are not applicable to the Company.
- xvi. The Company is not required to be registered under section 45-IA of the Reserve Bank of India Act, 1934.

For **DELOITTE HASKINS & SELLS LLP**
Chartered Accountants
(Firm Registration No. XXXXXX)

Partner
(Membership No. XXXXXX)

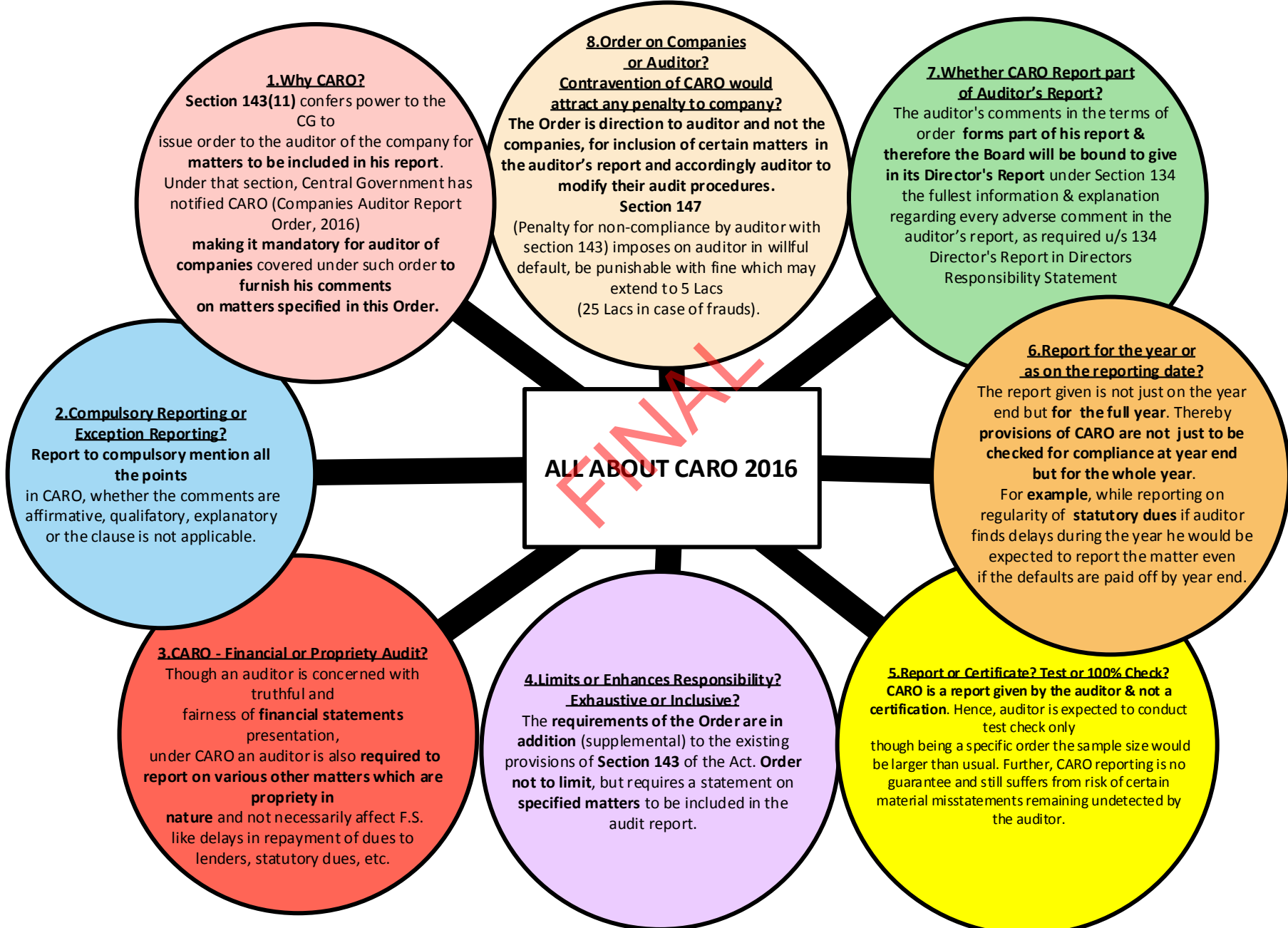
Bengaluru, April 12, 2019

Notes



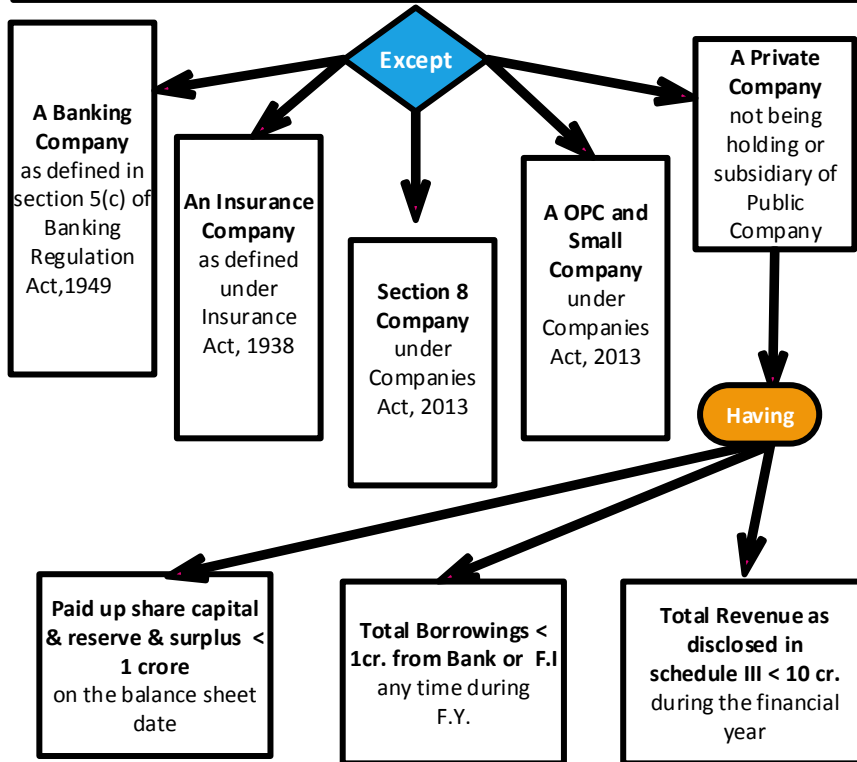
CASE STUDIES ON CARO

1. **ABC Pvt. Ltd. is a holding company of XYZ ltd. Whether CARO is applicable to ABC Pvt. Ltd.?**
CARO 2016 will be applicable to a private limited company which is holding company of a public company, which was not there in previous CARO. Therefore, CARO is applicable on ABC Pvt. Ltd.
2. **Physical verification of only 50% (in value) of items of inventory has been conducted by the company. The balance 50% will be conducted in next year due to lack of time and resources.**
Reporting for Physical Verification of Inventory: clause (ii) of Para 3 of CARO, 2016 requires the auditor to state in his report whether physical verification of inventory has been conducted at reasonable interval by the management.
Physical verification of inventory is the responsibility of the management which should verify all material items at least once in a year and more often in appropriate cases. The auditor in order to satisfy himself about verification at reasonable intervals should examine the adequacy of evidence and record of verification.
In the given case, the above requirement of CARO, 2016 has not been fulfilled as such and the auditor should point out the specific areas where he believes the procedure of inventory verification is not reasonable. He may consider the impact on financial statement and report accordingly.
3. **K Ltd. has taken a term loan from a nationalized bank in 2010 for ₹ 200 lakhs repayable in five equal instalments of ₹ 40 lakhs from 31st March, 2011 onwards. It had repaid the loans due in 2011 & 2012, but defaulted in 2013, 2014 & 2015. As the auditor of K Ltd. what is your responsibility assuming that company has sought reschedulement of loan?**
Reporting for Default in Repayment of Dues: As per clause (viii) of Para 3 of CARO, 2016, the auditor of a company has to report whether the Company has defaulted in repayment of its dues to a financial institution or bank or debentures holders and if yes, the period and amount of default to be reported.
In this case, K Ltd. has defaulted in repayment of dues for three years. Application for rescheduling will not change the default position. Hence the auditor has to report in his audit report that the Company has defaulted in its repayment of dues to the bank to the extent of ₹ 120 lakhs.
4. **LM Ltd. had obtained a Term Loan of ₹ 300 lakhs from a bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in short term deposits.**
Term Loan Invested in Short Term Deposits: As per clause (ix) of Para 3 of CARO, 2016, an auditor need to state in his report that whether the term loans were applied for the purpose for which the loans were obtained. In the present case, the term loan obtained by LM Ltd. have not been put to use for construction activities and temporarily invested the same in short term deposit.
Here, the auditor should report the fact in his report that pending utilization of the term loan for construction of a factory, the funds were temporarily used for investments in Short Term deposits.
5. **For the purpose of availing exemption from CARO what kind of loan to be considered?**
All sorts of loan whether term loan, demand loan, export credit, working credit limits, cash credits. Overdrafts, bill purchased or discounted, but does not include non-fund based facilities like LC BG.
6. **Whether CARO is Applicable to the auditor of consolidated financial statement?**
Order shall not apply to the auditor's report on consolidated financial statements. In previous order it was not expressly provided hence CFS auditors used to include CARO in their report.
7. **Should the auditor examine the cost record in detail while reporting under CARO?**
CARO does not require a detailed examination of Cost Records. The Auditor should, therefore, conduct a general review of Cost Records to ensure that the records as prescribed are made and maintained. The word "made" applies in respect of Cost Accounts, and the word "maintained" applies in respect of Cost Records relating to Materials, Labour, Overheads, etc.



Applicability and Exceptions

It shall apply to Every Company including Foreign Company.



FAST ka GURU GYAN

- CARO would **not** apply to a NBFC converts itself into a Banking company at year end.
- CARO is **applicable** to Govt. Company also and it is in **addition to directions of C &AG** under section 619.
- The CARO is also **applicable to audit of Branches of a company.**
- CARO is **not applicable to Public Financial Institution** as the same is not a company but a body corporate.

Paid up share capital

Includes

- ESC
- PSC
- Share for forfeiture
- Share issued for other than cash
- Bonus shares

Excludes

- Share warrants
- Calls in advance
- Unpaid capital calls in areas
- Share application pending allotment

Reserves and Surplus

❖ **Classified as**

- Capital reserve
- Capital redemption reserve
- Securities premium reserve
- Debenture redemption reserve
- Revaluation reserve
- Share option outstanding account
- Other reserves
- Surplus – (i.e. balance in statement of P & L)

- ❖ Both **capital + revenue reserve** should be taken
- ❖ **Revaluation reserve** should also be taken
- ❖ The credit balance in **P&L to be considered and debit balance to be reduced**
- ❖ **Miscellaneous expenditure to the extent not written off should not be deducted**
- ❖ **ESOS outstanding is also considered** as a part of reserves & surplus under schedule III

Total Revenue

❖ **Includes**

- Revenue from operations
- Other revenue receipts like interest, dividends
- Revenue from discontinuing operation

❖ **Excludes**

- Profit from sale of assets

❖ **For ascertaining the limit of Rs10 crore**

- GST collected **not to be** taken into accounts
- Trade discount should be **excluded** from turnover
- Commission allowed to 3rd parties **should not be deducted** from turnover
- Sales return **to be deducted even if return from previous year sales.**

Total borrowings

❖ **Includes**

- Loans from Bank, F.I. in the form of-
- Term loan
 - Demand loans
 - Export credit
 - Working capital limit
 - Cash credit
 - Overdraft
 - Bills purchased & discounted

- ❖ Non fund based credit facilities **to the extent** such facilities have **devolved and have converted into fund-based credit facilities** should also be considered as outstanding loan
- ❖ In case of terms loans **interest accrued and due is also considered as loan**, interest accrued but not due not to be considered.
- ❖ **Credit card dues from bank/ F.I. also treated as loan**
- ❖ Loans outstanding **at any point of year** to be checked

(i) Fixed Assets

- (a) Whether the company is **maintaining proper records** showing full particulars, including quantitative details and situation of fixed assets?
- (b) (i) Whether these fixed assets are **physically verified At reasonable intervals?**
- (ii) Whether any **material discrepancies noticed?**
- (iii) Whether the same has been **properly dealt?**
- (c) Whether the **title deeds** of immovable properties are **held in the name of company?** if not, provide details thereof.

(ii) Inventory

- (a) Whether **physical verification** of inventory has been conducted at **reasonable intervals** by the management?
- (b) Whether any **discrepancies noticed?**
- (c) Whether they have been **properly dealt** with in the books or not?

(iii) Loans Granted

- (a) Whether the company has granted any loans **secured or unsecured** to Companies, Firms, LLP, Parties covered under section 189
- (b) **T&C prejudicial** to company?
- (c) **Schedule of repayment** of principal and Interest **stipulated?**
- (d) **Receipts are regular?**
- (e) If amounts are **overdue:**
*State amount **overdue > 90 days.**
*Reasonable **steps taken for recovery?**

(iv) Loans, investment, Guarantees & Security

- (a) Whether provisions of **section 185 and 186** of Companies Act, 2013 have been complied with?
- (b) If not, provide details thereof.

(v) Deposits accepted by the company

- (a) Directives of RBI and provisions of **section 73 to 76 of CO'S act 2013 followed?**
- (b) If not, **nature of such contravention**
- (c) If **order passed by Board /Tribunal /RBI** whether the same is **complied or not?**

(vi) Cost records

- (a) Whether maintenance of cost records has been specified by **CG under section 148 (1)?** &
- (b) Whether such accounts and records are **made & maintained?**

(vii) Statutory dues

- (a) Whether company is **regular in depositing undisputed dues.**
- (b) If not **the extent of the arrears** of outstanding statutory dues as on **last day of the F.Y.** concerned for a **period of 6 months from due date**
- (c) Whether dues are not deposited on **account of any dispute** then the **amounts involved and the forum** where dispute is pending shall be mentioned.

(viii) Default in repayment of loans & borrowings to Bank F.I. or Govt. or Debenture holders

- If, yes the **period and the amount of default** to be reported

(ix) Money Raised

- (a) Whether the money raised through IPO or further public offer and term loans were **applied for the purpose they were raised?**
- (b) If not, **details together with delays or default or subsequent rectification.**

(x) Fraud

- By its officer / employers **noticed or reported during the year** if yes the **nature and amount involved** to be indicated

(xi) Nidhi company

- (a) Whether **Net owned funds to Deposits ratio 1:20?**
- (b) Whether to meet out its liabilities, **maintaining 10% unencumbered term deposits** as per Nidhi rules, 2014?

(xii) Managerial remuneration

- (a) As per the provisions of **section 197** read with **schedule V?**
- (b) if not, state the **amount involved and steps taken** by the company for **securing refund** of the same

(xv) Non cash transaction with directors

- Whether provisions of **section 192 of Cos Act 2013** complied?

(xiii) Related party transactions

- (a) In compliance with **section 177 and 188.**
- (b) Details have been **disclosed in F.S** or not?

(xiv) Preferential allotment or private placement of shares & debentures

- (a) Requirement of **section 42 of Cos Act. 2013** complied?
- (b) **Amount raised are used for the purpose they were raised?** If not, provide details in respect of **amount involved and nature of non-compliance**

(xvi) Whether the company is required to be registered under section 45-IA of RBI Act, 1934.

- Whether **registration** has been obtained?

UNIT-4 (Part-I) CARO, 2016

APPLICABILITY PROVISIONS OF CARO-2016

1.	TI NEXT Pvt. Ltd. is a holding company of C21 ltd. Whether CARO is applicable to TI NEXT Pvt. Ltd.?
Ans.	<p>Applicability of CARO, 2016:</p> <p>(i) As per CARO-2016:- The Companies (Auditor's Report) Order, 2016, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfills all the following conditions:</p> <ul style="list-style-type: none"> • its paid-up capital and reserves are not more than ₹ 1 Cr. as on Balance Sheet date, and • its total borrowings any bank or financial institution are not more than ₹ 1 cr. at any point of time during the financial year; and • its total revenue as disclosed in Schedule III (including revenue from discontinuing operations) does not exceed ₹ 10 Cr. during the financial year as per the financial statements. <p>(ii) In the present case:- TI NEXT Pvt. Ltd. is a holding company of C21 Ltd., hence reporting under CARO is required.</p> <p>(iii) Conclusion:- As per the facts given above CARO is applicable on TI NEXT Pvt. Ltd.</p>
2.	<p>T Pvt. Ltd.'s paid up capital & reserves are less than ₹ 50 lakhs and it has no outstanding loan exceeding ₹ 25 lakhs from any bank or financial institution. Its sales are ₹ 6 crores before deducting trade discount ₹ 10 lakhs and sales returns ₹ 95 lakhs. The services rendered by the company amounted to ₹ 10 lakhs. The company contends that reporting under Companies Auditor's Reports Order (CARO) is not applicable. Discuss. (SM-2021)</p>
Ans.	<p>Applicability of CARO, 2016:</p> <p>(i) As per CARO-2016:- The Companies (Auditor's Report) Order, 2016, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfills all the following conditions:</p> <ul style="list-style-type: none"> • its paid-up capital and reserves are not more than ₹ 1 Cr. as on Balance Sheet date, and • its total borrowings any bank or financial institution are not more than ₹ 1 cr. at any point of time during the financial year; and • its total revenue as disclosed in Schedule III (including revenue from discontinuing operations) does not exceed ₹ 10 Cr. during the financial year as per the financial statements. <p>(ii) In the present case:- Paid up capital and reserves of T Pvt. Ltd. are less than ₹ 1 crore and has no loan outstanding exceeding ₹ one crore from any bank or financial institution. Further, its total revenue as disclosed in Scheduled III to the Companies Act, 2013 (including revenue from discontinuing operations) is not exceeding rupees ten crore during the financial year as per the financial statements.</p> <p>(iii) Conclusion:- As per the provision & facts given above CARO 2016 will not be applicable to T Pvt. Ltd.</p>
3.	<p>Astha Pvt. Ltd. has fully paid capital of ₹ 140 lakhs. During the year, the company had borrowed ₹ 15 lakhs each from a bank and a financial institution. It had the turnover (Net of GST ₹ 50 lakhs which is credited to a separate account) of ₹ 475 lakhs. Will Companies (Auditor's Report) Order, 2016 be applicable to Astha Pvt. Ltd.? (Nov-2007, SM-2021)</p>
Ans.	<p>Applicability of CARO, 2016:</p> <p>(i) As per CARO-2016:- The Companies (Auditor's Report) Order, 2016, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfills all the following conditions:</p> <ul style="list-style-type: none"> • its paid-up capital and reserves are not more than ₹ 1 Cr. as on Balance Sheet date, and

	<ul style="list-style-type: none"> its total borrowings any bank or financial institution are not more than ₹ 1 cr. at any point of time during the financial year; and its total revenue as disclosed in Schedule III (including revenue from discontinuing operations) does not exceed ₹ 10 Cr. during the financial year as per the financial statements. <p>(ii) In the present case:- In the case of Astha Pvt. Ltd., it has outstanding loan of ₹ 30 lakhs (₹ 15 lakhs + ₹ 15 lakhs) collectively from bank and financial institution which is less than ₹ 1 crore and turnover is ₹ 475 lakhs i.e. also less than ₹ 10 crores and not exceeding the limit. However, it has paid capital of ₹ 140 lakhs i.e. more than ₹ 1 crore.</p> <p>(iii) Conclusion:- Thus, considering its paid up capital which is exceeding the prescribed limit for exemption, CARO, 2016 will be applicable to Astha Pvt. Ltd.</p>
4.	<p>E-Tech Pvt. Ltd., which has an aggregate outstanding loan of ₹ 20 lakhs from Banks and ₹ 30 lakhs from Financial Institutions, defaulted in repayment thereof to the extent of 50%. The company holds that it being a private limited company, The Companies (Auditor's Report) Order, 2016 is not applicable. You are required to state the list of companies to which CARO is not applicable and state how would you deal with the given situation as an auditor of the company. (May-2007, RTP-Nov-2015)</p> <p style="text-align: center;">OR</p> <p>Evolution Pvt. Ltd., borrowed a sum of ₹ 110 lakhs from Banks & Financial Institutions, subsequently company defaulted in repayment thereof to the extent of 50%. The management of company contends that that it being a private limited company, The Companies (Auditor's Report) Order, 2016 is not applicable. You are required to state the list of companies to which CARO is not applicable and state whether it will be applicable on Evolution Pvt. Ltd. (RTP-Nov-2017)</p>
Ans.	<p>(i) As per CARO-2016:- The Companies (Auditor's Report) Order, 2016, shall apply to every company including a foreign company as defined u/s 2(42)3 of Act, 2013.</p> <p>Exception:- list of companies to which CARO is not applicable</p> <ul style="list-style-type: none"> 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 in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act; and Private limited companies, not being a subsidiary or holding of a public company, from its application which fulfills all the following conditions: <ul style="list-style-type: none"> its paid-up capital and reserves are not more than ₹ 1 Cr. as on Balance Sheet date, and its total borrowings any bank or financial institution are not more than ₹ 1 cr. at any point of time during the financial year; and its total revenue as disclosed in Schedule III (including revenue from discontinuing operations) does not exceed ₹ 10 Cr. during the financial year as per the financial statements. <p>(ii) In the present case:- E-Tech Pvt. Ltd., which has an aggregate outstanding loan of ₹ 50 lakhs(20+30), From Bank & FI together which is not exceeding the limit prescribed under order for applicability of exemption & but defaulted in repayment thereof to the extent of 50%.</p> <p>(iii) Conclusion:- Contention of the E Tech Pvt. Ltd., is correct that CARO, 2016 will not be applicable on it as outstanding loan from banks and financial institution in aggregate does not exceeds ₹ 1 Cr</p>
5.	<p>A Pvt. Ltd. is incorporated on 1st July, 2019. During the year ended 31st March, 2020, it had issued shares (fully paid up) of ₹ 80 lakhs, had borrowed ₹ 60 lakhs each from 2 financial institutions and its turnover (Net of excise ₹ 100 lakhs which is credited to a separate account) is ₹ 950 lakhs. Will Companies Auditors Report CARO, 2016 (CARO) be applicable to A Pvt. Ltd.?</p>
Ans.	<p>Applicability of CARO, 2016:</p> <p>(i) As per CARO-2016:- The Companies (Auditor's Report) Order, 2016, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfills all the following conditions:</p>

	<ul style="list-style-type: none"> • its paid-up capital and reserves are not more than ₹ 1 Cr. as on Balance Sheet date, and • its total borrowings any bank or financial institution are not more than ₹ 1 cr. at any point of time during the financial year; and • its total revenue as disclosed in Schedule III (including revenue from discontinuing operations) does not exceed ₹ 10 Cr. during the financial year as per the financial statements. <p>(ii) Facts of the case:</p> <ul style="list-style-type: none"> • Paid-up capital is ₹ 80 lakhs, turnover is less than ₹ 10 Crores but its borrowings from banks and financial institution is ₹ 120 Lakhs. • While computing revenue, excise duty will not be considered as per the requirements of Schedule III. • While computing borrowings from banks and financial statements, loans are to be taken cumulatively not individually. <p>(iii) Conclusion:- Contention of the A Pvt. Ltd. is not correct as total borrowings exceeds ₹ 1 Cr., hence reporting under CARO, 2016 will be required.</p>
6.	<p>L Private Ltd., which has outstanding loan of more than ₹ 100 lakhs from Financial Institution defaulted in repayment thereof to the extent of 50%. The company holds that it being a private limited company, the Companies Auditors Report Order (CARO) is not applicable.</p>
Ans.	<p>Applicability of CARO, 2016 & Defaulted in repayment of loans:</p> <p>(i) As per CARO-2016:- The Companies (Auditor's Report) Order, 2016, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfills all the following conditions:</p> <ul style="list-style-type: none"> • its paid-up capital and reserves are not more than ₹ 1 Cr. as on Balance Sheet date, and • its total borrowings any bank or financial institution are not more than ₹ 1 cr. at any point of time during the financial year; and • its total revenue as disclosed in Schedule III (including revenue from discontinuing operations) does not exceed ₹ 10 Cr. during the financial year as per the financial statements. <p>(ii) Para 3(viii) of CARO, 2016 requires the auditor to comment whether the company has defaulted in repayment of loans or borrowings to a financial institution, bank, government or debenture holders? If yes, the period and amount of default to be reported.</p> <p>(iii) Facts of the case:- In the instant case the total borrowings exceed ₹ 100 Lakhs out of which company defaults in repayment to the extent of 50%. As borrowings exceeds ₹ 1 Cr. during the year, reporting under CARO is required.</p> <p>(iv) Conclusion:- Contention of L Pvt. Ltd. is not correct as borrowings from financial institution exceeds ₹ 1 Cr., and auditor is required to report the period and amount of default in repayment of dues under Para 3(viii) of CARO, 2016.</p>
7.	<p>Grow More Pvt. Ltd.'s paid up Capital & Reserves are less than ₹ 1 cr. and it has no outstanding loan exceeding ₹ 1 Cr. from any bank or financial institution. Its sales are ₹ 12 crores before deducting Trade discount ₹ 20 lakhs and Sales returns ₹ 1.90 Cr. The services rendered by the company amounted to ₹ 20 lakhs. The company contends that reporting under Companies Auditor's Reports Order (CARO) is not applicable. Discuss.</p>
Ans.	<p>Applicability of CARO, 2016:</p> <p>(i) As per CARO-2016:- The Companies (Auditor's Report) Order, 2016, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfills all the following conditions:</p>

- its **paid-up capital and reserves** are **not more than ₹ 1 Cr.** as on Balance Sheet date, and
- its **total borrowings** any bank or financial institution are **not more than ₹ 1 cr.** at any point of time during the financial year; and
- its **total revenue as disclosed in Schedule III** (including revenue from discontinuing operations) **does not exceed ₹ 10 Cr.** during the financial year as per the financial statements.

(ii) As per Schedule-III:

- Revenue from operations shall consists of **revenue from sale of products, sale of services, and other operating revenues.**
- While computing total revenue, **trade discount** as well as **sales returns** are **required to be deducted.**

(iii) In the present case:- The **turnover** of the company including value of service rendered after deducting trade discount and sales returns amounts to **₹ 10.10 crores (i.e. 12 - 0.20 - 1.90 + 0.20 crore).**

(iv) Conclusion:- **Contention of the company that CARO is not applicable is not correct,** as Total Revenue exceeds ₹ 10 Cr.

8. Sanjana Private limited reports the following position as on 31st March 2020:
Paid up capital 55Lacs
Revaluation reserves 25Lacs
Capital reserves 26Lacs
P & L A/c (Dr. Balance) 8Lacs
The management of the company contends that CARO 2016 is not applicable to it.

OR

Ramya Private Limited Company reports the following position as on 31st March, 2020:
Paid up Capital ₹ 75Lacs
Revaluation Reserve ₹ 25Lacs
Capital Reserve ₹ 20 Lacs
Profit & Loss (Dr.) Balance ₹ 25Lacs
The Management of the Company contends that CARO, 2016 is not applicable to it. Comment.

Ans. **Applicability of CARO, 2016:**

(i) As per CARO-2016:- The Companies (Auditor's Report) Order, 2016, **exempts private limited companies,** not being a **subsidiary or holding of a public company,** from its application which fulfills all the **following conditions:**

- its **paid-up capital and reserves** are **not more than ₹ 1 Cr.** as on Balance Sheet date, and
- its **total borrowings** any bank or financial institution are **not more than ₹ 1 cr.** at any point of time during the financial year; and
- its **total revenue as disclosed in Schedule III** (including revenue from discontinuing operations) **does not exceed ₹ 10 Cr.** during the financial year as per the financial statements.

(ii) As per Guidance Note on CARO, 2016 issued by ICAI:

- **While computing paid up capital and reserves,** capital reserves, revenue reserves, revaluation reserves and credit balance of Profit and loss account **are to be considered in aggregate as reduced by debit balance in the profit and loss** account, if any

(iii) In the present case:- **Paid up capital and reserves** after deducting debit balance of Profit & Loss Account amounts to **₹ 98 Lacs (55 + 25 + 26 -8).**

(iv) Conclusion:- **CARO is not applicable** as paid up capital and reserves does not exceed ₹ 1 Cr.

Note:- assuming that other conditions as to borrowings and revenue also satisfied

9.	Janta Pvt. Ltd. is a subsidiary of a listed entity. The management of the company believes that since Janta Pvt. Ltd. is a private company and satisfies all conditions under CARO 2016, reporting under CARO is not applicable.
Ans.	<p>Applicability of CARO, 2016:</p> <p>(i) As per CARO-2016:- The Companies (Auditor's Report) Order, 2016, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfills certain conditions</p> <p>(iii) In the given case:- M/s Janta Pvt. Ltd. is a subsidiary of a listed entity and its management believes that the company satisfies all conditions as required under CARO 2016.</p> <p>(iv) Conclusion:- Exemption from CARO is not available to a private company which is a subsidiary of a public company. Hence contention of the management that company being a private limited company and satisfies all the conditions required for exemption is not correct.</p>
10.	<p>H Private Ltd (not a small company) had taken overdrafts from two banks with a limit of ₹ 40 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution of ₹ 36 lacs. The said loans were outstanding as at 31st March 2020. The paid-up capital and reserves of the company as at that date was ₹ 80 lacs and its revenue during the financial year ended on 31st March 2020 was ₹ 6 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. (May-2013)</p>
Ans.	<p>Applicability of CARO, 2016:</p> <p>(i) As per CARO-2016:- The Companies (Auditor's Report) Order, 2016, exempts private limited companies, not being a subsidiary or holding of a public company, from its application which fulfills all the following conditions:</p> <ul style="list-style-type: none"> • its paid-up capital and reserves are not more than ₹ 1 Cr. as on Balance Sheet date, and • its total borrowings any bank or financial institution are not more than ₹ 1 cr. at any point of time during the financial year; and • its total revenue as disclosed in Schedule III (including revenue from discontinuing operations) does not exceed ₹ 10 Cr. during the financial year as per the financial statements. <p>(ii) As per Guidance Note on CARO, 2016 issued by ICAI:</p> <ul style="list-style-type: none"> • While computing total borrowings from banks and financial statements, loans against Fixed deposits are to be taken into consideration. • Further loans from banks and financial institutions are to be taken cumulatively not individually. <p>(iii) In the present case:- Paid-up capital is less than ₹ 1 Cr., Revenue is less than ₹ 10 Crores but its total borrowings from banks and financial institution is ₹ 1.16 Cr.</p> <p>(iv) Conclusion:- Contention of H Ltd. is not correct as total borrowings exceeds ₹ 1 Cr., hence reporting under CARO, 2016 will be required.</p>
11.	<p>Ansh Pvt. Ltd. is a private limited company, not being a subsidiary or holding company of a public company, having fully paid capital and reserves and surplus of ₹ 50 lakh. During the financial year, the company had borrowed ₹ 80 lakh from a financial institution. It has the revenue of ₹ 8 crore from normal operations and ₹ 3 crore from discontinuing operations as disclosed In Scheduled III to the Companies Act, 2013. Will companies (Auditor's Report) CARO, 2016 (CARO, 2016) be applicable to Ansh Pvt. Ltd.? (May-2010, RTP-Nov-2010, Nov-2014, MTP-Nov-2016)</p>

Ans. **Applicability of CARO, 2016:**

(i) As per CARO-2016:- The Companies (Auditor's Report) Order, 2016, **exempts private limited companies**, not being a **subsidiary or holding of a public company**, from its application which fulfills all the **following conditions:**

- its **paid-up capital and reserves** are **not more than ₹ 1 Cr.** as on Balance Sheet date, and
- its **total borrowings** any bank or financial institution are **not more than ₹ 1 cr.** at any point of time during the financial year; and
- its **total revenue as disclosed in Schedule III** (including revenue from discontinuing operations) **does not exceed ₹ 10 Cr.** during the financial year as per the financial statements.

(ii) In the present case:- Ansh Pvt. Ltd. is a **private limited company**, not being a subsidiary or holding company of a public company. It has **paid capital and reserves and surplus** of **₹ 50 lakh** i.e. less than ₹ 1 crore, **outstanding loan of ₹ 80 lakh** i.e. less than ₹ 1 crore. However, it has **total revenue of ₹ 11 crore** (₹ 8 crore from normal operations+ ₹3 crore from discontinuing operations) i.e. exceeding ₹ 10 crore as disclosed in Scheduled III to the Companies Act, 2013.

(iii) Conclusion:- Ansh Pvt Ltd. fails to fulfil the condition relating to **total revenue. Thus, CARO, 2016 will be applicable to it.**

12. X Pvt Ltd is a subsidiary of a listed entity incorporated outside India the management of the company believes that since, X Pvt.Ltd. is a Private Company and satisfies all condition under The Companies (Auditor's Report) Order, 2016, reporting under CARO is not applicable. **(Nov-2012)**

Ans. **Applicability of CARO, 2016:**

(i) As per CARO-2016:- The Companies (Auditor's Report) Order, 2016, **exempts private limited companies**, not being a **subsidiary or holding of a public company**, from its application which fulfills all the **following conditions:**

- its **paid-up capital and reserves** are **not more than ₹ 1 Cr.** as on Balance Sheet date, and
- its **total borrowings** any bank or financial institution are **not more than ₹ 1 cr.** at any point of time during the financial year; and
- its **total revenue as disclosed in Schedule III** (including revenue from discontinuing operations) **does not exceed ₹ 10 Cr.** during the financial year as per the financial statements.

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

(iii) Conclusion:- Since X Pvt. Ltd. is a subsidiary of a listed entity incorporated outside India, **CARO, 2016 will not be applicable X Pvt. Ltd.**

MATTERS TO BE REPORTED IN CARO-2016 & DISCLOSURES IN AUDIT REPORT

13. The Fixed assets (PPE) of ABC Ltd. included ₹ 25.75 crores of earth removing machines of outdated technology which had been retired from active use and had been kept for disposal after knock down. These assets appeared at residual value and had been last inspected ten years back. As an Auditor, what may be your reporting concern as regards matters specified above?

(MTP-May-2018, May-2018-New)

OR

The Fixed assets (PPE) of Nasir Ltd. included ₹23.49 crores of earth removing machines of outdated technology which had been retired from active use and had been kept for disposal after knock down. These assets appeared at residual value and had been last inspected seven years back. As an Auditor, what may be your reporting concern in view of CARO, 2016 on matters specified above?

(MTP-May-2020)

<p>Ans.</p>	<p>Reporting under CARO, 2016- (Physical verification of Fixed assets (PPE)) The auditor is required to specifically include certain matters as per CARO, 2016 under section 143 of the Companies Act, 2013.</p> <p>(i) As per Clause (i) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> • Whether the Fixed assets (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; <p>(ii) In the present case:- ABC Ltd. has intention to sale its earth removing machines of outdated technology which had been retired from active use and had been kept for disposal after knock down and these assets are appearing at residual value. Further, inspection of such machines (though it is a retired machine, however value is ₹ 25.75 crores which is material amount) was done 10 years back, is not in compliance with CARO, 2016.</p> <p>(iii) Conclusion:- Hence, this fact needs to be disclosed in the Audit Report as per clause (i) of Paragraph 3 of CARO 2016.</p>
<p>14.</p>	<p>What documents constitute Title deed of Immovable property (SM-2021)</p>
<p>Ans.</p>	<p>Following documents constitute Title deed of immovable property</p> <ul style="list-style-type: none"> • Registered sale deed/transfer deed/ conveyance deed, etc. of land, land & building together, etc. purchased, allotted, transferred, by any person including any government, government authority/body/agency/corporation, etc. to the company. • In case of leasehold land and land & building together covered under the head Fixed assets (PPE), the lease agreement duly registered with the appropriate authority
<p>15.</p>	<p>ABC Ltd. owns a piece of Land and Building situated at IP road, Mumbai which was purchased before 30 years. The title deeds for the same are deposited with State Bank of India for obtaining credit facilities by the company. As the statutory auditor of the company for the year ended 31st March, 2020, what are the audit procedures to be followed and what is the reporting under CARO 2016? (May-2017)</p>
<p>Ans.</p>	<p>Reporting under CARO, 2016- (Title deeds of Immovable Property in the name of Bank) The auditor is required to specifically include certain matters as per CARO, 2016 under section 143 of the Companies Act, 2013.</p> <p>(i) As per Clause (i)(c) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> • Para 3(i)(c) of CARO, 2016 requires the auditor to comment whether title deeds of immovable properties are held in the name of the company. If not, provide details thereof <p>(ii) Audit Procedure:</p> <ul style="list-style-type: none"> • The auditor should verify the title deeds available and reconcile the same with the fixed assets (PPE) register. • The scrutiny of the title deeds of the immovable property may reveal a number of discrepancies between the details in the fixed assets (PPE) register and the details available in the title deeds. • The auditor should carry out a detailed examination of the registered sale deed and related documents of Land and Building. Where the title deeds of the immovable property have been mortgaged with the Banks/ Financial Institutions, etc., for securing the borrowings and loan raised by the company, a confirmation about the same should be sought from the respective institution to this effect. • The auditor may also consider verifying this information from the online records, if available, of the relevant State. <p>(iii) In the given case:- ABC Ltd. owns a piece of land and building situated at IP road Mumbai and title deeds for the same are deposited with State Bank of India for obtaining credit facilities by the company.</p>

	<p>(iv) Conclusion:- Thus, the auditor needs to follow the audit procedure as mentioned above and shall report on the same under Clause (i)(c) of Paragraph 3 of the CARO, 2016.</p>
16.	<p>The Company is in the process of selling its office along with the freehold land available at Chandigarh and is actively on the lookout for potential buyers. Whilst the same was purchased at ₹ 25 Lakhs in 2008, the current market value is ₹ 250 Lakhs, This property is pending to be registered in the name of the Company, due to certain procedural issues associated with the Registration though the Company is having a valid possession and has paid its purchase cost in full. The Company has disclosed this amount under Fixed assets (PPE) though no disclosure of non-registration is made in the notes forming part of the accounts.</p> <p style="text-align: right;">(RTP-May-2016)</p>
Ans.	<p>Reporting under CARO, 2016- (Title deeds of Immovable Property) The auditor is required to specifically include certain matters as per CARO, 2016 under section 143 of the Companies Act, 2013.</p> <p>(i) As per Clause (i)(c) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> • Auditor is required to report the matter which requires him to report, “whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof: • Reporting under this clause: - Where the title deeds of the immovable property are not held in the name of the Company, may be made incorporating following details, in the form of a table or otherwise in case of land: <ul style="list-style-type: none"> ➤ total number of cases, ➤ whether leasehold/freehold, ➤ gross block and net block, (as at Balance Sheet date), and ➤ remarks, if any.
17.	<p>NSP Limited has its factory building, appearing as fixed assets (PPE) in its financial statements in the name of one of its director who was overlooking the manufacturing activities.</p> <p style="text-align: right;">(RTP-May-2017, MTP-Nov-2017, RTP-Nov- 2019)</p>
Ans.	<p>Reporting under CARO, 2016- (Title deeds of Immovable Property in the name of Director) The auditor is required to specifically include certain matters as per CARO, 2016 under section 143 of the Companies Act, 2013.</p> <p>(i) As per Clause (i)(c) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> • Para 3(i)(c) of CARO, 2016 requires the auditor to comment whether title deeds of immovable properties are held in the name of the company. If not, provide details thereof <p>(ii) Audit Procedure:</p> <ul style="list-style-type: none"> • The auditor should verify the title deeds available and reconcile the same with the fixed assets (PPE) register. • The scrutiny of the title deeds of the immovable property may reveal a number of discrepancies between the details in the fixed assets (PPE) register and the details available in the title deeds. This may be due to various reasons which needs to be examined. <p>(iii) In the given case:- NSP Limited has its factory building, appearing as fixed assets (PPE) in its financial statements in the name of director.</p> <p>(iv) Conclusion:- Thus, the auditor shall report on the same under Clause (i)(c) of Paragraph 3 of the CARO, 2016.</p> <p>Reporting under this clause, where the title deeds of the immovable property are not held in the name of the Company, may be made incorporating following details, in the form of a table or otherwise:</p> <p>(a) In case of land:</p> <ul style="list-style-type: none"> • total number of cases, • whether leasehold/freehold, • gross block and net block, (as at Balance Sheet date), and • remarks, if any.

	<p>(b) In case of Buildings:</p> <ul style="list-style-type: none"> • total number of cases, • gross block & net block, (as at Balance Sheet date) and • remarks, if any
18.	<p>X Ltd. closed its manufacturing operations and sold all its manufacturing fixed assets (PPE) during the financial year ended 31st March, 2020. However, it intends continue its operations as a trading company. In respect of other fixed assets (PPE), the company carried out a physical verification as at the end of 31st March, 2020 and found a material discrepancy to the tune of ₹ 1 lac, which was written off and is disclosed separately in the profit and loss account. Kindly incorporate the above in your audit report.</p> <p style="text-align: right;">(Nov-2013, RTP-Nov-2016)</p>
Ans.	<p>Reporting under CARO, 2016- (Physical verification of Fixed assets (PPE) & SA-570 Going Concern)</p> <p>The auditor is required to specifically include certain matters as per CARO, 2016 under section 143 of the Companies Act, 2013.</p> <p>(i) As per Clause (i) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> • Whether the Fixed assets (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; <p>(ii) As per SA 570 “Going Concern”:- The auditor need to perform appropriate procedures so as to ensure appropriateness of going concern assumption. The auditor shall determine whether the financial statement:</p> <ul style="list-style-type: none"> • Adequately describe the principle event or conditions that may caste significant doubt on the entity’s ability to continue as a going concern and management’s plan to deal with these events or conditions; and • Disclose clearly that there is a material uncertainty related to events or conditions that may further required to specifically include certain matters As per CARO-2016 under section 143 of the Companies Act, 2013. <p>(iii) In the present case:- X ltd. had closed its manufacturing operations and sold all its manufacturing fixed assets (PPE), but it intends continue its operations as a trading company.</p> <p>(iv) Conclusion:- Hence auditor is required to examine management plans for continuation of the company and appropriateness of going concern assumption by performing appropriate procedures.</p> <ul style="list-style-type: none"> • Para in the audit report In respect of other fixed assets (PPE), company has carried out physical verification and found a material discrepancy of ₹ 1 Lacs which was written off and disclosed separately in the profit and loss account. In respect of this, auditor should incorporate the below mentioned para in his report: <ul style="list-style-type: none"> ➤ “As per AS-1, “Disclosure of Accounting Policies”, “the enterprise is normally viewed as a going concern, that is as continuing its operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of its operations.” ➤ Although the company has disposed off its manufacturing fixed assets (PPE) during the financial year ending on 31-03-2020, it is still a going concern in the form of a trading company. ➤ We also report that on physical verification of other fixed assets (PPE), a material discrepancy to the tune of ₹ 1 Lac was noticed and that the same has been properly dealt with in the books of account”.

19.	What are the reporting requirements for closing stock in the CARO, 2016?
Ans.	<p>Reporting under CARO, 2016- (Reporting Requirement for Closing Stock) The auditor is required to specifically include certain matters as per CARO, 2016 under section 143 of the Companies Act, 2013.</p> <p>(i) As per Clause (ii) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> • Whether physical verification of inventory has been conducted at reasonable intervals by the management and • Whether, any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account;
20.	<p>Whilst the Audit team has identified various matters, they need your advice to include the same in your audit report in view of CARO 2016:-Physical verification of only 40% of items of inventory has been conducted by the company. The balance 60% will be conducted in next year due to lack of time and resources. (RTP-Nov-2019, SM-2021)</p> <p style="text-align: center;">OR</p> <p>Physical verification of only 30% (in value) of items of inventory has been conducted by the company. The balance 70% will be conducted in next year due to lack of time and resources. (SM-2021)</p> <p style="text-align: center;">OR</p> <p>As the statutory auditor of B Ltd. to whom CARO, 2016 is applicable, how would you report in the following situations: Physical verification of only 50% (in value) of items of inventory has been conducted by the company. The balance 50% will be conducted in next year due to lack of time and resources. (RTP-May-2011, RTP-May-2016, MTP-Nov-2016)</p>
Ans.	<p>Reporting under CARO, 2016- (Reporting Requirement for Closing Stock) The auditor is required to specifically include certain matters as per CARO, 2016 under section 143 of the Companies Act, 2013.</p> <p>(i) As per Clause (ii) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> • Whether physical verification of inventory has been conducted at reasonable intervals by the management and <p>(ii) Management's Responsibility:- Physical verification of inventory is the responsibility of the management which should normally verify all material items at least once in a year and more often in appropriate cases.</p> <p>(iii) Auditor's Responsibility:- The auditor in order to satisfy himself about verification at reasonable intervals should examine the adequacy of evidence and record of verification.</p> <p>(iv) In the given case:- Physical verification of only 40% of items of inventory has been conducted by the company. The balance 60% will be conducted in next year due to lack of time and resources.</p> <p>(v) Conclusion:- The above requirement of CARO, 2016 has not been fulfilled as such and the auditor should point out the specific areas where he believes the procedure of inventory verification is not reasonable. He may consider the impact on financial statement and report accordingly.</p>
21.	In the course of audit of Y Ltd., as the auditor of the company you observe the following: The company has advanced a loan to a firm in which a director was interested at a rate lower than the prevailing market rate as well as there was no agreement on terms of repayment. How auditor will report in CARO 2016? (May-2014)
Ans.	<p>Reporting under CARO, 2016- (Loan to Related Party Outstanding) The auditor is required to specifically include certain matters as per CARO, 2016 under section 143 of the Companies Act, 2013.</p> <p>(i) As per Clause (iii) of Para-3 of CARO-2016: The auditor has to report whether the company has granted any loans, secured or unsecured to companies, firms, LLPs or other parties covered in the register maintained u/s 189 of the Act. If so, auditor is required to comment upon following:</p>

	<p>(a) Whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;</p> <p>(b) Whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;</p> <p>(c) If the amount is overdue, 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</p> <p>(ii) In the given case:- The company has advanced a loan to a firm in which a director was interested at a rate lower than the prevailing market rate as well as there was no agreement on terms of repayment.</p> <p>(iii) Conclusion:- In the this case, company has granted a loan to a firm in which a director is interested, the terms and conditions of which are prejudicial to the company interest, hence auditor may state the fact and report As per CARO-2016 accordingly.</p>
22.	<p>H Ltd. granted unsecured loan of ₹ 1 crore @ 15% p.a. to two of its subsidiaries during the Financial Year 2019-20. Before the year end both the companies repaid the loan. The management of H Ltd. is of the opinion that since no balance is outstanding as on 31st March 2020, these loans are not required to be reported in CARO 2016. Comment and draft a suitable report. (May-2014)</p>
Ans.	<p>Reporting under CARO, 2016- (Loan to Subsidiaries)</p> <p>The auditor is required to specifically include certain matters as per CARO, 2016 under section 143 of the Companies Act, 2013.</p> <p>(i) As per Clause (iii) of Para-3 of CARO-2016: The auditor has to report whether the company has granted any loans, secured or unsecured to companies, firms, LLPs or other parties covered in the register maintained u/s 189 of the Act. If so, auditor is required to comment upon following:</p> <p>(a) Whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;</p> <p>(b) Whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;</p> <p>(c) If the amount is overdue, 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</p> <p>(ii) As per Guidance Note on CARO, 2016:- This clause covers not only the loan granted during the year but covers all loans including opening balances. Therefore, while examining the loans, the auditor should also take into consideration the loan transactions that have been squared-up during the year and report such transactions under the clause.</p> <p>(iii) In the given case:- H Ltd. has granted unsecured loan of ₹ 1 crore @15% p.a. to two of its subsidiaries during the Financial Year 2019-20. During the year, both the companies have repaid its loan</p> <p>(iv) Conclusion:- Therefore, the auditor need to consider the transaction and comment as follows: "The Company has granted loan of ₹ 1 Crore @ 15% p.a. to 2 of its subsidiaries covered in the register maintained under Section 189 of the Companies Act, 2013 during the Financial Year 2019-20. The maximum amount involved during the year was ₹ 1.00 crore and the year-end balance of such loans was Nil".</p>
23.	<p>ABC Ltd. has granted a loan of ₹ 20 crores to its associate XYZ (P) Ltd. at the beginning of the financial year and it remain outstanding at the year end. How the auditor should report the fact? (Nov-2011, RTP-Nov-2013)</p> <p style="text-align: center;">OR</p>

ABC Ltd. has granted a loan of ₹ 20 crores to its sister concern XYZ Ltd. at the beginning of the financial year and it remain outstanding at the year end. How would you report the fact?

(RTP-Nov-2015, RTP-May-2016)

Ans. Reporting under CARO, 2016- (Loan to Associate/Sister Concern)

The auditor is required to **specifically include certain matters as per CARO, 2016 under section 143 of the Companies Act, 2013.**

(i) As per Clause (iii) of Para-3 of CARO-2016: - The auditor has to report whether the **company has granted any loans, secured or unsecured** to companies, firms, LLPs or other parties covered in the register maintained u/s 189 of the Act. If so, **auditor is required to comment upon following:**

- (a) Whether the **terms and conditions** of the grant of such loans are **not prejudicial to the company's interest**;
- (b) Whether the **schedule of repayment** of principal and payment of interest has been **stipulated** and whether the **repayments or receipts are regular**;
- (c) **If the amount is overdue**, 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

(ii) In the given case:- ABC Ltd. has granted a loan of ₹ 20 crores to its associates at the beginning the Financial Year and it **remain outstanding** at year end.

(iii) Conclusion:- Auditor is required to **report the matters as required under Para 3(iii) of CARO, 2016**

24. As a Company auditor you noticed that there is an inter-corporate loan granted by the company. What are the reporting requirements as regard the matters concerning terms of interest on the inter-corporate loan?

(RTP-Nov-2015, RTP-May-2016, Nov-2018-Old)

Ans. Reporting under CARO, 2016- (Inter-corporate loan granted by the company)

(i) As per Clause (iv) of Para-3 of CARO-2016:

- The auditor is required to report in respect of **loans, investments, guarantees, and security** whether provisions of **section 185 and 186** of the Companies Act, 2013 **have been complied with. If not, provide the details** thereof.

(ii) Compliance of section 186:

- The auditor should **obtain the details of, loans given to any person or other body corporate, guarantee given or security provided** in connection with a loan to any other body corporate or person and
- **Securities acquired of any other body corporate** by way of subscription, purchase or otherwise, made during the year as well as the outstanding balances as at the beginning of the year **in accordance with section 186.**

(iii) Auditor's procedure:- As per **Clause (iv) of CARO, 2016**, with respect to **matters concerning terms of interest** on the inter-corporate loan **the auditor is required to:**

- (i) Check whether **rate of interest is not lower than the prevailing yield** of one year, three year, five year or ten year government security closest to the tenor of the loan granted.
- (ii) Check **if the company is in default in the repayment** of any deposits accepted or in payment of interest thereon, then the **company is not allowed to give any loan** or guarantee or any security or an acquisition till such default is subsisting.

(iv) Reporting of Non-compliance:- Non-compliance with respect to interest on the inter-corporate loan **may be reported incorporating following details:-**

Non-compliance of Section 186					Remarks, if any
S.No.	Name of Company/Party	Amount Involved	Balance as at Balance Sheet Date		
	Loan given at rate of interest lower than prescribed				
	Any other default				

25.	<p>CARO, 2016 requires the auditor of the company to report whether maintenance of cost records has been specified by the Central Government under section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained. You are required to briefly explain the audit procedure to be followed by the auditor and suggest the reporting pattern.</p> <p style="text-align: right;">(RTP-May-2017, MTP-Nov-2017, RTP-Nov-2018)</p>
Ans.	<p>Reporting under CARO, 2016- (Cost Records)</p> <p>(i) As per Clause (vi) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> • The auditor is required to comment “whether maintenance of cost records has been specified by the CG u/s 148(1) of the Companies Act, 2013 and • Whether such accounts and records have been so made and maintained” <p>(ii) Explanation to clause:</p> <ul style="list-style-type: none"> • The word “made” applies in respect of cost accounts (or cost statements) and the word “maintained” applies in respect of cost records relating to materials, labour, overheads, etc. <p>(iii) Audit Procedure & Compliance of Section-148:</p> <ul style="list-style-type: none"> • The auditor has to report under the clause irrespective of whether a cost audit has been ordered by the central government. • The auditor should obtain a written representation from the management stating: <ul style="list-style-type: none"> (a) whether cost records are required to be maintained for any product(s) or services of the company u/s 148 of the Act, and the Companies (Cost Records and Audit) Rules, 2014; and (b) whether cost accounts and records are being made and maintained regularly. • The auditor should also obtain a list of books/records made and maintained in this regard. • The Order does not require a detailed examination of such records. • The auditor should, therefore, conduct a general review of the cost records to ensure that the records as prescribed are made and maintained. • He should, of course, make such reference to the records as is necessary for the purposes of his audit. <p>(iv) Reporting:- It is necessary that the extent of the examination made by the auditor is clearly brought out in his report. The following wording is, therefore, suggested:</p> <ul style="list-style-type: none"> • “We have broadly reviewed the books of account maintained by the company pursuant to the Rules made by the Central Government for the maintenance of cost records under section 148 of the Act, and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained.”
26.	<p>XYZ Pvt. Ltd. has submitted the financial statements for the year ended 31-03-20 for audit. The audit assistant observes and brings to your notice that the company’s records show following dues:</p> <ul style="list-style-type: none"> • Income Tax relating to Assessment Year 2016-17 ₹ 125 lacs – Appeal is pending before Hon’ble ITAT since 30-09-17. • Customs duty ₹ 85 lakhs – Demand notice received on 15-09-19 but no action has been taken to pay or appeal. As an auditor, how would you bring this fact to the members? <p style="text-align: right;">(Nov-2011, RTP-May-2013, RTP-Nov-2016, MTP-Nov-2018, RTP-May-2019)</p>
Ans.	<p>Reporting under CARO, 2016- (Statutory Dues)</p> <p>(i) As per Clause (vii) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> • Para 3(vii)(a) CARO, 2016 requires the auditor to comment whether the company is regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income-tax, Sales-tax, Service tax, Duties of Customs, Duty of Excise, Value Added Tax, cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated by the auditor;

- **Para 3(vii)(b) of CARO, 2016** requires that **in case dues of Income tax/Sales tax/Service tax/Custom duty/Excise duty/Value Added Tax or cess** have not been deposited on account of any dispute, auditor is required to state in his report the **amounts involved** and the **forum where dispute is pending**;

(ii) Responsibility of auditor:

- The auditor should also **obtain a management representation** about the disputed dues, the amounts involved and the forum where the dispute is pending.
- The auditor should **carry out necessary audit procedures** to verify the information provided by the management.

(iii) Reporting :- In the present case, there is **Income Tax demand of ₹ 125 Lacs** and the company has **gone for an appeal**, it should be brought to notice of members by reporting under **Para 3(vii)(b) of CARO, 2016 as below:**

S. No.	Name of the Statute	Nature of Dues	Amount (in Lacs)	Period to which amount relates	Forum where dispute is pending
1	Income Tax Act, 1961	Income Tax	125.00	AY 2016-17	ITAT

- In reference to **demand notice received for Custom Duty of ₹ 85 Lacs on 15.09.2019** for which company has not taken any action and is **outstanding for more than 6 months**, it leads to the **irregularity** which should be **brought to notice of members** by reporting under Para 3(vii)(b) of CARO, 2016.

27. Big and Small Ltd. received a show cause notice from central excise department intending to levy a demand of ₹ 25 lakhs in December 2019. The company replied to the above notice in January 2020 contending that it is not liable for the levy. No further action was initiated by the central excise department upto the finalization of the audit for the year ended on 31st March, 2020. As the auditor of the company, what is your role in this?
(May-2011, RTP-May-2014, Nov-2014)

Ans. **Reporting under CARO, 2016- (Statutory Dues)**

(i) As per Clause (vii) of Para-3 of CARO-2016:

- **Para 3(vii)(b) of CARO, 2016** requires that in case dues of **Income tax/Sales tax/Service tax/Custom duty/Excise duty/Value Added Tax or cess** have not been deposited on account of any dispute, auditor is required to **state in his report** the **amounts involved** and the **forum where dispute is pending**.
- a **mere representation** to the concerned Department shall **not be treated as a dispute**;

(ii) In the present case -Big and Small Ltd. received a show cause notice from central excise department intending to levy a demand of **₹ 25 lakhs in December 2019**. The company replied to the above notice in **January 2020** contending that it is not liable for the levy. **No further action was initiated** by the central excise department

(iii) Conclusion:- Issuance of **show cause notice** by **Excise Department** does not **tantamount to demand** payable by the Company. In as much as the Company has replied to the notice and no further correspondence was received from the Department, **it has to be construed that there is no demand. The auditor needs not to report on this.**

28. **Comment on the following:** Is the company regular in depositing undisputed statutory dues including **Goods and Services Tax**, provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues with the appropriate

authorities and if not, the extent of arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable shall be indicated by the auditor. (Nov-2008)

Ans.	<p>Reporting under CARO, 2016- (Statutory Dues)</p> <p>(i) As per Clause (vii) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> • Whether the company is regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income Tax, Sales Tax, Service Tax, Duties of Customs, duty of Excise, Value added Tax, Cess and any other statutory dues with the appropriate authorities and • If not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated; <p>(ii) Responsibility of auditor in compliance of Para-3 (vii):</p> <ul style="list-style-type: none"> • Auditor is required to comment upon regularity in depositing undisputed statutory dues. • Payment includes all statutory dues payable by the company. The amount payable will include the interest/penalty payable under the respective laws. • If the company is not regular in depositing the undisputed statutory dues the auditor is required to state the extent of outstanding statutory dues as at the last day of the financial year from a period of more than six months from the date they became payable. • The auditor has to get a written representation from the management indicating the details of disputed claims, undisputed but have remained outstanding for more than six months and a statement as to the completeness of the information provided by the management.
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29. As a Statutory Auditor, how would you deal with the following: PQR Ltd. has not deposited Provident Fund contribution of ₹ 10 lakhs with the authorities till the year-end.

Ans.	<p>Reporting under CARO, 2016- (Statutory Dues)</p> <p>(i) As per Clause (vii) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> • Whether the company is regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income Tax, Sales Tax, Service Tax, Duties of Customs, duty of Excise, Value added Tax, Cess and any other statutory dues with the appropriate authorities and • If not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated; <p>(ii) As per SA 250 “Consideration of Laws and Regulations in an audit of financial statements:</p> <ul style="list-style-type: none"> • The auditor also requires to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. • A company is required to deposit provident fund and Employees State Insurance dues to appropriate authorities within the period prescribed under the EPF Act and the Rules governing it. <p>(iii) In the present case: -PQR Ltd. is not regular in depositing the provident Fund.</p> <p>(iv) Conclusion:-Non-payment of PF needs to be disclosed by the auditor in his audit report as per requirement of Para 3(vii)(a) of CARO 2016.</p>
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30.	<p>During the course of Audit of M/s CT Ltd. for the financial year 2018-19, it has noticed that ₹ 2.00 lakhs of employee contribution and ₹ 9.50 lakhs of employer contribution towards employee state insurance contribution have been accounted in the books of accounts in respective heads. Whereas, it was found that ₹ 4.00 lakhs only have been deposited with ESIC department during the year ended 31st March, 2019. The Finance Manager informed that auditor that due to financial crunch they have not deposited the amount due, but will deposit the amount overdue along with interest as and when financial position improves. Comment as a statutory auditor. (RTP-Nov-2015, May-2016, MTP-Nov-2017, MTP-May-2018, MTP-Nov-2018)</p>
Ans.	<p>Reporting under CARO, 2016- (Statutory Dues)</p> <p>(i) As per Clause (vii) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> • Whether the company is regular in depositing undisputed statutory dues including Provident Fund, Employees State Insurance, Income Tax, Sales Tax, Service Tax, Duties of Customs, duty of Excise, Value added Tax, Cess and any other statutory dues with the appropriate authorities and • If not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated; <p>(ii) As per SA 250 "Consideration of Laws and Regulations in an audit of financial statements:</p> <ul style="list-style-type: none"> • The auditor also requires to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. • A company is required to deposit provident fund and Employees State Insurance dues to appropriate authorities within the period prescribed under the EPF Act and the Rules governing it. <p>(iii) In the present case: -M/s CT Ltd.is not regular in depositing the provident Fund/ESI Contributions. The reason put forward by the Chief Accountant that the amount has not been deposited due to financial problems faced by the Company is no excuse for not remitting the PF/ESI Contributions.</p> <p>(iv) Conclusion:-Non payment of PF/ESI contribution needs to be disclosed by the auditor in his audit report as per requirement of Para 3(vii)(a) of CARO 2016.</p>
31.	<p>R Ltd as at 31st March 2020 defaulted in the repayment of interest and principal due to a financial institution. The due date was 28th February 2020. However, the defaulted amount was paid on 5th April 2020. The company's management is of the opinion that since the default is set right before the audit completion these need not be reported in CARO 2016. Comment and draft a suitable report. (May-2013, MTP-May-2016)</p> <p style="text-align: center;">OR</p> <p>C Limited has defaulted in repayments of dues to a financial institution during the financial year 2018-19 and the same remained outstanding as at March 31, 2020. However, the Company settled the total outstanding dues including interest in April, 2020 subsequent to the year end and before completion of the audit. Discuss how you would deal with this matter and draft a suitable Auditor's Report. (Nov-2014, RTP-May-2018)</p>
Ans.	<p>Reporting under CARO, 2016- (Default in repayment of loans or other borrowings)</p> <p>(i) As per Clause (viii) of Para-3 of CARO-2016:</p> <p>Whether the Company has defaulted in repayment of loans or borrowings to a financial institution, bank, government or dues to debenture holders? If yes, the period and amount of default to be reported (In case of defaults of banks, financial institutions and government, lender wise details to be provided).</p> <p>(ii) Schedule-III to the companies Act-2013:</p> <ul style="list-style-type: none"> • As per the general instructions for preparation of Balance Sheet, provided under Schedule III to the Companies Act, 2013, terms of repayment of term loans and other loans is required to be disclosed in the notes to accounts. • It also requires disclosure of period and amount of continuing default as on the balance sheet date in repayment of loans and interest, separately in each case.

	<p>(iii) In the given case:- Company has defaulted in repayments of dues to a financial institution during the financial year 2019-20 which remain outstanding as at March 31, 2020. However, the company has settled the total outstanding dues including interest in April, 2020 but, the dues were outstanding as at March 31, 2020.</p> <p>(iv) Conclusion:- The auditor is required to state in his report the default of the company in respect of repayment of its dues and report as under: “The company has defaulted in repayment of principal and interest to the financial institution amounted to ₹, that become due on 28th Feb, 2020. However, the outstanding sum was settled by the company on 5th April, 2020.</p>
32.	<p>OK Ltd. has taken a term loan from a nationalized bank in 2015 for ₹ 200 lakhs repayable in five equal instalments of ₹ 40 lakhs from 31st March, 2016 onwards. It had repaid the loans due in 2016& 2017, but defaulted in 2018, 2019& 2020. As the auditor of OK Ltd. what is your responsibility assuming that company has sought re-schedulement of loan? (May-2011, RTP-May-2015, SM-2021)</p>
Ans.	<p>Reporting under CARO, 2016- (Default in repayment of loans or other borrowings)</p> <p>(i) As per Clause (viii) of Para-3 of CARO-2016: Whether the Company has defaulted in repayment of loans or borrowings to a financial institution, bank, government or dues to debenture holders? If yes, the period and amount of default to be reported (In case of defaults of banks, financial institutions and government, lender wise details to be provided).</p> <p>(ii) Schedule-III to the companies Act-2013:</p> <ul style="list-style-type: none"> As per the general instructions for preparation of Balance Sheet, provided under Schedule III to the Companies Act, 2013, terms of repayment of term loans and other loans is required to be disclosed in the notes to accounts. It also requires disclosure of period and amount of continuing default as on the balance sheet date in repayment of loans and interest, separately in each case. <p>(iii) As per Guidance Note on CARO-2016:- The submission of application for re-schedulement/ restructuring does not mean that no default has occurred.</p> <p>(iv) In the given case:- OK Ltd. has defaulted in repayment of dues for three years. Application for rescheduling will not change the default position.</p> <p>(v) Conclusion:- Hence the auditor has to report in his audit report that the Company has defaulted in its repayment of dues to the bank to the extent of ₹ 120 lakhs.</p>
33.	<p>Under CARO, 2016 how, as a statutory auditor how would you comment on the following: A Term Loan was obtained from a bank for ₹ 80 lakhs for acquiring R&D equipment, out of which ₹ 15 lakhs were used to buy a car for use of the concerned director, who was overlooking the R&D activities. (Nov-2012, RTP-May-2016, MTP-Nov-2017, MTP-May-2018, MTP-Nov-2018, SM-2021)</p>
Ans.	<p>Reporting under CARO, 2016- (Utilisation of Term Loans)</p> <p>(i) As per Clause (ix) of Para-3 of CARO-2016: Para 3(ix) of CARO, 2016 requires the auditor to comment 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, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported.</p> <p>(ii) Auditor’s Procedure:-</p> <ul style="list-style-type: none"> Auditor should examine the terms and conditions of the term loan with the actual utilisation of the loans. If the auditor finds that the fund has not been utilized for the purpose for which they were obtained, the report should state the fact.

	<p>(iii) In the instant case:- Term loan was taken for the purpose of purchase of Research & Development equipment, but a part of it has been utilized for purchase of vehicle for the use of Director.</p> <ul style="list-style-type: none"> • Purchase of vehicle for use by Director who was in-charge of the R&D activities, cannot be considered as purchase of Research & Development equipment. <p>(iv) Conclusion:- Auditor is required to report the fact in his audit report. Reporting may be as follows: "In our opinion and according to the information and explanations given to us, the term loans were applied for the purpose for which the loans were obtained; Except ₹ 15 lakhs were used to buy a car for use of the concerned director, who was overlooking the R&D activities."</p>
34.	As a Statutory Auditor, how would you deal with the following: LM Ltd. had obtained a Term Loan of ₹ 300 lakhs from a bank for the construction of a factory. Since there was a delay in the construction activities, the said funds were temporarily invested in short term deposits. (May-2008, SM-2021)
Ans.	<p>Reporting under CARO, 2016- (Utilisation of Term Loans in Temporary Investment)</p> <p>(i) As per Clause (ix) of Para-3 of CARO-2016: Para 3(ix) of CARO, 2016 requires the auditor to comment 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, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported.</p> <p>(ii) Auditor's Procedure:-</p> <ul style="list-style-type: none"> • Auditor should examine the terms and conditions of the term loan with the actual utilisation of the loans. • If the auditor finds that the fund has not been utilized for the purpose for which they were obtained, the report should state the fact. <p>(iii) As per Guidance Note on CARO, 2016:-</p> <ul style="list-style-type: none"> • Sometimes, companies, may, temporarily invest the surplus funds pending utilization for the purpose for which funds were arranged. • In such cases, the auditor should mention the fact that pending utilisation of the funds raised through term loans for the stated purpose, the funds were temporarily used for the purpose other than for which they were raised but were ultimately utilised for the stated end-use. <p>(iv) In the instant case:- Term loan was taken for the purpose of construction of a factory, but said funds were invested in short term deposits due to delay in construction activities.</p> <p>(v) Conclusion:- Auditor is required to report the fact that the pending utilisation of term loan, the funds are temporarily invested in short term deposits, in his audit report as per requirement of Para 3 (ix) of CARO, 2016.</p>
35.	During the financial year ended on 31/03/2020, LM Private Limited had borrowed from a Nationalized Bank, a term loan of ₹ 120 lakhs consisting of ₹ 100 lakhs for purchase of a machinery for the new plant and ₹ 20 lakhs for erection expenses. As on the date of 31st March, 2020, the total of capital and free reserves of the Company was ₹ 50 lakhs and turnover for the year 2019-20 was ₹ 750 lakhs. The Bank paid ₹ 100 lakhs to the vendor of the Company for the supply of machinery on 31/12/2019. The machinery had reached the yard of the Company. On 28/02/2020, the Company had drawn the balance of loan viz. ₹ 20 lakhs to the credit of its current account maintained with the Bank and utilized the full amount for renovating its administrative office building. The machinery had been kept as capital stock under construction. Comment as to reporting issues, if any, that the Auditor should be concerned with for the financial year ended on 31/03/2020, in this respect. (Nov-18-New)
Ans.	<p>Reporting under CARO, 2016- (Reporting as to mis-utilisation of Term Loans)</p> <p>(i) Applicability:- Reporting under CARO, 2016 is applicable in case of a private limited company if the total borrowings exceed ₹1 Cr. from any bank or financial institution at any point of time during the financial year.</p> <p>(ii) As per Clause (ix) of Para-3 of CARO-2016: Para 3(ix) of CARO, 2016 requires the auditor to comment whether moneys raised by way of initial</p>

	<p>public offer or further public offer (including debt instruments) and term loans were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported.</p> <p>(iii) In the instant case:- LM Private limited had borrowed from a Nationalized Bank, a term loan of ₹ 120 lakhs consisting of ₹ 100 lakhs for purchase of a machinery for the new plant and ₹ 20 lakhs for erection expenses. The Bank paid ₹ 100 lakhs to the vendor of the Company for the supply of machinery on 31/12/2019. The machinery had reached the yard of the Company. On 28/02/2020, the Company had drawn the balance of loan viz. ₹ 20 lakhs to the credit of its current account maintained with the Bank and utilized the full amount for renovating its administrative office building.</p> <p>(iv) Conclusion:- Auditor of LM Private Limited is under obligation to report on matters covered under CARO, 2016 as total borrowings exceed RS. 1 Cr. & As per requirement of Para 3(ix) of CARO, 2016, auditor is required to report the fact that out of the term loan obtained for machinery purchase and erection, ₹20 Lacs was not utilized for the purpose of erection of machinery.</p>
36.	As a statutory auditor, how would you report on the following under CARO: ABC Pvt. Ltd. is a manufacturer of jewellery. A senior employee of the Company informed you that the Company does not properly disclose the purity of gold used on the jewellery.
Ans.	<p>Reporting under CARO, 2016- (Fraud reporting)</p> <p>(i) As per Clause (x) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> The auditor requires to comment whether any fraud by the company or any fraud on the Company by its officers/employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.; <p>(ii) In the present case:- Purity of gold is not properly disclosed on the jewellery by the company it amounts to defrauding the customers. It implies that the management is deceiving customers to obtain an illegal advantage.</p> <p>(iii) As per SA 240 “The Auditor’s responsibilities in relation to an audit of Financial Statements”:- The auditor is concerned with fraudulent acts that cause a material misstatement in financial statements. Hence as long as books of account are not falsified arising out of difference in the purity of gold, i.e., actual cost of the gold and the sale price of gold, it has no implication for the auditor.</p> <p>(iv) Conclusion:- As per the facts given above in SA-240 & reporting on frauds under CARO, 2016, there is no implication for misstatement in the financial statements. Hence, no reporting is necessary for non-proper disclosure of purity of gold on the jewelry.</p>
37.	The Internal Auditor of the Company has identified a fraud in the recruitment of employees by the HR department wherein certain sums were alleged to have been taken as kick-back from the employees for taking them on board with the Company. After due investigation, the concerned HR Manager was sacked. The amount of such kick-backs is expected to be in the range of ₹ 12 Lakhs. (MTP-May-2019, RTP-May-2019)
Ans.	<p>Reporting under CARO, 2016- (Fraud reporting)</p> <p>(i) As per Clause (x) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> The auditor requires to comment whether any fraud by the company or any fraud on the Company by its officers/employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.; <p>(ii) In the present case:- The Internal Auditor of the Company has identified a fraud in the recruitment of employees by the HR department wherein certain sums were alleged to have been taken as kick-back from the employees for taking them on board with the Company. After due investigation, the concerned HR Manager was sacked. The amount of such kick-backs is expected to be in the range of ₹ 12 Lakhs.</p> <p>(iii) Reporting under this clause:- Reporting is required, as a fraud has been identified in recruitment of employees by the HR Department wherein certain sums were alleged to have been taken as kick-back from the employees of company amounting to ₹ 12 Lakhs. approx.</p>

38. What are the reporting requirements in the audit report under the Companies Act, 2013/CARO, 2016 for the following situations?
- A fraud has been committed against the company by an officer of the company.
 - A fraud has been committed against the company by a vendor of the company.
 - The company has committed a major fraud on its customer and the case is pending in the court.
 - A fraud has been reported in the cost audit report but not noticed by statutory auditors in his audit.

(SM-2021, Nov-2018-Old)

Ans. **Reporting under CARO, 2016- (Fraud reporting)**

(i) **As per Clause (x) of Para-3 of CARO-2016:**

The auditor requires to comment whether **any fraud by the company or any fraud on the Company** by its **officers/employees** has been **noticed or reported** during the year; If yes, the **nature and the amount** involved is to be indicated.;

(ii) **As per Section 143(12) of Companies Act 2013:-** If an auditor of a company in the course of the performance of his duties as auditor, has **reason to believe that an offence of fraud involving such amount** or amounts **as may be prescribed**, is being or has been **committed in the company** by its officers or employees, **the auditor shall report the matter to the Central Government** within **such time** and in **such manner as may be prescribed**.

(iii) **Rule 13 of Companies Act 2013:**

- For the above purpose**, prescribes the amount of **₹ 1 Cr. or more**.
- However, in case of a **fraud involving lesser than the specified amount**, i.e. below ₹ 1 Cr., the auditor shall **report the matter to the audit committee** constituted u/s 177 or to **the Board in other cases** within such time and in such manner as may be prescribed:

(iv) **In the present case:-**

- Accordingly, reporting requirements will be:

Situation	Reporting under Companies Act, 2013	Reporting under CARO, 2016
A fraud has been committed against the company by an officer of the company	Reporting required to C.G. if amount of fraud exceeds ₹1 Cr.	Nature of Fraud and amount involved need to be reported under Para 3(x).
A fraud has been committed against the company by a vendor of the company.	No reporting required.	No reporting required.
The company has committed a major fraud on its customer and the case is pending in the court.	Effect of such fraud on financial statements need to be reported.	Nature of Fraud and amount involved need to be reported under Para 3(x).
A fraud has been reported in the cost audit report but not noticed by statutory auditors in his audit.	Effect of such fraud on financial statements need to be reported.	Para 3(x) requires reporting of fraud that has been noticed or reported during the year.

39. CARO 2016 has made several significant changes and has introduced many new reporting requirements vis-à-vis CARO 2015. In view of the above, describe the relevant clause relating to Nidhi Companies – compliance with net owned funds to deposit requirements and the relevant provisions. What audit procedures are to be adopted for verification and reporting on the same? (Nov-2016)

Ans. **Reporting under CARO, 2016- (Compliances by Nidhi Company)**

(i) **As per Clause (xii) of Para-3 of CARO-2016:** The auditor requires to report **certain matters relating to Nidhi Companies**. The matters on which auditor is required to report are:

- Whether the Nidhi Company has complied with the **Net Owned Fund to Deposits** in the **ratio of 1: 20** to meet out the liability and
- Whether the Nidhi Company is **maintaining 10% unencumbered term deposits** as specified in the Nidhi Rules, 2014 to meet out the liability

	<p>(ii) Audit Procedures:</p> <ul style="list-style-type: none"> • Net Owned Funds:- As per Rule 3(d) Net Owned Funds are defined as the aggregate of paid-up equity share capital and free reserves as reduced by accumulated losses and intangible assets appearing in the last audited balance sheet. Provided that, the amount representing the proceeds of issue of preference shares, shall not be included for calculating Net Owned Funds. • Deposits:- A Nidhi company can accept fixed deposits, recurring deposits and savings deposits from its members in accordance with the directions notified by the Central Government. The aggregate of such deposits is referred to as “deposit liability”. • Computation & Ratio:- The auditor should ask the management to provide the computation of the deposit liability and net owned funds on the basis of the requirements mentioned above. This would enable him to verify that the ratio of deposit liability to net owned funds is in accordance with the requirements prescribed in this regard
40.	<p>Whilst the Audit team has identified various matters, they need your advice to include the same in your audit report in view of CARO, 2016: The long-term borrowings from the parent has no agreed terms and neither the interest nor the principal has been repaid so far.</p>
	<p>Reporting under CARO, 2016- (Compliance with section 177 and 188)</p> <p>(i) As per Clause (xiii) of Para-3 of CARO-2016:-</p> <ul style="list-style-type: none"> • Auditor is required to report “whether all transactions with the related parties are in compliance with sections 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(AS-18/IND-AS 24)”. <p>(ii) Conclusion:- Thus, the auditor is required to report accordingly.</p>
41.	<p>An amount of ₹ 3.25 Lakhs per month is paid to M/s. WE CARE Associates, a partnership firm, which is a 'related party' in accordance with the provisions of the Companies Act, 2013 for the marketing services rendered by them. Based on an independent assessment, the consideration paid is higher than the arm's length pricing by ₹ 0.25 Lakhs per month. Whilst the transaction was accounted in the financial statements based on the amounts' paid, no separate disclosure has been made in the notes forming part of the accounts highlighting the same as a 'related party' transaction. (MTP-Nov-2019)</p> <p style="text-align: center;">OR</p> <p>In the course of audit of MM Ltd. for the financial year ended 31st March, 2019, your audit team has identified the following matter: An amount of ₹ 4 Lakh per month for the marketing services rendered is paid to M/s. MG Associates, a partnership firm in which Director of MM Ltd. is also a managing partner, with a profit-sharing ratio of 30%. Based on an independent assessment, the consideration paid is higher than the arm's length pricing by ₹ 1.50 Lakh per month. Whilst the transaction was accounted in the financial statements based on the amounts paid, no separate disclosure has been made in the notes forming part of the accounts. Give your comments for reporting under CARO 2016. (Nov-2020-New)</p>
Ans.	<p>Reporting under CARO, 2016- (Compliance with section 177 and 188)</p> <p>(i) As per Clause (xiii) of Para-3 of CARO-2016:- Auditor is required to report “whether all transactions with the related parties are in compliance with sections 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”.</p> <p>(ii) Analysis of case:- Reporting is required, as one of related party transaction amounting ₹ 3.25 lakhs per month i.e. in lieu of marketing services has been noticed of which amount ₹ 0.25 lakh per month is exceeding the arm's length price has not been disclosed highlighting the same as related party transactions as per AS-18/IND-AS 24.</p> <p>(iii) Conclusion:- Thus, the auditor is required to report accordingly.</p>
42.	<p>Strong Ltd. holding 60% of the equity shares in Weak Ltd. purchased goods worth ₹ 50 Lakhs from Weak Ltd. during the financial year 2015-16. The Managing Director of Strong Ltd. is of the opinion that it is normal business activity and there is no need to disclose the same in the final accounts of the Company. Comment.</p>

Ans.	<p>Reporting under CARO, 2016- (Compliance with section 177 and 188)</p> <p>(i) As per Clause (xiii) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> Auditor is required to report “whether all transactions with the related parties are in compliance with sections 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”. <p>(ii) As per AS 18 “Related Party Disclosure:- Parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.</p> <p>(iii) As per Section 188 of the Companies Act, 2013:- The sections also prescribes to take the permission of the Board of Directors by resolution at board meeting for such related party transactions.</p> <p>(iv) Analysis of the case:- Related party transaction means a transfer of resources or obligations between related parties, regardless of whether or not a price is charged. Strong Ltd. is the holding company of Weak Ltd. as it holds more than 50% of the voting power of Weak Ltd. and thus should be treated as related parties as per AS-18.</p> <p>(v) Conclusion:- In the instant case since there is related party transaction the contention of Managing Director of Strong Ltd. is not correct. The auditor is required to verify the compliance of section 188 of the Companies Act and insist to make proper disclosure as required by AS-18 and if the management refuses, the auditor as per SA 550 “Related Parties”, should express a qualified opinion. The auditor is also required to report under Clause (xiii) of Para 3 of CARO, 2016</p>
43.	<p>RNT Ltd. has entered into non-cash transactions with Mr. Ram, son of one of the directors of the company, which is an arrangement by which the RNT Ltd. is in process to acquire assets for consideration other than cash. Under CARO, 2016, as a statutory auditor, how would you report? (RTP-Nov-2019)</p> <p style="text-align: center;">OR</p> <p>RPS Ltd. has entered into non-cash transactions with Mr. Rahul, son of one of the directors of the company, which is an arrangement by which the RPS Ltd. is in process to acquire assets for consideration other than cash. Under CARO, 2016, as a statutory auditor, how would you report? (RTP-May-2017, MTP-Nov-2017, MTP-May-2018)</p>
Ans.	<p>Reporting under CARO, 2016- (Compliance with section 177 and 188)</p> <p>(i) As per Clause (xv) of Para-3 of CARO-2016:</p> <ul style="list-style-type: none"> The auditor requires to comment “whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether provisions of Section 192 of Companies Act, 2013 have been complied with.” <p>(ii) Section 192 of the Companies Act, 2013:- This section deals with restriction on non-cash transactions involving directors or persons connected with them. The section prohibits the company from entering into following types of arrangements unless it meets the conditions laid out in the said section:</p> <ul style="list-style-type: none"> An arrangement by which a director of the company or its holding, subsidiary or associate company or a person connected with such director acquires or is to acquire assets for consideration other than cash, from the company. An arrangement by which the company acquires or is to acquire assets for consideration other than cash, from such director or person so connected. <p>(iii) Reporting under this clause:- The reporting requirements under this clause are in two parts.</p> <ul style="list-style-type: none"> The first part requires the auditor to report on whether the company has entered into any non-cash transactions with the directors or any persons connected with such director/s. The second part of the clause requires the auditor to report whether the provisions of section 192 of the Act have been complied with. <p>Therefore, the second part of the clause becomes reportable only if the answer to the first part is in affirmative.</p>

	<p>(iv) Suggested paragraph on reporting:- “According to the information and explanations given to us, the Company has entered into non-cash transactions with one of the directors/person connected with the director during the year, by the acquisition of assets by assuming directly related liabilities, which in our opinion is covered under the provisions of Section 192 of the Act, and for which approval has not yet been obtained in a general meeting of the Company”.</p>
<p>44.</p>	<p>In the case of companies carrying on the business of NBFC, the auditor needs to report under CARO,2016 whether the registration has been obtained under section 45-IA of the Reserve Bank of India Act, 1934, if required. You are required to state the brief the audit procedure to be followed while reporting under above mentioned circumstances. (RTP-Nov-2017, RTP-May-2018)</p> <p style="text-align: center;">OR</p> <p>The RBI restrict companies from carrying on the business of NBFC, without obtaining the certificate of registration, therefore, obtaining registration under section 45-IA of the Reserve Bank of India Act, 1934 is necessary additionally, new clause has been inserted under CARO-2016 for commenting whether the registration has been obtained, if required. Being an expert in latest provisions under CARO-2016 you are required to state the brief the audit procedure and reporting to be followed under above mentioned circumstances. (RTP-May-2017, MTP-Nov-2017, MTP-May-2019)</p>
<p>Ans.</p>	<p>Reporting under CARO, 2016- (Registration with Reserve Bank of India)</p> <p>(i) As per Clause (xvi) of Para-3 of CARO-2016: Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained;</p> <p>(ii) Audit Procedure:</p> <ul style="list-style-type: none"> • The auditor should examine the transactions of the company with relation to the activities covered under the RBI Act and directions related to the NBFC . • The financial statements should be examined to ascertain whether company’s financial assets constitute more than 50% of total assets and income from financial assets constitute more than 50% of gross income. • Whether the company has net owned funds as required for the registration as NBFC • Whether the company has obtained the registration as NBFC, if not the reason should be sought from the management and documented.

UNIT -4 CARO-2016

1. CARO 2016 IS ISSUED IN PURSUANCE OF SECTIONOF COMPANIES ACT 2013 FOR INCLUSION OF THE MATTERS SPECIFIED THEREIN IN AUDITORS' REPORT, SHOULD BE COMPLIED BY THE STATUTORY AUDITOR OF EVERY COMPANY ON WHICH IT APPLIES.
- a) 143 (10) b) 143 (11) c) 143 (12) d) 143 (09)

b



REMARK

2. CARO 2016 APPLICABLE TO EVERY COMPANY INCLUDING AAS DEFINED IN CLAUSE (42) OF SECTION 2 OF THE COMPANIES ACT 2013.
- a) Foreign company b) Banking company
c) Insurance company d) Section 8 company

a



REMARK

3. THE FOLLOWING CLASSES OF COMPANIES ARE OUTSIDE THE PURVIEW OF THE CARO 2016, EXCEPT
- a) Banking company as defined under Section 5 (c) of the Banking Regulation Act, 1949.
b) Insurance company as defined under the Insurance Act 1938.
c) Company licensed to operate under Section 8 of the Companies Act 2013
d) A private company which is holding or subsidiary company of a public company

d



REMARK

4. AS PER CARO, 2016, THE AUDITOR IS REQUIRED TO REPORT WHETHER THE COMPANY IS REQUIRED TO BE REGISTERED UNDER SECTION 45-IA OF THE RESERVE BANK OF INDIA ACT, 1934. IF SO, WHETHER THE REGISTRATION HAS BEEN OBTAINED:
- a) Under Clause (xi) of paragraph 3 of the CARO, 2016,
b) Under Clause (xvi) of paragraph 3 of the CARO, 2016,
c) Under Clause (xv) of paragraph 3 of the CARO, 2016,
d) Under Clause (xiv) of paragraph 3 of the CARO, 2016,

b



REMARK

5. AS PER CLAUSE (I)(C) OF PARAGRAPH 3 OF THE CARO, 2016, THE AUDITOR IS REQUIRED TO REPORT ON:
- a) Whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof.
b) Whether the company has entered into any non-cash transactions with directors or persons connected with him
c) Whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;
d) Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;

a



REMARK

6. **LALLU LTD. HAD OBTAINED A TERM LOAN OF RUPEES 300 LAKHS FROM A BANK FOR THE CONSTRUCTION OF A FACTORY. SINCE THERE WAS A DELAY IN THE CONSTRUCTION ACTIVITIES, THE SAID FUNDS WERE TEMPORARILY INVESTED IN SHORT TERM DEPOSITS. UNDER WHICH CLAUSE OF CARO 2016 THE AUDITOR IS REQUIRED TO REPORT?**
- Under Clause (viii) of paragraph 3 of the CARO, 2016,
 - Under Clause (xi) of paragraph 3 of the CARO, 2016,
 - Under Clause (x) of paragraph 3 of the CARO, 2016,
 - Under Clause (ix) of paragraph 3 of the CARO, 2016,

d

**REMARK**

7. **UNDER WHICH CLAUSE OF CARO, 2016, AUDITOR IS REQUIRED TO REPORT WHETHER PHYSICAL VERIFICATION OF INVENTORY HAS BEEN CONDUCTED AT REASONABLE INTERVAL BY THE MANAGEMENT OR NOT?**
- Under Clause (i) of paragraph 3 of the CARO, 2016,
 - Under Clause (ii) of paragraph 3 of the CARO, 2016,
 - Under Clause (iii) of paragraph 3 of the CARO, 2016,
 - Under Clause (iv) of paragraph 3 of the CARO, 2016,

b

**REMARK**

8. **AS PER CLAUSE (XV) OF PARAGRAPH 3 OF THE CARO, 2016, THE AUDITOR IS REQUIRED TO REPORT ON:**
- Whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof.
 - Whether the company has entered into any non-cash transactions with directors or persons connected with him
 - Whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;
 - Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;

b

**REMARK**

9. **AS PER CLAUSE (X) OF PARAGRAPH 3 OF THE CARO, 2016, THE AUDITOR IS REQUIRED TO REPORT ON:**
- Whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof.
 - Whether the company has entered into any non-cash transactions with directors or persons connected with him
 - Whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;
 - Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;

c

**REMARK**

10. **UNDER WHICH CLAUSE OF CARO, 2016, AUDITOR IS REQUIRED TO REPORT WHETHER MANAGERIAL REMUNERATION HAS BEEN PAID OR PROVIDED IN ACCORDANCE WITH THE REQUISITE APPROVALS MANDATED BY THE PROVISION OF SECTION 197 READ WITH SCHEDULE 5 TO THE COMPANIES ACT, 2013. IF NOT, STATE THE AMOUNT INVOLVED AND STEP TAKEN BY THE COMPANY FOR SECURING REFUND OF THE SAME?**
- a) Under Clause (xi) of paragraph 3 of the CARO, 2016,
 b) Under Clause (ix) of paragraph 3 of the CARO, 2016,
 c) Under Clause (x) of paragraph 3 of the CARO, 2016,
 d) Under Clause (iv) of paragraph 3 of the CARO, 2016,

a

**REMARK**

11. **UNDER WHICH CLAUSE OF CARO, 2016, AUDITOR IS REQUIRED TO REPORT WHETHER ALL TRANSACTION WITH THE RELATED PARTY IS IN COMPLIANCE WITH SECTION 177 AND 188 OF THE COMPANIES ACT, 2013 WHERE APPLICABLE AND THE DETAILS HAVE BEEN DISCLOSED IN THE FINANCIAL STATEMENT ETC., AS REQUIRED BY THE APPLICABLE ACCOUNTING STANDARD:**
- a) Under Clause (xi) of paragraph 3 of the CARO, 2016,
 b) Under Clause (xii) of paragraph 3 of the CARO, 2016,
 c) Under Clause (xiii) of paragraph 3 of the CARO, 2016,
 d) Under Clause (xiv) of paragraph 3 of the CARO, 2016,

c

**REMARK**

12. **UNDER WHICH CLAUSE OF CARO, 2016, AUDITOR IS REQUIRED TO REPORT WHETHER THE COMPANY HAS DEFAULTED IN REPAYMENT OF LOANS AND BORROWING TO A FINANCIAL INSTITUTION, BANKS, GOVERNMENT OR DUES TO DEBENTURE HOLDERS. IF YES, THE PERIOD AND THE AMOUNT OF DEFAULT TO BE REPORTED?**
- a) Under Clause (vi) of paragraph 3 of the CARO, 2016,
 b) Under Clause (vii) of paragraph 3 of the CARO, 2016,
 c) Under Clause (viii) of paragraph 3 of the CARO, 2016,
 d) Under Clause (xi) of paragraph 3 of the CARO, 2016,

c

**REMARK**

13. **ARUN JAITLEY LTD. IS NOT REGULAR IN DEPOSITING GST DUES. UNDER WHICH CLAUSE OF CARO 2016 THE AUDITOR IS REQUIRED TO REPORT?**
- a) Under Clause (viii) of paragraph 3 of the CARO, 2016
 b) Under Clause (vii) of paragraph 3 of the CARO, 2016
 c) Under Clause (v) of paragraph 3 of the CARO, 2016
 d) Under Clause (ix) of paragraph 3 of the CARO, 2016

b

**REMARK**

14. **IF CENTRAL GOVERNMENT HAS SPECIFIED MAINTENANCE OF COST RECORDS UNDER SEC 148 (1) OF COMPANIES ACT, 2013 WHETHER SUCH ACCOUNTS AND RECORDS HAVE BEEN MADE AND MAINTAINED. UNDER WHICH CLAUSE OF CARO, 2016, AUDITOR IS REQUIRED TO REPORT?**
- a) Under Clause (vi) of paragraph 3 of the CARO, 2016,
 - b) Under Clause (vii) of paragraph 3 of the CARO, 2016,
 - c) Under Clause (viii) of paragraph 3 of the CARO, 2016,
 - d) Under Clause (xi) of paragraph 3 of the CARO, 2016,

a

**REMARK**

15. **UNDER WHICH CLAUSE OF CARO, 2016, AUDITOR IS REQUIRED TO REPORT WHETHER MONEY RAISED BY WAY OF INITIAL PUBLIC OFFER OR FURTHER PUBLIC OFFER AND THE TERM LOANS WERE APPLIED FOR THE PURPOSE FOR WHICH THOSE ARE RAISED. IF NOT, THE DETAILS TOGETHER WITH DELAYS AND DEFAULTS AND SUBSEQUENT RECTIFICATION, IF ANY, AS MAY BE APPLICABLE, BE REPORTED?**
- a) Under Clause (x) of paragraph 3 of the CARO, 2016,
 - b) Under Clause (ix) of paragraph 3 of the CARO, 2016,
 - c) Under Clause (viii) of paragraph 3 of the CARO, 2016,
 - d) Under Clause (xi) of paragraph 3 of the CARO, 2016,

b

**REMARK**

“

Go confidently in the direction of your dreams.
Live the life you have imagined.
—Henry David Thoreau

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