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CORPORATE AND MANAGEMENT ACCOUNTING

MODULE 2

PAPER 5

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Lesson No. and Name	Particulars of Amendment
<p>Lesson 8</p> <p>Corporate Financial Reporting</p>	<p>Companies (Auditor’s Report) Order, 2020</p> <p>Ministry of Corporate Affairs ‘MCA’ notifies Companies (Auditor’s Report) Order, 2020 (CARO 2020) which is applicable for audit of financial statements of eligible companies for the financial years commencing on or after the 1st April, 2020. [CARO 2020 applicability extended to FY 2020-21 onward vide MCA order dated March 24th, 2020]</p> <p>The criteria of eligibility of companies on which the CARO, 2020 shall be applicable has not been changed and hence it shall be applicable to all those companies on which CARO, 2016 was applicable. Accordingly CARO 2020 will be applicable to all the companies including foreign companies except banking company, insurance company, section 8 company, OPC [section 2(62)], small company [section 2(85)], certain private limited co. This order stated that every report of the auditor under Section 143 of Companies Act, 2013 must contain the matters stated in 21 clauses as specified under paragraphs 3 and accord reasons for unfavorable or qualified answer as stated in paragraph 4 of CARO 2020.</p> <p>CARO 2020 will not be applied with respect to auditor’s report on Consolidated Financial Statements except clause (xxi) of paragraph 3. The order 2020 elaborated on all the matters which are to be included in the auditor’s report. Wherein, the following details of the subject-matter are described:</p> <ul style="list-style-type: none"> • Whether the company is maintaining proper records showing full particulars such as: <ul style="list-style-type: none"> i. The quantitative detail and situation of property, plant, and equipment, ii. Physical verification of the property, plant, and equipment by the management at reasonable intervals, iii. The details of the title deeds of the immovable properties held in the name of company, iv. Revaluation of the property, plant, and equipment or intangible assets or both and if there is more than 10% of the change in the property, plant, and equipment or intangible assets, • Details of proceedings against the company on the holding of any Benami property. • Physical verifications of inventory by the management at reasonable intervals and proper treatment of any discrepancies of 10% or more found. • Quarterly returns or statement filed by company having working capital limit more than 5 crore rupees with such banks or financial institution. • Details of the investments made by the company(except companies dealing in loans), security or guarantee given

by the company,

- Details of the payment pertaining to the undisputed statutory dues such as GST, provident Funds, Custom Duty, etc.
- Details of any default done by the company in making the repayment of the loan,
- Details of the funds raised by a company by the way of the Initial public offer,
- Details of fraud done by the company, and many more.
- The Auditor's Report Order 2020 of any company is supposed to state the reasons for unfavourable or qualified answers.

Clause by Clause Comparison of the Reporting Companies (Auditor's Report) Order 2020 vis a vis Previous CARO 2016

Clauses	Companies (Auditor's Report) Order, 2016	Companies (Auditor's Report) Order, 2020
	CARO 2016 contains Total 16 reporting clauses	CARO 20020 contains Total 21 reporting clauses
(i)	CARO 2016 required to report on all fixed assets	Reporting requirements on <ul style="list-style-type: none"> • Property, Plant, Equipment and intangible assets only. • Revaluation of Property, Plant, Equipment including rights of use assets or intangible assets • Proceedings under the Benami Transactions (Prohibition) Act, 1988 and disclosure in financial statements.
(ii)	Reporting requirement on physical verification of inventory at reasonable interval by management and material discrepancies	Reporting requirements on <ul style="list-style-type: none"> • Physical verification of inventory at reasonable interval by management and the Opinion of the auditor on the coverage and procedure of such verification • The material discrepancies of 10% or more noticed if any • Compliances if company was sanctioned working capital limits

	noticed if any	in excess of five crore rupees or more from banks or financial institutions.
(iii)	Reporting requirement of granting any loans or advances to companies, firms, Limited Liability Partnerships or any other parties.	Reporting requirements of investments in or providing of any guarantee or security or granting any loans or advances to companies, firms, Limited Liability Partnerships or any other parties.
(iv)	Reporting requirement on the compliances of provisions of section 185 and 186 of the companies Act, 2013 in respect of loans, investments, guarantees and security.	Reporting requirement on the compliances of provisions of section 185 and 186 of the companies Act, 2013 in respect of loans, investments, guarantees and security. (No change)
(v)	Reporting requirements of compliances with RBI directives and the provisions the Companies Act with respect to deposits.	Reporting of compliances with RBI directives and the provisions the Companies Act with respect to deposits or deemed deposits .
(vi)	Reporting requirements of Maintenance of Cost Record	Reporting requirements of Maintenance of Cost Record (No Change)
(vii)	Reporting requirement on statutory dues	Reporting requirement on statutory dues (No Change)

(viii)	Reporting requirements on default in repayment of loans or other borrowing	Reporting requirements with respect to transactions not recorded in the books of account surrendered or disclosed as income in the income tax proceedings.
(ix)	Reporting requirement on utilization of money raised by way of IPO or further public offer for the purposes for which money has been raised	Reporting requirements on <ul style="list-style-type: none"> • Default in repayment of loans or other borrowing or interest thereon • Declared as will defaulter by bank / financial institution / other lender • Utilization of term loan for the purposes for which term loan has been raised • Fund raised on short term basis have been used for loan term purposes • Funds taken by the company to meet obligation if its subsidiaries, associates or joint ventures • Loans raised on the pledge of securities held in its subsidiaries, associates, joint ventures
(x)	Reporting requirement on Notice of fraud by / on the company by its officers or employees	Reporting requirement on <ul style="list-style-type: none"> • Utilization of money raised by way of IPO or further public offer for the purposes for which money has been raised • preferential allotment or private equity placement of shares or fully or partly convertible debentures and compliance of section 42 of Companies Act, 2013
(xi)	Reporting requirement on Managerial Remuneration	Reporting requirement on <ul style="list-style-type: none"> • Notice of fraud by / on the company • Report u/s 143(12) filed by the auditors in Form ADT-4 • Treatment by auditor of whistle-blower complaints received during the year by the company

(xii)	Reporting requirements on Net Owned Funds to Deposits in the ratio of 1:20 and maintaining of 10% unencumbered terms deposits as per Nidhi Rules 2014	Reporting requirements on <ul style="list-style-type: none"> • Net Owned Funds to Deposits of Nidhi Company in the ratio of 1:20 and maintaining of 10% unencumbered terms deposits as per Nidhi Rules 2014 and • for default in the payment of interest on deposits or repayments thereof for any period
(xiii)	Reporting requirement on transaction with related parties	Reporting requirements on transaction with related parties (No Change)
(xiv)	Reporting requirement on preferential allotment or private equity placement of shares or fully or partly convertible debentures and compliance of section 42 of Companies Act, 2013	Reporting requirements on internal audit system
(xv)	Reporting requirement on non-cash transaction with director or person connected with him	Reporting requirements on non-cash transaction with director or person connected with him (No Change)
(xvi)	Reporting requirement of registration u/s 45IA of the Reserve Bank of India Act, 1934	Reporting requirement of <ul style="list-style-type: none"> • Registration u/s 45IA of the Reserve Bank of India Act, 1934 • NBFC activities without valid certificate of registration • Fulfilling the criteria of Core Investment Company (CIC)

		• Number of CICs which are part of group
(xvii)	-	Reporting on cash losses (clause added)
(xviii)	-	Reporting on resignation of the statutory auditors (clause added)
(xix)	-	Reporting on uncertainty of company capable of meeting its liabilities (clause added)
(xx)	-	Reporting requirements on transfer of unspent CSR amount to Fund specified in Schedule VII (clause added)
(xxi)	-	Reporting requirements on qualifications or adverse remarks by the auditors in the CARO reports of companies included in the consolidated financial statements (clause added)