



FOUNDATION FOR AUDIT QUALITY

Enhancing professional excellence

Year-end reminders

Series 2: Auditing updates

24 February 2022
www.faqonline.org



Speakers for the webinar



CA Rupen Shah

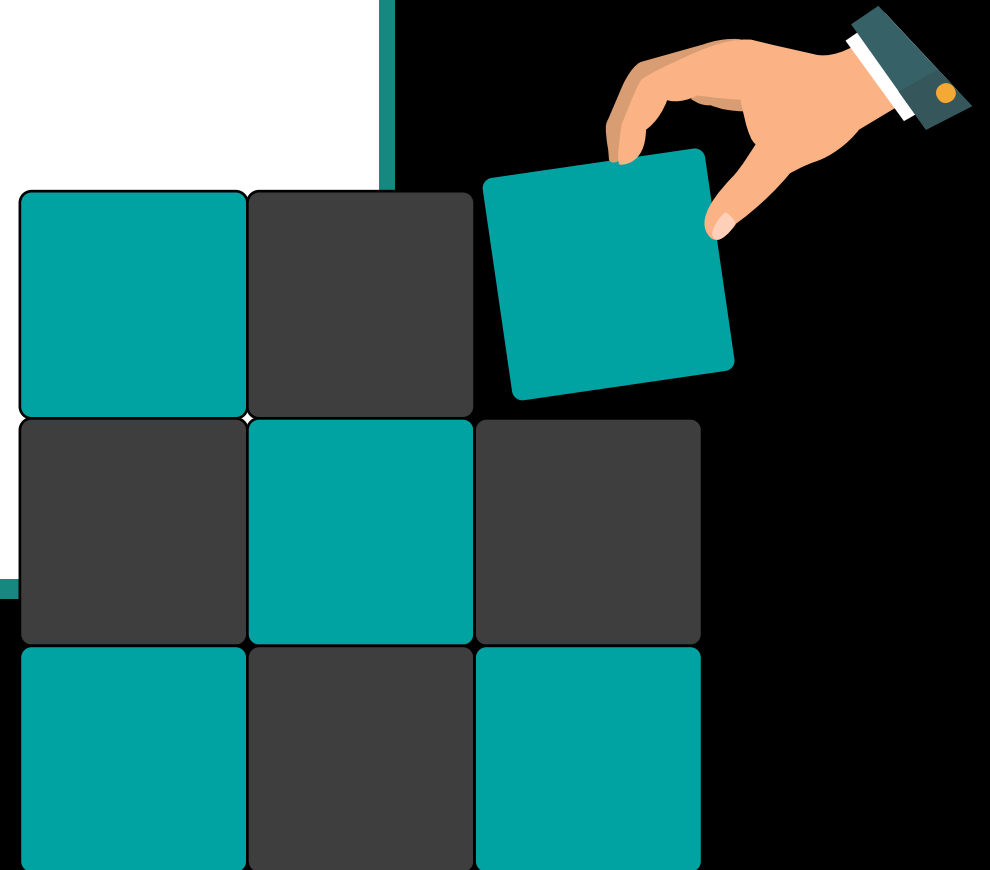


CA Samir Arora

1. CARO 2020

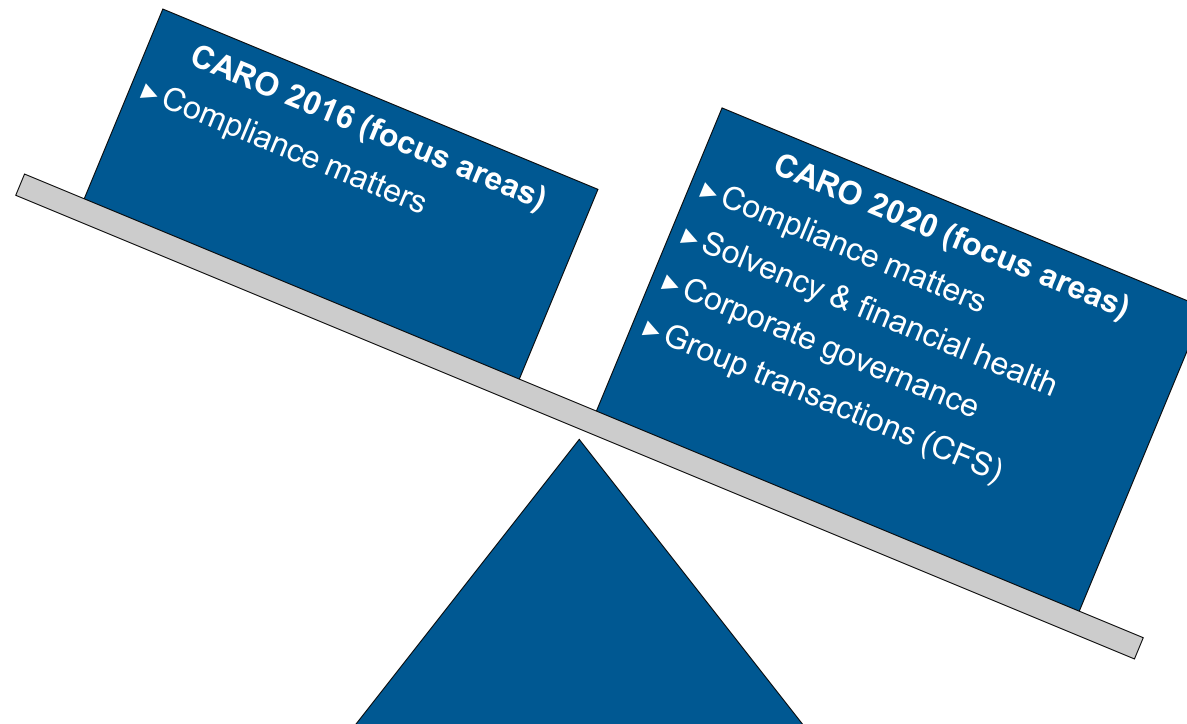
2. Additional reporting requirements in an auditor's report

3. Implementation guides to Standards on Auditing



CARO 2020: Overview

The Ministry of Corporate Affairs (MCA) had notified Companies (Auditor's Report) Order, 2020 on 25 February 2020 with the aim to enhance the overall quality of reporting by the company auditors. In addition to compliance-related matters, CARO 2020 introduces various additional reporting obligations which are imperative and tighten the auditor's overall reporting requirements.



Effective date



Applicable for all statutory audits commencing on or after 1 April 2021 and covers all companies which were covered by CARO 2016

CARO 2020: Key amendments (1/2)



Benami Property

- Report whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988
- If so, whether the company has disclosed these details in its financial statements



Wilful defaulter

- Report on whether the company has been declared as a wilful defaulter by any bank or financial institution or other lender
- RBI has prescribed a transparent mechanism for identification of wilful defaults



Working capital limits in excess of INR 5 crore

- Report whether during any point of time during the year, the company has been sanctioned working capital limits in excess of INR 5 crore from banks or financial institutions on the basis of security of current assets
- Whether quarterly returns/statements filed with banks or financial institutions agree with books of account



Whistle-blower complaints

- Whistle-blower complaints, if any received by the company during the year need to be considered by the auditor
- Auditors would also need to evaluate whether such complaints are investigated and resolved by the company in an appropriate manner



Investments, guarantees, securities, loans and advances

- Investments made, or loans and advances¹, guarantees or security provided to any party during the year and the outstanding balance on the balance sheet date
- Loans or advances¹ falling due during the year, which have been renewed or extended or a fresh loan has been granted
- Gross amount of loans or advances¹ made to promoters and related parties (either repayable on demand or repayment terms not specified)



Internal audit

- Whether the company has an internal audit system, commensurate with the size and nature of its business
- Whether the reports of the Internal Auditors were considered by the Statutory Auditor for the period under audit



Undisclosed income

- Transactions not recorded in the books of accounts but disclosed as income in tax assessments under the IT Act
- Whether such income is now properly recorded in books of account

¹ Advances in the nature of loans

CARO 2020: Key amendments (2/2)



Cash Losses

- Whether company has incurred cash losses during the period covered by audit report and in the immediately preceding financial year.
- If yes, report amount of cash loss for the period covered under the audit report and immediately preceding financial year



Reporting in consolidated financial statements

- Whether there have been any qualifications or adverse remarks in CARO reports of the companies included in the CFS by the respective auditors
- Reporting required only for those entities to whom CARO 2020 is applicable



Loans and borrowings

- Report if the company has defaulted in repayment of loans / other borrowings or interest to any lender
- Report on whether funds raised on short-term basis have been utilised for long-term purposes



Acceptance of deposits by a company

- Reporting requirements relating to acceptance of deposits by a company have been modified. CARO 2020 includes, reporting on 'amounts deemed to be deposits' as well
- Auditor should examine compliance with regard to all matters specified in the Companies Act, 2013 and rules thereunder



No material uncertainty of meeting liabilities

- Report on company's capability of meeting its liabilities existing as at balance sheet date, as and when they fall due within one year from balance sheet date
- Opinion to be based on the financial ratios, ageing and expected dates of realization of financial assets and payment of liabilities,



Fraud reporting

CARO 2020 has modified the reporting requirements relating to fraud. Earlier, reporting on fraud was restricted to fraud by officers or employees only. However, now fraud on the company by any person would also be reported



Revaluation of PPE

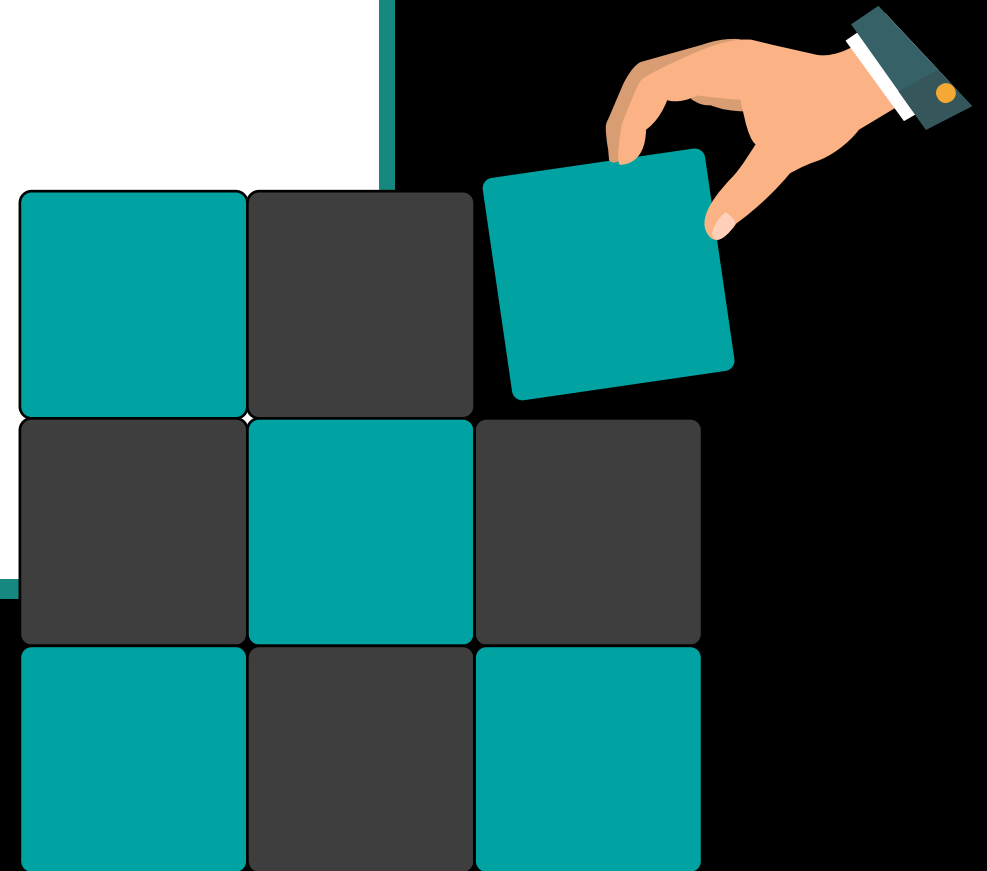
- Report on whether revaluation is based on valuation by registered valuer
- Reporting required if the change due to revaluation is 10 percent or more of net carrying value
- Reporting of revaluation in financial statements required irrespective of percentage of change

CARO 2020: Key takeaways



- CARO 2020 enhances the scope of matters to be provided in an auditor's report. Thus, auditors would need to implement robust audit procedures for obtaining sufficient and appropriate audit evidence along the new requirements introduced
- Requirements such as reporting of frauds and undisclosed income could be an indicator of internal control failure and inefficient business operations.
- Requirements like reporting on loans and advances taken or given by a company also seem to put a strict check on various solvency / financial risks existing in a company
- The new set of requirements would enhance the overall quality of reporting. But at the same time, vigilance must be exercised that the audit report doesn't become too lengthy, ultimately diluting the significance of relevant contents

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Additional reporting in an auditor's report

The MCA amended the Companies (Audit and Auditors) Rules, 2014, and requires the following additional matters to be included in audit report under 'Other matters'

Funds advanced or received by company

The management has represented that to the best of its knowledge and belief, other than as disclosed in the notes to accounts:

- (i) No funds have been advanced, loaned or invested by the company to / in an entity or person, with an understanding that the funds will be further lent or invested in other persons or entities or be provided as guarantee or security on behalf of the ultimate beneficiary
- (ii) No funds have been received by the company from any person or entity, which is further advanced or invested in other persons or entities or provide any guarantee, security on behalf of the ultimate beneficiary

Based on such audit procedures that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to its notice that has caused an auditor to believe that the representations under points (i) and (ii) contain any material misstatement. **(Effective: 1 April 2021)**

Reporting on funds advanced, loaned or invested by the company would help the auditors in identifying instances of illegitimate diversion and utilisation of funds

Declaration and payment of dividend

The dividend declared or paid during the year by the company is in compliance with Section 123 of the Companies Act, 2013
(Effective: 1 April 2021)

Auditors must verify that when dividend is declared, carried over losses and depreciation not provided in previous years have been set off against the profits of the company for the current year.

Electronic mode of books of account

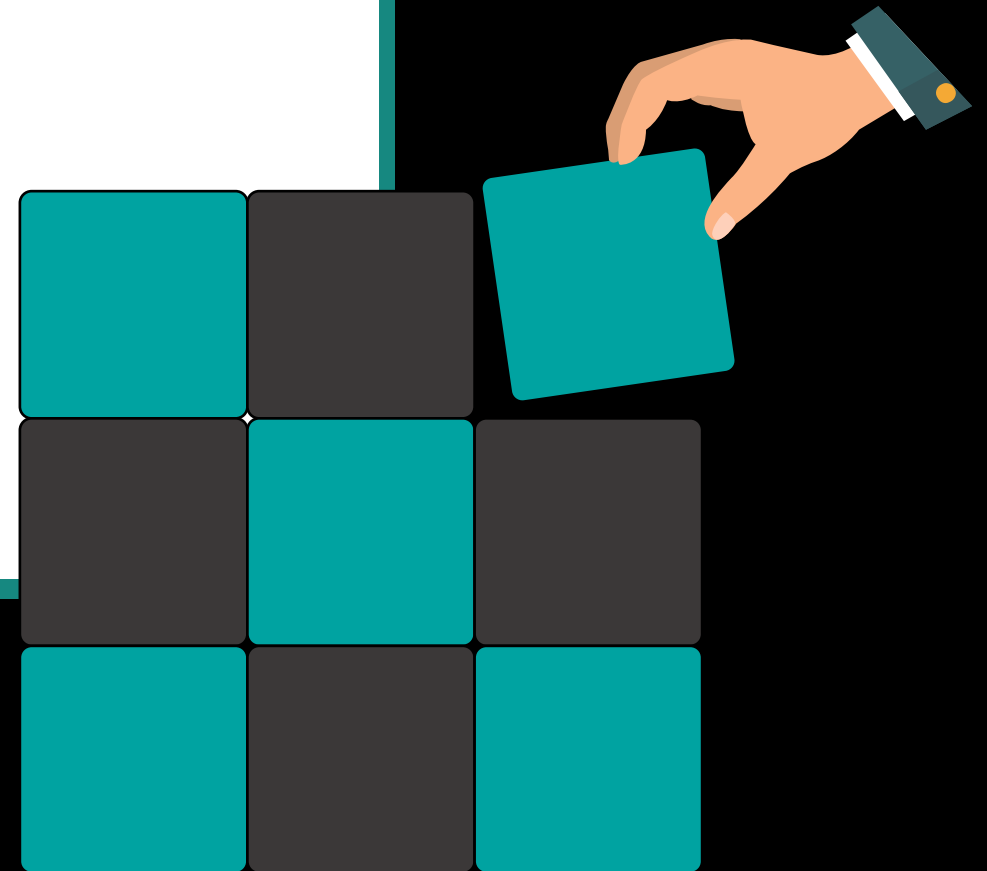
For maintaining books of accounts, has the company:

- Used accounting software having a feature of recording audit trail,
- The audit trail feature has been operated throughout the year for all transactions recorded in the software,
- The audit trail feature has not been tampered with, and
- The audit trail has been preserved by the company as per the statutory requirements for record retention

(Effective: financial year commencing on or after 1 April 2022)

Auditors must determine whether this feature is applied consistently and is not disabled during the year


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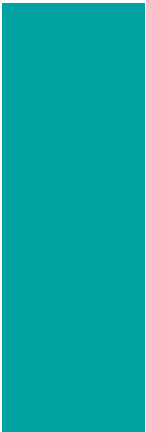
The ICAI has recently issued the following implementation guides to the Standards on Auditing (SA):

**Implementation Guide to
SA 210, *Agreeing the Terms of
Audit Engagements***


**Implementation Guide to
SA 560, *Subsequent Events***

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- **Exposure Draft on Proposed international standard on auditing of financial statements of less complex entities:** Over the years, need for a set of high-quality requirements tailored for the audits of less complex entities has emerged. Thus, with this consultation, the IAASB through the ED aims to provide a globally consistent approach for the audit requirements of less complex entities

Comment period concluded on 31 January 2022

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- **Revision to ISA 600, *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)*:** IAASB aims to clarify the scope of the standard, address restrictions on access to people and information in a group audit, enhance the documentation requirements and applying concepts of materiality and aggregation risk in a group audit

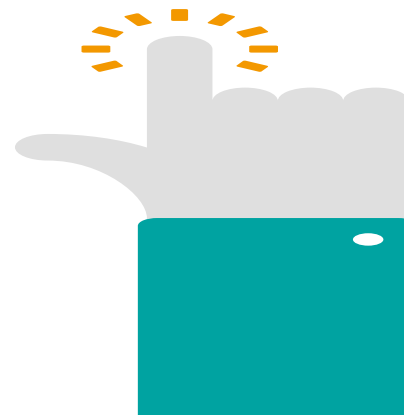
Effective date: *Periods beginning on or after December 15, 2023*

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- **Revision to ISA 500, *Audit Evidence*:** IAASB aims to modernise how the standard deals with variety of information available to an auditor, recognise the use of technology both by the entity and the auditor in preparing financial statements and perform audit procedures respectively.

Exposure draft is expected to be released in September 2022

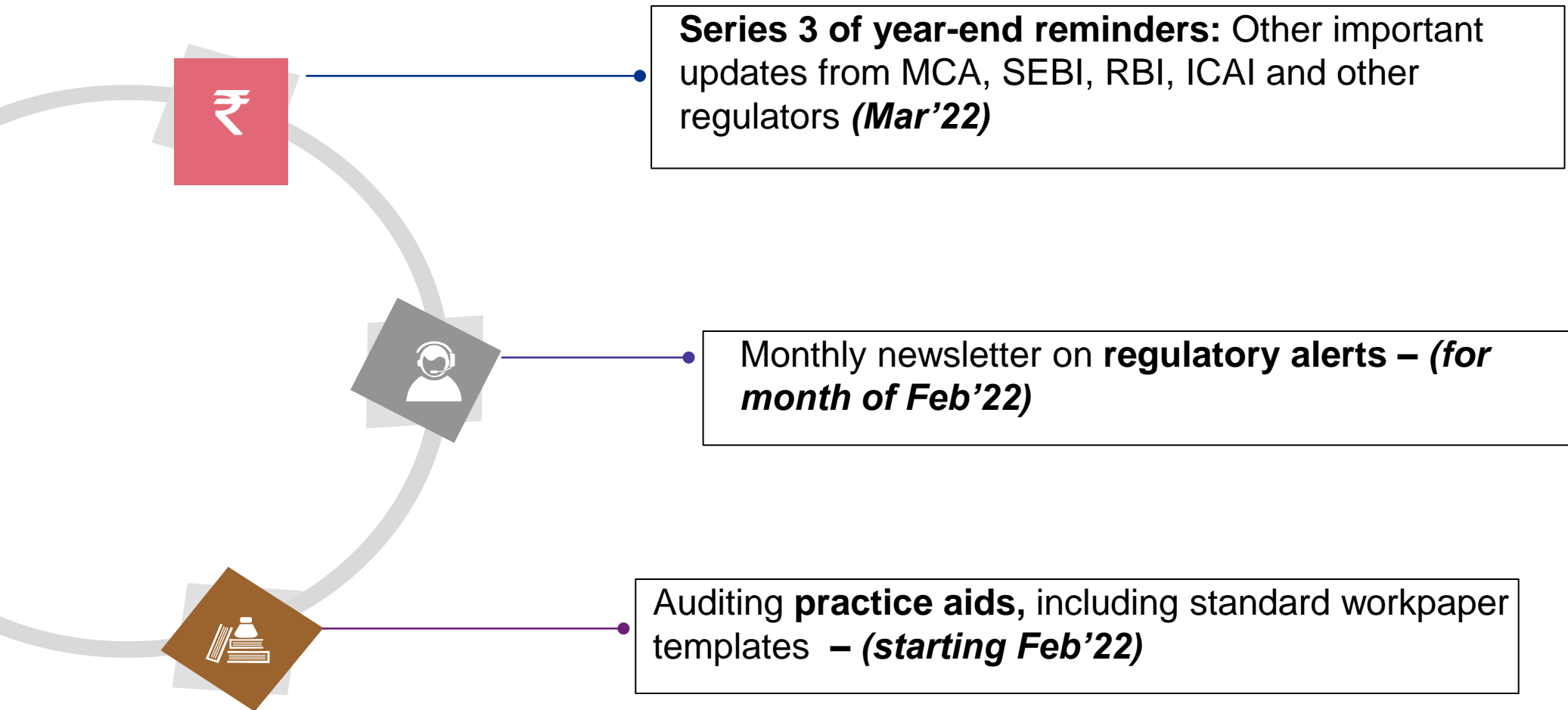


Questions



Answers

Forthcoming activities



Thank you

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