



Voices on Reporting



11 September 2020

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Welcome



01

Series of knowledge sharing calls



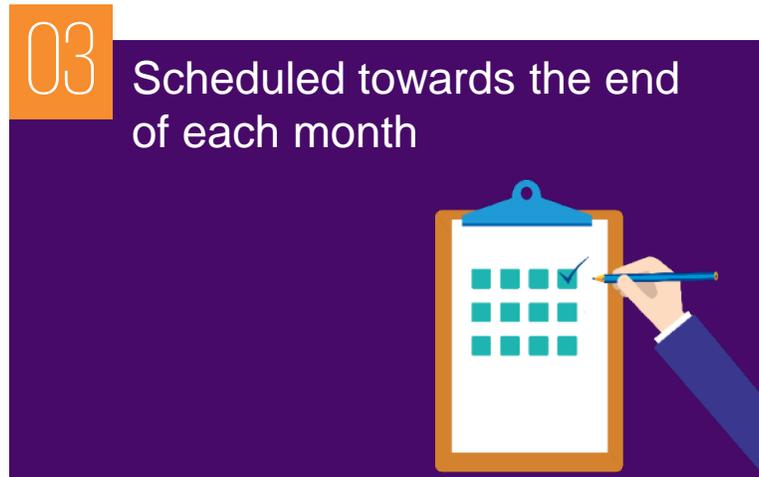
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Covering current and emerging reporting issues



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Scheduled towards the end of each month



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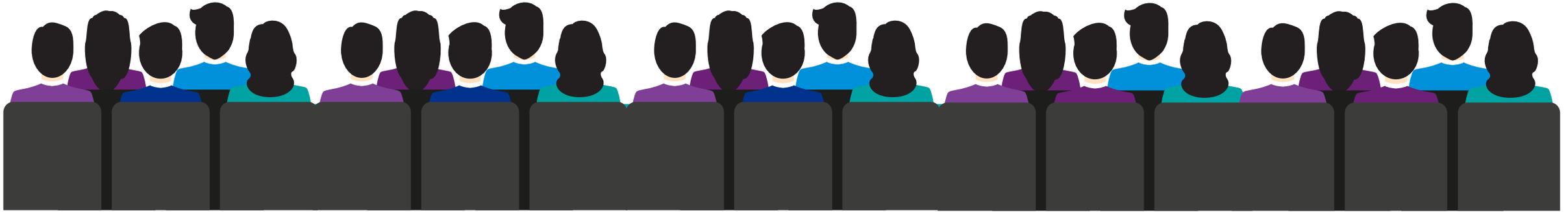
Speaker for the webinar



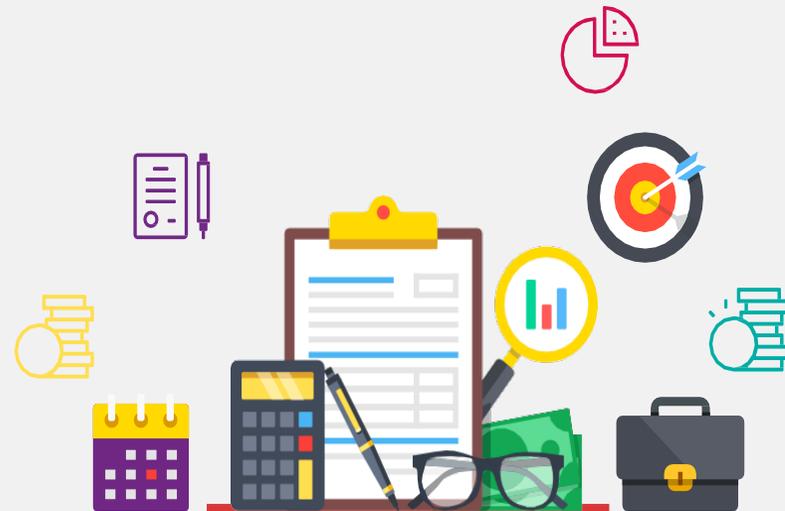
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Overview of CARO 2020: Quick recap



Overview of CARO 2020



The Ministry of Corporate Affairs (MCA) issued Companies (Auditor's Report) Order, 2020 (CARO 2020) applicable for each report issued by auditors of specified class of companies under Section 143 of the Companies Act 2013 (2013 Act) for financial year commencing on or after 1 April 2020.

No change in applicability requirements as compared to CARO 2016 other than requirements of reporting on Consolidated Financial Statements (CFS).

In case there are any qualifications or adverse remarks by the auditors of companies included in CFS, then principal auditor is required to include reference to such remarks in CARO to CFS.

CARO 2020 includes several new clauses and has revised certain existing clauses of CARO 2016. The new CARO has increased the reporting requirements for auditors and put greater onus on companies to share information with the auditors and users of the financial statements.

The Institute of Chartered Accountants of India (ICAI) issued Guidance Note on CARO 2020 on 1 July 2020 to provide guidance relating to reporting requirements under CARO 2020.

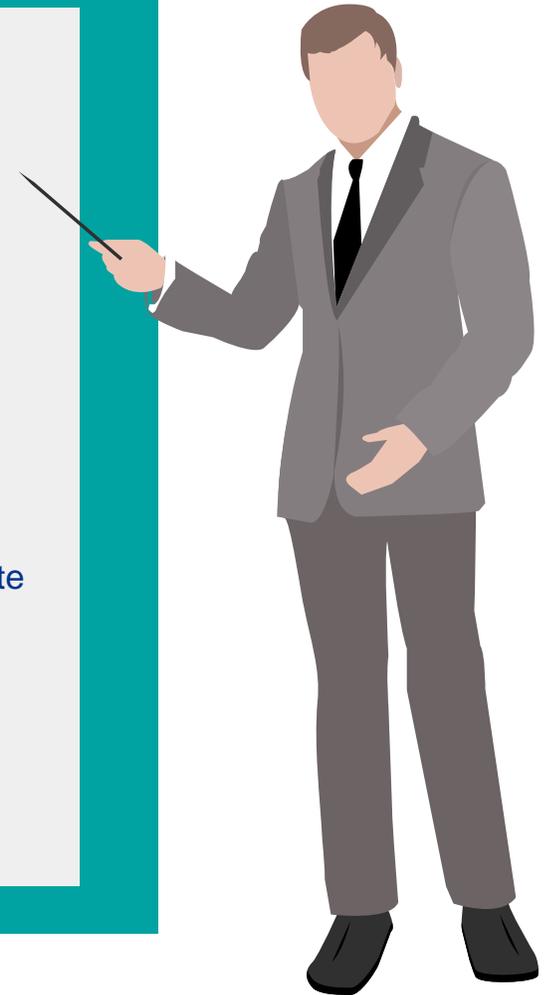


Companies exempted under CARO 2020

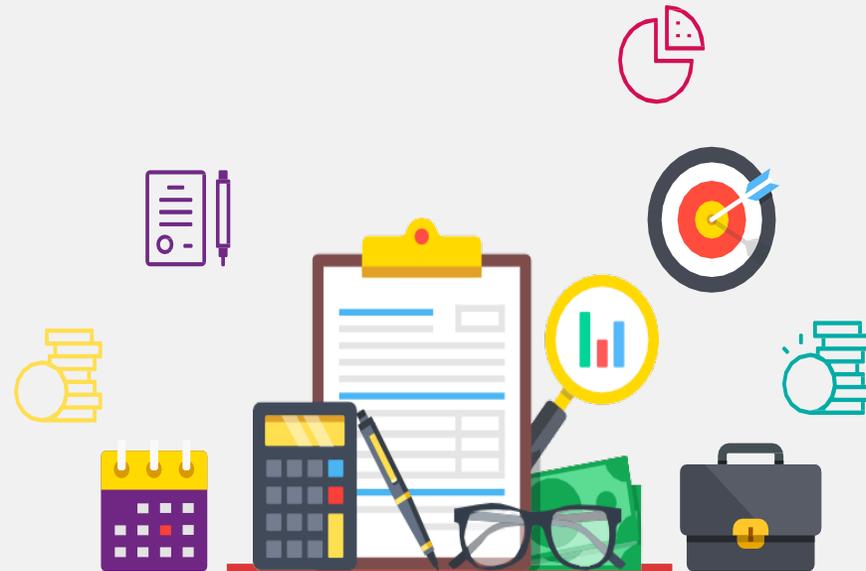


Auditors of following class of companies are exempted to comment on matters prescribed under the CARO 2020:

- Banking company as defined under Section 5(c) of the Banking Regulation Act, 1949
- Insurance company as defined under the Insurance Act, 1938
- Companies incorporated with charitable objects, etc. i.e. companies licensed to operate under Section 8 of the 2013 Act
- One person company as defined under Section 2(62) of the 2013 Act
- Small company as defined under Section 2(85) of the 2013 Act
- Private company, not being a subsidiary or holding company of a public company having:
 - Paid-up capital and reserves and surplus not more than INR1 crore as on the balance sheet date
 - Total borrowings not more than INR1 crore from any bank or financial institution at any point of time during the financial year, and
 - Total revenue (including revenue from discontinuing operations) upto INR10 crore during the financial year as per the financial statements (revenue as disclosed in Schedule III to the 2013 Act).



CARO 2020 reporting requirements – Session 2





Clause 3(xi)

- a) Whether any fraud by the company or any fraud **on the company** has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated.
- b) *Whether any report under Section 143(12) of the 2013 Act has been filed by the auditors in Form ADT-4 as prescribed under Rule 13 of Companies (Audit and Auditors) Rules, 2014 with the central government*

Modified clause

New clause



Key considerations

- The clause requires assessment of all frauds **on or by the company** i.e. not limited to frauds by the officers or employees of the company.
- Consider fraudulent acts that cause a material misstatement in the financial statements - misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
- Consider other clauses that may have implications for this clause, e.g.
 - Discrepancies reported in returns and statements submitted to banks or financial institutions
 - Disclosure of unrecorded transactions to tax authorities or
 - Whistle blower complaints.



Clause 3(xi)(c)

New clause

Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company.



Key considerations

- Auditor to verify the whistle blowing mechanism where companies are required to set up such mechanism as per the 2013 Act and SEBI Listing Regulations
 - Where setting up of vigil mechanism is not mandatory – management should share all whistle blower complaints with their auditors.
 - Every complaint received by the company would be evaluated including anonymous complaints.
 - The Guidance note does not require to consider whistle-blower complaints pertaining to earlier years.
 - Ensure completeness of list of all whistle-blower complaints along with minutes of audit committee meetings.



New clause

Clause 3(xvii)

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



Key considerations

- The term 'cash loss' is not defined in the 2013 Act/Ind AS/AS.
- Companies following Ind AS, profit or loss to be considered excluding Other Comprehensive Income (OCI) – however consider realised cash profits or losses recognised in OCI.
- Net profit/loss should be adjusted for non-cash transactions such as depreciation and amortisation to compute cash losses.
- Net profit/loss would also require adjustments for:
 - Deferred taxes
 - Foreign exchange gain/losses
 - Fair value changes.
- It may not be appropriate to consider cash flows from operating activities as per cash flow statement for this clause.
- The amount of cash loss to be adjusted for qualification in audit report to the extent quantified.
- In case of restatement in the financial statements, consider restated profits.

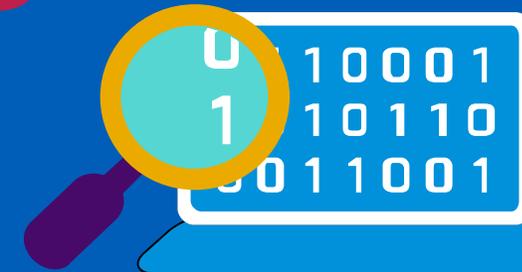
Material uncertainty on capability of meeting liabilities



Clause 3(xix)

New clause

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.



Key considerations

- The clause requires reporting on company's ability to meet its liabilities falling due within one year.
- In the absence of definition of financial assets and financial liabilities under any other accounting standard or the 2013 Act, the definitions under Ind AS 32, *Financial Instruments* may be considered.
- Auditor to consider the paragraph on material uncertainty or key audit matter on going concern.
- The test of existence of material uncertainty to be performed as on the date of audit report for the position of liabilities existing as at the date of balance sheet.
- Reporting under this clause not exactly the same as assessing going concern assumption.
- Evaluate all liabilities and status of subsequent payments, interim financial information after the balance sheet date, minutes of Audit Committee meeting and Board meeting held after the balance sheet date.
- Consider financial ratios e.g. liquidity ratio (current ratio, acid-test ratio, cash ratio), efficiency ratio (asset turnover ratio, inventory ratio, accounts receivable turnover ratio).

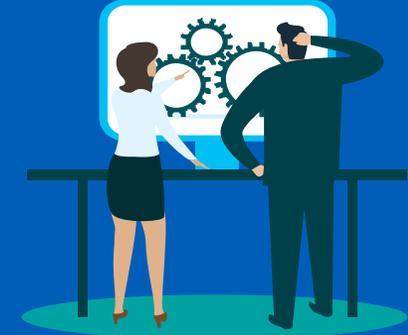
Previously unrecorded income



Clause 3(viii)

New clause

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



Key considerations

- Section 158B of IT Act defines undisclosed income as 'any money, bullion, jewellery or other valuable article or thing or any income based on any entry in the books of account or other documents or transactions, where such money, bullion, jewellery, valuable article, thing, entry in the books of account or other document or transaction represents wholly or partly income or property which has not been or would not have been disclosed for the purposes of IT Act, or any expense, deduction or allowance claimed under this IT Act which is found to be false'.
- Income disclosed under force, coercion, etc., cannot be treated as income surrendered or disclosed by the company - company must have **voluntarily admitted** to the addition of such income.
- Surrender or disclosure of unrecorded income might relate to any assessment year under the IT Act.
- Ensure that income surrendered or disclosed should be duly recorded in the books of account.
- Ensure proper disclosure in the financial statements of the company by evaluating requirements of Ind AS and AS to enable users understand the impact of such transactions.
- Ensure that internal financial controls are operating effectively with respect to recognition of revenue/income.

Corporate Social Responsibility (CSR)



Clause 3(xx)

New clause

- Whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the 2013 Act within a period of six months of the expiry of the financial year in compliance with second proviso of section 135(5) of the said Act.
- Whether any amount remaining unspent under section 135(5) of the 2013 Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of Section 135(6) of the said Act.



Key considerations

- The clause requires evaluation of the applicability of Section 135 of the 2013 Act to the company.
- Where a company has recorded a provision as at the balance sheet date, then it should be in accordance with the provisions of AS 29 or Ind AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, in respect of the unspent amount.
- The clause requires consideration of the requirements of the 2013 Act and the Companies CSR Rules, 2014 while reporting on the unspent amounts.
- A company should have a CSR policy, minutes of meetings of CSR committee and working of amount required to be spent under Section 135.
- Amendments to Section 135 of the 2013 Act through the Companies (Amendment) Act, 2019 are yet to be notified therefore provisions of this clause are not yet applicable to the companies.

Reporting on consolidated financial statements



Clause 3(xxi)

New clause

Whether there have been any qualifications or adverse remarks by the respective auditors in the CARO reports of the companies included in the consolidated financial statements? If yes, indicate the details of the companies and the sub-clauses' number of CARO containing qualifications or adverse remarks.



Key considerations

- Reporting under this clause is only required for those entities included in the consolidated financial statements to whom CARO 2020 is applicable.
- CARO report to be included as separate annexure in audit report to consolidated financial statements.
- Assessment of responses by component auditors as 'qualification/adverse remark requires application of professional judgement.
- Qualifications/adverse remarks given in the parent company's standalone CARO report are also required to be included.
- Every qualification/adverse remarks made by every individual component should be included.
- In case an audit report of the component has not yet issued by its auditor, then the principal auditor would include this fact in his/her report.

Resignation of statutory auditor



New clause

Clause 3(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



Key considerations

- This clause is also applicable in case of resignation of joint auditor.
- The incoming auditor would consider the potential impact of the resignation by the outgoing auditor on audit strategy and reporting.
- Management should provide:
 - Letter of resignation of predecessor auditor and Form ADT 3
 - Minutes of Board meetings
 - Audit committee presentations by predecessor auditors.



Clause 3(xiv)

- a) Whether the company has an internal audit system commensurate with the size and nature of its business.
- b) Whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor.

New clause



Key considerations

- This clause requires a comment on internal audit system - whether such system commensurate with the size and nature of company's business.
- Some of the factors that should be considered while designing internal control function are as follows:
 - The size of the internal audit department
 - Qualifications of internal auditors
 - Reporting responsibility of the internal auditor
 - Involvement of the audit committee
 - Scope of internal audit and extent of coverage
 - Assessment and remedial action taken on the impact of the control deficiencies , if any pointed by the internal auditors.
- The guidance note requires management to consider all internal audit observations that have financial impact.

CARO 2020 – Other topics





Clause 3(v)

In respect of deposits accepted by the company or ***amounts which are deemed to be deposits***, whether the directives issued by the Reserve Bank of India (RBI) and the provisions of Sections 73 to 76 or any other relevant provisions of the 2013 Act and the rules made thereunder, where applicable, have been complied with, if not, the nature of such contraventions be stated, if an order has been passed by Company Law Board (CLB) or National Company Law Tribunal (NCLT) or RBI or any court or any other tribunal, whether the same has been complied with or not.

Modified clause



Key considerations

- The clause extends the reporting requirement relating to deposits to include the amounts which are deemed to be deposits e.g.:
 - An advance for supply of goods or provisions for services if unsettled for 365 days
 - Security deposit for performance of the contract for supply of goods or provision of services
 - Application money or advance for securities not allotted within 60 days of receipt of the application money and not refunded with 15 days from the completion of 60 days.
- Compliance is required with:
 - The 2013 Act and the Companies (Acceptance of Deposit) Rules, 2014 (e.g. Form DPT-3)
 - Prescribed directives of RBI
 - Any order passed by CLB, NCLT, RBI, any court or any other tribunal.



Clause 3(vii)

Modified clause

- a) Whether the company is regular in depositing undisputed statutory dues including **Goods and Services Tax**, provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated.
- b) Where statutory ***dues referred to in sub-clause (a)*** have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (a mere representation to the concerned Department shall not be treated as a dispute).



Key considerations

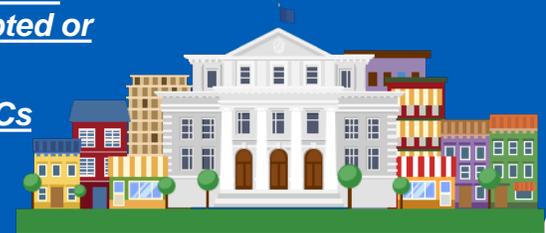
- This clause covers all types of dues under various statutes which may be applicable to a company having regard to its nature of business.
- Penalty and/or interest levied under the respective laws would be covered within the term 'amount payable'.
- Matter to be considered as 'disputed' where there is a positive evidence or action on the part of the company to show that it has not accepted the demand for payment of tax or duty, e.g., where the company has gone into appeal.
- Reporting of amounts under dispute would include amounts which have not been deposited on account of any dispute, irrespective of the treatment of such disputed amounts in books of accounts.



Clause 3(xvi)

- a) Whether the company is required to be registered under section 45-IA of the RBI Act, 1934 (2 of 1934) and if so, whether the registration has been obtained.;
- b) Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the RBI as per the RBI Act, 1934;
- c) Whether the company is a Core Investment Company (CIC) as defined in the regulations made by the RBI, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria;
- d) Whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group.

New clauses



Key considerations

- CARO 2020 provides certain new reporting requirements relating to companies in the financial services sector. The auditor of such companies would be reporting relating to specific instances such as:
 - Company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from RBI
 - The Company is a Core Investment Company (CIC)
 - In case the group has more than one CIC as part of the group.



Clause 3(xii)

- a) Whether the Nidhi company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability.
- b) Whether the Nidhi company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability.
- c) Whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof.



Key considerations

- Required to report if there are any default in payment of interest or repayment on deposits received by Nidhi company.
- Report the period and amount of all defaults:
 - Existing as at the year-end, and
 - Defaults existing during any period and made good during the year.

Clauses that have not been modified



Clause (iv): Loans from investments

In respect of loans, investments, guarantees, and security, whether provisions of Sections 185 and 186 of the 2013 Act have been complied with if not, provide the details thereof.

Clause (vi): Cost records

Whether maintenance of cost records has been specified by the central government under Section 148(1) of the 2013 Act and whether such accounts and records have been so made and maintained.

Clause (xiii): Related party transactions

Whether all transactions with the related parties are in compliance with Sections 177 and 188 of the 2013 Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards.

Clause (xv): Non-cash transactions

Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether provisions of Section 192 of the 2013 Act have been complied with.

Clause (x): Initial public offer and preferential allotment

- a) Whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported.
- b) Whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non-compliance.

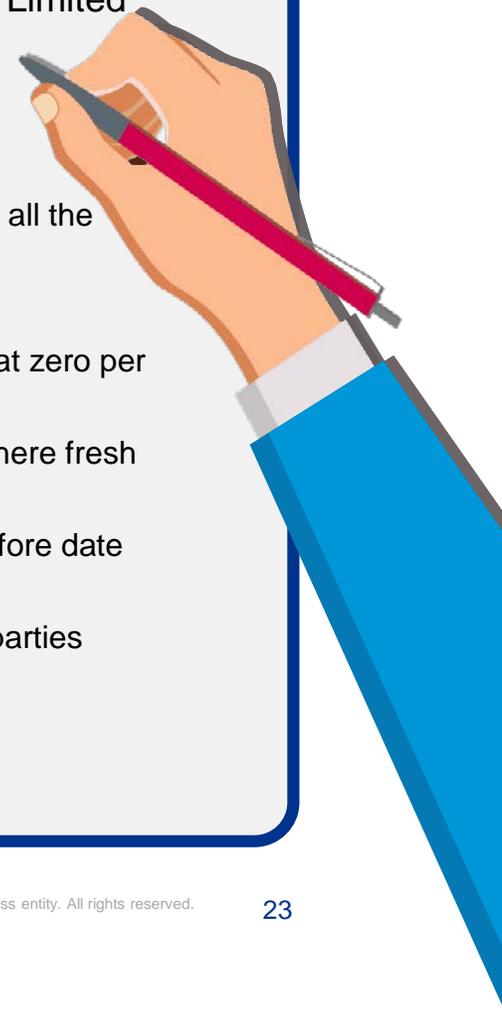


Quick recap

Clause 3(iii) – Reporting requirements in case 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 during the year.

Key considerations

- Information to be reported in respect of all parties and all kinds of loans.
- Companies would be required to maintain a register for loans or advances in the nature of loans, or guarantee, or security to all the parties to facilitate reporting under this clause.
- Requires critical evaluation of advances to determine advances in nature of loans.
- Companies would be required to justify loans/guarantees are not prejudicial to the interest of the company (e.g. loans given at zero per cent interest).
- Requires identification of instances of 'ever-greening' and is not restricted to 'overdue' loans but also extends to situations where fresh loans are given close to settlement date.
- Also includes loans falling due on balance sheet date and that are renewed/extended/settled post balance sheet date but before date of audit report.
- Requires reporting of the gross amount of loans or advances in the nature of loans that are granted to promoters or related parties which:
 - Are repayable on demand, or
 - Without specifying any terms or period of repayment.



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Q&A



Links to previous recordings of VOR



Month	Topics	Link
November 2019 (Special session)	<ul style="list-style-type: none">• Focus on technology sector- Impact of recent tax amendments and certain challenge	Click here
January 2020	<ul style="list-style-type: none">• The Taxation Laws (Amendment) Act, 2019• Ind AS Transition Facilitation Group (ITFG) clarifications - Bulletin 22• Updates relating to SEBI regulations• Updates relating to the Companies Act, 2013	Click here
February 2020 (Special session)	<ul style="list-style-type: none">• Significant challenges for technology sector in relation to business combination	Click here
April 2020	<ul style="list-style-type: none">• COVID-19: Potential financial reporting impacts	Click here
July 2020	<ul style="list-style-type: none">• COVID-19: Key financial reporting considerations for interim reporting• CARO 2020 – Key considerations• Ind AS 116, <i>Leases</i> – Exposure draft on COVID-19 related rent concessions issued by ICAI• Additional relaxations provided by the Securities and Exchange Board of India (SEBI) and the Ministry of Corporate Affairs (MCA) amid COVID-19.	Click here
August 2020 (Special session)	<ul style="list-style-type: none">• Implementation issues relating to CARO 2020 (Session 1)	Click here

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First Notes



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New issue of:

- Accounting and Auditing Update
- First Notes
- Voices on Reporting - publication

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Voices on Reporting – Quarterly updates publication





Thank you

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