



# **Latest key changes in Company Law including Schedule III and Caro 2020**

**National conference on Company Law  
and Corporate Governance  
Organised by WIRC of ICAI  
15<sup>th</sup> July 2022**

**By CA Vijay Maniar**



***Companies (Auditor's Report) Order, 2020  
and Schedule III***

# Why we should embrace CARO

- **Expectations from the stakeholders**
  - **Funds received and deployed**
  - **Sudden corporate failures**
  - **Increasing instances of fraud**
  - **Whistle blowing**
  - **Related Party Transactions**
- **Provides clarity on our role**
- **To stay relevant**

# Amendments in Schedule III – Trade Receivables

Area	Amendments (Balance Sheet)	Disclosure / Key considerations																																																							
Trade Receivables	<ul style="list-style-type: none"> <li>▶ Ageing of all trade receivables to be given into different maturity buckets</li> <li>▶ Further classified into:                             <ul style="list-style-type: none"> <li>▶ Credit risk categories</li> <li>▶ Disputed / Undisputed</li> </ul> </li> <li>▶ Details to be given even in absence of due date on contracts</li> <li>▶ Unbilled receivables to be specified separately (No ageing)</li> </ul>	<table border="1" data-bbox="1378 339 2397 808"> <thead> <tr> <th data-bbox="1378 339 1842 391">Particulars</th> <th data-bbox="1842 339 1926 391">&lt;6m</th> <th data-bbox="1926 339 2048 391">6m-1 y</th> <th data-bbox="2048 339 2142 391">1-2 y</th> <th data-bbox="2142 339 2234 391">2-3 y</th> <th data-bbox="2234 339 2318 391">&gt;3 y</th> <th data-bbox="2318 339 2397 391">Total</th> </tr> </thead> <tbody> <tr> <td data-bbox="1378 391 1842 439">(i) Undisputed TR - good</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td data-bbox="1378 439 1842 534">(ii) Undisputed TR - significant increase in credit risk</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td data-bbox="1378 534 1842 614">(iii) Undisputed TR - credit impaired</td> <td></td> <td colspan="4" data-bbox="1926 534 2234 668" style="text-align: center;">Unbilled dues shall be disclosed separately</td> <td></td> </tr> <tr> <td data-bbox="1378 614 1842 662">(iii) Disputed TR - good</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td data-bbox="1378 662 1842 728">(iv) Disputed TR - significant increase in credit risk</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td data-bbox="1378 728 1842 808">(v) Disputed TR - credit impaired</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>▶ Details of amounts billed but not due to be given for reconciling with FS</li> <li>▶ Disputes not defined - Legal / Operational?</li> <li>▶ No requirement to disclose secured / unsecured classification</li> <li>▶ CFS – Yes, after applying principles of consolidation</li> </ul>							Particulars	<6m	6m-1 y	1-2 y	2-3 y	>3 y	Total	(i) Undisputed TR - good							(ii) Undisputed TR - significant increase in credit risk							(iii) Undisputed TR - credit impaired		Unbilled dues shall be disclosed separately					(iii) Disputed TR - good							(iv) Disputed TR - significant increase in credit risk							(v) Disputed TR - credit impaired						
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# Tata Power

## 8. Trade Receivables

(Unsecured unless otherwise stated)

	As at March 31, 2022	As at March 31, 2021
	₹ crore	₹ crore
<b>Current</b>		
Considered Good - Secured (Refer Note (a) below)	247.78	245.75
Considered Good (Refer Note (b) below)	803.15	1,358.41
Credit Impaired	140.23	146.79
	1,191.16	1,750.95
Less: Allowance for Doubtful Trade Receivables	164.51	171.08
<b>Total</b>	<b>1,026.65</b>	<b>1,579.87</b>

### 8 (b) Trade Receivables Ageing schedule as at March 31, 2022

Particulars	Outstanding for following periods from due date of payment #						₹ crore
	Not due	Less than 6 Months	6 Months - 1 Year	1-2 Years	2-3 years	More than 3 years	Total
(i) Undisputed Trade Receivables							
a) Considered good	656.88	270.73	12.79	11.64	6.82	17.96	976.82
b) Significant increase in credit risk	Nil	Nil	Nil	Nil	Nil	Nil	Nil
c) Credit Impaired	Nil	Nil	0.56	1.26	5.89	17.24	24.95
(ii) Disputed Trade Receivables							
a) Considered good	Nil	1.35	12.80	Nil	Nil	59.96	74.11
b) Significant increase in credit risk	Nil	Nil	Nil	Nil	Nil	Nil	Nil
c) Credit Impaired	Nil	Nil	Nil	3.00	4.50	107.78	115.28
<b>Total (i) + (ii)</b>	<b>656.88</b>	<b>272.08</b>	<b>26.15</b>	<b>15.90</b>	<b>17.21</b>	<b>202.94</b>	<b>1,191.16</b>

# Where due date of payment is not available date of transaction has been considered

# Amendments in Schedule III – Trade Payables

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# Tata Power

## 24. Trade Payables

	As at March 31, 2022	As at March 31, 2021
	₹ crore	₹ crore
<b>Current</b>		
Outstanding dues of micro enterprises and small enterprises (Refer Note 37)	39.16	18.54
Outstanding dues of trade payables other than micro enterprises and small enterprises	4,040.73	3,263.93
<b>Total</b>	<b>4,079.89</b>	<b>3,282.47</b>

### Trade Payables Ageing schedule as at March 31, 2022

Particulars	₹ crore						Total
	Others	Outstanding for following periods from due date of payment #					
	Unbilled*	Not due	Less than 1 year	1-2 Years	2-3 years	More than 3 years	
<b>(i) Undisputed Trade Payables</b>							
a) MSME	Nil	20.07	18.90	0.13	0.04	0.02	39.16
b) Others	177.51	3,319.25	423.93	28.13	12.57	20.01	3,981.40
<b>(ii) Disputed Trade Payables</b>							
a) MSME	Nil	Nil	Nil	Nil	Nil	Nil	Nil
b) Others	Nil	Nil	Nil	Nil	59.33	Nil	59.33
<b>Total (i) + (ii)</b>	<b>177.51</b>	<b>3,339.32</b>	<b>442.83</b>	<b>28.26</b>	<b>71.94</b>	<b>20.03</b>	<b>4,079.89</b>

# Where due date of payment is not available date of transaction has been considered

\* Provision for expenses which is certain and not related to any litigation

# Amendments in Schedule III – CWIP

Area	Amendments (Balance Sheet)	Disclosure / Key considerations																																															
Capital work in Progress and Intangibles under development	<ul style="list-style-type: none"> <li>▶ Details of progress on capital projects across various ageing buckets</li> <li>▶ Disclosure of projects in progress / temporarily suspended</li> <li>▶ Ageing of overdue projects / overrun projects to be provided</li> <li>▶ Similar details to be given for intangible assets</li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #ffffcc;"> <th data-bbox="1314 287 1709 394">CWIP</th> <th data-bbox="1709 287 1819 394">&lt;1 year</th> <th data-bbox="1819 287 1964 394">1-2 years</th> <th data-bbox="1964 287 2117 394">2-3 years</th> <th data-bbox="2117 287 2226 394">&gt; 3 years</th> <th data-bbox="2226 287 2336 394">Total</th> </tr> </thead> <tbody> <tr> <td data-bbox="1314 394 1709 522">Projects in progress <b>Projects temporarily suspended</b></td> <td data-bbox="1709 394 1819 522"></td> <td data-bbox="1819 394 1964 522"></td> <td data-bbox="1964 394 2117 522"></td> <td data-bbox="2117 394 2226 522"></td> <td data-bbox="2226 394 2336 522"></td> </tr> <tr> <td colspan="6" data-bbox="1314 522 2336 608" style="text-align: center;"><b>For CWIP, whose completion is overdue or has exceeded its cost compared to its original plan, CWIP completion schedule shall be given**</b></td> </tr> <tr> <td colspan="6" data-bbox="1314 608 2336 644">To be completed</td> </tr> <tr style="background-color: #ffffcc;"> <th data-bbox="1314 644 1709 736">CWIP</th> <th data-bbox="1709 644 1819 736">&lt;1 year</th> <th data-bbox="1819 644 1964 736">1-2 years</th> <th data-bbox="1964 644 2117 736">2-3 years</th> <th data-bbox="2117 644 2226 736">&gt; 3 years</th> <th data-bbox="2226 644 2336 736">Total</th> </tr> <tr> <td data-bbox="1314 736 1709 801">Project 1</td> <td data-bbox="1709 736 1819 801"></td> <td data-bbox="1819 736 1964 801"></td> <td data-bbox="1964 736 2117 801"></td> <td data-bbox="2117 736 2226 801"></td> <td data-bbox="2226 736 2336 801"></td> </tr> <tr> <td data-bbox="1314 801 1709 836">Project 2</td> <td data-bbox="1709 801 1819 836"></td> <td data-bbox="1819 801 1964 836"></td> <td data-bbox="1964 801 2117 836"></td> <td data-bbox="2117 801 2226 836"></td> <td data-bbox="2226 801 2336 836"></td> </tr> </tbody> </table> <p data-bbox="1314 836 2336 858" style="font-size: small;">**Details of projects where activity has been suspended shall be given separately</p> <ul style="list-style-type: none"> <li>▶ Strengthen Information systems for tracking project status / over-runs etc.</li> <li>▶ Impairment / capitalization on suspended projects</li> <li>▶ Applicable to Investment property too</li> <li>▶ Status as on the reporting date to be considered</li> <li>▶ CFS if material to the group - &gt;10%</li> </ul>						CWIP	<1 year	1-2 years	2-3 years	> 3 years	Total	Projects in progress <b>Projects temporarily suspended</b>						<b>For CWIP, whose completion is overdue or has exceeded its cost compared to its original plan, CWIP completion schedule shall be given**</b>						To be completed						CWIP	<1 year	1-2 years	2-3 years	> 3 years	Total	Project 1						Project 2					
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# Tata Power

## 6. Capital Work-in-Progress ("CWIP")

### Accounting Policy

Capital work in progress is stated at cost, net of accumulated impairment loss, if any.

### CWIP ageing Schedule as at March 31, 2022

Capital Work in Progress	Amount in CWIP for a period of				₹ crore
	Less than 1 year	1-2 years	2-3 years	More than 3 years	Total
Projects in progress	848.00	69.68	9.37	38.10	965.15
Projects temporarily suspended	Nil	Nil	Nil	Nil	Nil
<b>Total</b>	<b>848.00</b>	<b>69.68</b>	<b>9.37</b>	<b>38.10</b>	<b>965.15</b>

### CWIP Completion Schedule whose completion is overdue or has exceeded its cost compared to its original plan as at March 31, 2022

Capital Work in Progress	To be completed in				₹ crore
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
<b>Projects in progress</b>					
Transmission projects:					
220 KV Trombay Dharavi Salsette Lines	Nil	5.87	Nil	Nil	Nil
220 KV Receiving Station - Antop Hill	Nil	1.84	Nil	Nil	Nil
220 KV Kalwa Salsette Lines	109.49	Nil	Nil	Nil	Nil
Others	11.6	0.92	Nil	Nil	Nil
Distribution projects	2.69	Nil	Nil	Nil	Nil
Generation projects:					
Fuel Gas Desulfurisation project at Mundra plant	Nil	199.09	Nil	Nil	Nil
Fuel Gas Desulfurisation project at Jojobera plant	Nil	40.46	Nil	Nil	Nil
Projects temporarily suspended	Nil	Nil	Nil	Nil	Nil

# Transactions with Struck off companies

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- Covers any transaction
- Duplicity of names
- CIN number v/s PAN
- Names re-instated
- Cumbersome to compile the list

# CARO 2020 - Background

- With a number of companies coming under the cloud of corporate fraud and scams, the Ministry of Corporate Affairs (MCA) has further enhanced the role of the auditors
- MCA vide its notification dated February 25, 2020 issued Companies (Auditor's Report) Order, 2020 ("CARO 2020") in supersession of the existing Companies (Auditor's Report) Order, 2016
- Applicability deferred for audits of financial year 2020-21 & onwards
- Company's management is responsible for the preparation of financial statements along with the specific notes and disclosures to the financial statements
- Enhanced management responsibilities as more information and advance planning is required; setting up of systems and internal controls required
- Aggregate and compile information for audits on a timely basis

Applicable to the audit reports made by the auditor under section 143 of the Companies Act on the accounts of every company to which this Order applies, for the financial years commencing on or after **April 1, 2021**

# CARO 2020 - Overview

- Applicability – No change
  - Applicable to every company including foreign company except
    - Banking company, insurance company, section 8 companies, one person company, small company and private companies within the threshold
    - Order not applicable to Investment Trusts and Real Estate Investment Trusts governed by SEBI Infrastructure Investment Trust Regulations

<b>Reporting requirements</b>	<b>Count</b>
New	28
Modified	16
Carried forward (no modifications)	7
Deleted	(1)
<b>Total</b>	<b>50</b>

# New clause : Intangible assets (CARO)

**Sub - clause (i)(a)(B):** Whether the company is maintaining proper records showing full particulars of intangible assets?

## Reporting requirements

- ▶ Separate clause for reporting for intangible assets
- ▶ Consideration should be made to principles, accounting aspects and disclosure requirements in Ind AS 38 and AS 26
- ▶ Intangible Assets can be Customer-based intangible assets, marketing-based intangible assets, Contract-based intangible assets, technology based intangible assets or artistic based intangible assets
- ▶ Auditor required to comment whether the company is maintaining proper records showing full particulars, including quantitative details, situation, original cost, register of amortisation, subsequent expenditure if any, registration records, license register etc. of intangible assets.

## Points for discussion

- ▶ Auditor to consider
  - ▶ Self-generated intangible assets and their classification
  - ▶ Acquired intangible assets and their classification

# Modification: Inventory (CARO)

**Sub - clause (ii)(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;

## Reporting requirements

- ▶ Wider reporting requirements with respect to physical verification of inventory
- ▶ In addition to the existing requirement of reporting on the reasonability of the intervals in which inventory physical verification was conducted and the discrepancies if any, were recorded in the books of account, additional reporting is required on the appropriateness of:
  - ▶ Coverage of such verification
  - ▶ Procedure for such verification and
  - ▶ Discrepancies of 10% or more for each class of inventory were noticed.

## Points for discussion

- ▶ What constitutes "appropriate" is a matter of professional judgment. The coverage and procedure of such verification will normally not be appropriate if it is not reasonable and adequate in relation to the size of the company and nature of its business.
- ▶ As per Paragraph 27 of AS 2 "Valuation of Inventories", common classifications of inventories are raw materials and components, work in progress, finished goods, stores and spares, and loose tools.
- ▶ As per paragraph 37 of Ind AS 2, "Inventories", common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods
- ▶ Auditor required to report where a (net) discrepancy of 10% or more arises in value, for any class of inventory, irrespective of planning materiality

# New Clause: Working capital limits (CARO and Schedule III)

**Sub - clause (ii)(b):** Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of 5 crores 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.

## Reporting requirements

- ▶ Clause does not require reporting where such limits are unsecured or sanctioned on the basis of assets other than current assets
- ▶ Threshold of 5 crores limit to be examined for any day during the year and not as at the end of the financial year, irrespective of draw down
- ▶ Sanction limit with reference to the sanction letter issued by banks or financial institutions and relevant agreements executed with such banks/FI. The term "sanction" here to include fresh sanction during the year as well as limits renewed or due for renewal during the year. Moreover, both fund based and non-fund based credit facilities availed by the organization should be considered for the purpose of checking the limit.
- ▶ **Schedule III covers all borrowings (not restricted to working capital) and without any monetary threshold limits**

## Points for discussion

- ▶ The limit would cover the working capital limits by all the banks and financial institutions in aggregate excluding any working capital limits which are sanctioned without the security of the organization's current assets. Auditor need to check working capital sanctioned limited and not its utilisation
- ▶ Refer Schedule III for definition of Current Asset
- ▶ Auditor not required to audit quarterly returns/statements; should compare it with books of account and report disagreement, if any, even if company submitting returns/statements on a monthly basis; exercise professional judgment to determine materiality and relevance of discrepancy to the users of financial statements
- ▶ Statements include stock statements, book debt statements, credit monitoring arrangement reports, statements on ageing analysis of debtors/other receivables and other financial information

## Clause (ii)(b) – Tata Steel

During the year, the Company has been sanctioned working capital limits in excess of ` 5 crores, in aggregate, from banks on the basis of security of current assets. The Company has filed quarterly returns or statements with such banks, which are in agreement with the books of account other than those as set out below.

Name of the Bank	Aggregate working capital limits sanctioned (Rs crore)	Nature of Current Asset offered as Security	Quarter ended	Amount disclosed as per quarterly return/ statement (Rs crore)	Amount as per books of account (Rs crore)	Difference (Rs crore)	Reasons for difference
							Incorrect amount of Creditors for Goods under Non-LC & others (net of short reporting of ____ crore on Creditors for Goods under LC)



## Clause (ii)(b) – Tata Power

As disclosed in Note 29 to the standalone Ind AS financial statements, the Company has been sanctioned working capital limits in excess of ` five crores in aggregate from banks and/or financial institutions during the year on the basis of security of current assets of the Company. The quarterly returns/statements filed by the Company with such banks and financial institutions are generally in agreement with the books of accounts of the Company except as follows:

Quarter ended	Value per books of account	Value per quarterly return / statement	Discrepancy (give details)
			Unapproved regulatory asset disclosed as Approved*
			Excess debtors reported by ` ____crores#

\*While submitting the quarterly statements for all four quarters during the year, the Company inadvertently included and disclosed unapproved regulatory balances as approved. However, subsequent to year end, the Company has communicated to Bank about the said discrepancy. Further, Bank has confirmed that the intention was not to exclude unapproved balances from the receivable and has initiated the process to change the sanction letter wherein total regulatory asset balance should be considered as receivables for the purpose of sanction limit.

#Subsequent to year end, Company has submitted the revised statement for quarter ended December 2021 and receivable balances as per revised statement are in agreement with the books of accounts.

## Clause (ii)(b) – Birla Tyres

(b) According to the information and explanations given to us, the Company has been sanctioned working capital limits in excess of Rs. 5 crores, in aggregate, at points of time during the year, from banks or financial institutions on the basis of security of current assets. In our opinion and according to the information and explanations given to us, the quarterly returns and statements comprising (stock statements, book debt statements, and statements on ageing analysis of the debtors) filed by the Company with such banks or financial institutions are in agreement with the unaudited books of account of the Company, of the respective quarters, except for the following:

For the quarter	Sanction amount to which the discrepancy relates* (Amount in Rs Lakhs)	Nature of the current asset	Nature of discrepancy	Amount as per quarterly return & statements (Amount in Rs Lakhs)	As per unaudited books of accounts (Amount in Rs Lakhs)	Difference (Amt in Rs Lakh)	Remarks including subsequent rectification, if any
			<p>The Reported amount reconciles with gross book balance without adjustment of provision for trade receivables and advance from customers</p> <p>Inventory capitalized as part of CWIP project considered in the quarterly returns</p>				There is no revised statement filed till date

The Company is yet to submit the return/ statement for the quarter ended 31-March-2022 with the banks or financial institutions.

# Modification: Investments, guarantees, loans and advances

**Sub - clause (iii):** 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 provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity** [not applicable to companies whose principal business is to give loans], if so, indicate-

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

## Reporting requirements

- ▶ Clause 3(iii) has six sub-clauses; Auditor's comments on all six clauses required for all loans/advances in the nature of loans granted, guarantee or security provided to companies, firms, LLPs or any other parties (as against those parties covered under Section 189 of the Act in the erstwhile clause)
- ▶ Sub-clause (a) & (e) not applicable to companies who are in the principal business of giving loans (e.g. FIs, NBFCs)
- ▶ Requires determination of gross amounts (i.e. without adjusting any subsequent settlements) of all loans, advances in the nature of loans, guarantees, security provided **during the year** to subsidiaries, joint ventures, associates and to any other parties

## Points for discussion

- ▶ Subsidiaries, joint ventures, associates to be interpreted in accordance with Companies Act, 2013
- ▶ Advance in nature of loans not defined – depends on facts
- ▶ Loans given in cash or in kind – reporting required; loans squared up during the year to be reported
- ▶ Guarantees to cover financial guarantees only
- ▶ Refer Sections 179, 180, 185, 186, 187 of the Companies Act, 2013 and relevant rules thereunder; auditor to ensure compliance

### 3(iii)(a) – Mahindra Holidays

(a) Based on the audit procedures carried on by us and as per the information and explanations given to us, the Company has provided loans or provided guarantee as below:

Particulars	(₹ in lakhs)	
	Guarantees	Loans (including interest accrued)
Aggregate amount during the year		
<u>Subsidiaries:</u>		
- MH Boutique Hospitality Limited	Nil	985.81
- MHR Holdings (Mauritius) Limited	61,685.00	283.25
- Gables Promoters Private Limited	Nil	4,779.40
- Mahindra Hotels and Residences India Limited	Nil	19.31
- Heritage Bird (M) Sdn Bhd.	Nil	762.03
- Infinity Hospitality Group Company Limited	4,841.00	1,078.00
Balance outstanding as at balance sheet date		
<u>Subsidiaries:</u>		
- MH Boutique Hospitality Limited	Nil	985.81
- MHR Holdings (Mauritius) Limited	83,739.50	283.25
- Gables Promoters Private Limited	Nil	4,779.40
- Mahindra Hotels and Residences India Limited	Nil	19.31
- Heritage Bird (M) Sdn Bhd.	Nil	719.08
- Infinity Hospitality Group Company Limited	Nil	1,025.37

# Modification: Investment/guarantees/security/loans & advances – whether prejudicial - CARO

**Sub - clause (iii)(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?

## Reporting requirements

- ▶ Reporting to also include investments in, guarantees or security provided in addition to loans or advances in the nature of loans to companies, firms, LLPs or any other parties (as against those parties covered under Section 189 of the Act in the erstwhile clause)
- ▶ Earlier the reporting on this clause was restricted to loans to parties covered under section 189 of the Companies Act, 2013 and to rate of interest and other terms and conditions of loans given by company.
- ▶ Clause also applicable to companies like NBFCs whose principal business is to grant loans.

## Points for discussion

- ▶ Auditor to determine
  - ▶ terms and conditions at the time of the grant of the loan and advances in the nature of loan (i.e. rate of interest, security, terms and period of repayment, restrictive covenants nature of entity) – may be challenging to ascertain in respect of advances in nature of loans
  - ▶ terms and conditions in which company has made an investment, provided a guarantee or given a security (evaluate factors connected with an investment including company's ability to make such investment; financial standing of party on whose behalf company has given guarantees, party's ability to borrow, nature of security offered by the party)

### 3(iii)(b) – Kesoram Industries

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(b) In our opinion the terms and conditions of the loans granted by the Company to Birla Tyres Limited with a maximum amount of ₹ 519.67 Crores outstanding (including accrued interest) as on March 31, 2022 and to Gondkhari Coal Mining Limited (a Joint Venture) with a maximum amount of ₹ 7.11 Crore outstanding as on March 31, 2022, are prejudicial to the interest of the Company's interest on account of the fact that the loans were fully provided for in the books and no interest is being charged on loan to Gondkhari Coal Mining Limited.

Further, in our opinion the terms and conditions of the loans granted by the Company to Cygnet Industries Limited (a wholly owned subsidiary) of ₹ 9.54 Crores during the year with a maximum amount of ₹ 154.46 Crores outstanding as on March 31, 2022 and to Mangalam Timber Products Limited with a maximum amount of ₹ 6.30 Crores outstanding as on March 31, 2022, in our opinion, are not prejudicial to the Company's interest.

# Modification: Schedule of repayment, regularity of repayment and amounts overdue

**Sub - clause (iii)(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;

## Reporting requirements

- ▶ Auditor to report upon the stipulation of schedule of repayment of principal and payment of interest and on regularity of repayments of principal amount of loans/advances in nature of loan and receipts of interest thereon
- ▶ Auditor to 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
- ▶ Advances in nature of loans may not necessarily carry an interest
- ▶ Covers the loans and advances in nature of loans granted during the year and also all loans having opening balances

## Points for discussion

- ▶ An amount is considered to be overdue when the payment has not been received on the due date as per the lending arrangement
- ▶ 'Regular' means principal and interest received whenever they fall due
- ▶ Absence of stipulation of schedule of repayment of principal and payment of interest – Auditor to state that he is unable to make specific comment on regularity of repayment of principal & interest
- ▶ Management of a company would need to provide the steps taken to recover the principal and interest in writing

## 3(iii)(c) – Tata Steel

- (c) In respect of the loans outstanding as on the balance sheet date, the schedule of repayment of principal and payment of interest has been stipulated by the Company except for one loan aggregating ₹2.00 crores (fully provided in books) where no schedule of repayment of principal and payment of interest has been stipulated. Except for the aforesaid instances (where in the absence of stipulation of repayment/payment terms, we are unable to comment on the regularity of repayment of principal and payment of interest) and the following instances, the parties are repaying the principal amounts, as stipulated, and are also regular in payment of interest as applicable.

Name of the entity	Amount (₹ crore)	Due Date	Extent of delay (provided in range)	Remarks
Tayo Rolls Limited	81.30	Multiple Dates	1,461 days - 2,056 days	The amounts pertain to principal and interest, which are overdue as at March 31, 2022. The company is under corporate insolvency resolution process. The Company has filed its claim as financial creditor. The amounts are fully provided in books.
Tata Steel KZN (Pty) Ltd.	558.95	Multiple Dates	2,374 days – 2,831 days	The amounts pertain to principal and interest, which are overdue as at March 31, 2022. The amounts are fully provided in books. The company is liquidated.
Subarnarekha Port Private Limited	5.71	Multiple Dates	199 days – 564 days	The amounts pertain to interest, which has been paid by the party with delays.
Tata Steel Mining Limited	80.53	December 17, 2021	4 days – 13 days	The amounts pertain to principal and interest, which have been repaid/paid by the party with delays.
Tata Steel Special Economic Zone Limited	5.99	March 31, 2021	365 days	The amount pertains to interest.



### 3(iii)(c) – Mahindra and Mahindra Financial Services Ltd

in respect of loans and advances in the nature of loans (together referred to as “loan assets”), the schedule of repayment of principal and payment of interest has been stipulated. Note 2.5(ii) to the standalone financial statements explains the Company’s accounting policy relating to impairment of financial assets which include loans assets. In accordance with that policy, loan assets with balances as at 31st March, 2022, aggregating Rs. 4,976.30 crores were categorised as credit impaired (“Stage 3”) and Rs. 9,257.46 crores were categorised as those where the credit risk has increased significantly since initial recognition (“Stage 2”). Disclosures in respect of such loans have been provided in Note 60 to the standalone financial statements. Additionally, out of loans and advances in the nature of loans with balances as at 31st March, 2022 aggregating Rs. 50,727.01 crores, where credit risk has not significantly increased since initial recognition (categorised as “Stage 1”), delinquencies in the repayment of principal and payment of interest aggregating Rs. 1,932.56 crores were also identified, albeit of less than 31 days. In all other cases, the repayment of principal and interest is regular as at 31st March, 2022. Having regard to the nature of the Company’s business and the volume of information involved, it is not practicable to provide an itemised list of loan assets where delinquencies in the repayment of principal and interest have been identified.

## 3(iii)(c) – Tata Motors and 3(iii)(d) – Tata Steel

- (c) According to the information and explanations given to us and on the basis of our examination of the records of the Company, in the case of loans given, in our opinion the repayment of principal and payment of interest has been stipulated and the receipts have been regular except in case of two wholly-owned subsidiaries outside India where cumulative principal amount of ₹ 613 crores and cumulative interest amount of ₹ 144 crores which was due for repayment in earlier years has not been collected as at 31 March 2022, since management believes that these amounts are not recoverable as these subsidiaries are in losses and the amounts have been provided for in the financial statements of the Company.

Further, during the year, the Company has converted the loans given to its other subsidiaries into investments aggregating to ₹ 107.92 crores. These loans were not due as on the date of conversion.

Further, the Company has given advance in the nature of loan to three suppliers as mentioned below.

Name of the entity	Amount (₹ Crores)	Remarks
Autoline Industries Limited	18.70	These amounts were due for repayment in earlier years but have not been collected as at 31 March 2022.
Ganage Pressings Private Limited	5.00	
Rojee Tasha Stampings Private Limited	21.00	

- (d) In respect of the following loans, the total amount overdue for more than ninety days as at March 31, 2022 is ₹640.25 crores. Based on the information and explanations given to us, the entities are under corporate insolvency resolution process/ liquidated and accordingly, the Company is not taking any further steps for the recovery of the principal and interest amounts, other than those mentioned in clause (iii)(c) above against Tayo Rolls Limited.

No. of cases	Principal Amount Overdue (₹ crore)	Interest Overdue (₹ crore)	Total Overdue (₹ crore)	Remarks
Two	625.95	14.30	640.25	The amounts are fully provided in books.

# New Clause : Evergreening of loans and advances - CARO

**Sub - clause (iii)(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]

## Reporting requirements

- ▶ New Reporting under this clause to identify instances of 'ever-greening' of loans/advances in nature of loans.
- ▶ Applicable to all companies other than those who are in the principal business of giving loans.

## Points for discussion

- ▶ Evergreening implies an attempt to mask loan default by giving new loans to help delinquent borrowers repay principal or pay interest on old loans
- ▶ Clause not restricted to 'overdue' loans but also extends to situations where fresh loans given close to settlement date
- ▶ Report loans falling due as on the balance sheet date and which were renewed/extended/settled post balance sheet date and before the date of audit report

## 3(iii)(e) – Mahindra Holidays

- (e) According to the information and explanations given to us and on the basis of our examination of the records of the Company, following instances of loans falling due during the year were renewed:

(₹ in lakhs)

Name of the parties	Aggregate amount dues (including interest accrued) renewed
<u>Subsidiaries:</u>	
- MH Boutique Hospitality Limited	985.81
- MHR Holdings (Mauritius) Limited	283.25
- Gables Promoters Private Limited	4,779.40
- Mahindra Hotels and Residences India Limited	19.31
- Heritage Bird (M) Sdn Bhd.	719.08
- Infinity Hospitality Group Company Limited	1,078.00
<b>Total</b>	<b>7,864.85</b>
<b>Percentage of the aggregate to the total loans granted during the year</b>	<b>100%</b>

## 3(iii)(e) – Tata Power

- (iii) (e) The Company had granted loans to companies which had fallen due during the year and Company had extended / granted fresh loans during the year to the respective parties to settle the dues of the existing loans.

The aggregate amount of such dues extended / settled by fresh loans and the percentage of the aggregate to the total loans granted during the year are as follows:

	(₹ in crores)
<b>Name of Parties (Wholly Owned Subsidiaries)</b>	<b>Aggregate amount of overdues of existing loans renewed or extended or settled by fresh loans</b>
TP Renewable Microgrid Limited	39.11
TP Ajmer Distribution Limited	95.00
Tata Power Green Energy Limited	29.55
Tata Power Solar Systems Limited	300.00
Tata Power Renewable Energy Limited	625.00
TP Kirnali Solar Limited	24.70
TP Saurya Limited	4.70
TP Solapur Limited	33.00
Chirasthayee Saurya Limited	255.00
TP Kirnali Limited	4.00
Tata Power Trading Company Ltd	10.00
<b>Percentage of the aggregate to the total loans or advances in the nature of loans granted during the year</b>	<b>28.19%</b>

# New Clause: Loans or advances repayable on demand or with no stipulation Caro and Schedule III

**Sub - clause (iii)(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

## Reporting requirements

- ▶ New reporting of the gross amount in respect of loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment
  - ▶ Reporting of aggregate amount to all parties
  - ▶ reporting of the aggregate amount of loans granted to Promoters under section 2(69), related parties as defined in section 2(76) of the Act
  - ▶ **Schedule III disclosure to be provided only if granted to promoters, directors, KMP and related parties**

## Points for discussion

- ▶ Auditor to examine from loan agreements/mutually agreed letter of arrangement with such parties to ascertain whether agreement/arrangement contains schedule of repayment of principal and payment of interest
- ▶ Auditor to consider SA 550, Related Parties

## 3(iii)(f) – L&T Finance Holdings

- (f) In our opinion and according to the information and explanations given to us, the Company has granted loans or advances in the nature of loans to Promoters/Related Parties (as defined in section 2(76) of the Act) which are either repayable on demand or without specifying any terms or period of repayment.

(₹ In crores)

	<b>All Parties</b>	<b>Promoters</b>	<b>Related Parties</b>
Aggregate amount of loans/ advances in nature of loans			
- Repayable on demand (A)	1,150.25	-	1,150.25
- Agreement does not specify any terms or period of repayment (B)	-	-	-
Total (A+B)	1,150.25	-	1,150.25
Percentage of loans/ advances in nature of loans to the total loans	100%	-	100%

## 3(iii)(f) – Kesoram Industries

- (f) The Company has granted loans which are repayable on demand or without specifying any terms or period of repayment details of which are given below:

	All Parties- Including Related Party* (in ₹ Crores)	Promoters (in ₹ Crores)	Related Parties (in ₹ Crores)
Aggregate of loans			
- Repayable on demand (A) #	680.43	Nil	154.46
- Agreement does not specify any terms or period@	7.11	Nil	7.11
Total (A+B)	687.54	Nil	161.57
Percentage of loans to the total loans	100%	0%	100%

\*The amounts reported are gross amounts including interest accrued (wherever applicable), without considering provision made.

#Includes loan of ₹ 493.22 Crores given to Birla Tyres Limited which has been fully provided for in the books

@Loan of ₹ 7.11 Crores given to Joint Venture (Gondkhari Coal Mining Limited) has been fully provided for in the books.



# New Clause : Repayment of borrowings

**Sub - clause (ix)(a):** 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 per the format below

Nature of borrowing, including debt securities	Name of lender*	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any
	*lender wise details to be provided in case of defaults to banks, financial institutions and Government.				

## Reporting requirements

- ▶ Enhanced and wider reporting requirements
- ▶ Default in repayment of loans or other borrowings or interest thereon to any lender will now be required to be reported under this clause unlike previous reporting in case of default in repayment of dues to a financial institution (FI), banks, Government or debenture holders only
- ▶ "Default" would mean non-payment of dues to lenders on the last dates specified in loan documents or debentures trust deed
- ▶ Auditor to report
  - ▶ amount of all defaults committed during the year and the number of days of default (consider period upto date of audit report)
  - ▶ amounts remaining unpaid, period and amount of all defaults existing at the balance sheet date irrespective of when those defaults have occurred.
- ▶ Lender wise details in the format to be given where defaults to banks, FIs or Government; for other lenders – Aggregate for each type of lender may be given – e.g. debenture holders
- ▶ Consider loans/borrowings/interest repayable on demand with no terms specified
- ▶ Consider application for re-schedulement/restructuring proposals to lenders

# New Clause : Utilization of funds – short term v/s long term

**Sub - clause (ix)(d):** Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;

## Reporting requirements

- ▶ Reinstated from CARO 2003
- ▶ Auditor to disclose the nature of application of funds if the company has financed long-term assets out of short-term funds
- ▶ Nature of application of funds can be determined only if the funds raised can be directly identified with an asset. Further, such movement in funds should be supported by relevant documentation
- ▶ Short-term sources of funds include temporary credit facilities like cash credits, overdraft. Reduction in current assets or increase in current liabilities are also sources of short-term decrease in funds
- ▶ Long-term application of funds includes investment in PP&E, long-term investments in share, debentures and other securities and other assets of similar nature, repayment of long-term loans and advances or redemption of long-term debt etc
- ▶ Auditor to use data contained in balance sheet to ascertain whether funds raised on short-term basis used for long-term investment

## 3(ix)(d) – Tata Power and Tata Steel

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- (ix) (d) On an overall examination of the standalone Ind AS financial statements of the Company, the Company has used funds raised on short-term basis in the form of short-term loans, cash credits from Banks, commercial papers, Inter Corporate Deposits and other financial liabilities aggregating to ₹ 4,066.03 crore for long-term purposes.
  
- (d) According to the information and explanations given to us, and the procedures performed by us, and on an overall examination of the standalone financial statements of the Company, we report that the Company has used funds raised on short-term basis aggregating ₹3,539 crores for long-term purposes.

# New Clause : Whistle Blower complaints - CARO

**Sub - clause (xi)(c):** Whether the auditor has considered whistle-blower complaints, if any, received during the year by the Company ?

## Reporting requirements

- ▶ New reporting requirement under CARO 2020 requiring the auditor to consider whistle blower complaints, if any, received by the company **during the year under audit.**
- ▶ Section 177(9) of the Act requires every listed company, companies which accept deposits from the public and companies which have borrowed money from banks and public financial institutions in excess of fifty crore rupees to establish a vigil mechanism for their directors and employees to report their genuine concerns or grievances.
- ▶ For listed entities, Regulation 4(2)(d) of SEBI LODR regulations mandates listed entities for devising an effective whistle blower mechanism enabling directors, employees or any other person to freely communicate their concerns about illegal/unethical practices
- ▶ For other companies wherein establishment of whistle blower mechanism not mandatory - Voluntary establishment of vigil mechanism/whistle blower mechanism – auditor to consider all whistle blower complaints
- ▶ If no whistle blower mechanism established (in case it is not mandatory), GN requires auditor to obtain from management all whistle blower complaints and review such complaints
- ▶ Consideration of whistle-blower complaints received or identified, during the course of audit, about a fraud or suspected fraud
- ▶ Auditor not required to consider whistle blower complaints pertaining to earlier years while reporting under this clause; consider principles of materiality
- ▶ Refer non compliance with laws and regulation policy

## 3(xi)(c) – Tata Steel and Tata Power

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### **Tata Steel**

During the course of our examination of the books and records of the Company, carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, the Company has received whistle-blower complaints during the year, which have been considered by us for any bearing on our audit and reporting. As explained by the management, there were certain complaints in respect of which investigations are ongoing as on the date of our report and hence, the impact on our audit report in respect of those complaints cannot be determined at this stage.

### **Tata Power**

We have taken into consideration the whistle blower complaints received by the Company during the year while determining the nature, timing and extent of audit procedures.

# New Clause : Internal Audit Reports - CARO

**Sub - clause (xiv)(b):** Whether the reports of the Internal auditors for the period under audit were considered by the statutory auditor?

## Reporting requirements

- ▶ Auditor to consider reports of internal controls **before conclusion of audit and finalisation of his audit report**

## Points for discussion

- ▶ GN clarifies that auditor to consider all internal audit reports covering upto end of the financial year under audit – define expectations & agree with TCWG; consider all reports shared till date of audit
- ▶ Auditor has right to receive full fledged internal audit report (including drafts)
- ▶ Discuss and agree with management about completion of internal audit and timing of receipt of periodic reports of internal audits
- ▶ Conduct meetings with internal auditors to discuss findings and observations
- ▶ Evaluate control deficiencies pointed out by internal auditor while reporting on ICFR
- ▶ Comply with SA 610 (Revised) – Using the work of Internal Auditor
- ▶ If internal audit reports not available or provided at short notice or do not adequately address plan and scope required, auditor to consider while reporting under this clause and reporting on ICFR (whether this is material internal control weakness)

# New Clause : Resignation of Statutory Auditors

**Sub - clause (xviii):** 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;

## Reporting requirements

- ▶ Auditor is required to report if there has been any resignation of the statutory auditors during the year. Also consider the issues, objections or concerns raised by the outgoing auditors in case of resignation

## Points for discussion

- ▶ Applicable where new auditor ('incoming auditor') is appointed during the year to fill a casual vacancy caused by resignation of the auditor created in the office of the previous auditor under section 140(2) of the Companies Act 2013
- ▶ Incoming auditor to comply with ICAI Code of Ethics (professional courtesy clearance), Implementation Guide issued by ICAI, ADT 3 and SEBI Circular to be followed by company on resignation of auditor
- ▶ Obtain ADT 3, Annexure A filed pursuant to SEBI circular (for listed companies) and consider reasons for resignation
- ▶ Read last issued audit/review report to understand modifications; assess potential impact of reasons for resignation on his/her audit strategy/reporting

# New: Reporting on Material uncertainty in meeting liabilities Caro and Schedule III

**Sub - clause (xix):** On the basis of the financial ratios, ageing and expected dates of realisation 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;

## Reporting requirements

- ▶ Reporting required whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report about the company's capability 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 (no current requirement for disclosure)
- ▶ Auditor to opine on the basis of the
  - ▶ financial ratios (Liquidity Ratios such as current ratio, acid-test ratio, cash ratio and efficiency Ratios such as asset turnover ratio, inventory turnover ratio, accounts receivable turnover ratio)
  - ▶ ageing and expected dates of realization of financial assets and payment of financial liabilities
  - ▶ other information accompanying the financial statements – refer SA 720
  - ▶ Auditor's knowledge of the Board of Directors and management plans
- ▶ Emphasis on company's ability to meet its liabilities and not on 'going concern'
- ▶ Test of existence of material uncertainty is to be done as on the date of audit report for the position of liabilities existing at the date of balance sheet
- ▶ Consider guidance in SA 570 and implementation guide on SA 570, to the extent relevant for reporting on this clause
- ▶ If it is expected that liabilities due within one year are based on holding company's letter of support, this fact is required to be stated
- ▶ **Schedule III Disclosure of certain ratios, explain how calculated and change by more than 25% as compared to previous year**



# New Clause : Consolidated financial statements

**Sub - clause (xxi):** Whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.

## Reporting requirements

- ▶ New reporting requirement applicable on consolidated financial statements only
- ▶ Auditor to give a CARO report on CFS with reporting only on this clause
- ▶ Requirement to provide the details of the companies and reference to the paragraph numbers of CARO containing any qualification/adverse remarks, irrespective of planning materiality of the CFS

## Points for discussion

- ▶ Qualification/adverse remarks implies clause with a negative/unfavourable comment
- ▶ Qualification/adverse remarks given in parent company's standalone CARO report also to be included; take inputs from component auditor (as part of group reporting instructions); ultimate responsibility is of parent auditor
- ▶ Text of qualification/adverse remarks not to be included
- ▶ GN clarifies that entities scope out not be included – principal auditor to specifically state so in CARO report
- ▶ If component auditor has not issued statutory audit report by the date of principal auditor's audit report (e.g. unlisted companies, state this fact

# Tips for management

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- Understand the requirement of Schedule III and auditor's responsibility in CARO
- Pro-active discussions with all stakeholders ( board / auditors )
- Strengthen all MIS and ERP systems to ensure disclosure of accurate information in a timely manner
- Prepare information in respect of comparative figures in advance
- Ensure availability of adequate trail for audit / regulatory requirements
- Develop comprehensive plan for FS preparation
- Discuss with the regulators to omit requirements for non-PIE entities (Ease of doing business)

# Tips for auditors

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- Engage in proactive discussions with clients to discuss expectations
- Plan required audit procedures in advance considering varied reporting requirements
- Decide on the most appropriate audit evidence for certain onerous requirements:
  - ▶ Benami property
  - ▶ Wilful defaulter
  - ▶ Return submission to lenders
  - ▶ Undisclosed income
  - ▶ Crypto assets
  - ▶ Relationship with struck-off companies
  - ▶ Transactions with related parties
  - ▶ Utilisation of funds for onward lending / investments
  - ▶ Borrowings from banks / FIs
- Consider enhanced coverage of ERP / MIS systems for audit due to management's reliance on them
- Consider reliance on management representations as the last resort and in very limited circumstances
- Implications of qualificatory/adverse comments on other reporting responsibilities
- **DO NOT FORGET DOCUMENTATION**



## ***Companies (Amendment) Act 2020***

# Key changes by Companies (Amendment) Act 2020

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1. New Section 129A is inserted in the Companies Act 2013 which empowers the Central Government to require class or classes of prescribed unlisted companies to:
  - Prepare periodical financial results on periodical basis in prescribed format;
  - Obtain approval of the Board of Directors for such periodical financial statements;
  - Complete audit or limited review of such periodical financial results; and
  - File copy with the ROC within 30 days of completion of the relevant period
2. Central Government, in consultation with the Securities and Exchange Board (SEBI), may prescribe certain class of companies which have listed / intend to list, certain class of securities on stock exchanges, which shall be excluded from the definition of "listed company".

# Key changes by Companies (Amendment) Act 2020

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## CSR

1. If the amount required to be spent on CSR is less than INR 50 lakhs, the Board of Directors of the Company can discharge functions of CSR Committee
2. Carry forward of excess CSR amount spent in excess of required amount for the future CSR spend for succeeding three financial years in such manner as may be prescribed
3. Non-compliance with the CSR provisions of section 135 decriminalised. Non-compliance will attract monetary penalty.
4. Impact Assessment is mandatory if average CSR obligation of a company in preceding 3 years is INR 10 crore or more.
5. IA through independent agency of each project having INR 1 crore or more outlay and completed not less than 1 year before undertaking IA

**Thank You**

