

### 8.1 - APPLICABILITY OF COMPANIES (AUDITOR REPORT) ORDER, 2020

<b>Application of CARO, 2020</b>	<p>CARO, 2020 shall apply to every company including a foreign company as defined in Sec. 2(42) of the Companies Act, 2013, except:</p> <ul style="list-style-type: none"> <li>(i) a banking company;</li> <li>(ii) an insurance company;</li> <li>(iii) a company licensed to operate u/s 8 of the Companies Act;</li> <li>(iv) a One-Person Company as defined in Sec. 2(62) of the Companies Act and a Small Company as defined in Sec. 2(85) of the Companies Act; and</li> <li>(v) a private limited company, not being a subsidiary or holding of a public company, <ul style="list-style-type: none"> <li>• having a Paid-up capital &amp; Reserves &amp; Surplus not more than ₹ 1 Cr. as on the balance sheet date, and</li> <li>• which does not have total borrowings exceeding ₹ 1 Cr. from any bank or financial institution at any point of time during the financial year, and</li> <li>• which does not have a total revenue as disclosed in Schedule III to the Companies Act, 2013 (including revenue from discontinuing operations) exceeding ₹ 10 Cr. during the financial year as per the financial statements.</li> </ul> </li> </ul>
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**Every report made by the auditor u/s 143 of the Companies Act, 2013 on the accounts of every company examined by him to which this Order applies for the financial years commencing on or after 1st April, 2021, shall contain the matters specified in paragraphs 3 and 4, as may be applicable.**

**The Order shall not apply to the auditor's report on consolidated financial statements except Para 3(xxi).**

#### Points to remember

- (a) Provisions of CARO are equally applicable in case of branches also, because under sec. 143(8), a branch auditor has same duties as of company auditor.
- (b) A company if covered under the definition of small company, it will remain exempted from the applicability of the Order even if it falls under any of the criteria specified for private company.

**Note: As per Sec. 2(85) of Companies Act, 2013 read with Rule 2(1)(t) of the Companies (Specification of Definitions Details) Rules, 2014 as amended by Companies (Specification of definition details) Amendment Rules, 2022 w.e.f. 15.09.2022, small company means a company, other than a public company:**

- (i) paid-up share capital of which does not exceed ₹ 4 crore; and
- (ii) turnover of which as per its last profit and loss account for the immediately preceding financial year does not exceed ₹ 40 crore.

- (c) Paid-up capital includes equity as well as preference.
- (d) Amount originally paid-up on forfeited shares should be added to the figure of paid-up capital.

	<p>(e) Share Application money should not be considered as part of paid-up capital.</p> <p>(f) Reserves includes Capital reserves, revenue reserves as well as Revaluation Reserves.</p> <p>(g) Credit Balance of Profit and Loss Account will form part of reserve.</p> <p>(h) In case of debit balance of profit or loss, same shall be netted for computing reserves &amp; surplus.</p> <p>(i) Loans from banks and financial institutions are to be considered in aggregate. Financial Institutions will include NBFC.</p> <p>(j) Loans may be in any form like term loan, demand loans, cash credit overdraft, export credit, bill purchased/discounted.</p> <p>(k) Non-fund based credit facilities have devolved and have been converted into fund based credit facilities should also be considered as outstanding loan.</p> <p>(l) Long-term loans as well as short-term loans, secured as well as unsecured will be considered.</p> <p>(m) Outstanding dues in respect of credit cards will also be considered.</p> <p>(n) Interest accrued as well as due does form part of outstanding loan, whereas interest accrued but not due is not considered as loan.</p> <p>(o) Total revenue as disclosed in Schedule III comprises of Revenue from operations and Other Income.</p> <p>(p) In respect of a company other than a finance company revenue from operations shall consists of revenue from (a) Sale of products; (b) Sale of services; and (c) Other operating revenues, as reduced by Excise duty.</p> <p>(q) In respect of a finance company, revenue from operations shall consists of revenue from (a) Interest; and (b) Other financial services.</p> <p>(r) Other income shall consist of the followings:</p> <ul style="list-style-type: none"> <li>• Interest Income (in case of a company other than a finance company);</li> <li>• Dividend Income;</li> <li>• Net gain/loss on sale of investments;</li> <li>• Other non-operating income (net of expenses directly attributable to such income).</li> </ul>
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#### IMPORTANT QUESTIONS

**Q. No. 1: Astha Pvt. Ltd. has fully paid capital of ₹ 140 lakh. During the year, the company had borrowed ₹ 15 lakh each from a bank and a financial institution independently. It has the turnover (Net of GST ₹ 50 lakhs which is credited to a separate account) of ₹ 475 lakhs during the immediately preceding financial year. Will CARO, 2020 be applicable to Astha Pvt. Ltd.?**

**HINT:** CARO is not applicable as Astha Pvt. Ltd. is a small company.

**Q. No. 2: E-Tech Pvt. Ltd., which has an aggregate outstanding loan of ₹ 20 lakhs from Banks and ₹ 30 lakhs from Financial Institutions, defaulted in repayment thereof to the extent of 50%. The company holds that it being a private limited company, the Companies (Auditor's Report) Order, 2020 is not applicable.**

**You are required to state the list of companies to which CARO is not applicable and state how would you deal with the given situation as an auditor of the company.**

**HINT:** Contention of the E-Tech Pvt. Ltd., is correct that CARO, 2020 will not be applicable on it as outstanding loan from banks and financial institution in aggregate does not exceeds ₹ 1 Cr.

**Q. No. 3: A Pvt. Ltd., had issued shares (fully paid-up) of ₹ 80 lakhs, had borrowed ₹ 60 lakhs each from 2 financial institutions and its turnover (Net of excise ₹ 100 lakhs which is credited to a separate account) is ₹ 950 lakhs during immediately preceding financial year. Will Companies (Auditor's Report) Order, 2020 (CARO) be applicable to A Pvt. Ltd.?**

**HINT:** CARO is not applicable as A Pvt. Ltd. is a small company.

**Q. No. 4: As an auditor, how would you deal with the following: L Private Ltd., which has outstanding loan of more than ₹ 100 lakhs from Financial Institution defaulted in repayment thereof to the extent of 50%. The company holds that it being a private limited company, the Companies (Auditors Report) Order is not applicable.**

**HINT:** Contention of L Pvt. Ltd. is not correct as borrowings from financial institution exceeds ₹ 1 Cr., and auditor is required to report the period and amount of default in repayment of dues under Para 3(viii) of CARO, 2020.

**Q. No. 5: T Pvt. Ltd.'s paid-up Capital & Reserves are less than ₹ 1 Cr. and it has no outstanding loan exceeding ₹ 1 Cr. from any bank or financial institution. Its sales for the immediately preceding financial year was ₹ 12 Crores before deducting Trade discount ₹ 20 lakhs and Sales returns ₹ 90 Cr. The services rendered by the company amounted to ₹ 20 lakhs. The company contends that reporting under Companies Auditor's Reports Order (CARO) is not applicable. Discuss.**

**HINT:** CARO is not applicable as T Pvt. Ltd. is a small company.

**Q. No. 6: A Private limited company reports the following position as at end of current financial year:**

<b>Paid-up capital</b>	<b>60 Lacs</b>
<b>Revaluation reserves</b>	<b>20 Lacs</b>
<b>Capital reserves</b>	<b>22 Lacs</b>
<b>P &amp; L A/c (Dr. Balance)</b>	<b>4 Lacs.</b>

**The management of the company contends that CARO, 2020 is not applicable to it.**

**HINT:** CARO is not applicable as company falls under the category of small company. It is assumed that turnover of the company for immediately preceding financial year does not exceed ₹ 40 crore.

**Q. No. 7: Under CARO, 2020, how as a statutory auditor would you comment on the following: X Pvt. Ltd. is a subsidiary of a listed entity. The management of the company believes that since X Pvt. Ltd. is a private company and satisfies all conditions under CARO, 2020, reporting under CARO is not applicable.**

**HINT:** CARO is applicable as exemption is not available to a private company which is a subsidiary or holding of a public company.

**Q. No. 8: H Private Ltd. had taken overdrafts from two banks with a limit of ₹ 40 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution of ₹ 36 lacs. The said loans were outstanding as at the end of current financial year. The paid-up capital and reserves of the company as at the end of financial year was ₹ 80 lacs and its revenue for the immediately preceding financial year was ₹ 6 crores. The management of the company is of the opinion that CARO, 2020 is not applicable to it because turnover and paid-up capital were within the limits prescribed and loans taken against the fixed deposits cannot be considered. The company further contended that loan limit is to be reckoned per bank or financial institution and not cumulatively. Comment.**

**HINT:** CARO is not applicable as H Pvt. Ltd. is a small company.

## 8.2 - MATTERS TO BE INCLUDED IN AUDITOR'S REPORT

<b>Property, Plant and Equipment [Para 3(i)]</b>	<b>Adequacy of Records</b>	<ul style="list-style-type: none"> <li>→ Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment.</li> <li>→ Whether the company is maintaining proper records showing full particulars of intangible assets.</li> </ul>												
	<b>Point to remember</b>													
	<p><b>The Order does not define as to what constitutes 'proper records'. Thus, what constitutes proper records is a matter of professional judgment made by the auditor after considering the facts and circumstances of each case.</b></p>													
	<b>Physical verification</b>	<ul style="list-style-type: none"> <li>→ Whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals;</li> <li>→ whether any material discrepancies were noticed on such verification and if so,</li> <li>→ whether the same have been properly dealt with in the books of account.</li> </ul>												
	<b>Points to remember</b>													
	<ul style="list-style-type: none"> <li>• <b>What constitutes "reasonable intervals" depends upon the circumstances of each case.</b></li> <li>• <b>The factors to be taken into consideration in this regard include the number of assets, the nature of assets, the relative value of assets, difficulty in verification, situation and geographical spread of the location of the assets, etc.</b></li> <li>• <b>The management may decide about the periodicity of physical verification of fixed assets considering the above factors. While an annual verification may be reasonable, it may be impracticable to carry out the same in some cases. Even in such cases, the verification programme should be such that all assets are verified at least once in every three years.</b></li> <li>• <b>Where verification of all assets is not made during the year, it will be necessary for the auditor to report that fact, but if he is satisfied regarding the frequency of verification, he should also make a suitable comment to that effect.</b></li> </ul>													
	<b>Title Deeds</b>	<ul style="list-style-type: none"> <li>→ 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.</li> <li>→ If not, provide details thereof in the below mentioned format:</li> </ul> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; padding: 5px;">Description of Property</th> <th style="text-align: center; padding: 5px;">Gross carrying value</th> <th style="text-align: center; padding: 5px;">Held in name of</th> <th style="text-align: center; padding: 5px;">Whether promoter, director or their relative or employee</th> <th style="text-align: center; padding: 5px;">Period held – indicate range, where appropriate</th> <th style="text-align: center; padding: 5px;">Reason for not being held in name of company*</th> </tr> </thead> <tbody> <tr> <td style="text-align: center; padding: 5px;"></td> </tr> </tbody> </table>	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*						
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.

		<b>Points to remember</b>
		<ul style="list-style-type: none"> <li>• The Order is silent as to what constitutes 'title deeds'. In general, title deeds mean a legal deed or document constituting evidence of a right, especially to the legal ownership of the immovable property.</li> <li>• Title deeds of the immovable property may be: <ul style="list-style-type: none"> <li>(a) Registered sale deed/transfer deed/conveyance deed, etc. of land, land &amp; building together, etc. purchased, allotted, transferred by any person including any government, government authority/body/agency/corporation, etc. to the company.</li> <li>(b) In case of leasehold land and land &amp; buildings together, covered under the head fixed assets, the lease agreement duly registered with the appropriate authority.</li> </ul> </li> </ul>
	<b>Revaluation of Property, Plant and Equipment</b>	<ul style="list-style-type: none"> <li>→ Whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and,</li> <li>→ 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;</li> </ul>
	<b>Proceedings for holding Benami Property</b>	<ul style="list-style-type: none"> <li>→ Whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 and rules made thereunder,</li> <li>→ if so, whether the company has appropriately disclosed the details in its financial statements.</li> </ul>

**IMPORTANT QUESTIONS**

**Q. No. 9:** X Ltd. closed its manufacturing operations and sold all its property, plant and equipment relating to manufacturing operations during the current financial year. However, it intends continue its operations as a trading company. In respect of other fixed assets, the company carried out a physical verification as at the end of current financial year and found a material discrepancy to the tune of ₹ 1 lac, which was written off and is disclosed separately in the profit and loss account. Kindly incorporate the above in your audit report.

**HINT: Reporting required w.r.t. Property, Plant and Equipment:**

"The property, plant and equipment have been physically verified by the management at reasonable intervals; material discrepancies were noticed on such verification and the same have been properly dealt with in the books of account;"

Auditor is also required to perform procedures covered in SA 570 so as to ensure appropriateness of use of Going concern basis of accounting.

**Q. No. 10:** Under CARO, 2020, as a statutory auditor, how would you report: NSP Limited has its factory building, appearing as property, plant and equipment in its financial statements in the name of one of its director who was overlooking the manufacturing activities.

**HINT:** Auditor shall report under Clause (i)(c) of Para 3 of the CARO, 2020.

**Q. No. 11: ABC Ltd. owns a piece of Land and Building situated at IP road, Mumbai which was purchased before 30 years. The title deeds for the same are deposited with State Bank of India for obtaining credit facilities by the company.**

**As the statutory auditor of the company, what are the audit procedures to be followed and what is the reporting under CARO, 2020?**

**HINT:** Auditor shall report under Clause (i)(c) of Para 3 of the CARO, 2020.

**Q. No. 12: The Property, Plant and Equipment of Amir Ltd. included ₹ 25.75 crores of earth removing machines of out-dated technology which had been retired from active use and had been kept for disposal after knock down. These assets appeared at residual value and had been last inspected ten years back. As an Auditor, what may be your reporting concern in view of CARO, 2020 on matters specified above?**

**[MTP-April 21]**

**HINT:** Auditor shall report under Clause (i)(b) of Para 3 of the CARO, 2020.

<b>Inventories [Para 3(ii)]</b>	<p>(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;</p> <p>(b) whether during any point of time of the year, the company has been sanctioned working capital limits in excess of ₹ 5 crores, 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.</p>
	<p style="text-align: center;"><b>Points to remember</b></p> <ul style="list-style-type: none"> <li>• <b>Physical verification of inventory is the responsibility of the management of the company which should verify all material items at least once in a year and more often in appropriate cases.</b></li> <li>• <b>What constitutes “reasonable intervals” depends on circumstances of each case. The periodicity of the physical verification of inventories depends upon the nature of inventories, their location and the feasibility of conducting a physical verification. The management of a company normally determines the periodicity of the physical verification of inventories considering these factors. Normally, wherever practicable, all the items of inventories should be verified by the management of the company at least once in a year.</b></li> </ul>

#### **IMPORTANT QUESTIONS**

**Q. No. 13: As the statutory auditor of B Ltd. to whom CARO, 2020 is applicable, how would you report in the following situations: Physical verification of only 50% (in value) of items of inventory has been conducted by the company. The balance 50% will be conducted in next year due to lack of time and resources.**

**HINT:** Procedure of physical verification followed by management is not reasonable and hence the auditor should point out the inadequacies in physical verification procedures, under Para 3(ii) of CARO, 2020.

**Q. No. 14:** Mr. Arjun was appointed as the engagement partner on behalf of Bhism & Co., a Chartered Accountant Firm, for conducting statutory audit assignment of Sinwar Ltd., unlisted public company. Mr. Brijesh, one of the senior engagement team members, was given the responsibility to audit the matters as per the requirements of CARO, 2020 and in that connection, he made the following observations, that may be relevant for reporting as per the said Order:

Sr. No.	Observations
(a)	One of the Plant and Equipment taken on a lease ('right of use' asset) by Sinwar Ltd. was revalued based on the valuation by a registered valuer and the net carrying value of Plant and Equipment in aggregate was changed from ₹ 4 crore to ₹ 4.45 crore.
(b)	During the year under consideration, cash credit limit of ₹ 5.5 crore was sanctioned to Sinwar Ltd. by DMC Bank based on the security of current assets which was reduced to ₹ 4.5 crore after 6 months. In this connection, quarterly returns have been filed by the company with the DMC bank which are in agreement with Books of Account.

You are required to examine the contention of Mr. Brijesh regarding reporting of the above observations in accordance with CARO, 2020.

[RTP-May 22]

**HINT:** (i) Auditor is required to report the amount of change of ₹ 45 lakh in accordance with Clause (i)(d) of Para 3 of CARO, 2020. (ii) Reporting required under Clause (ii)(b) of Para 3.

**Q. No. 15:** Jam Private Limited was engaged in business of manufacture of Cycles. CA Roy was appointed as a Statutory Auditor of the Company for the financial year 2021-22. During the year under audit, Jam Private Limited obtained working capital facilities from ABC Bank Limited for ₹ 10 crore hypothecating the Stock of goods as primary security. On inquiry CA Roy was informed by management that stock statements are furnished periodically to ABC Bank Limited and the details of submission of quarterly stock statement are as follows:

Period of Quarter	Stock Value as per Books of Account as at the end of the quarter (₹ in Crore)	Stock Value as per quarterly statement submitted to ABC bank limited as at the end of quarter (₹ in Crores)
Q1-2021-22	11.50	14.00
Q2-2021-22	14.75	17.00
Q3-2021-22	11.50	14.00
Q4-2021-22	15.25	15.25

The management of Jam Private Limited did not disclose the above variations in Notes to accounts forming part of financial Statements of the Company for the year 2021-22. The management replied that there are no variations as on the Balance sheet date and further they are of the view that stock statement furnished to bank is only a formality and computed arbitrarily only for the purpose of securing higher drawing power and hence statutory auditors need not be bothered.

Is the contention of the management valid? As a Statutory Auditor how CA Roy should deal and discuss the disclosure/reporting requirements if any, as per the Companies Act, 2013 and CARO, 2020.

[May 22 (5 Marks); MTP-March 23]

**HINT:** Contention of the management that there are no variations as on the Balance sheet date and statutory auditors need not be bothered is not correct. Such variations need to be disclosed in Notes to Accounts forming part of financial statements and also need to be reported by auditor under CARO, 2020.

<b>Investments, Guarantee/ Security, Loans or Advances [Para 3(iii)]</b>	<p>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,</p> <p>(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-</p> <p>(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;</p> <p>(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;</p> <p>(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;</p> <p>(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;</p> <p>(d) if the amount is overdue, state the total amount overdue for more than 90 days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;</p> <p>(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];</p> <p>(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 Sec. 2(76) of the Companies Act, 2013.</p>
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#### IMPORTANT QUESTIONS

**Q. No. 16: In the course of audit of Y Ltd., as the auditor of the company you observe the following: The company has advanced a loan to a firm in which a director was interested at a rate lower than the prevailing market rate as well as there was no agreement on terms of repayment.**

**How auditor will report in CARO, 2020?**

**HINT:** Reporting required under Para 3(iii) of CARO, 2020. Auditor should also ensure compliance of disclosure requirements of AS 18 and perform procedures as prescribed under SA 550.

**Q. No. 17: H Ltd. granted unsecured loan of ₹ 1 crore @ 15% p.a. to two of its subsidiaries during the current financial year. Before the year end both the companies repaid the loan. The management of H Ltd. is of the opinion that since no balance is outstanding as at the end of financial year, these loans are not required to be reported in CARO, 2020. Comment and draft a suitable report.**

**HINT: Draft Report:** "The Company has granted loan of ₹ 1 Crore @ 15% p.a. to 2 of its subsidiaries during the current Financial Year. The maximum amount involved during the year was ₹ 1 crore and the year-end balance of such loans was Nil".

<b>Compliance of provisions of Secs. 185 &amp; 186 - Para 3(iv)</b>	<p>In respect of loans, investments, guarantees, and security whether provisions of sections 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide details thereof.</p>
	<p style="text-align: center;"><b>Points to remember</b></p> <ul style="list-style-type: none"> <li>• For this purpose of ensuring compliance of sec. 185, the auditor should carry out the following procedures: <ul style="list-style-type: none"> <li>(i) Obtain from the management the details of the directors or any other person in whom the director is interested. He may also check the details of the persons covered under this clause from Form MBP-1 and from the Register maintained u/s 189 of the Act.</li> <li>(ii) Obtain and check the details of the transactions carried out with such persons, including of any guarantee given and security provided.</li> <li>(iii) Further examine the details to find out whether any of the transaction is attracting the provisions of section 185 of the Act.</li> <li>(iv) In case of transactions that are covered under the exceptions as provided under section 185, the auditor should obtain the necessary evidence in support of such exception.</li> </ul> </li> <li>• The auditor should report the nature of non-compliance of sec. 185, the maximum amount outstanding during the year and the amount outstanding as at the balance sheet date in respect of: <ul style="list-style-type: none"> <li>(i) the Directors; and</li> <li>(ii) persons in whom directors are interested (specify the relationship with the Director concerned).</li> </ul> </li> <li>• For this purpose of ensuring compliance of Sec. 186, the auditor should: <ol style="list-style-type: none"> <li>1. Obtain the details of, loans given to any person or other body corporate, guarantee given or security provided in connection with a loan to any other body corporate or person and securities acquired of any other body corporate by way of subscription, purchase or otherwise, made during the year as well as the outstanding balances as at the beginning of the year.</li> <li>2. Check whether, at any point of time during the year in case of aforesaid transactions, the company has exceeded the limit of 60% of its paid-up share capital, free reserves and securities premium account or 100% of its free reserves and securities premium account, whichever is more. If it exceeds the limits specified above, whether prior approval by means of a special resolution passed at a general meeting has been obtained.</li> <li>3. Check whether the company has made investments through more than two layers of investment companies.</li> <li>4. Check whether the company has disclosed the full particulars of the loan given, investment made or guarantee given or security provided in the financial statement including the purpose for which the same is proposed to be utilized by the recipient.</li> <li>5. Check whether the company has passed the board resolution as prescribed and obtained the prior approval, wherever required, from the public financial institution concerned where any term loan is subsisting.</li> <li>6. Check whether rate of interest is not lower than the prevailing yield of one year, three-years, five years or ten years government security closest to the tenor of the loan granted.</li> <li>7. Check if the company is in default in the repayment of any deposits accepted or in payment of interest thereon, then the company is not allowed to give any loan or guarantee or any security or an acquisition till such default is subsisting.</li> <li>8. Check whether the company has maintained a register (as per Form MBP-2) in the manner as prescribed and also check the compliances of other provisions and relevant rules.</li> </ol> </li> </ul>

- Non-compliance of Sec. 186 may be reported incorporating following details:

Sl. No.	Non-compliance of Section 186				Remarks, if any
		Name of Company/Party	Amount Involved	Balance as at Balance Sheet Date	
1	Investment through more than two layers of investment companies				
2	Loan given or guarantee given or security provided or acquisition of securities exceeding the limits without prior approval by means of a special resolution				
3	Loan given at rate of interest lower than prescribed				
4	Any other default				

#### IMPORTANT QUESTIONS

**Q. No. 18: As a Company auditor you noticed that there is an inter-corporate loan granted by the company. What are the reporting requirements as regard the matters concerning terms of interest on the inter-corporate loan?**

**HINT:** Reporting required under Para 3(iv) of CARO, 2020.

<b>Public Deposits</b> [Para 3(v)]	<ul style="list-style-type: none"> <li>In respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the RBI and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules framed thereunder, where applicable, have been complied with. If not, the nature of such contraventions be stated;</li> <li>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?</li> </ul>
	<p style="text-align: center;"><b>Points to remember</b></p> <ul style="list-style-type: none"> <li>It may be difficult for the auditor to ascertain that deposits accepted by the company are within the limits on each day of the accounting year. He would, therefore, be justified in making a reasonable test check to ensure that the company has not accepted deposits during the year in excess of the limits.</li> <li>In case where the auditor is of the view that any kind of contravention of sections 73 to 76 or any other relevant provisions of the Act or relevant rules or directives from Reserve Bank of India, if any, has taken place, the auditor should state in his report that the provisions of that section(s) and/or relevant rules, as the case may be, have not been complied with. The auditor should also report the nature of contraventions.</li> </ul>