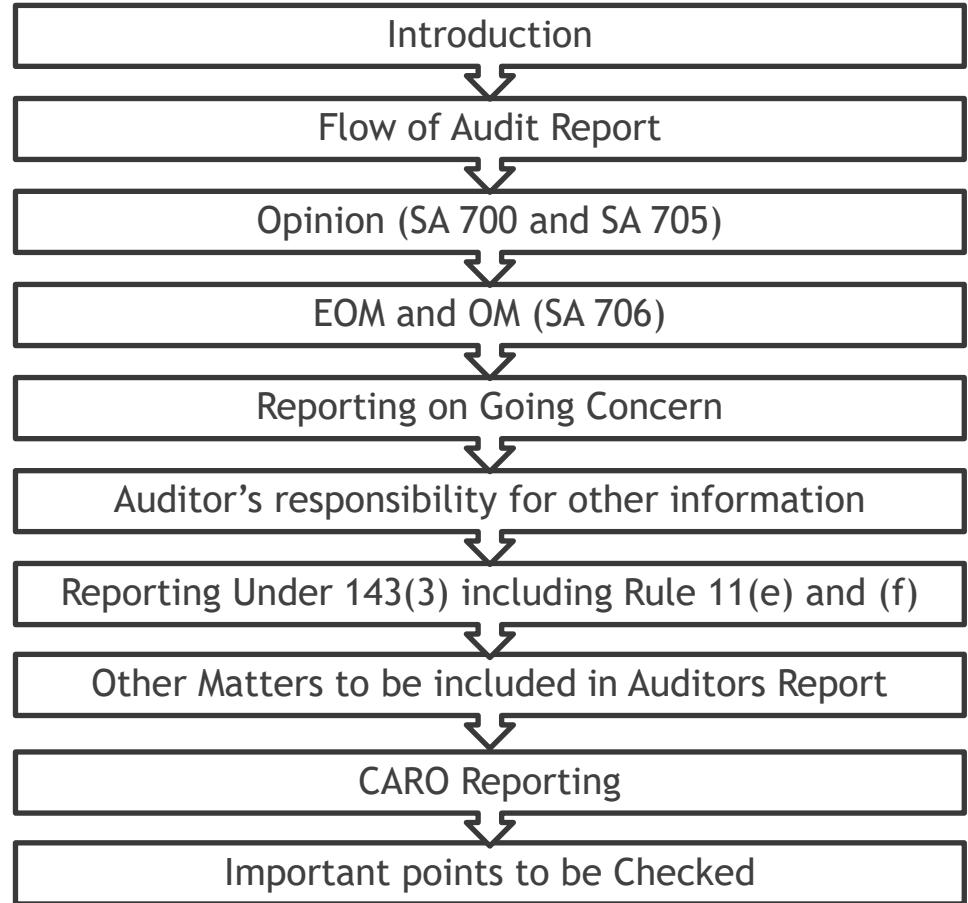


AUDIT REPORTING REQUIREMENTS

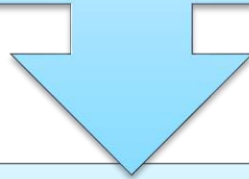


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INTRODUCTION

Standard on Auditing (SA): 700 deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.

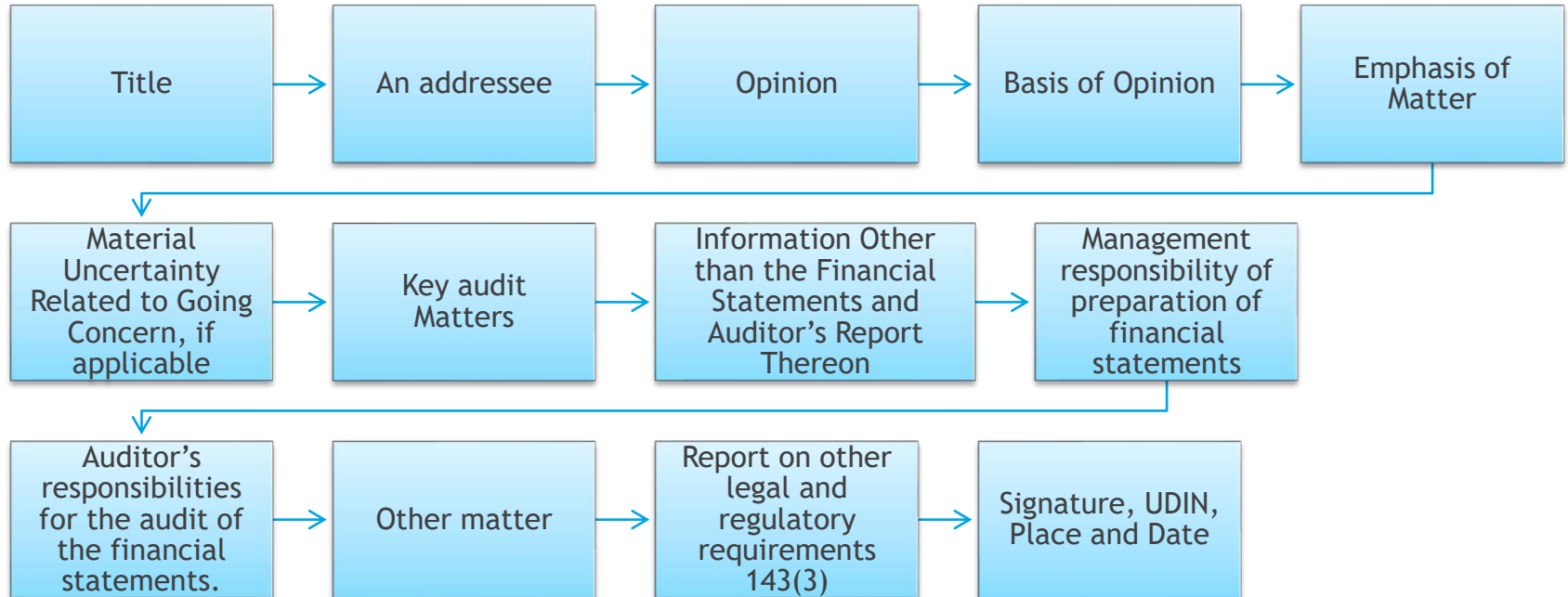


SA 701 deals with the auditor's responsibility to communicate key audit matters in the auditor's report. SA 705 (Revised) and SA 706 (Revised) deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report. Other SAs also contain reporting requirements that are applicable when issuing an auditor's report.



Flow of audit report

PRESCRIBED CONTENTS OF AN AUDITOR'S REPORT

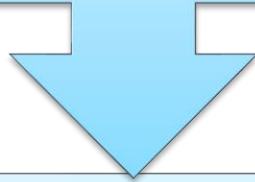




**OPINION
(SA 700 AND
SA 705)**

FORM OF OPINION

The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.



If the auditor:

- (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,
- the auditor shall modify the opinion in the auditor's report in accordance with SA 705 (Revised).

NATURE OF MODIFICATION IN DIFFERENT SITUATIONS

Nature of matter giving rise to modification	Auditor's judgment about the Materiality and Pervasiveness on the financial statements	
	Material but Not Pervasive	Material and Pervasive
Financial Statements are materially misstated	Qualified Opinion	Adverse Opinion
Inability to obtain sufficient appropriate audit evidence	Qualified Opinion	Disclaimer of Opinion

EXAMPLES OF QUALIFICATIONS

FEMA Non-Compliance

Non-compliance of any AS/ Ind AS

Non-compliance of Companies Act 2013 (Non-compliance is material and very frequent)

Qualification on Optionally convertible debentures

Qualification of Impairment of assets

Physical verification of Inventory

Recoverability of Investment

Going Concern

Gratuity Actuarial Valuation

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

ILLUSTRATIVE LANGUAGE

Illustration 1 - Qualified Opinion due to a Material Misstatement of the Financial Statements

Qualified Opinion

We have audited the financial statements of ABC Company Limited (“the Company”), which comprise the balance sheet as at March 31, 20XX, and the statement of Profit and Loss, (*statement of changes in equity*) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, **except for the effects of the matter described in the *Basis for Qualified Opinion* section** of our report, the aforesaid financial statements **give the information required by the Companies Act, 2013 (“the Act”) in the manner so required** and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31, 2XXX and profit/loss, (*changes in equity*) and its cash flows for the year ended on that date.

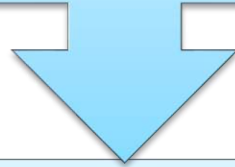
Basis for Qualified Opinion

The Company’s inventories are carried in the Balance Sheet at Rs. XXX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from the Accounting Standards prescribed under section 133 of the Companies Act, 2013. The Company’s records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of Rs. xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by Rs. xxx, and income tax, net income and shareholders’ funds would have been reduced by Rs. xxx, Rs. xxx and Rs. xxx, respectively. Refer Note XX to the financial statements.

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

EXAMPLES OF DISCLAIMER OF OPINION AND ADVERSE OPINION

Disclaimer of Opinion: Management do not allow access to the Financial Statements including communication with component auditor in respect of the component representing 90% of the Group Net Assets as at year end.



Adverse Opinion: The Entity's financing arrangement has expired and management is unable to conclude on the re-negotiations or obtain replacement financing This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern in accordance with SA 570. The financial statements do not adequately disclose this fact.

SCOPE LIMITATION AFTER THE AUDITOR HAS ACCEPTED THE ENGAGEMENT

STEP 1

- Auditor should request the management to remove the scope restriction. If the management refuses, he should communicate with TCWG and simultaneously explore ways to perform alternative procedures to obtain sufficient appropriate audit evidence.

STEP 2

- Determine if the possible effect of undetected misstatements is likely to be material but not pervasive. -----Qualify

STEP 3

- If possible effect of undetected misstatements is likely to be both material and pervasive ----- consider withdrawing from the audit, if permitted to do so, by the applicable law or regulation.

STEP 4

- Give a disclaimer of opinion.



EOM AND OM (SA 706)

EOM AND OM PARAGRAPH

SA 706 deals with additional communication in the auditor's report when the auditor considers it necessary to:

Emphasis of Matter: Draw attention to a matter presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements. An Emphasis of Matter paragraph is **not a substitute** for:

A modified opinion;

Disclosures in the financial statements to achieve fair presentation; or

Reporting in accordance with SA 570 (Revised)

Other Matter: Draw attention to any matter other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Other Matter does not include that

Required to be disclosed or presented in the financial statement

Information required to be provided by the management

Information prohibited from providing law, regulation, other professional Standards

CIRCUMSTANCES REQUIRE AN EOM PARA

An **uncertainty** relating to the future outcome of an exceptional litigation or regulatory action.

A **significant subsequent event** that occurs between the date of the financial statements and the date of the auditor's report.

Early application (where permitted) of a new Accounting Standard that has a material effect on the financial statements.

A **major catastrophe** that has had, or continues to have, a significant effect on the entity's financial position. Eg: Covid-19

One of the Regulator's observation: the EOM was inappropriate and soft reporting of a serious matter.

EXAMPLES OF EMPHASIS OF MATTER

Impact of Covid-19

Recognition of any Income /
Expense subject to revision
in rates by Authorities

Pending Litigation

Scheme of merger and
demerger

Non-compliance related to
Companies Act 2013 (Not
Material)

Effects of the Fire

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

ILLUSTRATIVE LANGUAGE

Illustration 1 - Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.

We draw attention to Note XX of the financial statements, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter.

Illustration 2 - There is pending litigation before a particular authority (say Tribunal/ court/ or any other relevant authority). The matter is at initial stage as of now. Management is certain with respect to merits of the case.

We draw attention to Note XX of the Financial Statements in respect to pending petition before the XX [mention name of authority] for recovery of XX charges amounting to Rs XX shown as receivable from XX. Considering matter is pending before XX, no provision has been made against the said receivable in the financial statements. Our opinion is not modified in respect of this matter.

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

EXAMPLES OF OTHER MATTER

Physical Verification of Inventory was not performed due to Covid-19 and evidence obtained through alternate audit procedures

Other Matter in Audit Report on consolidated FS on component audited by another auditor or not audited

Financial was audited by Another Auditor in previous year

Other Matter on Balancing figure (SEBI Report)

Comparative are not audited (if relevant)

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

ILLUSTRATIVE LANGUAGE

Illustration 1 - Few of the branches not audited by the auditor but reliance placed on report issued by branch auditor.

We did not audit the financial statements/information of _____(number) branches included in the standalone financial statements of the Company whose financial statements / financial information reflect total assets of Rs._____ as at 31st March, 20XX and total revenues of Rs._____ for the year ended on that date, as considered in the standalone financial statements. The financial statements/information of these branches have been audited by the branch auditors/ another auditor whose reports have been furnished to us, and our opinion in so far as it relates to the amounts and disclosures included in respect of these branches/ subsidiaries, is based solely on the report of such branch auditors.

Our opinion is not modified in respect of this matter.

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

ILLUSTRATIVE LANGUAGE

Illustration 2 - Few of the subsidiaries or other components not audited by the group auditor but reliance placed on report issued by component auditor and also with respect to few of the immaterial subsidiaries or other components, reliance has been placed on financial information prepared by Management .

a) We did not audit the financial statements / financial information of _____ subsidiaries, and _____ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs. _____ and net cash flows amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of ____ associates, whose financial statements / financial information have not been audited by us. These financial statements / financial information have been audited by other auditors whose reports have been furnished to us by the management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-section (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on the reports of the other auditors.

Contd...

ILLUSTRATIVE LANGUAGE

Illustration 2 - Continued.

b) We did not audit the financial statements / financial information of _____ subsidiaries and _____ jointly controlled entities, whose financial statements / financial information reflect total assets of Rs. _____ as at 31st March, 20XX, total revenues of Rs. _____ and net cash flows amounting to Rs. _____ for the year ended on that date, as considered in the consolidated financial statements. The consolidated financial statements also include the Group's share of net profit/loss of Rs. _____ for the year ended 31st March, 20XX, as considered in the consolidated financial statements, in respect of _____ associates, whose financial statements / financial information have not been audited by us. **These financial statements / financial information are unaudited and have been furnished to us by the management** and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, jointly controlled entities and associates, and our report in terms of sub-section (3) of Section 143 of the Act in so far as it relates to the aforesaid subsidiaries, jointly controlled entities and associates, is based solely on such unaudited financial statements/financial information. **In our opinion and according to the information and explanations given to us by the Management, these financial statements / financial information are not material to the Group.**

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done reports of the other auditors and the financial statements / financial information certified by the Management.

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.



REPORTING ON GOING CONCERN

GOING CONCERN BASIS OF ACCOUNTING

The F.S. are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future.

General purpose F.S. are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations or has no realistic alternative but to do so.

Special purpose F.S. may or may not be prepared in accordance with a Financial Reporting Framework for which the going concern basis of accounting is relevant.

When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to *realize its assets and discharge its liabilities in the normal course of business.*

AUDITORS CONCLUSION

Auditor should obtain sufficient appropriate audit evidence to conclude on appropriateness of GC accounting assumption by the management

Use of going concern basis of accounting is appropriate, no material uncertainty exists - Unmodified opinion

Management unwilling to make / extend its assessment - qualified or disclaimer of opinion (as auditor will not be in a position to obtain sufficient and appropriate audit evidence)

Use of Going Concern assumption is not appropriate, FS prepared on alternate basis - EOM para if appropriate disclosures in notes with reasons for using the alternate basis for accounting (e.g. liquidation basis)

FS prepared on GC basis but in auditors opinion, the same is inappropriate - Adverse opinion (regardless of whether FS disclosures contain a note on the same)

AUDITORS CONCLUSION (COMPLETION STAGE)

1. Use of going concern basis of accounting is appropriate but a material uncertainty exists which has not been adequately disclosed in the financial statements then the auditor should express a qualified opinion or adverse opinion (depending on the pervasiveness of the matter to the financial statements (i.e., the inadequacy of disclosures). In the basis of qualified (or adverse) opinion, state that material uncertainty exists that may cast significant doubts on entities ability to continue as a GC and that FS does not disclose this fact.
2. Use of going concern basis of accounting is appropriate but a material uncertainty exists which has been adequately disclosed in the financial statements then the auditor would express an unmodified opinion and the auditor's report would include a separate section under the heading 'Material Uncertainty Related to Going Concern'. In this case, draw attention to note in FS which describes the principal events or conditions that may cast a significant doubt on entities ability to continue as a GC, disclose clearly that disclose that material uncertainty exists that may cast a significant doubt on entities ability to continue as a GC and that it may be unable to realize its assets & discharge its liabilities in the normal course of business and that the opinion is not modified in that respect.

Some framework may require additional disclosures like

- a) Management's evaluation of significant events / conditions relating to entity's ability to meet its obligation
- b) Significant judgements used by the management (as a part of its assessment)

ILLUSTRATIVE LANGUAGE

Matter	Opinion (Material Uncertainty Para)
<p>Use of going concern basis of accounting is appropriate but a <u>material uncertainty exists which has been adequately disclosed</u> in the financial statements</p>	<p>We draw attention to Note X in the FS which, states that the Company has accumulated losses of Rs. X and its net worth has been fully eroded, the Company's Current liabilities has exceeded its current assets by Rs. X as at the balance sheet date. These conditions indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as Going Concern. However, the management has provided us a comfort letter from the promoters for continued support to the company to meet its financial obligations. Further, the Company has favorable cash inflows from its operations during the current year & the previous year. In view of the above, the financial statements of the Company have been prepared on going concern basis.</p> <p>Our opinion is not modified with respect to above matter</p>

ILLUSTRATIVE LANGUAGE

Matter	Emphasis of Matter Para
<p>Use of going concern basis of accounting is inappropriate, <u>management has used alternative basis of accounting</u> and management has <u>disclosed the same in the FS</u></p>	<p>We draw attention to Note XX to the financial statements, which states that the Company has discontinued its operations during F.Y. 2019-20. These events indicate the Company's inability to continue as a going concern. In the view of the same, the going concern assumption is not considered appropriate and current assets and current liabilities have been recorded at the values at which they are estimated to be realised / paid -off.</p> <p>Our opinion is not modified in respect of this matter.</p>

ILLUSTRATIVE LANGUAGE

Matter	Opinion
<p><u>Use of going concern basis of accounting is inappropriate</u> and the auditor do not agree with the basis of accounting and Management has not made appropriate disclosure</p>	<p>The entity's financing arrangements expired and the amount outstanding was payable on March 31, 20X1. The entity has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.</p>

FREQUENTLY ASKED QUESTIONS

- **Where an entity does not have any material uncertainty regarding the entity's ability to continue as a going concern, should the Management's Responsibility paragraph continue to include the disclosure as required SA 700 (Revised)?**

Yes, because the management's responsibility paragraph provides a summary of responsibility, including going concern assessment even if not have any material uncertainty regarding the entity's ability to continue as a going concern.

- **If an auditor disagrees with or is uncomfortable about the recognition, measurement, disclosure or presentation of a transaction in the financial statements, can he highlight it in an emphasis of matter paragraph?**

No, It is important to note that Emphasis of Matter is given only in respect of matters that are "appropriately presented or disclosed" in the financial statements. This means that the auditor should and is deemed to agree entirely with the treatment of that matter in the financial statements.

- **When the auditor's report is modified, does this impact the auditor's opinion on internal financial controls over financial reporting?**

Generally Yes, When the auditor's report is modified, this may have an impact on the opinion on IFC over financial reporting. A modification in the audit report on financial statements may have a direct impact on accounting records and reliable financial information and therefore may trigger a modification in the auditor's reporting on internal financial controls over financial reporting. However, there could be situations e.g. disagreement with management in interpretation of an accounting standard, wherein modification in the audit report on financial statements may not have an impact on auditor's report on internal financial controls over financial reporting. This need to be evaluated on case to case basis.



KAM (SA 701)

SA 701

Definition of KAM

Key Audit Matters :

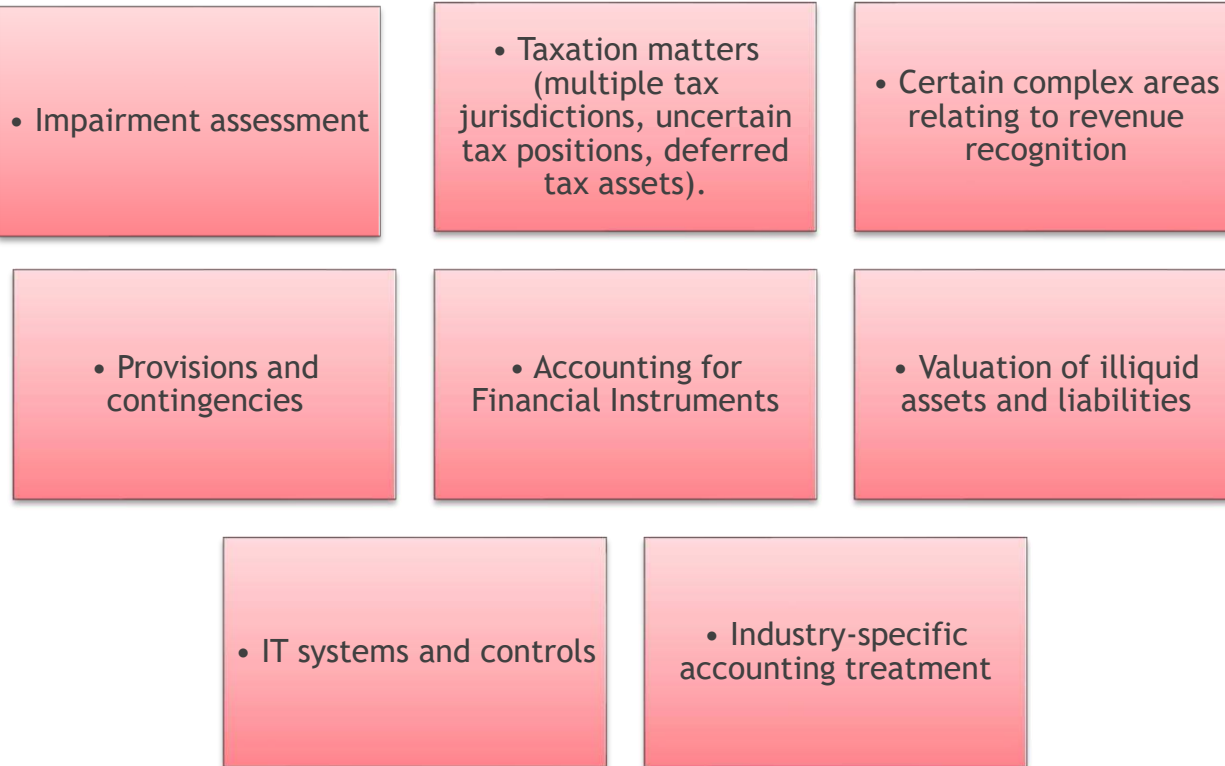
Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Effective date :

This SA - 701 is effective for audits of financial statements for periods beginning on or after April 1, 2018

SA 701

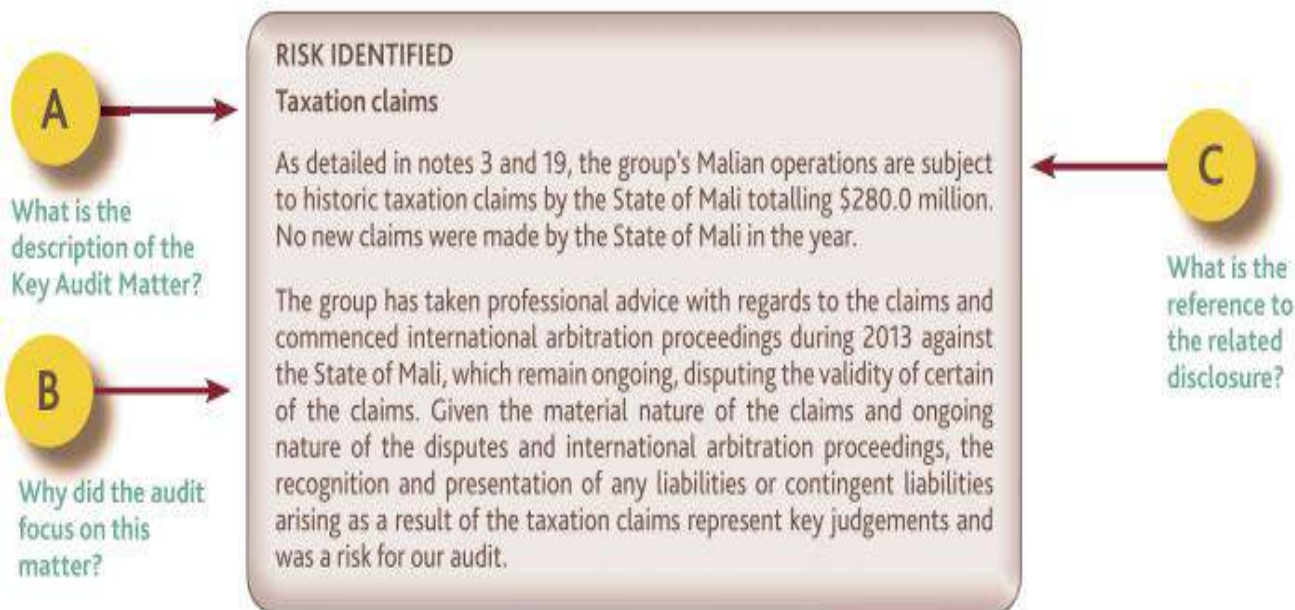
Examples of typical KAMs



SA 701

Drafting a KAM

Illustrative audit key matter :



INTERPLAY BETWEEN EMPHASIS OF MATTER PARAGRAPH AND KEY AUDIT MATTER

When a matter has been determined to be a key audit matter, the auditor is required to include the matter in the auditor's report in accordance with SA 701. The auditor should not use an Emphasis of Matter paragraph or Other Matter paragraph to highlight the matter instead of the requirements in SA 701 and *Emphasis of Matter paragraph or an Other Matter paragraph cannot be used as a substitute for reporting the matter as a key audit matter.*

There may be a matter that is *not determined to be a key audit matter* in accordance with SA 701 (i.e., because it did not require significant auditor attention), but which, in the auditor's judgment, is *fundamental to users' understanding of the financial statements* (e.g., a subsequent event). If the auditor considers it necessary to draw users' attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor's report in accordance with SA 706 (Revised).



AUDITOR'S RESPONSIBILITY FOR OTHER INFORMATION

OTHER INFORMATION

Management is responsible for other information.

Identification of other information **obtained prior to date of audit report/ Expected to be made available after date of audit report.**

Neither an opinion or nor any kind of assurance or conclusion on other information.

Auditor's Responsibility to read and consider other information.

If there is any material misstatement then state that in the same section.

Consider implications of matter giving rise to modification on this reporting

ILLUSTRATIVE LANGUAGE

An auditor's report of a company, whether listed or unlisted, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.:

The Company's Board of Directors is responsible for the other information. The other information comprises the [information included in the Director's Report/ Annual Report etc.] but does not include the financial statements and our auditor's report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

ILLUSTRATIVE LANGUAGE

An auditor's report of a listed company containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.:

The Company's Board of Directors is responsible for the other information. The other information comprises the [information included in the X report but does not include the financial statements and our auditor's report thereon]. The X report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

[When we read the X report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance under SA 720 'The Auditor's responsibilities Relating to Other Information' and (*describe actions applicable in the applicable laws and regulations*).]

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

ILLUSTRATIVE LANGUAGE

Responsibility of the Auditor to report when he has obtained no other information prior to the date of the auditor's report and does not expect to obtain other information after the date of the auditor's report - Unlisted Entities:

The Company's Board of Directors is responsible for the other information. The other information comprises the information included in the [X report] but does not include the [standalone/ consolidated] financial statements and our auditor's report thereon.

Our opinion on the [standalone/ consolidated] financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the [standalone/ consolidated] financial statements, our responsibility is to read the other information and, in doing so, consider whether such other information is materially inconsistent with the [standalone/ consolidated] financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The [X report] is not made available to us as at the date of this auditor's report. We have nothing to report in this regard.

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

ILLUSTRATIVE LANGUAGE

In case, an auditor's report of a company, whether listed or unlisted, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.

The Company's Board of Directors is responsible for the other information. The other information comprises the _____ [information included in the Management report, Chairman's statement, Director's report etc] but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described below, we have concluded that such a material misstatement of the other information exists.


[Description of material misstatement of the other information]

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.




REPORTING UNDER 143(3)


REPORTING UNDER 143(3)




- (a) whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;



- (b) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;



- (c) whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditor has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;




- (d) whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;


REPORTING UNDER 143(3)



- (e) whether, in his opinion, the financial statements comply with the accounting standards;



- (f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;



- (g) whether any director is disqualified from being appointed as a director under sub-section (2) of section 164;



- (h) any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;



- (i) whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;



- (j) such other matters as may be prescribed.

OTHER MATTERS TO BE INCLUDED IN AUDITORS REPORT



REPORTING UNDER 143(3)(J)

The auditor's report shall also include their views and comments on the following matters, namely:-

- (a) whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;

- (b) whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;

- (c) whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.

IMPORTANT AMENDMENT



Point / Question

- Whether Applicable from FY 2021-22
- Or
- To Reports issues on or after April 01, 2021

IMPORTANT AMENDMENTS

The Auditor's Report shall also include their views and comments on the following matters, namely:

➤ **Clause (e)**

(i) Whether **the management has represented that, to the best of it's knowledge and belief, other than as disclosed in the notes to the accounts,** no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, **whether recorded in writing or otherwise,** that the Intermediary shall, whether, **directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the company** ("Ultimate Beneficiaries") or **provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries;**

(ii) Whether the **management has represented, that, to the best of it's knowledge and belief, other than as disclosed in the notes to the accounts,** no funds have been received by the company from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with the understanding, **whether recorded in writing or otherwise,** that the company shall, whether, **directly or indirectly,** lend or invest in other persons or entities identified **in any manner whatsoever by or on behalf of the Funding Party** ("Ultimate Beneficiaries") or **provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and**

IMPORTANT AMENDMENTS

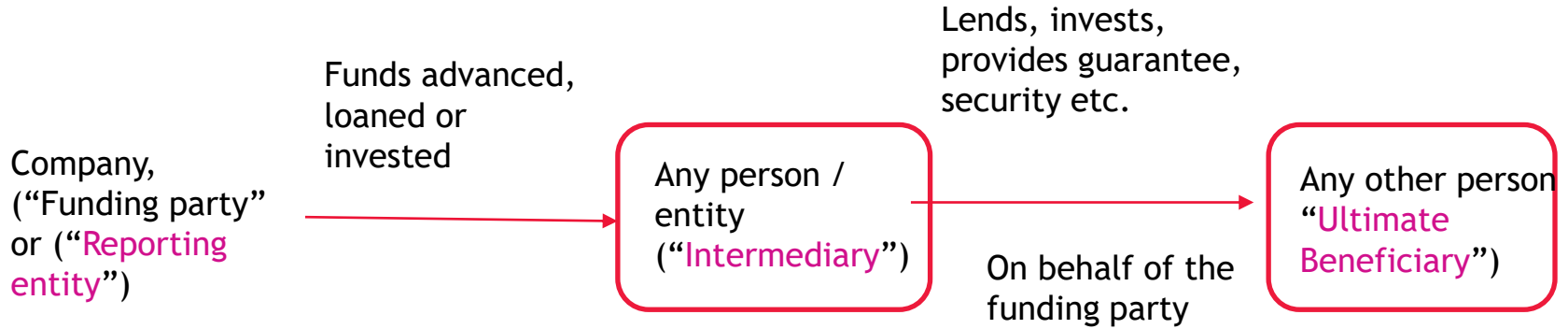
(iii) Based on such **audit procedures** that the auditor has considered reasonable and appropriate in the circumstances, nothing has come to their notice that has caused them to believe that the **representations under sub-clause (i) and (ii) contain any material mis-statement.**

Points for consideration

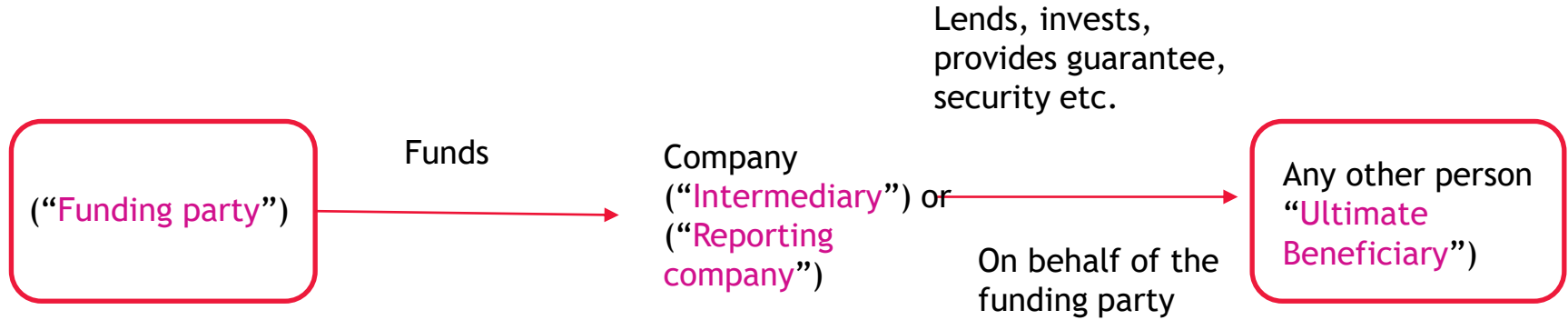
- **Opinion is to be provided on the basis of representation from the management and also that the representation is not materially misstated**
- **Management has to provide information to the best of its knowledge**
- **Requires auditor to report whether there are any transactions other than those reported in the notes to accounts**
- **Difficulty in collating audit evidence - as it includes whether in writing or otherwise**
- **Includes direct / indirect investment - how will the information / evidence be gathered**
- **Also includes likes of the guarantee / security**
- **Covers both received as well as lent / invested**

SA 240 & SA 315 to be put to use in letter & spirit to design audit procedures!

ANALYSIS OF RULE 11 (e)(i)



ANALYSIS OF RULE 11 (e)(ii)



Case Studies

(i) If X gives a guarantee to B who in turn gives a counter guarantee to C on behalf of X providing the guarantee given by X as security for purpose of C availing funds. Will X be considered as funding party for the purpose of reporting under 11(e)(i) and will B be considered as intermediary for the purpose of reporting under 11(e)(ii)?

Response: In this instance, X will not be considered as the Funding Party since in the whole arrangement no funds are being transferred and it relates to only non-funded arrangement and B will not be considered as an Intermediary since it did not receive any funds from X and therefore disclosure of such arrangement will not be required in the financial statements.

(ii) A gives a loan of Rs. 100 crores to B who based on such loan provides a guarantee in favour of C on behalf of A. What are the reporting requirement for A and B?

Response: Reporting by A will be required under Rule 11(e)(i) being a Funding Party to B, an Intermediary. Further, though there is no funding by the Intermediary B to C, reporting will be required under Rule 11(e)(ii) in view of the guarantee given by B to C on behalf of A.

Case Studies

(iii) A lends money to B for onward investment in C on behalf of A. What are the reporting requirements for A and B?

Response: Reporting under Rule 11(e)(i) will be applicable for A and reporting under Rule 11(e)(ii) will be applicable for B.

(iv) X, a company in United Kingdom, wants to acquire company Y in India through A, its wholly owned subsidiary in India. X provides funds to A through infusion in its capital and A is obligated to use such capital receipt for acquisition of investments in Y. What are the reporting requirements under Rule 11(e) ?

Response: Reporting under Rule 11(e)(ii) will be applicable to A.

No written understanding

When there is no written understanding that the Intermediary is lending or investing on behalf of the Funding Party, it is important to understand the timing of the cash flows from the Funding Party and the lending or investment by the Intermediary. Even if the timing is different, it should be presumed that the onward lending or investment made by the Intermediary is initially out of the funds provided by the Funding Party and the residual amount if any can be attributed to the internal or any other source of funds of the Intermediary and therefore, inquiries need to be made by the auditor. This will require evaluation on case to case basis.

(v) A funds Rs. 100 crores to B in year 1 for onward funding to C on behalf of A. B funds Rs. 100 crores to C in year 2. As at the end of year 1, B has a cash and bank balance of Rs.120 crores. There is no written understanding between the parties. Can it be considered that the funds advanced by B to C is from the funds that it received from A?

Response: It should be considered in year 2 that the funding by B to C was from the funds received by B from A in year 1 since the year 1 end cash and bank balance of B was more than the funds received from A.

IMPORTANT AMENDMENTS

➤ **(Clause (f))**

Whether the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013.

Points for consideration

Factual reporting

Specific non-compliances with the provisions of the section may warrant reporting

Illustrative language

Scenario 1 - No funds have been advanced, loaned or invested

(i) The Management has represented that, to the best of it's knowledge and belief, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Company to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Company ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

(ii) The Management has represented, that, to the best of it's knowledge and belief, no funds have been received by the Company from any person(s) or entity(ies), including foreign entities (Funding Parties), with the understanding, whether recorded in writing or otherwise, as on the date of this audit report, that the Company shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.

(iii) Based on the audit procedures performed that have been considered reasonable and appropriate in the circumstances, and according to the information and explanations provided to us by the Management in this regard nothing has come to our notice that has caused us to believe that the representations under sub-clause (i) and (ii) of Rule 11(e) as provided under (1) and (2) above, contain any material mis-statement.

Illustrative language

Scenario 2 - The company has not funded in the capacity of a Funding Party

Scenario 3 - Funding, understanding and onward lending or investing in the same year

Scenario 4(a) - Funding made by the Funding Party in year 1. Understanding with the Intermediary for onward lending or investing on behalf of the Funding Party reached in year 2 before the date of audit report for year 1

Scenario 4(b) - Funding made by the Funding Party in year 1. Understanding with the Intermediary for onward lending or investing on behalf of the Funding Party reached in year 2 after the date of audit report for year 1

For (ii) only: Scenario 3 - The company has not received funds in the capacity of an Intermediary (including situations where funds have been received by the company but the understanding of onward lending or investing on behalf of the Funding Party has not yet been reached)

For (iii) only: Scenario 2 - Modified opinion under Rule 11(e)(i) and unmodified opinion under Rule 11(e)(ii)

For (iii) only: Scenario 3 - Modified opinion under Rule 11(e)(ii) and unmodified opinion under Rule 11(e)(i)



CARO REPORTING

NEW CLAUSES

Clause VIII: Reporting on Unrecorded Income

This clause is applicable to the companies who has surrendered or disclosed unrecorded income as its income in the tax Assessment under Income tax Act 1961

Words “surrendered or disclosed” implies that the company must have voluntarily admitted to the addition of such income, which can be demonstrated based on the returns filed by the company.

This clause does not attract merely commencing or finalization of Assessment under income tax Act 1961.

Any addition income made by income tax officer by virtue of Income Tax Assessment under I.T. Act, 1961 shall not fall under the scope of this clause.

Purpose of this clause is to identify the impact of either surrendered or disclosed income and required to be classified items keeping in view the requirements of AS-5 and Ind AS-8.

NEW CLAUSES

Clause VIII: Reporting on Unrecorded Income

CASE STUDY

I - If a company disclosed or surrendered unrecorded income other than voluntary disclosure or by force, whether same is required to report under CARO, 2020?

In situation, where undisclosed income surrendered or disclosed on the ground that such disclosure was obtained under force, coercion, etc. the income cannot be treated as surrendered or disclosed by the company.

II - If any addition of income made by income tax officer by virtue of Income tax Assessment, and the Company has not filed further appeal, whether Auditor is required to Report the same in under CARO, 2020?

The addition is made by the income tax authorities and the company has disputed such additions, reporting under this clause is not applicable. Even where the company chooses not to file an appeal, it cannot be presumed that the company has surrendered or disclosed the income.

MAJOR CHANGES

Clause XI Reporting on Fraud

- Reporting of all the frauds on the company is required (whether or not it is done by its employees or officers) (eg Frauds by vendor).
- New sub-clauses (b) and (c) are inserted which requires reporting on any reporting made by auditor to central government u/s 143(12) and whistle blower complaints.
- This clause does not require the auditor to discover such frauds on the company and by the company. The scope of auditor's inquiry under this clause is restricted to frauds 'noticed or reported' during the year. (i.e. Management has knowledge of the same)
- However, this does not relieve auditor from his responsibility to comply with the requirements of SA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements and section 143(12) of the Companies Act, 2013 (incl. GN on same).
- The auditor is required to report separately on the nature and amount involved (materiality) for (i) fraud on the company (ii) fraud by the company. (including those noticed or reported during the course of performing the audit)
- Two types of intentional misstatements are relevant to the auditor's consideration of fraud - misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

MAJOR CHANGES

Clause XI Reporting on Fraud

Clause (xi)(b)

If the auditor has filed any report in Form ADT-4 to the central government as per section 143(12) of the Companies Act 2013 the same is to be reported under the said clause.

If the amount of fraud is less than specified amount as per the said section, the auditor is required to report the same to Audit Committee or the Board and disclose the facts in CARO Report.

Clause (xi)(c)

It requires the auditor to consider whistle blower complaints, if any received by the company during the year.

The establishment of whistle blower mechanism is not mandatory to all companies and hence the auditor should consider the requirements prescribed in the Act and SEBI (LODR) Regulations 2015.

1) The auditor reporting under this clause, should consider whether cost auditor or secretarial auditor has filed any report under section 143(12) of the Act in Form ADT-4 and accordingly the fact shall be reported. The auditor should obtain written representations from management in this regard

MAJOR CHANGES

Clause XI Reporting on Fraud

CASE STUDY

ABC private limited, there is no mandatory requirement for establishing whistle blower mechanism either under the Act or under SEBI (LODR) regulations or under any other law. Whether the auditor of the company require to report under the said clause?

Even if there is no mandatory requirement of establishing whistle blower mechanism under Act or any other law, the auditor should ask the management to share all the whistle blower complaints and review while reporting under the said clause.

Auditor has during the year unearthed a fraud and reported to Central Government u/s 143(12). Whether this is to be reported under CARO

Yes. All types of Fraud is to be reported.

ILLUSTRATIVE LANGUAGE

Illustration 1 - Where there is fraud identified by Management (Reporting under clause 3(xi)(a)):

“We have been informed that the accountant of the company had misappropriated funds amounting to Rs. XX during the preceding year and the year under audit. Investigations are in progress and the accountant has been dismissed and arrested. The company has withheld his terminal benefits and it is estimated that the amount misappropriated may not exceed the terminal benefits due to the accountant. The company is also adequately covered by fidelity insurance cover.”

Illustration 2 - Where there is fraud identified by Management (Reporting under clause 3(xi)(b))

According to the information and explanations given to us, during the year, Management has come across an instance of fraud amounting to Rs⁵. _____ (provide in brief the details of fraud). As the same is identified by the Management, reporting the same under the provisions of section 143(12) and filing of Form ADT-4 is not applicable.

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

ILLUSTRATIVE LANGUAGE

Illustration 3 - *Where the Company has received whistle blower complaints (Reporting under clause 3(xi)(c)):*

“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.”

Illustration 4 - *In case no whistle-blower complaints are received during the year (Reporting under clause 3(xi)(c)):*

“As represented to us by the management, there are no whistle blower complaints received by the company during the year”.

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

NEW CLAUSES

Clause XIV: Reporting on Internal Audit

Clause XIV	Points to remember
(a) whether the company has an internal audit system commensurate with the size and nature of its business;	This Clause has mandatory application for listed company and to company who are required to appoint internal auditor as section 138 of the Act.
(b) whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;	This order made it mandatory to auditor to consider the size of the internal audit department, Qualifications of the persons who undertake the internal audit work, reporting responsibility to verify function appropriateness.
	Auditor to consider internal audit reports of whole financial year (including his report on IFCoFR) including drafted report if any

ILLUSTRATIVE LANGUAGE

Illustration 1 - Company has an adequate Internal Audit System:

“In our opinion and based on our examination, the company has an internal audit system commensurate with the size and nature of its business.”

Illustration 2 - Company does not have Internal Audit System though mandated under section 138 of the Act:

“In our opinion and based on our examination, though the company is required to have an internal audit system under section 138 of the Act, it does not have the same established for the year.”

Illustration 3 - Company does not have Internal Audit System also, not mandated under section 138 of the Act:

“In our opinion and based on our examination, the company does not have an internal audit system and is not required to have an internal audit system as per provisions of the Companies Act 2013.

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

ILLUSTRATIVE LANGUAGE

Illustration 4 - Internal Audit Reports Considered:

We have considered the internal audit reports of the company issued till date, for the period under audit.

Illustration 5 - Internal Audit System does not exist for the Company:

The company did not have an internal audit system for the period under audit.

Illustration 6 - Internal Audit Reports entirely unavailable or provided at short notice or only partly (either by date of issue or scope) available - hence not considered

We were unable to obtain [any/ some/ on timely basis] of the internal audit reports of the company, hence the internal audit reports have not been [entirely] considered by us.

[The statutory auditor may also determine whether this is a material internal control weakness under IFCoFR]

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

NEW CLAUSES

Clause XVII: Reporting on Cash Losses

Clause XVII	Points to remember
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;	This clause is mandatory for every company.
	“Cash losses” is not defined in the Act and the accounting standards or Indian accounting standards.
	If financial statements are prepared in accordance with accounting standards, the figure of net profit/loss after taxes is adjusted with non-cash nature i.e. depreciation provided as per provisions of AS 10, amortization as per AS 26, and impairment loss or its reversal as per AS 28 etc.
	If financial statements are prepared in accordance with Indian accounting standards, the figure of profit or loss (excluding other comprehensive income) is adjusted for the effects of transactions of non-cash nature such as depreciation provided as per provisions of Ind AS 16, Ind AS 116, amortisation as per Ind AS 38, and impairment loss or its reversal as per Ind AS 36, etc.

NEW CLAUSES

Clause XVIII: Reporting on Auditor's Resignation

Clause XVIII	Points to remember
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	<p>The Auditor is required to report if there is any resignation of the statutory auditors during the year.</p> <p>This clause also requires the auditor to consider the issues, objections or concerns raised by the outgoing auditors in case of resignation (casual vacancy u/s 140(2)).</p>

NEW CLAUSES

Clause XVIII: Reporting on Auditor's Resignation

What are the matters that an incoming auditor is required to consider in case previous auditor has resigned.

The incoming auditor who is required to report on this clause should take into account following before reporting on this clause.

- (i) ICAI code of ethics.
- (ii) Reasons stated by the outgoing auditor in Form ADT3 filed with ROC in compliance with 140(2) read with rule 8.
- (iii) Implementation guide by ICAI on resignation / withdrawal from engagement to perform audit of financial statements.
- (iv) Compliance with SEBI circular applicable for auditors of listed companies.

Is the auditor required to report in case the earlier auditor has completed his term and has not been re-appointed?

No. The auditor has not resigned in the said case.

ILLUSTRATIVE LANGUAGE

Where there is no resignation of statutory auditor during the year:

There has been no resignation of the statutory auditors during the year. Hence, the provisions stated in paragraph 3 (xviii) of the Order are not applicable to the Company.

Where there is resignation of statutory auditor during the year:

There has been resignation of the statutory auditor during the year and we have taken into consideration of issues, objections or concerns raised by the outgoing auditor.

OR

There has been resignation of the statutory auditors during the year, there were no issues, objections or concerns raised by the outgoing auditors.

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

NEW CLAUSES

Clause XIX: Reporting on Financial Position

On the basis of the financial ratios, ageing and expected dates of realization 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;

NEW CLAUSES

Clause XIX: Reporting on Financial Position

Currently, there is no legal requirement under the Act for the companies to provide explicit disclosure in any statements. However, AS 1, Disclosure of Accounting Policies, considers going concern as a fundamental accounting assumption.

SA 570- Going Concern, the auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the appropriateness of management's use

Wherein letters provided by the holding company to support going concern, but the company is unable to meet its liabilities. In such a scenario, the auditor should evaluate whether the holding company has the ability to discharge the financial liabilities of the company.

Consideration to be given asset liability maturity (ALM) pattern in the financial statements in case of banking company.

If in the main audit report, there is a material uncertainty para related to going concern, the auditor should ensure that the same is in line with CARO Report.

ILLUSTRATIVE LANGUAGE

Where the auditor concludes, based on the information obtained from the management and audit procedures performed as above, that no material uncertainty exists as on the date of the audit report that the 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, the auditor should give a negative assurance in his report:

“According to the information and explanations given to us and on the basis of the financial ratios, ageing and expected dates of realization of financial assets and payment of financial liabilities, other information accompanying the financial statements, our knowledge of the Board of Directors and management plans and based on our examination of the evidence supporting the assumptions, **nothing has come to our attention, which causes us to believe that any material uncertainty exists as on the date of the audit report** that company is not 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. We, however, state that this is not an assurance as to the future viability of the company. We further state that our reporting is based on the facts up to the date of the audit report and we neither give any guarantee nor any assurance that all liabilities falling due within a period of one year from the balance sheet date, will get discharged by the company as and when they fall due.”.

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

NEW CLAUSES

Clause XX: Reporting on CSR Compliance:

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

NEW CLAUSES

Clause XX: Reporting on CSR Compliance

Applicable on those company who has cross the threshold as specified under section 135 of the act.

Clause (xx)(a) requires reporting related to other than ongoing projects, while clause (xx)(b) requires reporting on any ongoing projects.

Net profit to be calculated as per section 198 of the act.

Auditor shall report where the company has transferred/not transferred the unspent amount, to a fund specified in Schedule VII to the Act.

Reporting to be done for current year and for the previous years for which the amount remains unspent.

If the time to deposit unspent money is not elapsed at the time of issuing of Auditor report, the auditor should appropriately bring out this fact while reporting.

ILLUSTRATIVE LANGUAGE

Illustration 1 - In case the provisions of section 135 are not applicable on the Company:

According to the information and explanations given to us and based on our verification, the provisions of section 135 of the Act are not applicable to the Company. Hence, reporting under paragraph (xx)(a) to (b) of the Order is not applicable to the Company.

Illustration 2 - In case the company has not transferred the unspent amount, in respect of other than ongoing projects, to a fund specified in Schedule VII to the Act within the time limits:

In respect of other than ongoing projects, the Company has transferred unspent amount to a Fund specified in schedule VII of the Act within a period of six months of the expiry of the financial year in compliance second proviso to sub-section (5) of section 135 of the Act except in respect of the following:

Financial year*	Amount unspent on Corporate Social Responsibility activities "other than Ongoing Projects"	Amount transferred to Fund specified in schedule VII within 6 months from the end of the financial year	Amount transferred after the due date (specify the date of deposit)
(a)	(b)	(c)	(d)

* For Current year and for the previous |year/(s) for which the amount remains unspent

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

ILLUSTRATIVE LANGUAGE

Illustration 3 - In situations where the time period specified under the second proviso to sub-section (5) of section 135 has not yet elapsed at the time of the issue of the auditor's report, the auditor should report under this clause on the basis of the information till the date of the auditor's report. In such circumstances the auditor should appropriately bring out this fact while reporting under this clause and the auditor may make the following comment:

“The company has not transferred the amount remaining unspent in respect of other than ongoing projects, to a Fund specified in Schedule VII to the Companies Act, 2013 till the date of our report. However, the time period for such transfer i.e. six months of the expiry of the financial year as permitted under the second proviso to sub-section (5) of section 135 of the Act, has not elapsed till the date of our report.”

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

ILLUSTRATIVE LANGUAGE

Illustration 4 - In case the company does not have any on-going projects:

There are no ongoing projects and accordingly reporting under clause 3(xx)(b) of order is not applicable to the Company.

Illustration 5 - In case the company has not transferred the unspent amount, in respect of ongoing projects, to a special account as specified under section 135(6) of the Act within the time limits:

In respect of ongoing projects, the Company has transferred unspent amount to a special fund within a period of thirty days from the end of the financial year in compliance section 135(6) of the said Act, except in respect of the following:

Financial year*	Amount unspent on Corporate Social Responsibility activities "Ongoing Projects" ⁵	Amount transferred to special Account within 30 days from the end of the financial year ⁵	Amount transferred after the due date (specify the date of transfer) ⁵
(a)	(b)	(c)	(d)

* For Current year and for the previous year/(s) for which the amount remains unspent)

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

NEW CLAUSES

Clause XXI: Reporting under consolidated financial statement

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.

NEW CLAUSES

Clause XXI: Reporting under consolidated financial statement

Reporting under this clause is only required for those entities included in the consolidated financial statements to whom CARO 2020 is applicable.

CARO report 2020 shall not apply to the auditor's report on the consolidated financial statements except this specific clause (related to Qualification/Adverse remarks in CARO in the audit report of components which are consolidated in the CFS, will be required to be reported).

This clause further requires the auditor to provide the details of the companies and the paragraph numbers of the respective CARO report containing the qualifications or adverse remarks.

ILLUSTRATIVE LANGUAGE

Illustration 1 - The Company has no Subsidiaries/ Associates/ Joint Ventures

According to the information and explanations given to us, the Company does not have any Subsidiary, Associate or Joint Venture. Accordingly, reporting under clause 3(xxi) of the Order is not applicable.

Illustration 2 - In case there are no qualifications or adverse remarks in the CARO reports of subsidiaries, associates and Joint Venture

According to the information and explanations given to us and based on the CARO reports issued by us for the Company and on consideration of CARO reports issued by statutory auditors of subsidiaries, associates and Joint Venture included in the consolidated financial statements of the Company to which reporting under CARO is applicable, we report that there are no Qualifications/adverse remarks.

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

ILLUSTRATIVE LANGUAGE

Illustration 3 - There are qualifications or adverse remarks in the CARO reports of Subsidiaries/ Associates/ Joint Ventures

According to the information and explanations given to us, the details of Qualifications/adverse remarks made by the respective auditors of the subsidiaries, associates and Joint Venture in the Companies (Auditor's Report) Order (CARO) Reports of the companies included in the consolidated financial statements are as follows:

Sr. No	Name of the Company	CIN	Type of Company (Holding /Subsidiary/ Associate/ Joint Venture)	Clause number of the CARO Report which is qualified or Adverse

Note: The above examples are illustrative only. Detailed evaluation of the facts need to be carried out before concluding on the same.

CONSOLIDATED AUDIT REPORT

Other Matter on the component audited by another auditor (SA 600) or not audited consolidated based on management accounts (consider materiality)

Other Matter on the component being foreign entity whose financial information prepared as per GAAP accepted in their local jurisdiction and we audit the conversion adjustments

Ensure qualifications/ EOM in the standalone reports of component are taken care in consol report considering materiality and relevance at group level

If there is any qualification or adverse remarks on CARO made by the auditor of respective component and also the Parent included in consolidated financial statements, indicate details (Name, CIN, Relationship) and Clause numbers of the CARO

IMPORTANT POINTS TO BE CHECKED

ET to assess whether qualification and material uncertainty have an adverse impact on the functioning of the Company

Special Purpose v/s General Purpose

Impact of qualification/ other reporting in IFC report on main report

CARO 2020 amendments link with required disclosures as per Schedule III

Amendments in Rule 11(e) and (f)

NEW CHANGE - AUDIT TRAIL

THANK YOU

