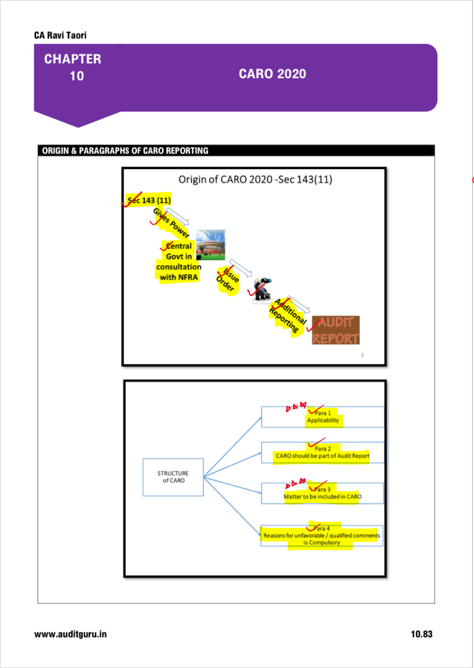
Ch 10 Part 4.1 CARO 2020

Thursday, 20 January 2022 10:13 AM

Ch 10 Part 4.1 CARO...



CHAPTER 10 CARO 2020

ORIGIN & PARAGRAPHS OF CARO REPORTING

Origin of CARO 2020 -Sec 143(11)

Sec 143 (11)

Gives Power

Central Govt in consultation with NFRA

Issue Order

Additional Reporting

AUDIT REPORT

STRUCTURE of CARO

D & M

Para 1
Applicability

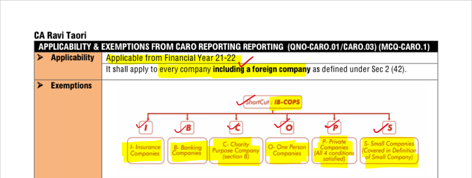
Para 2
CARO should be part of Audit Report

D & M

Para 3
Matter to be included in CARO

Para 4
Reasons for unfavorable / qualified comments is Compulsory

CARO 2020
↓
Issued → Feb 20 → Applicable Fy 19-20
↓
Deffered → Fy 20-21
↓
Deffered → Fy 21-22



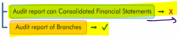
APPLICABILITY & EXEMPTIONS FROM CARO REPORTING REPORTING (QNO-CARO.01/CARO.03) (MCQ-CARO.1)

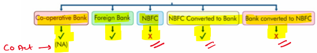
➢ **Applicability**	Applicable from Financial Year 21-22 It shall apply to every company **including a foreign company** as defined under Sec 2 (42).
➢ **Exemptions**	ShortCut : **IB-COPS** I - I- Insurance Companies B - B- Banking Companies C - C- Charity Purpose Company (section 8) O - O- One Person Companies P - P- Private Companies (All 4 conditions satisfied) S - S- Small Companies (Covered in Definition of Small Company)

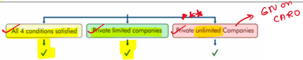
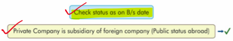
Exemptions *(IB-COPS)* [Each exemption is discussed in detail along with Cases]

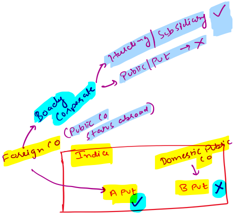
- **I**nsurance Company
- **B**anking Company
- Section 8 Company (**C**haritable Purpose)
- **O**ne Person Company
- **P**rivate Limited Company (All conditions below should be satisfied)
  - Not Subsidiary or Holding of Public Company (i.e. Holding or Subsidiary should not be public)
  - Paid up capital + Reserves ***not exceeding 1 Crore→ B/S Date***
  - Loan from Banks & FIs ***not exceeding 1 Crore*** -- At any point of time during the year
  - **Total Revenue** not exceeding 10 crores -- During the Financial Year **(As disclosed in Schedule III)**
- **S**mall Company
  - **Definition of Small Company (**Other than Public Company) 2 crores
    - ② Paid-up share capital of which ***does not exceed ~~50 Lakhs~~*** or such higher amount as may be prescribed which shall ***not be more than ten crore rupees.***
    - ③ **Turnover** of which as per its last profit and loss account ***does not exceed ~~2 crores~~*** 20 crore or such higher amount as may be prescribed which ***shall not exceeding 100 crore rupees***
    - ① Provided that nothing in this clause shall apply to: -
      - ◊ A holding company or a subsidiary company; (In short there should be no holding or subsidiary company)
      - ◊ A company registered under section 8; or
      - ◊ A company or body corporate governed by any special Act (SBI / SIDBI etc)

CASES ON APPLICABILITY OF CARO

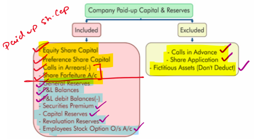
CASE	EXEMPTION
GENERAL CASES	
	 Audit report can Consolidated Financial Statements → x Audit report of Branches → ✓ → Standalone ✓
This order is on the company or auditors of the company?	This order is issued by CG on the auditors of the company, which they have to follow while doing their audit and preparing audit report. It is a reporting order. Company Auditor Report Order.
Is a consolidated financial statement exempt from CARO?	This Order shall not apply to the auditor's report on consolidated financial statements **except clause (xxi).**

CASE	EXEMPTION
	That means, in audit report of consolidated financial statements, we will provide CARO report but only for Clause (xxi), rest of the 20 clauses wont be applicable.
Are branch audit reports exempt from CARO?	**No,** they are not exempt. It is applicable to branch auditors while preparing their report. As their reports will be studied and merged to make final audit report of the company.
INSURANCE COMPANIES	
	Life Insurance → ✓ General Insurance → ✓
Is exemption available for both life insurance & general insurance?	**Yes**, exemption is for both.
BANKS	
 Co-operative Bank ✓ (NA) Co Act → Foreign Bank ✓ NBFC x NBFC Converted to Bank ✓ Bank converted to NBFC x	
Will co-operative bank get exemption?	**Yes,** it is not a company not governed by company act, it is co-operative society, so CARO is as such not applicable
Will Foreign Bank get exemption?	**Yes,** As per Banking Regulation Act. Definition of bank covers foreign bank also. * Similarly,exemption is available to payment bank also.
Will NBFC get exemption?	**No,** Exemption is only to Banks.
In December NBFC was converted into Bank? Will it get exemption?	**Yes,** we have to see status as on year end and it is a bank at year end.
In December Bank was converted into NBFC? Will it get exemption?	**No,** we have to see status as on year end and it is a NBFC at year end.
SECTION 8	
Company was licensed under Sec 25 of company Act 1956, will it get exemption	**Yes,** they will get exemption as specified in Guidance Note on CARO 2016
When to check status of Insurance Company / Banking Company / Section 8 Company / Small Company for exemption?	No specific instructions are provided in CARO,As per Guidance Note o CARO we have to check status of these companies at the year-end on balance sheet date. 31st March

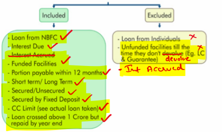
PRIVATE COMPANY
 All 4 conditions satisfied ✓ Private limited companies ✓ Private unlimited Companies ✓ GN on CARO
1ST CONDITION- HOLDING/SUBSIDIARY SHOULD NOT BE A PUBLIC COMPANY
 Check status as on B/s date Private Company is subsidiary of foreign company (Public status abroad) → ✓


Holding | Subsidiary ✓
Public | Pvt → x
Body Corporate
(Public Co status abroad)
Foreign Co
India
Domestic Public Co
A Pvt ✓
B Pvt x

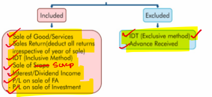
2ND CONDITION- PAID UP CAPITAL & RESERVES SHOULD NOT EXCEEDS 1 CRORE AS ON BS DATE


Paid up sh.cap
Company Paid-up Capital & Reserves
Included
- Equity Share Capital
- Preference Share Capital
- Calls in Arrears(-)
- Share Forfeiture A/c
- General Reserves
- P&L Balances
- P&L debit Balances(-)
- Securities Premium
- Capital Reserves
- Revaluation Reserves
- Employees Stock Option O/s A/c
Excluded
- Calls in Advance
- Share Application
- Fictitious Assets (Don't Deduct)

3RD CONDITION LOAN FROM BONUS AND FT'S SHOULD NOT EXCEED 1 CRORE ANYTIME DURING THE YEAR


Included
- Loan from NBFC
- Interest Due
- ~~Interest Accrued~~
- Funded Facilities
- Portion payable within 12 months
- Short term/ Long Term
- Secured/Unsecured
- Secured by Fixed Deposit
- CC Limit (see actual loan taken)
- Loan crossed above 1 Crore but repaid by year end
Excluded
- Loan from Individuals
- Unfunded facilities till the time they don't ~~devalue~~ devolve (Eg. LC & Guarantee)
- Int Accrued

4TH CONDITION TOTAL REVENUE SHOULD NOT EXCEED 10 CRORE


Included
- Sale of Good/Services
- Sales Return(deduct all returns irrespective of year of sale)
- IDT (Inclusive Method)
- Sale of ~~Srape~~ Scrap
- Interest/Dividend Income
- P/L on sale of FA
- P/L on sale of Investment
Excluded
- IDT (Exclusive method)
- Advance Received

IDT
↓
Accounting

Inclusive
C&B Dr 118
① To Sale 118
② Sale A/c Dr 18
To IDT Payable 18
↓
IDT Include in TO

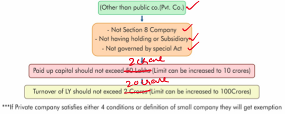
Exclusive
① C&B Dr 118
To Sale 100
IDT Payable 18
↓
IDT Exclude in TO

Private company satisfies all conditions except one will they get exemption?	**No**, all conditions should be satisfied to get exemption.
75% equity shares of private company were held by public company till 15th Jan, on this date 30% were sold in open market, Will such private company get exemption?	**Yes**, we have to see status as on balance sheet date, here as on balance sheet date percentage holding will be 45%, so it is not subsidiary of public company, so they will get exemption.
Private unlimited company has paid up capital of 90 lakhs, outstanding loans 85 lakhs, turnover of 7 crores and it is not subsidiary or holding of public company. Will it get exemption?	**Yes**, it will get exemption, as per guidance note "Private Limited Company" should be construed to mean a company registered as a "private company" {as defined in sub-section (68) of section 2 of the Act} which includes limited as well as unlimited. So, private limited as well as unlimited both will get exemption. This is exactly opposite of the point of view taken by earlier Statement on CARO. (Very important for exams)
Private company is subsidiary of public foreign company or its holding company of public foreign company, will they get exemption?	Foreign companies are covered in definition of holding & subsidiary as they use word body corporate. But they cannot get status of public or private as definition of public or private does not cover word "body corporate" On this basis MCA has clarified that foreign companies even if public in their foreign country will not affect status of private company in India, this is done to promote foreign companies to come and open private companies in India with less compliances. **Conclusion** A public holding changes the status of private company to public company however if such public holding is a foreign company the status of private company remains unchanged. if Pvt Ltd was a subsidiary of a public company incorporated in India the status of Pvt Ltd would have got changed to public company and exemption would have not been available ,however since the holding company is a foreign company , status of private company remains unchanged and exemption shall be available to Pvt Ltd.

Private limited company has equity share capital of 60 lakhs, preference share capital of 10 lakhs, general reserves of 30 lakhs, P&L debit balance (60) lakhs, Securities Premium of 10 lakhs, Capital Reserve of 15 Lakhs, Share Application 20 lakhs, Share Forfeiture 5 lakhs, Revaluation Reserve 8 lakh, Capital Redemption Reserve 3 lakhs, Share Option Outstanding Account 6 lakhs will this company get exemption?	Computation of paid up capital & reserves: - Eq 60 + Pref 10 + Gen Res 30 – Debit bal of P&L (60) + Sec Premium 10 + Capital Reserve 15 + Share Forfeiture 5 + Revaluation Reserve 8 + Capital Redemption Reserve 3 + Share Option Outstanding 6 = 87, As it is not crossing 1 crore and if other conditions satisfied company can get exemption.
Loan 40 lakhs, Interest Accrued as on balance sheet date 8 lakhs, Interest due and unpaid 12 lakhs, how much will be counted for the purpose of exemption?	In case of term loans, interest accrued and due is considered as a borrowing whereas interest accrued but not due is not considered as a borrowing. So 40 +12 = 52 lakhs will be counted.
Fund based facilities from bank Rs 20 lakhs and non-fund-based facilities Rs 10 lakhs which are not yet devolved, how much should be counted in borrowings?	Non-fund-based credit facilities (E.g. Letter of Credit / Guarantee etc.), to the extent such facilities have devolved and have been converted into fund-based credit facilities, should also be considered as outstanding borrowings. That means 20 will be considered and 10 will be left as no money is taken till date under it.
Out of loan 30 lakhs, 5 lakhs is due within 12 months from date of balance sheet hence it is shown in current liability as current maturity of long term loan. So how much loan should be considered 30 lakhs or 25 lakhs?	Current maturity of long term borrowings will also form part of borrowings. Moreover, outstanding dues in respect of credit cards would also be considered while calculating the limit of Rs. one crore; in respect of borrowings outstanding from a bank or financial institution. So here we will consider 25+5=30 whole loan amount outstanding irrespective of where it is shown in balance sheet.
Will borrowing cover short term loans?	There is no stipulation in the Order that the borrowing should be a long-term borrowing or a short-term borrowing or that it should be a secured borrowing or an unsecured borrowing. So it will be covered.

Overdraft facility fully covered by FD will it be covered in borrowing?	Notwithstanding the fact that the company has been granted an overdraft facility against, say, fixed deposits, of the company with the concerned bank, we will include whole overdraft amount in borrowing.
Private limited company has following borrowings from Mr Mukesh Ambani 80 lakhs, Mr Aziz Premji 10 lakhs, ICICI Bank 5 lakhs, IFCI 10 lakhs is exemption available?	We have to consider borrowings only from Banks & FIs so total is ICICI 5 + IFCI 10 = 15 lakhs, it is below 100 lakhs (1 cr.) so exemption is available.
Will loan from NBFC will be counted?	Yes, the term "financial institution" shall also cover a non-banking financial company (NBFC). No exemption to NBFC and NBFC loan will also be counted.
Private Limited company has taken CC of 300 lakhs and balance outstanding as on date is 80 lakhs?	We don't have to see limit, we have to see actual amount taken and outstanding any time during the year, it is not exceeding 100 lakhs (1 cr.), Exemption is available.
Loan during the year rose to 1.6 crore but it was repaid regularly and as on balance sheet date it has reduced to nil, will such private company get exemption?	No, in case of loan outstanding we have to see balance during the year and if any time it exceeds 1 crore condition required for exemption will be broken.
Whether revenue will include other income?	The term, "revenue", has been defined by the Order as total revenue disclosed in Schedule III of the Act. Accordingly, the total revenue would include other income as per Schedule III. Here revenue will also include revenue from discontinuing operations as specified in the Order.
Private limited company has Sale of petrol Rs 4 Crore, Sale of services Rs 2 Crore, Sales return Rs 1.5 Crore (Including 0.5 Crore from previous year) Excise Duty included in sale of petrol Rs 75 lakhs, Interest on Investment 20 lakhs, Profit on sale on Investments 30 lakhs, Scrap Sales Rs 40 lakhs, GST on sales included above 20 lakhs, is CARO applicable?	Computation of ~~Turnover~~ TR Sale (Petrol) 4 crore + Sale (Services) 2 Crore – Sales Return (1.5 Crore) – *Excise Duty 75 lakhs – *GST on Sales 20 lakhs + Interest on Investments 0.2 + Profit on sale of Investments 0.3 + Scrap sales 0.4 = 4.45 Crores *If excise and GST are accounted separately then they will not be included. We have assumed that accounting will be on separate basis and hence they are excluded. *In problem, it is said that excise and gst amount are included in given sales they doesn't comment on method of accounting, so we have to take popular assumption and solve the case. → Exclusive method of A/C As ~~Turnover~~ Total Revenue is below ~~5 Crores~~ 10 Crore CARO not applicable.

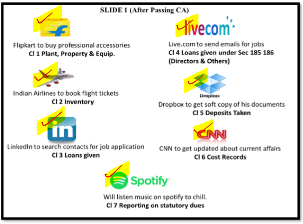
SMALL COMPANY


(Other than public co.(Pvt. Co.) ✓
- Not Section 8 Company ✓
- Not having holding or Subsidiary ✓
- Not governed by special Act ✓
Paid up capital should not exceed ~~50 Lakhs~~ 2 crore (Limit can be increased to 10 crores)
Turnover of LY should not exceed ~~2 Crores~~ 20 crore (Limit can be increased to 100Crores)

***If Private company satisfies either 4 conditions or definition of small company they will get exemption

A Pvt Ltd is small company but it does not fulfil all exemption conditions of private company?	**Yes,** such company will get exemption. It may also be noted that in case a company is covered under the definition of small company, it will remain exempted from the applicability of the Order even if it doesn't fulfil conditions of exemption for private company.

What is difference between exemption of private company and exemption of small company?	In small company, there should not be holding or subsidiary but in private company holding or subsidiary should not be public company. In small company, we see only paid up capital but in private company we see both paid up capital and reserves. In small company, we see TURNOVER of last year, in private company we see TOTAL Revenue during the year.



SLIDE 1 (After Passing CA)

Flipkart to buy professional accessories
Cl 1 Plant, Property & Equip.

Live.com to send emails for jobs
Cl 4 Loans given under Sec 185 186 (Directors & Others)

Indian Airlines to book flight tickets
Cl 2 Inventory

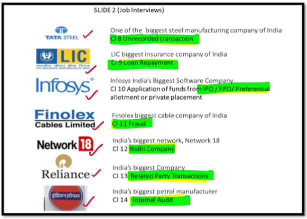
Dropbox to get soft copy of his documents
Cl 5 Deposits Taken

LinkedIn to search contacts for job application
Cl 3 Loans given

CNN to get updated about current affairs
Cl 6 Cost Records

Will listen music on spotify to chill.
Cl 7 Reporting on statutory dues

livecom
Dropbox
CNN
Spotify



SLIDE 2 (Job Interviews)

One of the biggest steel manufacturing company of India
Cl 8 Unrecorded transaction

LIC biggest insurance company of India
Cl 9 Loan Repayment

Infosys India's Biggest Software Company
Cl 10 Application of funds from IPO / FPO/ Preferential allotment or private placement

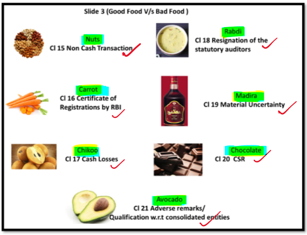
Finolex biggest cable company of India
Cl 11 Fraud

India's biggest network, Network 18
Cl 12 Nidhi Company

India's biggest Company
Cl 13 Related Party Transactions

India's biggest petrol manufacturer
Cl 14 Internal Audit

TATA STEEL
LIC
Infosys
Finolex
Cables Limited
Network 18
Reliance
इंडियनऑयल



Slide 3 (Good Food V/s Bad Food)

Nuts
Cl 15 Non Cash Transaction

Rabdi
Cl 18 Resignation of the statutory auditors

Carrot
Cl 16 Certificate of Registrations by RBI

Madira
Cl 19 Material Uncertainty

Chikoo
Cl 17 Cash Losses

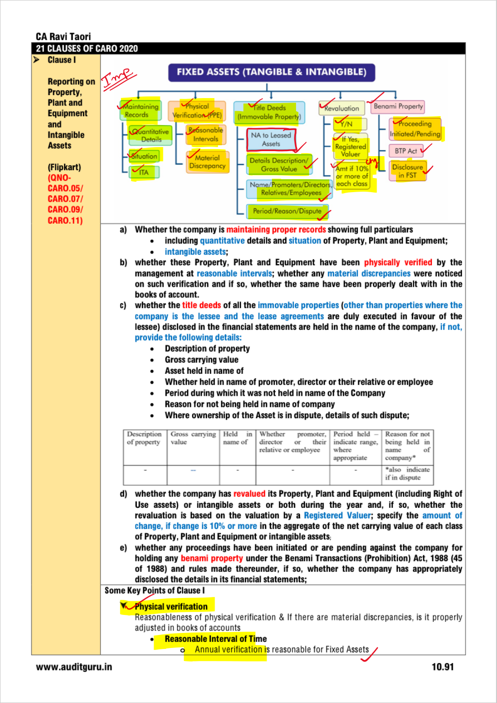
Chocolate
Cl 20 CSR

Avocado
Cl 21 Adverse remarks/ Qualification w.r.t consolidated entities

Ch 10 Part 4.2 CARO 2020

Thursday, 20 January 2022 10:14 AM

Ch 10 Part 4.2 CARO...



21 CLAUSES OF CARO 2020

Clause I

Reporting on Property, Plant and Equipment and Intangible Assets

(Flipkart)
(QNO-CARO.05/ CARO.07/ CARO.09/ CARO.11)

Imp
FIXED ASSETS (TANGIBLE & INTANGIBLE)
Maintaining Records
Quantitative Details
Situation
ITA
Physical Verification (PPE)
Reasonable Intervals
Material Discrepancy
Title Deeds (Immovable Property)
NA to Leased Assets
Details Description/ Gross Value
Name/Promoters/Directors/ Relatives/Employees
Period/Reason/Dispute
Revaluation
Y/N
If Yes, Registered Valuer
Amt if 10% or more of each class
chg
Benami Property
Proceeding Initiated/Pending
BTP Act
Disclosure in FST

a) Whether the company is maintaining proper records showing full particulars
   - including quantitative details and situation of Property, Plant and Equipment;
   - intangible assets;

b) whether these Property, Plant and Equipment 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 all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the following details:
   - Description of property
   - Gross carrying value
   - Asset held in name of
   - Whether held in name of promoter, director or their relative or employee
   - Period during which it was not held in name of the Company
   - Reason for not being held in name of company
   - Where ownership of the Asset is in dispute, details of such dispute;

Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held – indicate range, where appropriate	Reason for not being held in name of company*
-	--	-	-	-	*also indicate if in dispute

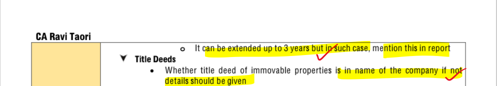
d) whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;

e) whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements;

Some Key Points of Clause I

- **Physical verification**

  Reasonableness of physical verification & If there are material discrepancies, is it properly adjusted in books of accounts
  - **Reasonable Interval of Time**
    - Annual verification is reasonable for Fixed Assets



    - It can be extended up to 3 years but in such case, mention this in report
- **Title Deeds**
  - Whether title deed of immovable properties is in name of the company if not details should be given

- Discrepancies generally arise in conversion from proprietor, partnership to company or amalgamation
- If documents are lost see certified copies, FIR, take written representation

Benami Transactions

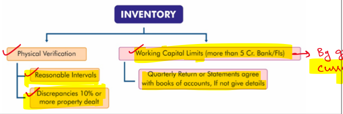
- Clause Refers to Benami Transaction (Prohibition) Act (BTP Act) 1988 but this act is renamed to Prohibition of Benami Property Transaction Act (PB-PT Act) 1988 in 2016 so while reporting refer to the amended name.

Clause II

Imp

Reporting on Inventory

(Indian Airlines)
(QNO-CARO.09/ CARO.13)


INVENTORY
Physical Verification
Reasonable Intervals
Discrepancies 10% or more property dealt
Working Capital Limits (more than 5 Cr. Bank/FIs)
Quarterly Return or Statements agree with books of accounts, If not give details

By giving current Asset as security

a) **whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account.**

b) **whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details;**

Some Key Points of Clause II

Physical Verification

- **Reasonableness**
  - Reasonableness of physical verification of inventory & If any material discrepancies observed, then whether it is adjusted. 10%
  - Reasonable interval of time for inventory is generally 1 year

Working Capital Limits

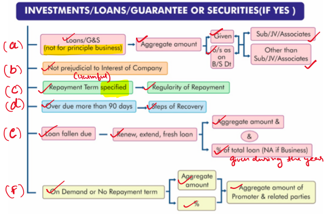
- **Exclusion**
  - However, this would exclude any working capital limits which are sanctioned without the security of the company's current assets.

Clause III

Reporting on Loans, Investments, Guarantees, Securities and Advances in nature of Loan:

(B)

(LinkedIn)
(QNO-CARO.15)


INVESTMENTS/LOANS/GUARANTEE OR SECURITIES(IF YES)
(a)
Loans/G&S (not for principle business)
Aggregate amount
Given
o/s as on B/S Dt
Sub/JV/Associates
Other than Sub/JV/Associates
(b)
Not prejudicial to Interest of Company
(Harmful)
(c)
Repayment Term specified
Regularity of Repayment
(d)
Over due more than 90 days
Steps of Recovery
(e)
Loan fallen due
Renew, extend, fresh loan
Aggregate amount &
&
% of total loan (NA if Business)
given during the year
(f)
On Demand or No Repayment term
Aggregate amount
%
Aggregate amount of Promoter & related parties

whether during the year the company has made investments in, provided any guarantee or security, or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships, or any other parties, if so,-

a) **whether during the year the company has provide loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate**

   A. **the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures, and associates**

   B. **the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures,** and associates;

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

c) in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

d) 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;

e) whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans];

f) whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013

Some Key Points of Clause III

- **Aggregate Amount, outstanding disclosure.**
  - Not Applicable to companies whose principal business is to give loans (FI's, NBFC's etc)
  - Guarantees will include those which are given to banks and financial institutions on behalf of third party.
  - Squared up loans should be counted for amount given .
- **Steps of Recovery**
  - Total amount overdue for more than 90 days then comment on reasonableness of steps taken for recovery.
  - Steps can be in the form of reminders, meetings, ceasing transactions, lawyers notice, auction etc. they may not be only legal steps, legal steps are one of steps expected
- **Loans fallen due during the year**
  - Not Applicable to companies whose principal business is to give loans (FI's, NBFC's etc)
  - This clause is inserted to identify instances of 'evergreening of loans/advances in nature of loans.

    [Note: The term 'evergreening' is not defined in the Act. However, in general parlance it implies an attempt to mask loan default by giving new loans to help delinquent borrowers to repay/adjust principal or pay interest on old loans.
  - **Example –**

    Company A has an opening loan of Rs. 100 and granted 3 more loans of Rs. 200, 300 and 400 during the year. Company extended tenure in respect of two loans (Rs. 100 and Rs. 200) when fell due for payment. Percentage of the aggregate to the total loans or advances in the nature of loans granted during the year in the instant case would be 33%.

OP 100
CY 900

Renew 300

$\% = \frac{300}{900} \times 100$

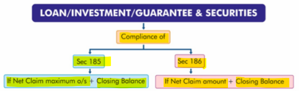
$= 33.33\%$

- **Loans repayable on demand or without repayment terms**

	All Parties	Promoters	Related Parties
Aggregate amount of loans/ advances in nature of loans			
- Repayable on demand (A)	1000	200	400
- Agreement does not specify any terms or period of repayment (B)	2000	500	1000
Total (A+B)	3000	700	1400
Percentage of loans/ advances in nature of loans to the total loans		$\frac{700}{3000}$ =23%	$\frac{1400}{3000}$ = 46%

➤ **Clause IV**

Reporting on Compliance of Section 185 and 186 w.r.t Loans given:


LOAN/INVESTMENT/GUARANTEE & SECURITIES
Compliance of
Sec 185
Sec 186
If Net Claim maximum o/s + Closing Balance
If Net Claim amount + Closing Balance

(Live.Com)

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.

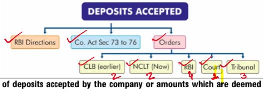
Some Key Points of Clause IV

- **Sec 185 & 186**
  - Loans, Investments, Guarantee & Security is in Compliance with Sec 185 & 186
    - Sec 185 - Loan to directors
    - Sec 186 - Loan and Investment by Company

➢ **Clause V** Ⓑ

Deposits

(Dropbox)
(QNO-CARO.15)

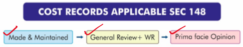

DEPOSITS ACCEPTED
RBI Directions
Co. Act Sec 73 to 76
Orders
CLB (earlier)
NCLT (Now)
RBI
Court
Tribunal
2
2
4
1
3

in respect of deposits accepted by the company or amounts which are deemed to be 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 and the rules made 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;

➢ **Clause VI** Ⓐ

Cost Records

(CNN)


COST RECORDS APPLICABLE SEC 148
Made & Maintained
General Review+ WR
Prima facie Opinion

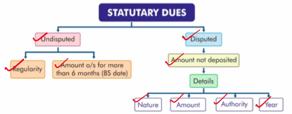
Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.

➢ **Clause VII** Ⓐ

Reporting on statutory dues

(Spotify)
(QNO-CARO.11/ CARO.17)

(MCQ-Incs.04.5, Incs.12.5)


STATUTARY DUES
Undisputed
Disputed
Regularity
Amount o/s for more than 6 months (BS date)
Amount not deposited
Details
Nature
Amount
Authority
Year

- **Whether the company is 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 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;**
- **Where statutory dues referred to in subclause (a) 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).**

Key Points of Clause VII

- **Statutory Dues** → Payable to Govt
  - Payment to government under agreement for goods and services purchased will not be covered. For Example – Electricity charges.
  - Further only those statutory dues which are payable to authorities are covered here. Payments to employees under payment of bonus act and payment of dividend to shareholders under companies' act are not considered statutory dues, but when bonus ad dividend has to be transferred to authorities under some circumstances it will become statutory due.
  - Not restricted to list given in clause as it uses words "any other statutory dues" at the end
- **1st Point Undisputed Dues -- Regularity**

  Regularity in depositing undisputed statutory dues including PF, ESIC, Direct Taxes, Indirect Taxes etc.
  - Such reporting is required where periodic payments are required i.e. monthly, quarterly etc.
  - For example, no need to comment on custom duty here but rent & interest to be paid regularly under customs act will be covered
  - Non-Payment of advance tax on due dates and later on paying it along with interest because of windfall gain is not irregularity
  - Paying all monthly dues at year end with interest will be considered irregular
- **2nd Point Undisputed Dues – Outstanding Amount**

  Arrears of undisputed statutory dues outstanding more than 6 months as on balance sheet date.
  - ~~Date till which we can pay amount without attracting penalties or interest should be considered as due date~~
  - ~~if authority has granted additional time, stay then last date of such stay can be considered as due date~~
- **3rd Point Dispute**

  Details of taxes not been deposited on account of any dispute, specify amount &forum
  - Demand order from department is not dispute
  - Company asking clarification on notice or orders will not be considered as dispute
  - Company appealing against demand order will be considered dispute Or there should be positive evidence to prove that sustainable appeal can be made

- Application to rectify order passed u/s 154 is also considered as dispute as we are going against order (Mistake apparent from records)
- Details of dispute should be given irrespective of whether provision is made in books or not
- Report only if amount is not deposited

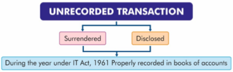
Amount

- All amounts disclosed should include penalty & interest amount.

➢ Clause VIII

Reporting on unrecorded transaction Ⓑ

(TATA Steel)


UNRECORDED TRANSACTION
Surrendered
Disclosed
During the year under IT Act, 1961 Properly recorded in books of accounts

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

Key Points of Clause VIII

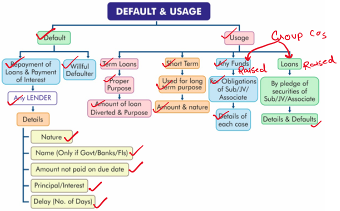
- Transactions which are voluntarily reported (irrespective of before or after the raid), are reported here. Additions made by income tax authorities on their own without any admission by company is not to be reported.
- Such items are shown as extra ordinary in P&L as per AS 5 and IND AS 8.

➢ Clause IX

Reporting on repayment and usage of Borrowings

(LIC) Ⓐ

(QNO-CARO.17/ CARO.19/ CARO.21)


DEFAULT & USAGE
Default
Usage
Repayment of Loans & Payment of Interest
Willful Defaulter
Any LENDER
Details
Nature
Name (Only if Govt/Banks/FIs)
Amount not paid on due date
Principal/Interest
Delay (No. of Days)
Term Loans
Proper Purpose
Amount of loan Diverted & Purpose
Short Term
Used for long term purpose
Amount & nature
Any Funds
For Obligations of Sub/JV/ Associate
Details of each case
Loans
By pledge of securities of Sub/JV/Associate
Details & Defaults
Group cos
Raised
Raised

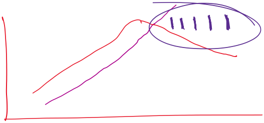
- **whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as below:**
  - **Nature of borrowing, including debt securities**
  - **Name of lender (Lender wise details to be provided in case of defaults to banks, financial institutions, and Government)**
  - **Amount not paid on due date**
  - **Whether principal or interest**
  - **No. of days delay or unpaid**
  - **Remarks, if any**
- **whether the company is a declared wilful defaulter by any bank or financial institution or other lender;**
- **whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported**
- **whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;**
- **whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates, or joint ventures, if so, details thereof with nature of such transactions and the amount in each case;**
- **whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures, or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised;**

Some Key Points of Clause IX

- **Reporting –**

  A suggested reporting format under this clause is as follows:

  In our opinion and according to the information and explanations given to us, the company has utilized the money obtained by way of term loans during the year for the purposes for which they were obtained, except for following cases:



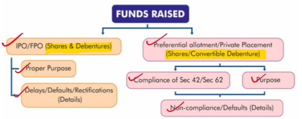
Nature of the fund raised	Name of the lender	Amount diverted (Rs.)	Purpose for which amount was sanctioned	Purpose for which amount was utilised	Remarks

➢ Clause X

Reporting on Application of funds from IPO / FPO/ Preferential allotment or private placement

A

(Infosys)
(QNO-CARO.23/ CARO.25)


FUNDS RAISED
IPO/FPO (Shares & Debentures)
Proper Purpose
Delays/Defaults/Rectifications (Details)
Preferential allotment/Private Placement (Shares/Convertible Debenture)
Compliance of Sec 42/Sec 62
Purpose
Non-compliance/Defaults (Details)

- **whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year 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;**
- **whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially, or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non-compliance;**

Some Key Points of Clause X

- **Reporting**

  A suggested reporting format under this clause is as follows:
  In our opinion and according to the information and explanations given to us, the company has utilised the money raised by way of initial public offer/ further public offer (including debt instruments) for the purposes for which they were raised, except for the following cases:

Nature of the fund raised	Purpose for which funds were raised	Total Amount Raised /opening unutilized balance	Amount utilized for the other purpose	Unutilized balance as at balance sheet date	Details of default (Reason/ Delay)	Subsequently rectified (Yes/No) and details

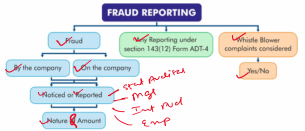
- **Preferential allotment or private placement of shares**
  - **Overview of terminology**
    - Private placement means when any company offers shares to selected group of persons. Such issue should be in accordance with Sec 42 of Companies Act.
    - Preferential Allotment is a specific type of private placement where listed entity issues share to selected group of persons. Such issue is principally governed by SEBI Regulations & Section 62 of Companies Act.

➢ Clause XI

Reporting on Fraud

A

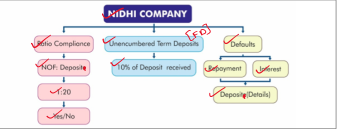
(Finolex Cable)
(QNO-CARO.21/ CARO.27/ CARO.29)
(MCQ-CARO.2)


FRAUD REPORTING
Fraud
By the company
On the company
Noticed or Reported
Nature & Amount
Any Reporting under section 143(12) Form ADT-4
Whistle Blower complaints considered
Yes/No
Stat Auditor
Mgt
Int Aud
Emp

- **whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;**
- **whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;**
- **whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;**

Key Points of Clause XI

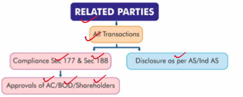
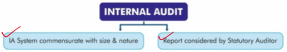
- **Frauds**

	• Term "Noticed or Reported" means either noticed by management or reported to management by anyone including statutory auditor, internal auditor etc. So basically, it means all the frauds known to management should be reported in this clause. • It should be noted that it covers all the frauds on the company and not just frauds by officers or employees on the company. ▼ **Section 143(12)** • Reporting is required only when ADT-4 is filed by auditor. ▼ **Whistle Blower mechanism** • Auditor has to only comment about complaints received during the year.
➤ **Clause XII** **Reporting on Nidhi Company (Network 18)**	 NIDHI COMPANY Ratio Compliance Unencumbered Term Deposits [FD] Defaults NOF: Deposits 10% of Deposit received Repayment Interest 1:20 Deposits (Details) Yes/No
	▼ **whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability.** ▼ **whether the Nidhi Company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability.** ▼ **whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;**

Jo hai albela mad
naino wala

Jiski diwani
BRIDGE ki har bala

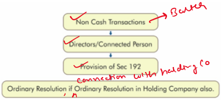
Woh Kisna hai

	Key Points of Clause XII Applicable only to Nidhi Company (mutual benefit company) ▼ **Ratio** • Maintaining Minimum Net Owned Funds: Deposits → 1:20. Comment whether it is maintained. ▼ **Deposits** • 10% Unencumbered Term Deposits ▼ **Default** • In case of default of either payment of interest on deposit or repayment thereof or both, the auditor may report: o Nature of default, o Amount of default, o Period of default, o Number of persons to whom there was default in payment, o Any other detail.
➤ **Clause XIII** **Reporting on Related Party Transactions** **(Reliance)**	 RELATED PARTIES All Transactions Compliance Sec 177 & Sec 188 Disclosure as per AS/Ind AS Approvals of AC/BOD/Shareholders
	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.
	Key Points of Clause XIV ▼ **Related Parties** Its only about transactions with **related parties** [Related Party means as defined under Sec 2 (76)] ▼ **Compliance** • We have to comment on compliance with **Sec 177 & Sec 188** • Sec 177—Approval of Audit Committee • Sec 188—Approval of BOD / Ordinary Resolution if specific limit is crossed ▼ **Disclosure** We have to comment on **disclosures of related party in financial statement.** Compliance of AS 18 disclosures.
➤ **(Clause XIV** **Reporting on Internal Audit** Ⓐ **(Indian Oil)**	 INTERNAL AUDIT IA System commensurate with size & nature Report considered by Statutory Auditor
	▼ **whether the company has an internal audit system commensurate with the size and nature of its business;** ▼ **whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor.**

➢ Clause XV

Reporting on Non-cash transactions with Directors

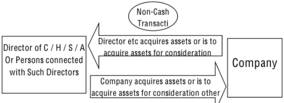
(Nuts)


Non Cash Transactions
Barter
Directors/Connected Person
Provision of Sec 192
connection with holding co
Ordinary Resolution if Ordinary Resolution in Holding Company also.

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.

Key Points of Clause XV

- **Non-Cash Transactions**
  Whether there are non-cash transactions with directors or persons connected with him
  - Transactions for cash or cash equivalent are not covered
  - Mergers not covered here subject to approval by court
- **Section 192**
  If answer to first question is yes, then whether there is compliance of section 192.

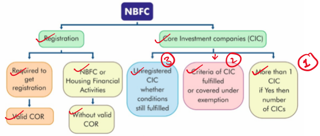

Non-Cash Transacti
Director of C / H / S / A Or Persons connected with Such Directors
Director etc acquires assets or is to acquire assets for consideration
Company
Company acquires assets or is to acquire assets for consideration other

Above transactions / agreements are allowed **only if there is prior approval by shareholders in general meeting and if such director is director in holding company then resolution will be required in holding**

➢ Clause XVI

Reporting on Registration u/s 45-IA of RBI Act

(Carrot)


NBFC
Registration
Core Investment companies (CIC)
Required to get registration
Valid COR
NBFC or Housing Financial Activities
Without valid COR
3
Unregistered CIC whether conditions still fulfilled
2
Criteria of CIC fulfilled or covered under exemption
1
More than 1 CIC if Yes then number of CICs

***COR-Cretificate of Registration

- **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.**
- **whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934;**
- **whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria;**

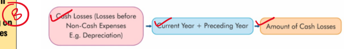
- **whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group;**

- **Core Investment Company (CIC)**
  - It broadly means company formed for raising finance and investing in particular business group companies.
  - CIC having total assets 100 crores or more individually or in aggregate along with other CIC investing in same group are called systematically important CIC.
  - CIC are not required to get registered with RBI, only CIC which is systematically important are required to get registered with RBI.
  - Exempted CIC can continue to operate as unregistered CIC.

➢ Clause XVII

Reporting on Cash Losses

(Chikoo)


B
Cash Losses (Losses before Non-Cash Expenses E.g. Depreciation)
Current Year + Preceding Year
Amount of Cash Losses

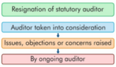
whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses;

- **What if Cash loss is only in one year out of current year and immediately preceding year?**
  A situation may be there where the company has suffered cash losses in only one of the years referred to in this clause. In such a situation, the auditor is well advised to comment on the two years separately. Thus, for example, it would be proper to report that the company has incurred cash losses only during the immediately preceding financial year but has not incurred any cash losses during the current financial year.

Clause XVIII

Reporting on Resignation of statutory auditors ⑤

(Rabdi)


Resignation of statutory auditor
Auditor taken into consideration
Issues, objections or concerns raised
By ongoing auditor

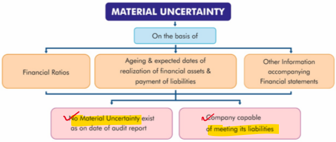
whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors;

- **Important Documents**
  Incoming auditor should obtain a copy of letter of resignation stating the reasons as submitted to the management and copy of Form ADT 3 as submitted to ROC. In case of listed companies, incoming auditor should also obtain copy of Annexure A(Submitted to Stock Exchange as per SEBI circular on auditor resignation) from the listed company.

Clause XIX

Reporting on Material Uncertainty

(Madira)


MATERIAL UNCERTAINTY
On the basis of
Financial Ratios
Ageing & expected dates of realization of financial assets & payment of liabilities
Other Information accompanying Financial statements
✓ No Material Uncertainty exist as on date of audit report
✓ Company capable of meeting its liabilities

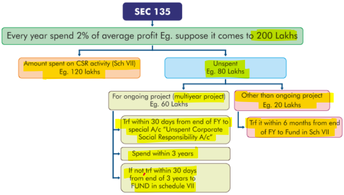
On the basis of the financial ratios, ageing and expected dates of realization of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date;

- **Material uncertainty**
  As per SA 570 it is uncertainty on going concern of company, which is significant enough requiring disclosure to users of financial statement.
- **Ability to pay liabilities.**
  Auditor has to comment whether company will be able to pay its liabilities falling due within 1 year from balance sheet.

Clause XX / 20

Reporting on CSR Compliance

(Chocolate)


SEC 135
Every year spend 2% of average profit Eg. suppose it comes to 200 Lakhs
Amount spent on CSR activity (Sch VII) Eg. 120 lakhs
Unspent Eg. 80 Lakhs
For ongoing project (multiyear project) Eg. 60 Lakhs
Other than ongoing project Eg. 20 Lakhs
Trf within 30 days from end of FY to special A/c "Unspent Corporate Social Responsibility A/c"
Spend within 3 years
If not trf within 30 days from end of 3 years to FUND in schedule VII
Trf it within 6 months from end of FY to Fund in Sch VII

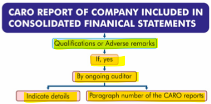
- ~~**Note: Treatment related to unspent amount as given in section 135(5) & (6) of Companies Act is not yet notified till then auditor should simply this clause is not applicable, he may explain reason also.**~~

- **whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act;**
- **whether any amount remaining unspent under sub-section (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of sub-section (6) of section 135 of the said Act;**

Clause XXI / 21

Reporting on qualifications or adverse remark of Consolidated entities.

(Avocado)


CARO REPORT OF COMPANY INCLUDED IN CONSOLIDATED FINANICAL STATEMENTS
Qualifications or Adverse remarks
If, yes
By ongoing auditor
Indicate details
Paragraph number of the CARO reports

- **Whether there have been any qualifications or adverse remarks by the respective auditors in the CARO reports of the companies included in the consolidated financial statements, if yes,**
  - **indicate the details of the companies and**

- **the paragraph numbers of the CARO report containing the qualifications or adverse remarks.**

Qualification or Adverse remark

- No need to consider CARO report of Group companies which are not consolidated.
- Even adverse remarks of parent company should be considered.
- No need to consider materiality such remarks from consolidation perspective, all such adverse remarks should be considered.
- For the purpose of reporting the qualifications/adverse remarks, the principal auditor may report in the following manner in the consolidated audit report–

Sr. No.	Name	CIN	Holding Company/subsidiary/ Associate/ Joint Venture	Clause number of the CARO report which is qualified or adverse
1	Co.	xxx	xxx	xxx
2				
3				