

CA-FINAL

**ADVANCED
AUDITING &
PROFESSIONAL
ETHICS**

(APPLICABLE FOR MAY 2022 EXAMS & ONWARDS)

CA. ROHIT GROVER, FCA

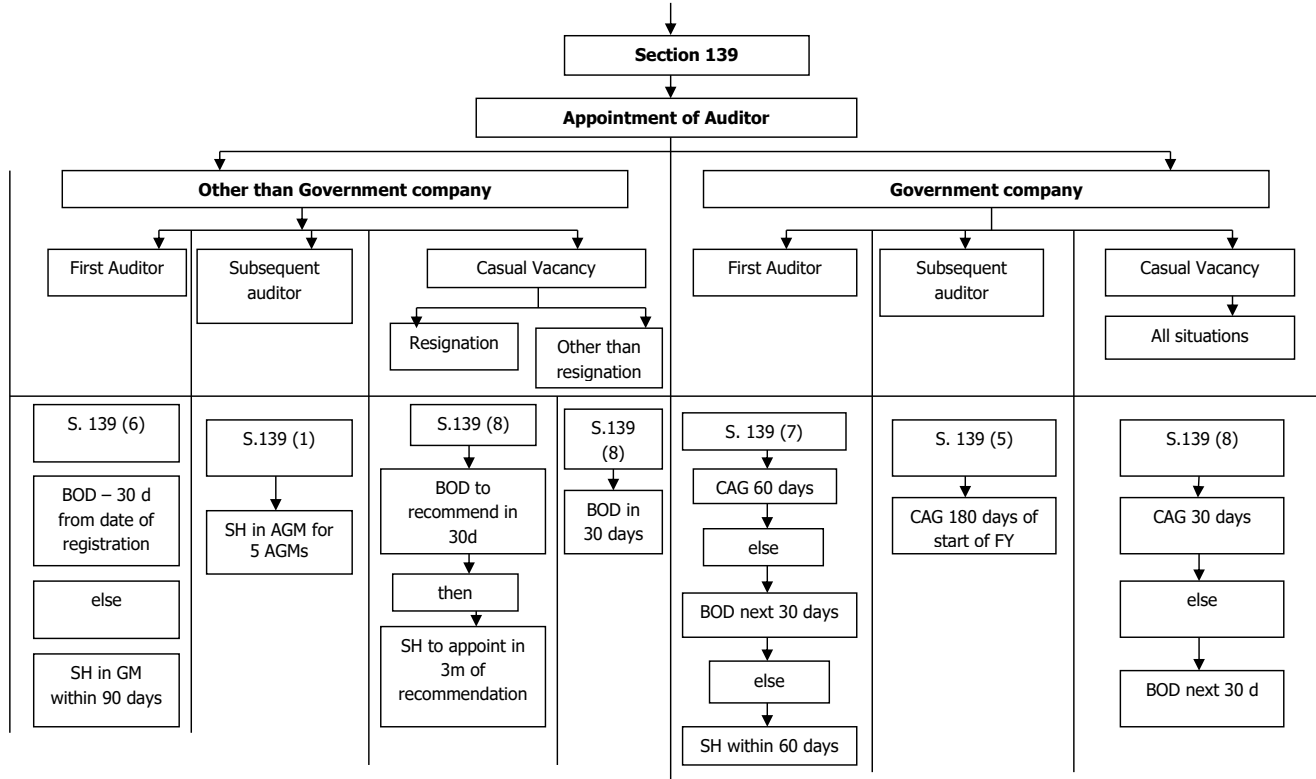
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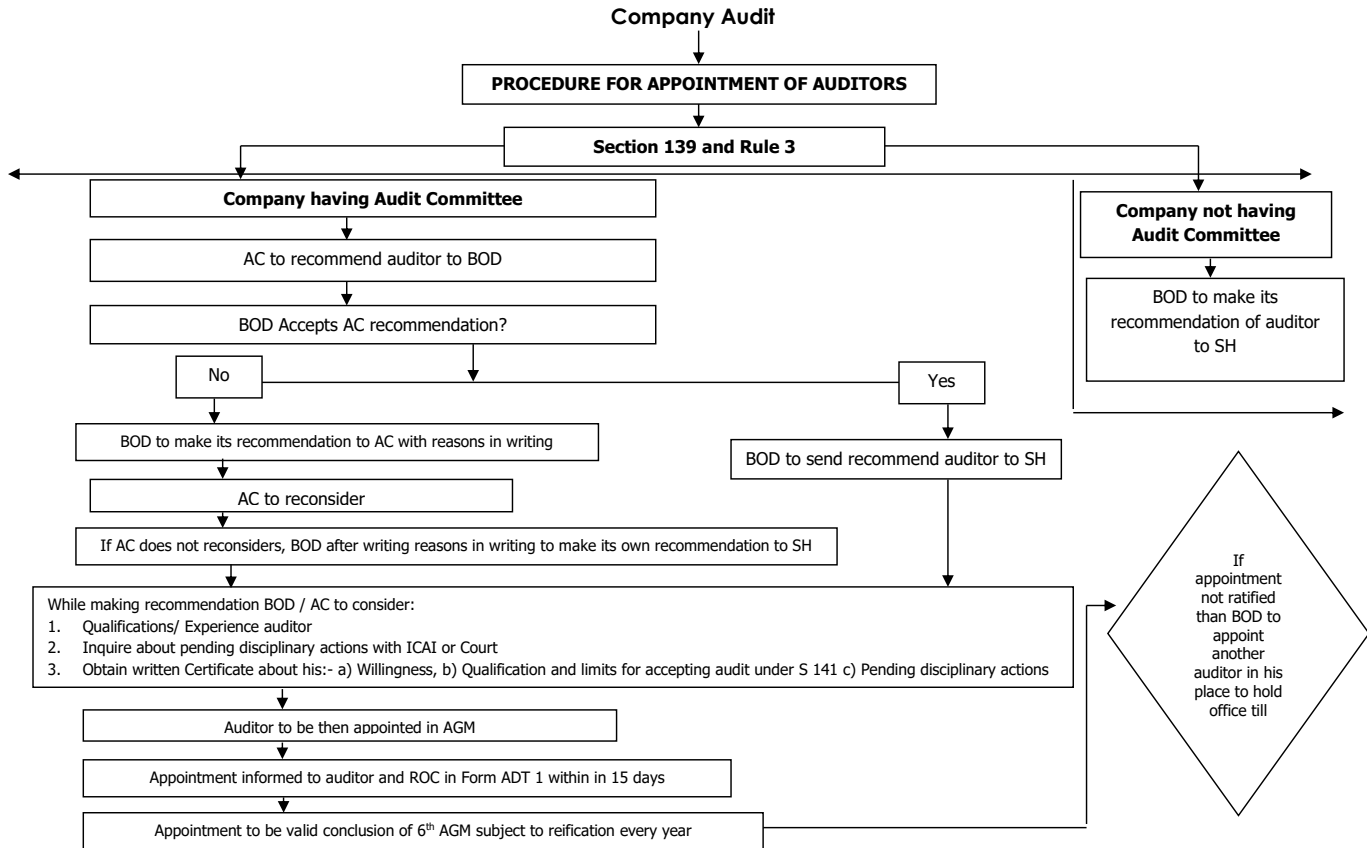
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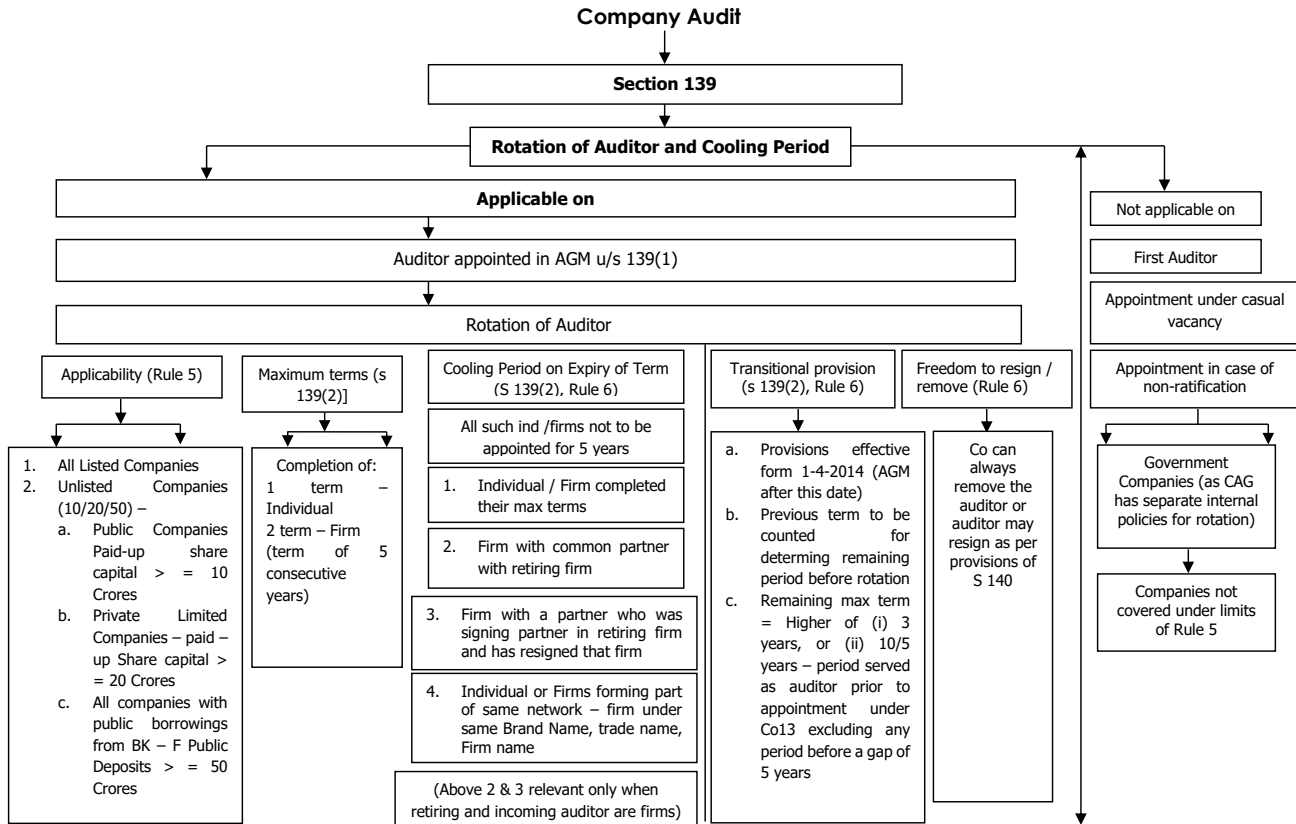
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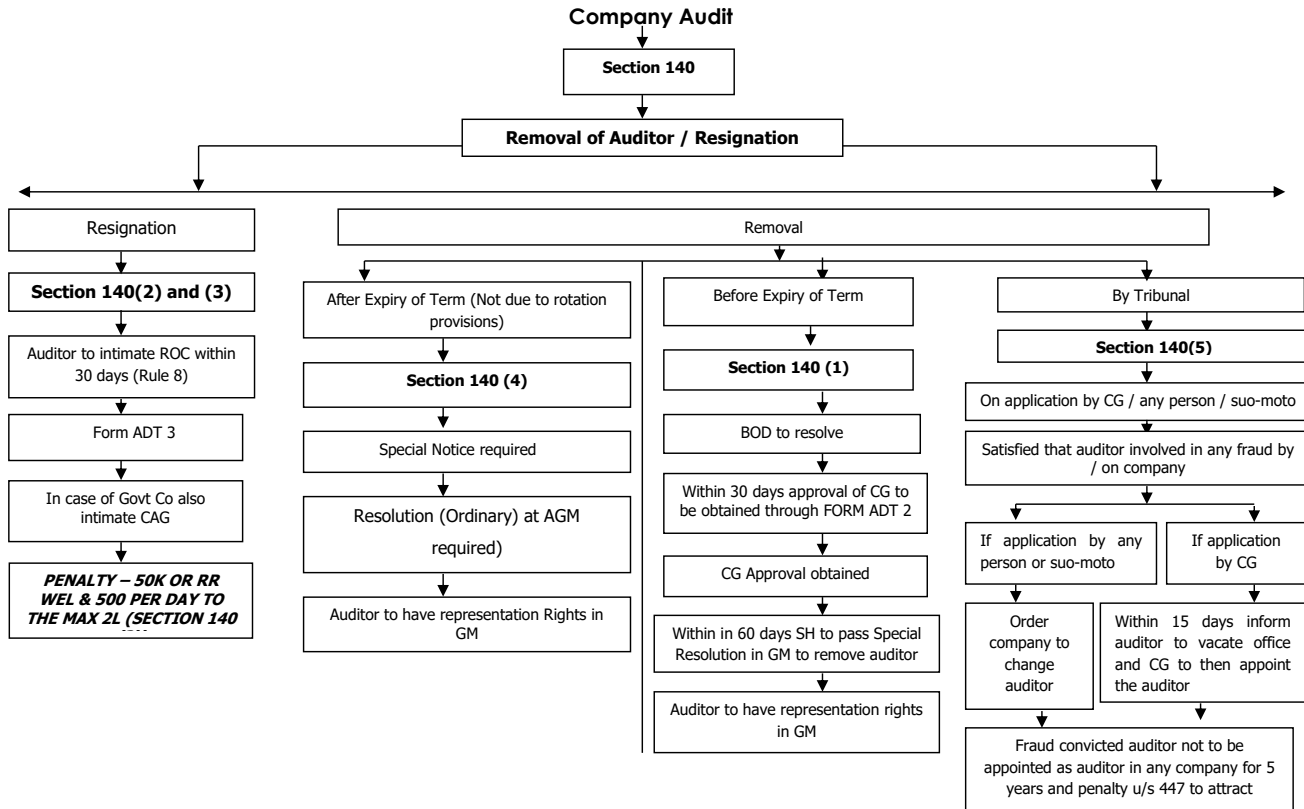
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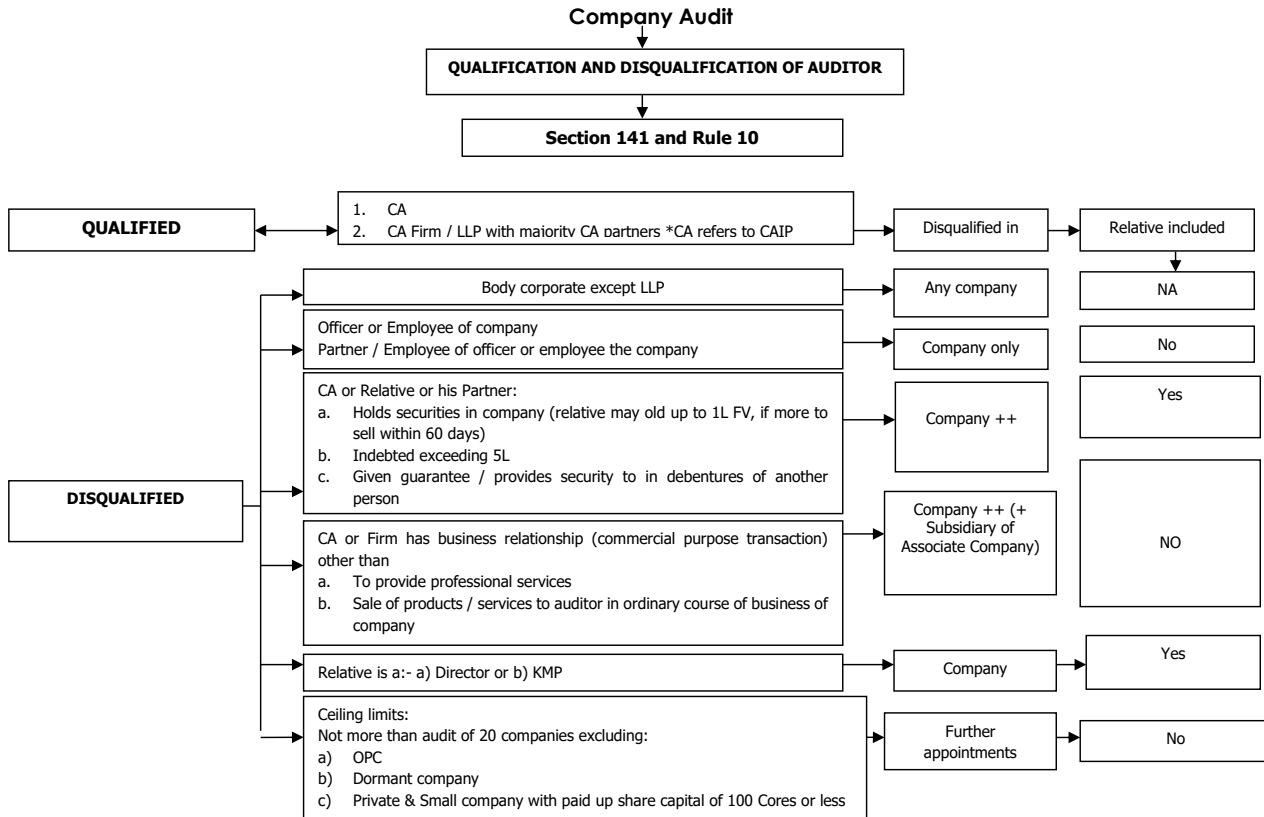
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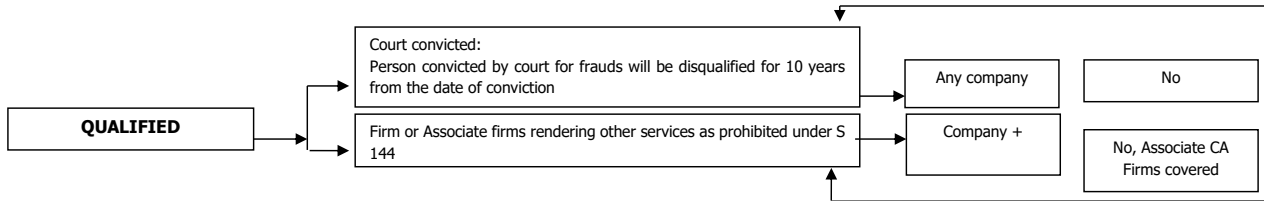




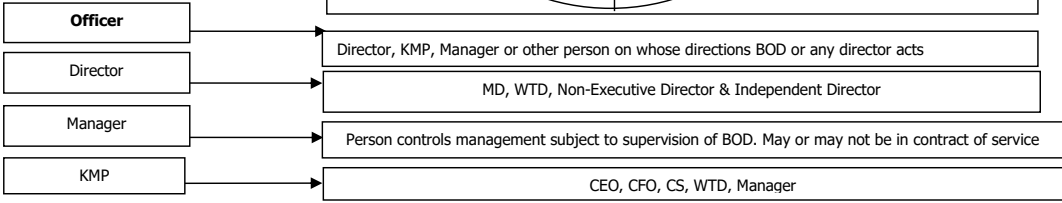
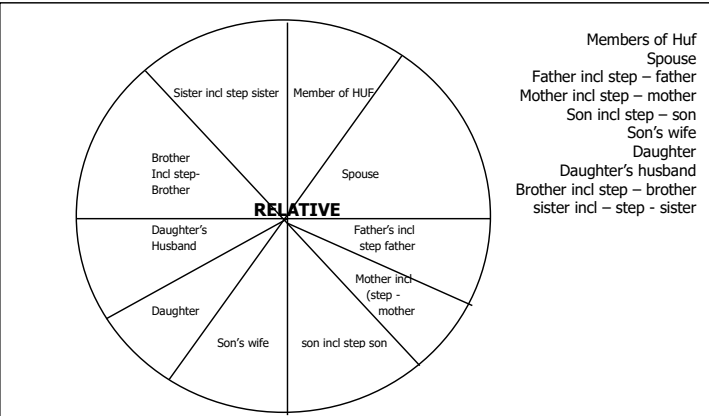


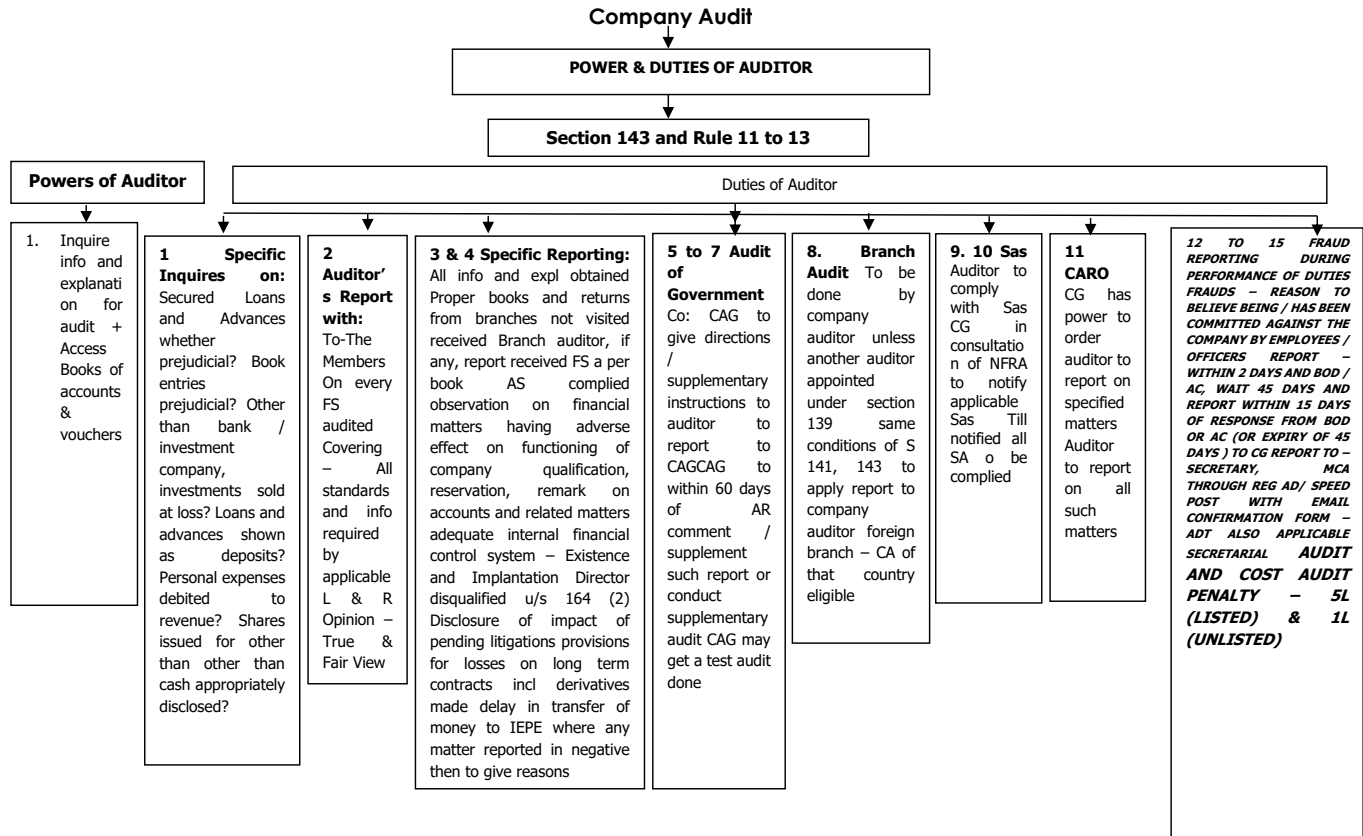


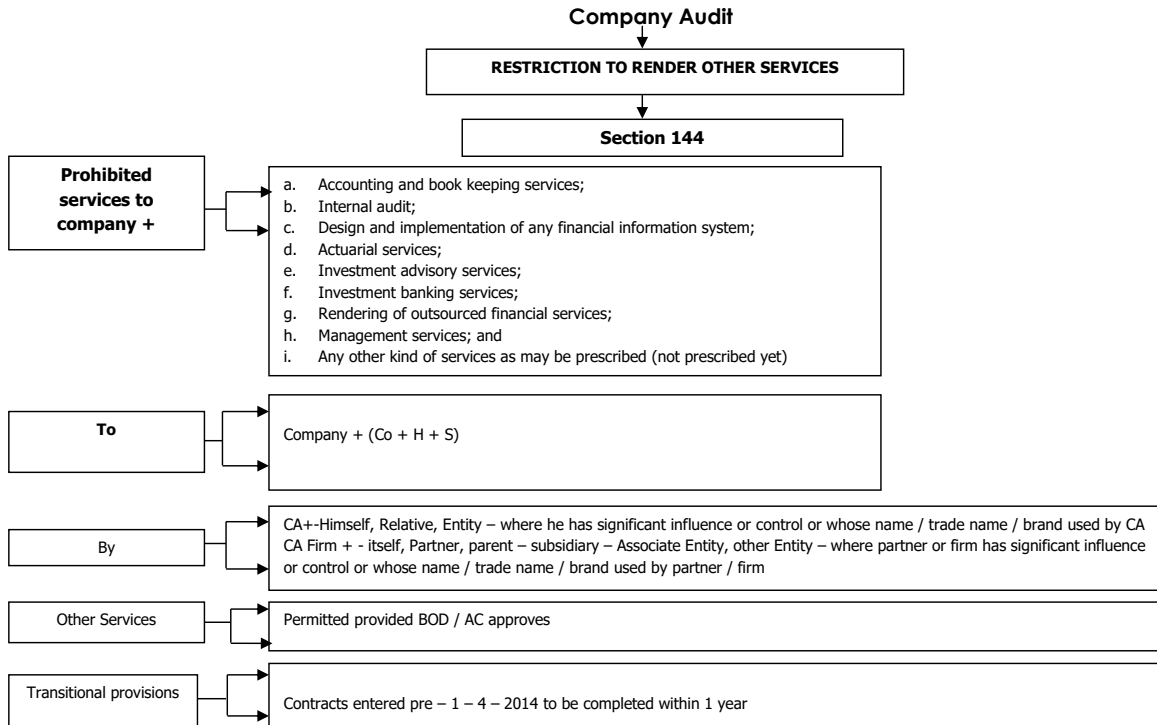


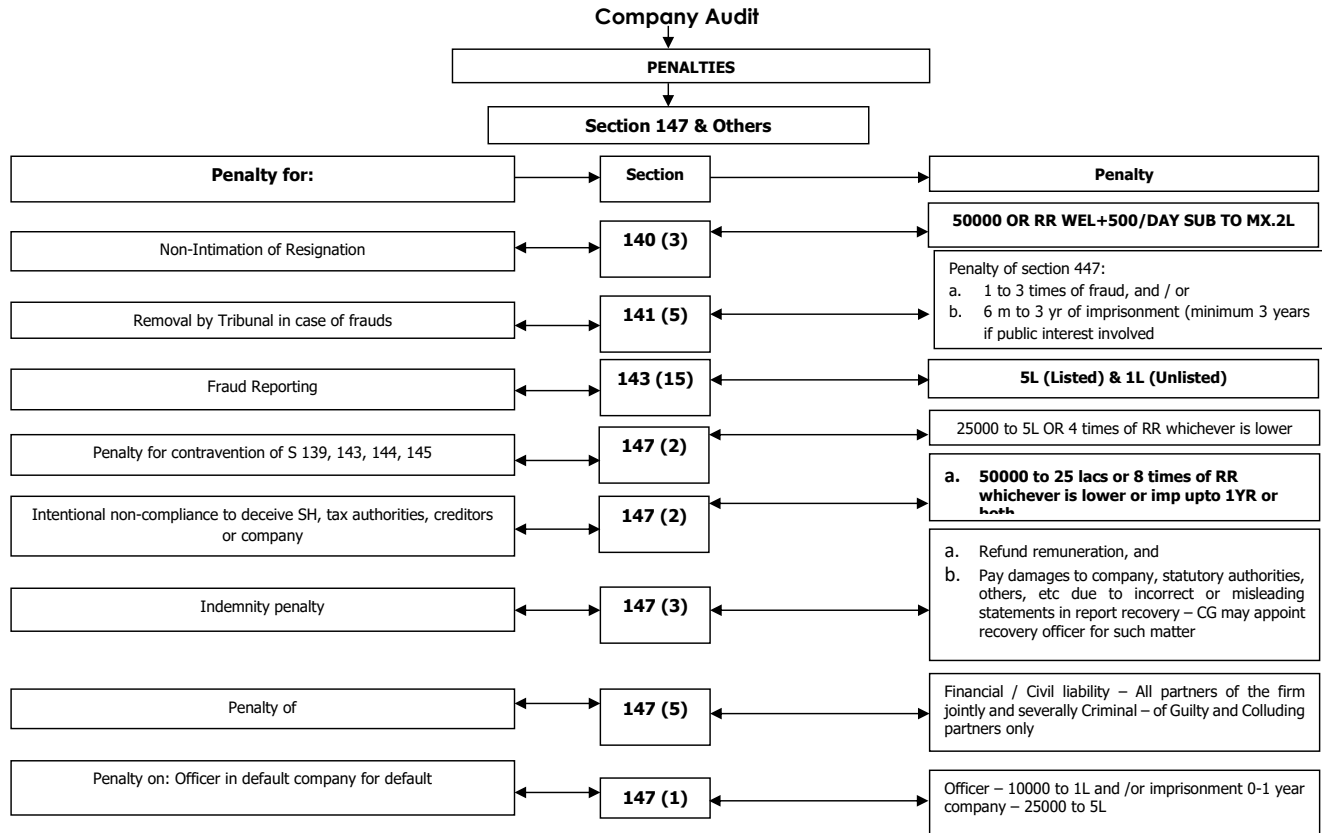


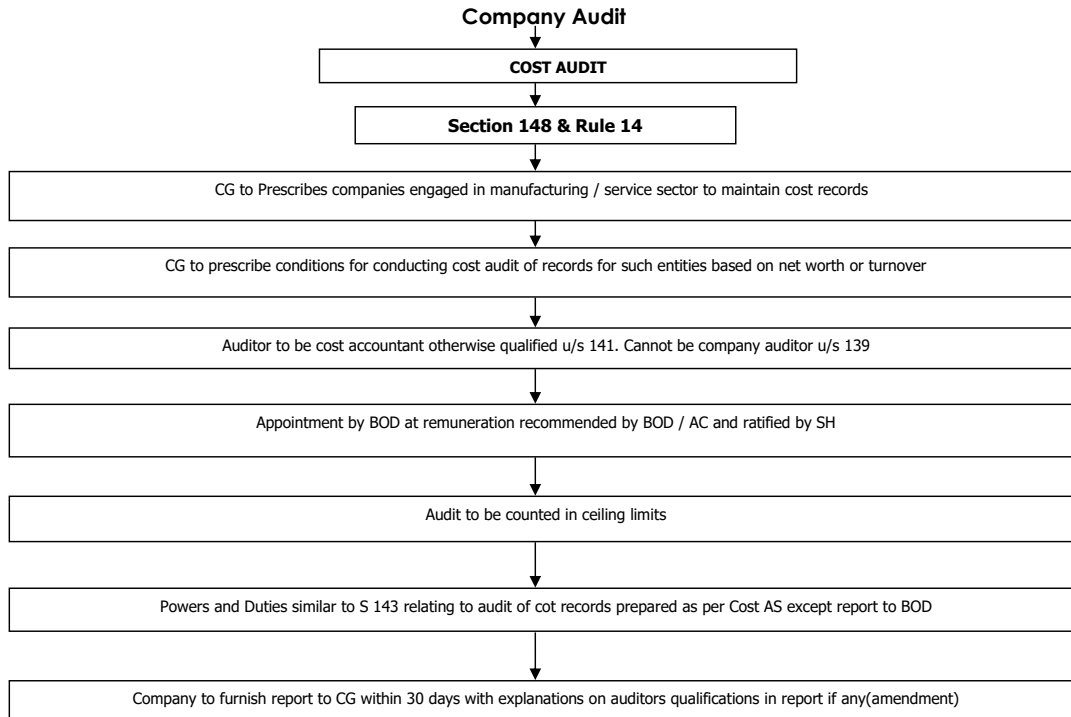
DEFINITION - RELATIVE











CONTENTS:

SERIAL NO.	CHAPTER NAME	PAGE NUMBER
1	AUDIT AND AUDITORS	14-67
2	AUDIT COMMITTEE AND C.G	68-115
3	AUDIT OF CFS	116-136
4	CARO,2020	137-148

CHAPTER-1

AUDIT & AUDITORS

UNIT - 1

APPOINTMENT & REMOVAL OF AUDITORS

AUDIT AND AUDITORS

139. APPOINTMENT OF AUDITORS (APPOINTMENT INCLUDES RE-APPOINTMENT)

APPOINTMENT OF AUDITORS [SECTION 139(1)]

- Applies on every company
- However, provision of this section are subject to the other sections of this Chapter i.e. any provisions requiring appointment through any mode other than that prescribed in here, such other provisions shall prevail.
- Section 2 (20) - "Company" means a company incorporated under this Act or under any previous company law.
- **Appointment Tenure**

Auditor to be appointed in 1st AGM to hold office till conclusion of 6th AGM and so on For AGM it is considered as ordinary business activity u/s 102.

AGM

Section 96 requires every company, except One Person Company, to hold AGM in the city of Registered Office with:

- 1st AGM within **9 months** of end of financial year
- Subsequent AGM within **6 months** (unless extended by another 3 months by ROC) of end of Financial year
- Period between 2 AGMs to be not more than **15 months**
- AGM in the year of incorporation is exempted

OPC – one person company [Section 122]

Section 2(62): One Person Company means a company which has only one member. **Further, provisions of Private company apply on OPC unless otherwise exempted**

In case of OPC, any business which is required to be transacted at an AGM / other general meeting of a company by means of an ordinary or special resolution, it shall be sufficient if, in case of One Person Company, **the resolution is communicated by the member to the company and entered in the minutes-book** required to be maintained under section 118 (Minutes of proceedings of general meeting, meeting of Board of Directors and other meeting and resolutions passed by postal ballot) and signed and dated by the member and

such date shall be deemed to be the date of the meeting for all the purposes under this Act.

Ratification

- Required **by members** in every AGM
- Rule 3 of Company (Audit and Auditor) Rules 2014, provides that appointment shall be subject to ratification in every AGM till the 6th such meeting by way of passing of an **ordinary resolution**.
- If appointment is not ratified by the members of the company, the Board of Directors shall appoint another individual or firm as its auditor or auditors after following the procedure laid down in this behalf under the Act. **Such auditor to hold office till conclusion of next AGM**

Procedure with Auditor

- Prior **written consent of** auditor required, and
- A certificate that the appointment, if made, shall be in accordance with the conditions prescribed by law along with requirements of Section 141 regarding **qualifications / disqualifications of auditor**
- Company to inform the auditor concerned of his or its appointment, and also file a notice of such appointment with the Registrar **within fifteen days** of the meeting in which the auditor is appointed, in **Form ADT 1 — Rule 4**.

Contents of the Certificate taken from the auditor (Rule 4)

The auditor appointed under rule 3 shall submit a certificate that –

- The individual or the firm, as the case may be is **eligible for appointment** and is **not disqualified for appointment under the Act, the CA Act,1949** and the rules or regulations made there under;
- The proposed **appointment is as per the terms** provided under the Act;
- The proposed appointment is **within the limits** laid down by or under the authority of the Act;
- The list of proceedings against the auditor or audit firm or any partner of the audit firm pending with respect to **professional matters of conduct**, as disclosed in the certificate, is true and correct.

Procedure of BOD with Audit Committee, if any (Rule 3)

- **BOD to recommend** the auditor to the company for appointment in AGM
- If company has Audit Committee than **Audit Committee** to recommend and BOD if has a different recommendation **BOD may propose to company its own recommendation** by recording in writing the reasons for contradicting to the recommendation of Audit Committee.
- While recommending the auditor, his experience, disciplinary actions with ICAI, size, etc to be considered

Special Provision - Applicability of Provisions on Foreign Companies

Foreign company is not a company within the meaning of Companies Act 2013, however, **Section 381** prescribes foreign company to **prepare and file Financial Statements**, as per requirements of Schedule III, [Rule 4 of Companies (Registration of Foreign Companies) Rules, 2014] with respect to its Indian operations with ROC **and get audit of such accounts** conducted by a Chartered Accountant (Rule 5).

ROTATION OF AUDITOR [Section 139(2)]**Applicability**

Provisions of rotation of auditor applies on [Rule 5]

1. Listed companies
2. Other companies
 - a) All **unlisted public companies** having **paid up share capital** of ≥ 10 Crores;.
 - b) All **private Limited companies** having **paid up share capital** of ≥ 50 Crores;
 - c) All **other companies** having **public borrowings from FIs / Banks / Public Deposits** of ≥ 50 Crores
(to be checked on the date of appointment)

Maximum Term

- a) An individual as auditor for more than **1 term of 5 consecutive years**; and
- b) An audit firm as auditor for more than **2 terms of 5 consecutive years**:

Cooling Period after expiry of term**Provided that —**

- i. An **individual auditor** who has completed his term under clause (a) shall not be eligible For re-appointment as auditor in the same company for **5 years from the completion of his term**;
- ii. An **audit firm** which has completed its term under clause (b), shall not be eligible for re-appointment as auditor in the same company for **5 years from the completion of such term**:

Firm with Common Partner also under Cooling Period

- On the date of appointment - Irrespective of on any other date
- Audit firm - Proviso applicable only on CA firms
- Having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year - At least one partner to be common with retiring audit firm
- Shall not be appointed as auditor of the same company - Seen on the date of appointment
- For a period of 5 years - Cooling period to apply on such common partner firm too

Transitional Provision - First time applicability of Provision

Company required to comply with provisions of this section shall comply within **3 years** from **1 April 2014**

Freedom to resign or remove before expiry of term

Nothing shall prejudice the right of the company to remove an auditor or the right of the auditor to resign from such office of the company.

Rules 6:- Manner of rotation of auditors by the companies on expiry of their term-

For the purpose of the rotation of auditors -

- i. in case of an auditor (whether an individual or audit firm), the period for which the individual or the firm has held **office as auditor prior to the commencement of the Act shall be taken** into account for calculating the period of 5 consecutive years or ten consecutive years, as the case may be;
- ii. the incoming auditor or audit firm shall **not be eligible** if such auditor or audit firm is associated with the outgoing auditor or audit firm **under the same network of audit firms.**

Explanation I - For the purposes of these rules the term "same network" includes the Firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

Explanation II - For the purpose of rotation of auditors,-

- a) A break in the term for a continuous period of 5 years shall be considered as fulfilling the requirement of rotation;
- b) If a partner, who is in charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of chartered accountants, such other firm shall also be ineligible to be appointed for a period of 5 years.

ROTATION OF AUDIT PARTNER /JOINT AUDITORS [Section 139(3)]

Members **may** resolve:

- In the audit firm appointed by it, the auditing **partner and his team** shall be **rotated** at such intervals as maybe resolved by members; **or**
- The audit shall be conducted by **more than one auditor.**

CG TO PRESCRIBE RULES FOR ROTATION OF AUDITOR [Section 139(4)]

The Central Government may, by rules, prescribe the manner in which the companies shall rotate their auditors in pursuance of sub-section (2).

OPC - SPECIAL PROVISIONS

Provisions of rotation will not apply to OPC

Further, company ceases to be OPC if:

- a) Paid Up Capital > 50 Lacs; or.
- b) Turnover in Preceding 3 consecutive financial year is > 2Crores

AUDITOR OF GOVERNMENT COMPANY [Section 139(5)]

- Comptroller and Auditor-General (**C & AG**) of India – C & AG has to appoint a company auditor
- in respect of a financial year — Auditor to be appointed every year, hence provisions of **appointment for 5 years** and **ratification every year do not apply** on government company
- Appoint an auditor duly qualified to be appointed as, an auditor of companies under this. Act - provisions of **Section 141** of qualification / disqualification and other provisions of auditor qualifications' apply on auditor of Government companies as for any other company
- **Time Limit** — Appointment to be made within **180 days** of the commencement: of the financial year and office to continue till conclusion of next annual general meeting.

FIRST AUDITOR OF GOVERNMENT COMPANY [Section 139(7)]

- **C & AG** to appoint within **60 days** from the date of registration of the company
- If C & AG does not appoint within 60 days, **BOD** to appoint in **NEXT 30 Days**.
- If BOD does not appoint within next 30 days, BOD to inform the Members who shall **appoint in 60 days in EGM** (50 days to be not NEXT 60 days)
- Office of first auditor to continue till the **conclusion of the 1st AGM**

FIRST AUDITOR OF ALL COMPANIES (Other Than Government Companies) [Section 139(6)]

- BOO to appoint within **30 days** From the date of **registration of the company**
- If BOD does not appoint, BOD to inform the members who shall appoint in **90 days in EGM** - (90 days to be not NEXT 90 days)
- Office of first auditor to continue till the conclusion of the 1st AGM

CASUAL VACANCY (Other Than Government Companies) [Section 139(8)]**Government Company**

C & AG to fill in **30 days** else BOO in next 30 days

Other Companies

BOO to fill in **30 days**, however if vacancy due to **resignation** of auditor then approval **required-in general meeting** within **3 months of recommendation** of BOO

Office of such auditor to continue till **conclusion of next AGM** (and not for remaining tenure of 5 years)

RE - APPOINTMENT OF AUDITOR N.A. on Government Companies) [Section 139(9)]

Subject to the provisions of rotation of auditor a retiring auditor may be re-appointed at and AGM if –

- He is not disqualified for re-appointment;

- He has **not** given the company a **notice in writing** of his unwillingness to be re-appointed; and
- A special resolution has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed.

NON - APPOINTMENT OF AUDITOR IN AGM (N.A. on Government Companies) [Section 139(10)]

Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company.

ROLE OF AUDIT COMMITTEE [Section 139(11)]

Where a company is required to constitute an Audit Committee under section 177, all appointments, including the Filling of a casual vacancy of an auditor under this section shall be made after taking into account the **recommendations of such committee.**

140. REMOVAL, RESIGNATION OF AUDITOR AND GIVING OF SPECIAL NOTICE

REMOVAL BEFORE EXPIRY OF TERM [Section 140(1)]

- Removal before completion of his term (term refers to the term of 5 consecutive years)
- Removal requires **Special Resolution and previous approval of Central Government**
- Auditor concerned shall be given a reasonable opportunity of being heard
- Permission to be taken from **CG** within **30 days of BOD meeting** in **ADT- 2** [Rule 7]
- Company to hold GM **within 60 days of CG** approval for passing special. resolution

(AMENDMENT): RESIGNATION BY AUDITOR [Section 140(2) & (3)]

- Auditor to **file a statement** within **30 days** from the date of resignation in form ADT-3 [Rule 8]
- Government Company Auditor - Auditor to also File such statement with the Comptroller and Auditor General Penalty- IF the auditor does not comply he shall be punishable with fine **50,000 OR REMUNERATION RECEIVED AND IF THERE IS A CONTINUOUS OFFENCE THERE WILL BE A PENALTY OF Rs. 500 for each day to the maximum of Rs. 2 Lacs**

NON-REAPPOINTMENT [Section 140(4)]

- To appoint person other than retiring auditor or providing expressly that retiring auditor shall not be reappointed, **SPECIAL NOTICE**, shall be required For **a resolution at AGM**
- Provision **not applicable** to auditors who have **completed their term as per** Section 139(2)

- Notice to be also served to auditor who shall have **rights to make a representation** (not exceeding a reasonable length) to be notified to members or if received too late a copy to be sent separately or else auditor may require it to be read out at the meeting apart from his right to be heard orally.
- If a copy of representation is not sent as aforesaid, a copy thereof shall be filed with the Registrar •
- Tribunal is satisfied of possibility of right being abused by the auditor, then, the copy of the representation may not be sent and the representation need not be read out at the meeting.

REMOVAL BY TRIBUNAL [Section 140(4)]

- Tribunal either
 - **suo motu or**
 - on an **application** made to it **by the Central Government/SEBI/ROC/ITD/ANY OTHER STATUTORY AUTHORITY or**
 - by any person concerned,
- If satisfied that the auditor of a company has (directly or indirectly) acted / colluded in a fraudulent manner in any fraud by or on the company it may **direct the company to change its auditors.**

Removal on Application of CG

- If application is made by CG and Tribunal is satisfied that any change of the auditor is required, it shall **within 15 days** of receipt of such application, make an order that he shall not function as an auditor and the Central Government may appoint another auditor in his place
- Such auditor prohibited to be appointed as auditor of **any company For 5 years from date of order**
- Auditor to be also liable for action under **Section 447**
- Liability in case of the firm shall be of every partner who acted fraudulently

(AMENDMENT): PENALTY FOR FRAUDS [Section 447]

- Without prejudice to any liability under the Act any person who is **found to be guilty of Fraud**, shall be punishable with:
- **IN CASE THE FRAUD AMOUNT INVOLVED is at least R. 10,00,000 or 1% of turnover of the co. then** : Imprisonment - 6 months to 10 years. Minimum 3 years if fraud in question involves public interest **AND** Fine - 1 to 3 times of amount involved in the fraud
- **IN CASE THE FRAUD AMOUNT INVOLVED is less than R. 10,00,000 or 1% of turnover of the co. then** : fine upto Rs. 50,00,000 or imprisonment upto 5 years or both
-
- **"Fraud"** in relation to affairs of a company or any body corporate, includes any act, omission, concealment of any fact or abuse of position committed by any person or any other person with the connivance in any manner, with intent to deceive, to gain undue advantage from, or to injure the interests of, the company

or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss.

- **"Wrongful gain"** means the gain by unlawful means of property to which the person gaining is not legally entitled.
- **"Wrongful loss"** means the gain by unlawful means of property to which the person losing is legally entitled.

UNIT - 2
QUALIFICATIONS, DISQUALIFICATIONS, REMUNERATION
OF AUDITOR

141. ELIGIBILITY, QUALIFICATIONS AND DISQUALIFICATIONS OF AUDITORS

ELIGIBILITY [Section 141(1) & (2)]

- Chartered Accountant are eligible for appointment
- In case of Firms, majority of partners practicing in India should be chartered accountant
- In case of Firms and LLPs (limited liability partnership) only the CA partners shall be authorized to act and sign on behalf of the firm.

DISQUALIFICATIONS [Section 141(3)]

Following persons not eligible for appointment as an auditor of a company –

CA FIRM	Body corporate other than a LLP;
CA	An officer or employee of the company;
CA	Partner or employee, of an officer or employee of the company;
PARTNER & RELATIVE	Person /Relative/ Partner — <ol style="list-style-type: none"> Holding any security or interest in the Co-S-H-A-FS (Company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company): Exception - Relative may hold security or interest in the company of face value not exceeding 100,000 unless auditor within 60 days of such limit being crossed by relatives, take necessary corrective actions (Rule 10(1)) Indebted to the Co-S-H-A-FS > 500,000 (Rule 10(2)) or Given a guarantee or provided any security in connection with the indebtedness of any third person to the Co-S-H-A-FS, for > 100,000 (Rule 10(3))
CA/FIRM	A person or a firm who, whether directly or indirectly, has business relationship (refer below) with the Co-S-H-A-FS + Subsidiary of Associate / JV Company
CA RELATIVE	Person's whose relative is a director or key managerial personnel
LIMITS	CA in Full Time Service-Nil CA in Part Time Service-ICAI prohibits to accept attestation work Other CAs - Cannot accept audit if already holding audit of 20 Companies on the date of appointment. Limits per CA and not firm

Companies	Now for company audits: following co's are excluded from unit of 20 audits
Amendment Act	a) OPC b) Dormant Company c) Private company and small company having paid up share capital of less than 100 crores.
CONVICTED	Person convicted by a court of an offence involving fraud for 10 years from the date of such conviction;
OTHER SERVICES	CA - SUBSIDIARY - ASSOCIATES - OTHER FORM OF ENTITY engaged as on the date of appointment in consulting and specialized services as provided in section 144.

Casual Vacancy on disqualification arising post - Appointment

Above disqualification if attracted after appointment, auditor shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

Companies (Audit & Auditors) Rules 2014-Rule 10 (4) Disqualifications of auditor "Business relationship" shall be construed as any transaction entered into for a commercial purpose, except

- i. commercial transactions in nature of **professional services** permitted to be rendered by an auditor under the CA Act and regulations;
- ii. **commercial transactions in the ordinary course of business of the company at arm's length price** - Like sale of products or services to the auditor, as customer; in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other

Companies Act 2013 – Related Definition

- **"Chartered accountant"** means a chartered accountant as defined in clause (b) of sub-section (1) of section 2 of the Chartered Accountants Act, 1949 who holds a valid certificate of practice under sub - section (1) of section 6 of that Act;
- **Key managerial personnel"** in relation to a company, means -
 - The Chief Executive Officer or the managing director or the manager; •
 - The company secretary;
 - The whole-time director;
 - The Chief Financial Officer; and •
 - Such other officer as may be prescribed;
- **"Manager"** means an individual who, subject to the superintendence, control and direction of the Board of Directors, has the management of the whole, or substantially the whole, of the affairs of a company, and includes a director or any other person occupying the position of a manager; by whatever name called, whether under a contract of service or not;

- **"Officer"** includes any director; manager or key managerial personnel or any person in accordance with whose directions or instructions the Board of Directors or any one or more of the directors is or are accustomed to act;

Companies Act 2013 – Related Definition (Related Party and Relatives)

- "Relative with reference to any person, means anyone who is related to another,
 - They are members of a Hindu Undivided Family;
 - They are husband and wife; or
 - One person is related to the other in such manner as may be prescribed. (refer below)
- **List of relatives in terms of clause (77) of section 2** - A person shall be deemed to be the relative of another; if he or she is related to another in the following manner, namely:-
 - Father including step-father.
 - Mother including step-mother.
 - Son including step-son.
 - Son's wife
 - Daughter
 - Daughter's husband
 - Brother including step-brother;
 - Sister including step-sister.

142. REMUNERATION OF AUDITORS

- To be determined in General Meeting or as determined in General meeting except for first auditor for whom BOD to determine remuneration
- Remuneration includes the out of pocket expenses, incurred by auditor in connection with the audit of the company.
- To be disclosed as per schedule III of companies act 2013 under the head AUDITOR'S REMUNERATION divided into 2 categories:
 - ◆ As an auditor
 - ◆ As an advisor
- Furthermore an auditor also have to maintain a client's register, where he shall bifurcate his fees accordingly in the same manner.

SECTION 1**UNIT - 3****POWERS & DUTIES OF AUDITOR, OTHER SERVICES OF
AUDITOR, PENALTY AND MISC PROVISIONS****143. POWERS AND DUTIES OF AUDITORS AND AUDITING
STANDARDS.****Powers of Auditor [Section 143(1)]**

Access to Books of Accounts & Vouchers - Right of access at all times to the **books of account** and **vouchers** of the company (excludes deeds, writings, minutes, registers)
Information and Explanation — As necessary for the performance of his duties as auditor

Holding Company Auditor - Right of access to the **records of all its subsidiaries** in so far **as it relates to the consolidation of its financial statements** with that of its subsidiaries.

Specific Inquiry [Section 143(1)]

a.	SECURED LOANS GIVEN
	Whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
b.	BOOK ENTRIES PREJUDICIAL
	Whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
c.	SHARES, DEBENTURES AND OTHER SECURITIES SOLD AT LOSS
	where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
d.	LOANS SHOWN AS DEPOSITS
	Whether loans and advances made by the company have been shown as deposits;
e.	PERSONAL EXPENSES DEBITED TO P&L
	Whether personal expenses have been charged to revenue account;
f.	SHARES ISSUED FOR CASH & OTHER THAN CASH
	Where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received,

whether the position as stated in the account books and the balance sheet is correct, regular and not misleading:

Statement on Reporting under Section 227 (1A)

Statement on Reporting under Section 227 (1A) of Companies Act 1956, dealt with the same set of points as mentioned above in Section 143(1) and hence the principles of this Statement shall still apply for auditors for checking under this section.

Note: the above section is omitted by ICAI in the recent amendments, but it is still recommended to read it once for own clarity purpose.

Report to Members [Section 143 (2)]

- Auditor to report on the accounts examined and on **every financial statements** to be laid before the company in general meeting
- Report to **cover Provisions of this Act, AS, SAs**, and other matters to be included in the audit report including order made under sub-section (11)
- To the best of his information to report, FS give a **true and fair view** of the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and such other matters as may be prescribed.

Specific Reporting Requirements [Section 143(3)]

The auditor's report shall also state –

- a. Auditor has **obtained all the information and explanations** and if not, the effect of such information on **the** financial statements
- b. Proper books of account as required by law have been kept by the company and proper returns adequate For the purposes of his audit **have been received from branches not visited by him**
- c. Whether branch auditors report has been received under sub-section (8) and the manner in which he has dealt with it in preparing his report
- d. BS & PL as per books of account and returns
- e. Compliance with AS
- 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 **section 164(2)** (refer ahead);
- 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 (Rule 11 prescribes the following matters)

- Whether the company has disclosed the impact, if any, of **pending Litigations on its financial position** in its financial statement;
- 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**;
- Whether there has been any **delay in transferring amounts**, required to be transferred, to the **Investor Education and Protection Fund** by the company.

1. AMENDMENT TO CLAUSE J

- *✓* Whether the management has represented that, to the best of its 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; *✓*
- *Puffor* Whether the management has represented, that, to the best of its 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
- 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.
- Whether the dividend declared or paid during the year by the company is in compliance with section 123 of the Companies Act, 2013.
- *○* [Whether the company, in respect of financial years commencing on or after the 1st April, 2022,] has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention.]

EXEMPTION FROM IFC REPORTING (w.e.F. FY starting 1-4-2020)

Clause (i) of sub-section (3) of section 143 shall not apply to a private company:-

- i. which is a one person company or a small company; or
- ii. which has turnover less than rupees 50 crores as per latest audited financial statement or which has aggregate borrowings from banks or financial institutions or anybody corporate at any point of time during the financial year less than rupees 25 crore."

Reporting under Section 143(3)(f) and (h) of the Companies Act, 2013**Guidance Note on Reporting under Section 143(3)(F) and (h) of the Companies Act, 2013 I.**

- I. The words "observations" or "comments" are construed to have the same meaning as referring to "emphasis of matter situations leading to modification in the auditor's report.

Therefore, only such "observations" or "comments" of the auditors on financial transactions or matters that have been made by the auditor in the auditor's report which have an adverse effect on the functioning of the company are required to be reported under this clause

It should be noted that there is no change in the objective and scope of an audit of financial statements because of inclusion of clause (F) in sub-section (3) of section 143 of the Act.

- II. Auditor would now have to evaluate the subject matters leading to modification of the audit report or emphasis of matter in the auditor's report to make judgment as to which of them has an adverse effect on the functioning of the company

Such qualifications or adverse opinions or disclaimer of opinion or emphasis of matters of the auditor, which do not deal with matters that have adverse effect on the functioning of the company, need not be reported under this clause.

- III. Emphasis of matter which may have an adverse effect uncertainty.
Emphasis of matter which may not have an adverse effect.
- IV. According to Guidance Note, the words "qualification", "adverse remark" and "reservation" used in clause (h) of section 143(3) should be considered to be similar to the terms "qualified opinion", "adverse opinion" and "disclaimer of opinion", respectively, referred to in SA 705 "Modifications to the Opinion in the Independent Auditor's Report".

Further, any material weakness in internal financial controls that is reported by the auditor under clause (i) of section 143(3) may not have an impact on the

maintenance of books of account if such material weakness did not result in a modification to the opinion on the financial statements of the company.

However, if the material weakness in internal financial controls resulted in a modification to the audit opinion on the financial statements, then such modification may be covered for reporting under clause (h) of section 143(3).

Internal Financial Controls - SECTION 143(3)(1)

Guidance Note on Audit of Internal Financial Controls over Financial Reporting

I. What is Internal Financial Control (IFC)? (Sec 134)

As per Section 134 of the Companies Act 2013, the term Internal Financial Controls means the policies and procedures adopted by the company for ensuring:

- Orderly and efficient conduct of its business, including adherence to Company's policies,
- Safeguarding of its assets,
- Prevention and detection of frauds and errors,
- Accuracy and completeness of the accounting records, and
- Timely preparation of reliable financial information.

II. What is Internal Controls over financial Reporting (ICFR)?

"A process designed to provide reasonable assurance regarding there liability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles".:

III. Which provision of Companies Act requires such IFC and Reporting?

Section 134:

In the case of a listed company, the Directors' Responsibility states that directors, have laid down IFC to be Followed by the company and that such controls are adequate and operating effectively.

Section 143:

The auditor's report should also state whether the company has adequate IFC system in place and the operating effectiveness of such controls

Section 177:

Audit committee may call for comments of auditors about internal control systems before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.

Schedule IV:

The independent directors should satisfy themselves on the integrity of financial information and ensure that financial controls and systems of risk management are robust and defensible. The director's report should contain details in respect of adequacy of internal financial controls with reference to the financial reporting.

IV. To whom does this apply?

The guidance note clarifies that reporting on ICFR by auditors will be applicable to both listed and specified unlisted companies. Furthermore, it states that auditors will have to report on ICFR in respect of both stand alone and consolidated financial statements.

V. When does this apply and for financial statements of which period?

Auditor will surely test transactions during the financial year ending 31 March 2020 and not just as at the balance sheet date, though the extent of testing at or near the balance sheet date may be higher.

If control issues or deficiencies are identified during the interim period and are remediated before the balance sheet date, then the auditor may still be able to express an unqualified opinion on the ICFR.

VI. What is extent of reporting?

The auditor needs to obtain reasonable assurance to state whether an adequate internal financial controls system was maintained and whether such internal Financial controls system operated effectively in the company in all material respects with respect to Financial reporting only.

The auditor's opinion therefore does not assure, For example, the Future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.

Reasons for Qualification [Section 143(4)]

Where any of the matters required to be included in the audit report under this section is answered in the negative or with a qualification, the report shall state the reasons therefore.

Government Company [Section 143(5), (6) and (7)]

CAG shall **direct auditor** the manner in which the accounts of the company are required to be audited Auditor shall submit a **copy of the audit report to the CAG** including the directions, if any, issued by the CAG of India, the action taken thereon and its impact on the accounts and Financial statement of the company.

CAG shall within **60 days from the date** of receipt of the audit report have a right to,—

a) **Conduct a supplementary audit of the financial statement** and

b) **Comment upon or supplement** such audit report

Comments of CAG + Audit to be sent to every entitled person and to be also placed before the AGM CAG may by an order, cause **test audit** to be **conducted of the accounts of such company** S. 143(7)

Branch Auditor [Section 143(8)]

Conducted by: Company Auditor or any other qualified person or person qualified under foreign law in case of foreign branch

Powers & Duties: Same as that of company auditor but only with respect to Branch except report to be sent to company auditor. Further refer Rule 12 below.

SAs [Section 143(9) and (10)]

Every auditor shall comply with the auditing standards CG to prescribe SAs as recommended by ICAI in consultation with National Financial Reporting Authority: Till any SAs are notified, ICAI SAs to be followed

FRAUD REPORTING BY AUDITOR [Section 143(12)]

- During performance of duties,
 - if auditor has reason to believe
 - that an offence involving Fraud is being or has been committed
 - against the company by officers or employees of the company,
 - he shall immediately report the matter to the Central Government
 - within such time (60 days) and in such manner as may be prescribed.
- Auditor shall not be held liable for any contravention for actions taken to report under Section 143(12) if it is done in good faith [Section 143(13)]

Penalty for contravention 5 lakh (Listed) & 1Lakh (Other Cases) [Section 143(15)]

Applicability on CMA and CS

Provisions of this Section applicable to cost accountant and company secretary in practice conducting audit [Section 143(14)]

REPORTING OF FRAUDS BY AUDITOR [Rule 13]

Reporting Time

- Auditor to **report to CG** within **60 days** of his knowledge
- **First to report to Board or the Audit Committee**, within **45 days**
- On receiving response From them to report to CG **within 15 days of response**
- If no response received within 45 days, then report within **15 days after completion of 45 days**
- Provided that in case of a Fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed. (As per Companies (amendment) Act, 2015)
- In case of a Fraud involving lesser than 1 Crore individually, the auditor shall report the matter to Audit Committee constituted under section 177 or to the Board

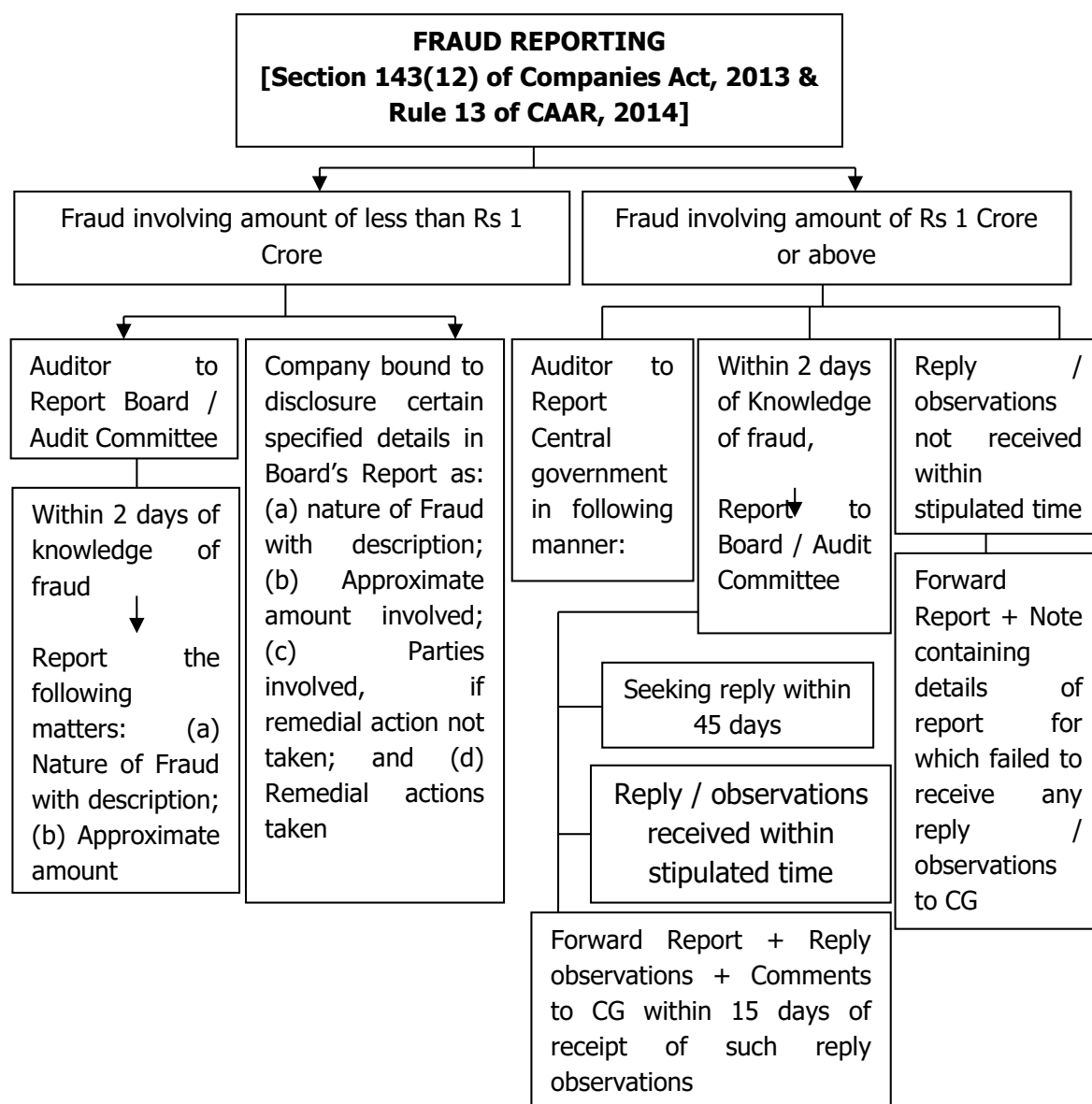
immediately but not later than 2 days of his knowledge of the Fraud and he shall report the matter specifying the following:-

- a) Nature of Fraud with description;
 - b) Approximate amount involved; and
 - c) Parties involved.
- ICAI has issued a Guidance Note on Reporting on Fraud under Section 143(12) of the Companies Act, 2013 (Revised 2020) which answers the following issues relating to Fraud reporting:
 - I. **Persons covered for Reporting on Fraud under Section 143(12) of the Companies Act, 2013**
 - II. **Thresholds and Manner of Reporting**
 - III. **Auditors' Responsibility for Consideration of Fraud in an Audit of Financial Statements**
 - IV. **Reporting on Suspected Offence Involving Frauds Identified/Noted during Audit/ Limited Review of Interim period Financial Statements/Results, Other Attest Services and Permitted Non-attest Services**
 - V. **Reporting on Frauds Detected by the Management or Other Persons and 'already Reported under Section 143(12) by such Other Person**
 - VI. **Reporting on Suspected Offence Involving Fraud in case of Consolidated Financial Statements**
 - VII. **Reporting under Section 143(12) when the Suspected Offence Involving Fraud Relates to Periods Prior to Coming into effect of the 2013 Act**
 - VIII. **When does an Auditor Commence Reporting under Section 143(12) - Based on Suspicion - Reason to Believe - Knowledge - or on Determination of Offence?'**
 - IX. **Can the Auditor apply the Concept of Materiality for Reporting on Fraud?**
 - X. **Should the Auditor Report under Section 143(12) in case of Corruption, Bribery, Money Laundering and Non-compliance with Other Laws and Regulations**

Report Format:

- The report shall be **sent to the Secretary**, Ministry of Corporate Affairs in a sealed cover by **Registered Post with Acknowledgment Due** or by Speed post followed by an e-mail in confirmation of the same.
- Report shall be on the **letter-head of the auditor** containing postal address, e-mail address and contact number and be signed by the auditor with his seat and shall indicate his Membership Number. The report shall be in the form of a statement as specified in **Form ADT-4**.
- Provisions applicable to a cost **auditor and a secretarial auditor**

Description of Auditor's Responsibility on Fraud Reporting & Guidance Note



Disclosure in the Board's Report

Section 143(12) prescribes that the companies, whose auditors have reported fraud under this sub-section (12) **to the audit committee or the Board, but not reported to the Central Government**, shall **disclose the details about such frauds** in the Board's report in such manner as may be prescribed.

In this regard, sub-rule (4) of Rule 13 of the Companies (Audit and Auditors) Rules, 2014 states that the company is required to disclose in the Board's Report the **following details of each of the fraud reported** to the Audit Committee or the Board under sub-rule (3) during the year:

- a) Nature of Fraud with description;
- b) Approximate Amount involved;
- c) Parties involved, if remedial action not taken; and
- d) Remedial actions taken.

Related Provisions

Sub-section (13) of section 143 of the Companies Act, 2013 safeguards the act of fraud reporting by the auditor if it is done in good faith. It states that no duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter above if it is done in good faith.

The auditor is also required to report under clause (x) of paragraph 3 of Companies (Auditor's Report) Order, 2020 [CARO, 2020], whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year. If yes, the nature and the amount involved is to be indicated.

The Auditing and Assurance Standards Board of the ICAI has **issued the Guidance Note on Reporting on Fraud under Section 143(12) of the Companies Act, 2013** to provide guidance to the members on this new reporting requirement.

The definition of fraud as per SA 240 and the explanation of Fraud as per Section 447 of the 2013 Act are similar, except that under section 447, fraud includes 'acts with an intent to injure the interests of the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss.' However, an auditor may not be able to detect acts that have intent to injure the interests of the company or cause wrongful gain or wrongful loss, unless the financial effects of such acts are reflected in the books of account/financial statements of the company.

Therefore, the auditor shall consider the requirements of the SAs, insofar as it relates to the risk of fraud, including the definition of fraud as stated in SA 240, in planning and performing his audit procedures in an audit of financial statements to address the risk of material misstatement due to fraud.

DIRECTOR'S DISQUALIFICATION [SECTION 164 (2)]

No person who is or has been director of a company which –

- A. Has not filed financial statements or annual returns for any continuous period of three financial years; or
- B. Has failed to repay the deposits accepted by it or pay interest there on or to redeem any debentures on the due date or pay interest due there on or pay any dividend declared and such failure to pay or redeem continues for one year or more,
 - **shall be eligible to be re appointed as a director of that company or appointed in other company for a period of 5 years from the date on which the said company fails to do so.**

Special Note:

Guidance note on Guidance Note on Section 227 3(e) and (F) of the Companies Act, 1956 (Revised) prescribed that auditor's duty is to take a

confirmation from the director and accordingly submit his report stating whether the director is disqualified or not, as confirmed by him, as per the provisions of Section 274(1)(g).

The provisions of Section 274(1) (g) are now prescribed under Section 164(2) of Companies Act 2013, applicable from 1-4-2014 and hence the auditor shall follow the same guidance note as applicable when Companies Act 1956 was in force.

Amendment: S 164 (2) not applicable to Government Company

Companies Act 2013- Related Definition

"Branch office" in relation to a company, means any establishment described as such by the company;

Companies (Audit and Auditors) Rules, 2014

Rule No -12:- Duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor:-

- 1) For the purposes of sub-section (8) of section 143, the duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be as contained in sub-sections (1) to (4) of section 143.
- 2) The branch auditor shall submit his report to the company's auditor.
- 3) The provisions of sub-section (12) of section 143 read with rule 12 hereunder regarding reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.

144. AUDITOR NOT TO RENDER CERTAIN SERVICE

OTHER SERVICES TO BE PROVIDED ONLY IF:

- Services as are **approved** by the **BOO or audit committee**,
- Services **do not include the below mentioned services**
- Restrictions also to provide following services to its **holding company or subsidiary company**

PROHIBITED SERVICES

- a) **Accounting and book keeping services;**
- b) **Internal audit;**
- c) **Design and implementation of any financial information system;**
- d) **Actuarial services;**
- e) **Investment advisory services;**
- f) **Investment banking services;**
- g) **Rendering of outsourced financial services;**
- h) **Management services; and**
- i) **Any other kind of services as may be prescribed:**

SERVICES RENDERED DIRECTLY/ INDIRECTLY

"Directly or Indirectly" shall include rendering of services by the auditor,-

CA	<ol style="list-style-type: none"> 1. Himself 2. Relative 3. Other person or enterprise associated with such CA or relative where they have significant influence or control or whose name or trade mark or brand is used by such individual;
CA FIRM	<ol style="list-style-type: none"> 1. Itself/ partners 2. Subsidiaries-Associates 3. Entities where firm or partner has significant influence or control 4. Entities with trade mark or brand commonly used by the firm or any of its partners.

TRANSITIONAL PROVISION

Auditor performing any non-audit services on or **before the commencement of this Act to comply before the end of first financial year after the date of such commencement.**

145. AUDITOR TO SIGN AUDIT REPORTS, ETC.

- **Audit Report, Financial Statements or any other** document of the company to be signed / certified by the auditor
- **Qualifications, observations or comments** on financial transactions or matters, which have any adverse effect on the functioning of the company mentioned in the auditor's report shall be **read before the company in general meeting** and shall be **open to inspection by any member of the company.**

146. AUDITORS TO ATTEND GENERAL MEETING

Auditor to be **served a copy of** notice to ANY general meeting Unless exempted, auditor to attend the meeting either by - **Himself / Authorized representative (person qualified to be an auditor) Right to be heard** at such meeting on any part of the business which concerns him as the auditor

147. PUNISHMENT FOR CONTRAVENTION

Company	25000-5 Lakhs [Section 147(1)]
Officer	10,000 to 1 Lakh and / or 0-1 year [Section 147(1)]
Auditor	For contraventions of Section 139, 143, 144 or 145: 25,000- 5 Lakhs or 4 times the remuneration received, whichever is lower. [Section 147(2)]
Auditor Frauds	Default to deceive company or shareholders or creditors or tax authorities:

	50000 to 25 Lakhs or 8 times the remuneration received, whichever is lower or imp upto 1YR or both [Section 147(2)]
Damages	<p>Auditor bound to</p> <ol style="list-style-type: none"> i. Refund the remuneration received; and ii. Pay for damages to the company, statutory bodies or authorities or to any other persons for loss arising out of incorrect or misleading statements of particulars made in his audit report. [Section 147(3)] <p>CG can specify any statutory body or authority or an officer For ensuring prompt payment</p>
Responsibility	For audits conducted by an audit firm if partners proved guilty responsibility of partners and of the firm will be jointly and severally.

Companies (Audit and Auditors) Rules, 2014

Rule No - 9:- Liability to devolve on concerned partners only –

In case of criminal liability of any audit Firm, the liability other than fine, shall devolve only on the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud.

148. CENTRAL GOVERNMENT TO SPECIFY AUDIT OF ITEMS OF COST IN RESPECT OF CERTAIN COMPANIES

APPLICABILITY FOR MAINTENANCE OF COST RECORDS

- **CC may**, by order, after consulting any governing regulatory body if any, in respect of
- such class of companies engaged in
- **production of such goods or providing such services** as may be prescribed,
- direct particulars relating to the utilization of material or labour or to other items of cost as may be prescribed (**COST RECORDS as per CRA-1**)
- shall also be included in the books of account kept by that class of companies

AUDIT OF COST RECORDS

- CG may order based on net worth / turnover
- Direct audit of cost records of class of companies
- To be conducted in prescribed manner

COST AUDITOR — ELIGIBILITY, APPOINTMENT, POWERS AND DUTIES AND REMUNERATION

- **Cost Accountant in practice**
- Appointed by **BOD**
- Cannot be **Company Auditor**
- Audit to be as per cost auditing standards
- Audit to be counted as an additional audit For determining limits of audit

- **Qualifications, disqualifications, rights, duties and obligations** applicable to auditors under this Chapter shall, so far as may be applicable, apply to a cost auditor
- Report submitted to BOD
- Remuneration - Determined by BOD and ratified by SH in GM unless Audit committee exists who shall then recommend remuneration to BOD to be then approved and ratified by SH [Rule 14]

REPORT TO CG

- **Company within 30 days** from receipt of cost audit report

(AMENDMENT): the above time period will be extended by such extension provided by ROC under section 137

- Furnish the Central Government report + explanation on every qualification in report in **CRA-4**
- CG can call for **additional information as is necessary** (No time limit prescribed)

Penalty as per Section 147

COST RECORD REQUIRMENTS

For specified sector companies engaged in production of goods or rendering services (regulated and non – regulated industries both) it is mandatory for companies having annual turnover of Rs 35 crore in preceding financial year and above to maintain cost records and include it in their books of account.

COST AUDIT REQUIRMENTS

Limits for Cost Audit	Turnover of preceding financial year		Industries Covered
	AU Products and Services (Annual Turnover)	Individual Products or Services	
Regulated Sector under list A	50 Crores	25 Crores	Telecommunication, Electricity, Petroleum and Gas, Drugs and Pharma, Fertilizers, Sugar and Industrial Alcohol
Regulated Sector under list B	100 Crores	35 Crores	Telecommunication, Electricity, Petroleum and Gas, Drugs and Pharma, Fertilizers, Sugar and Industrial Alcohol

APPOINTMENT OF COST AUDITOR:

- Rule 6 of the Companies (Cost Records and Audit) Rules, 2014 requires the companies prescribed under the said Rules

- *to appoint an Auditor within 180 days of the commencement of every financial year. Every referred company shall inform the cost auditor concerned of his or its appointment as such and*
- *file a notice of such appointment with the Central Government within a period of 30 days of the Board meeting in which such appointment is made or within a period of 180 days of the commencement of the financial year, whichever is earlier, through electronic mode, in Form CRA-2, along with the Fee as specified in Companies Registration Offices and Fees) Rules, 2014.*
- *The cost auditor appointed as such shall continue in such capacity till the expiry of 180 days from the closure of the financial year or till he submits the cost audit report in CRA-3, for the financial year for which he has been appointed.*

CASUAL VACANCY IN THE OFFICE OF A COST AUDITOR:

Any casual vacancy in the office of a Cost Auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within **30 days of occurrence** of such vacancy and the company shall inform the central government in **Form CRA-2 within 30 days** of such appointment of cost auditor.

REMUNERATION OF COST AUDITOR:

As per rule 14 of the Companies (Audit and Auditors) Rules, 2014 –

- in the case of companies which are required to constitute an audit committee –
 - i. the **Board shall appoint an individual**, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall **also recommend remuneration for such cost auditor;**
 - ii. the **remuneration recommended by the Audit Committee** under (i) shall be considered and approved by the Board of Directors and **ratified subsequently by the shareholders;**
- in the case of **other companies** which are **not required to constitute an audit committee**, the **Board shall appoint an individual** who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor **and the remuneration of such cost auditor shall be ratified by shareholders subsequently.**

QUALIFICATION, DISQUALIFICATION, RIGHTS, DUTIES AND OBLIGATIONS OF COST AUDITOR:

The qualifications, disqualifications, rights, duties and obligations applicable to auditors under this Chapter shall, **so far as may be applicable, apply to a cost auditor appointed** under this section and it shall be the duty of the company to give all assistance and facilities to the cost auditor appointed under this section for auditing the cost records of the company.

SUBMISSION OF COST AUDIT REPORT:

- I. **To the Board of Directors of the Company –**
 - The cost auditor shall submit the cost audit report along with his reservations or qualifications or observations or suggestions, if any, in Form **CRA-3**.
 - He shall forward his report to the Board of Directors of the company within a period of 180 days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report particularly any reservation or qualification contained therein.

- II. **To the Central Government –**
 - The company shall within 30 days from the date of receipt of a copy of the cost audit report prepared (in pursuance of a direction issued by Central Government) furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein in **Form CRA-4** along with Fees specified in the Companies (Registration Offices and Fees) Rules, 2014.
 - IF, after considering the cost audit report and the, information and explanation Furnished by the company as above, the Central Government is of the opinion, that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by that Government.
 - **REFER THE AMENDMENT GIVEN ABOVE**

DUTY TO REPORT ON FRAUD:

The provisions of section 143(12) of the Companies Act, 2013 and the relevant rules on duty to report on fraud shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules.

COST AUDIT RULES NOT TO APPLY IN CERTAIN CASES:

Sub-rule (3) of rule 4 provides that the requirement for cost audit under these rules shall not be applicable to a company which is covered under Rule 3, and,

- whose revenue from exports, in foreign exchange, exceeds 75% of its total revenue; or
- Which is operating from a special economic zone.
- 100% EOU
- SME
- Having its own power plant using it for captive consumption

PENAL PROVISIONS IN CASE OF DEFAULT:

If any default is made in complying with the provisions of this section,

- the company and every officer of the company who is in default shall be punishable in the manner as provided in sub-section (1) of section 147;
- the cost auditor of the company who is in default shall be punishable in the manner as provided in sub-sections (2) to (4) of section 147.

PROCEDURE FOR APPOINTMENT OF AUDITOR

Written certificate to be obtained from cost auditor that:

- the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Cost and Works Accountants Act, 1959 and the rules or regulations made there under;
- the individual or the firm, as the case may be, satisfies the criteria provided in section 141 of the Act, so far as may be applicable;
- the proposed appointment is within the Limits laid down by or under the authority of the Act; and
- the List of proceedings against the cost auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

REMOVAL OF COST AUDITOR

- Cost auditor appointed under these rules may be removed from his office **before the expiry of his term**, through **a board resolution** after giving a **reasonable opportunity of being heard** to the Cost Auditor and recording the reasons for such removal in writing;
- Provided further that the **Form CRA-2** to be **filed with the Central Government for intimating appointment of another cost auditor shall** enclose the relevant Board Resolution to the effect;
- Provided also that nothing contained in this sub-rule shall prejudice the right of the cost auditor to resign from such office of the company.

COST AUDITOR REPORT-CRA-3

- The cost statements, including other statements to be annexed to the cost audit report, shall be approved by the Board of Directors before they are signed on behalf of the Board by any of the director authorized by the Board, for submission to the cost auditor to report thereon";
- Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of 180 days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein.
- Every company covered under these rules shall, within a period of 30 days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in **Form CRA-4 refer above amendment**

UNIT 4 ACCOUNTS OF COMPANIES

128. BOOKS OF ACCOUNTS, ETC., TO BE KEPT BY COMPANY

Applicability - On every company

- **Place to Maintain - Registered Office** or other place in India decided by BOD, after giving notice to **ROC within 7 days** in AOC-5

Requirement - Prepare and keep

- a) **Books of account** and other relevant books and papers; and
 - b) **Financial statement** for every financial year which give a true and Fair view of the state of the affairs of the company
 - c) Including that of its **branch office or offices**
 - d) System of maintaining to be on **accrual basis** and **double entry system** of accounting
- **Electronic Mode of Record Keeping** — Manner of maintenance prescribed under Rule 3 of Company (Account) Rules 2014:
 - a) Books and papers shall remain **accessible in India**
 - b) **Retention** of books to be in the same form as-generated and the information contained in the electronic records shall remain complete and unaltered including information received from Branches.
 - c) Information in the electronic record shall be capable of being displayed in a **legible form**.
 - d) Proper system for **storage, retrieval, display or printout** of the electronic records as the Audit Committee, if any, or the Board may deem appropriate and such records shall not be disposed of or rendered unusable, unless permitted by law
 - e) **Back-up** of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any shall be kept in **servers physically located in India** on a periodic basis.
 - f) **'Intimate to the Registrar** on an **annual basis** at the time of filing of financial statement -
 - a. The name of the service provider;
 - b. The Internet protocol address of service provider;
 - c. The location of the service provider (wherever applicable);
 - d. Where the books of account and other books and papers are maintained on cloud, such address as provided by the service provider.
 - **Branch Records** — Books of accounts may be kept at Branch and **summarized returns periodically are sent to the company** including records maintained outside India. Summarized returns to be sent **QUARTERLY**, at least.
 - **Inspection** — Books maintained in India shall be open for inspection by any **DIRECTOR during business hours** and financial information maintained outside the country, copies shall be maintained and produced for inspection within 15 days of request made by such director.
 - **Inspection of records of SUBSIDIARY** shall be by the **person authorized in this behalf** by a resolution of the Board of Directors.

- **Retention Period - 8 financial years** immediately preceding a financial year together with the vouchers
- **Extension beyond 8 years by CG** - Provided that where an investigation has been ordered the Central Government may direct that the books of account may be kept for such longer period as it may deem fit.
- Penalty - Imprisonment Up to one year or / Fine 50K – 5L or both.

COMPANIES ACT 2013 - RELATED DEFINITION

- **"Book and paper"** and **"book or paper"** include books of account, deeds, vouchers, writings, documents, minutes and registers maintained on paper or in electronic form;
- **"Books of account"** includes records maintained in respect of –
 - All sums of **money received and expended** by a company and matters in relation to which the receipts and expenditure take place;
 - All **sales and purchases of** goods and services by the company;
 - the **assets and Liabilities** of the company; and
 - The **items of cost** as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section;
- **"Financial year"**
 - All companies & body corporate - Period ending **31st March every year.**
 - **New company** – Incorporated after 1st January - 31st March of the following year
 - Company with **foreign Holding / Subsidiary** – Required to maintain accounts for different year for consolidation of its accounts outside India, the Tribunal may, allow any period as its financial year, whether or not that period is a year
 - Transitional Provision – Compliance within **2 years from 1 Apr 14**
- **"Body corporate" or "corporation"** includes a company incorporated outside India, but **does not include** —
 - A **co-operative society** registered under any law relating to co-operative societies; **and**
 - Any **other body corporate** (not being a company as defined in this Act), which the **Central**
 - **Government may**, by notification, specify in this behalf;

EXEMPTION FROM PREPARATION OF CONSOLIDATED FS

A company which is an intermediate holding company is exempted from preparation of Consolidated FS if all the following conditions are satisfied:

- it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;
- it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; and

- iii. its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards."

129. FINANCIAL STATEMENT

PROVISION

- The financial statements shall give a **true and fair view**.
- Comply with the **accounting standards** notified under section 133 in defence production to not apply (AS-17)
- As per **Schedule III**
- Above (even AS) not applicable on any:
 - insurance or
 - banking company or
 - any company engaged in the generation or supply of electricity, or to any other class of company for which a form of financial statement has been specified in or under the Act governing such class of company
 - defense production company

BOD TO LAY SUCH FS IN AGM

Holding Company (Every company having one or more Subsidiary / JV / Associate) - Additionally prepare a **consolidated financial statement**, as per AS and Schedule III, of the company and of all the Subsidiaries including Joint Venture and Associates (S-JV-A) in the same form and manner and lay in AGM along with a separate statement containing the **salient features** of the financial statement of its S-JV-A in **FORM AOC 1**.

Non-compliance with AS - The company shall disclose in its Financial statements, the deviation from the accounting standards, the reasons for such **deviation** and the financial effects, if any, arising out of such deviation.

Exemption - CG can grant exemption in the public interest, by notification

PENALTY - IMPRISONMENT - UPTO 1 year + / Fine - 50K TO 5L.

COMPANIES ACT 2013- RELATED DEFINITION

FINANCIAL STATEMENTS & RELATED DEFINITION

- "**Financial statement**" in relation to a company, includes –
 - A **balance sheet** as at the end of the financial year;
 - A **Profit and loss account**, or in the case of a company carrying on any activity not For profit, **an income and expenditure account** for the financial year;
 - **Cash flow statement** for the financial year;
 - A **statement of changes in equity**, if applicable; and
 - **Any explanatory note** annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

- Provided that the financial statement, with respect to **One Person Company** (Single Member Company), small company and dormant company, may not include the cash flow statement;

Clause (40) or section 2

No requirement to prepare Cash Flow Statements for

- one person company,
- small company,
- dormant company and
- private company (if such private company is a start-up) declared by DIPP under MCA
- **"Small company"** means a company, other than a public company, -
 - **Paid-up share capital** of which does not exceed **50 lakh rupees** or such higher amount as may be prescribed which shall not be more than **10 crore rupees**; or
 - **Turnover** of which as per its last profit and loss account does not exceed **two crore rupees** or such higher amount as may be prescribed which shall not be more than **100 crore rupees**;

Provided that nothing in this clause shall apply to –

- A. a **holding** company or a **subsidiary** company;
- B. a company registered under **section 8**;
- C. a company or body corporate governed by any **special Act**;
- **Dormant Company (Section 455):**
Where a company is Formed and registered under this Act for a **future project** or to **hold an asset** or intellectual property and has no significant accounting transaction, such a company **or an inactive company may make an application to** the Registrar in such manner as may be prescribed for obtaining the status of a dormant company.

HOLDING / SUBSIDIARY / ASSOCIATES & RELATED DEFINITION

- **"Associate company"** in relation to another company, means a company in which that other company has a **significant influence**, but which is not a subsidiary company of the company having such influence and **includes a joint venture company**.

Explanation - For the purposes of this clause, "significant influence" means control of **at least 20%**, of total VR(voting rights), or of business decisions under an agreement; Note — No separate definition for Joint Venture company in the Act

- **"Control"** shall include the

- right to **appoint majority of the directors** or to **control the management** or policy decisions exercisable by a person/5
- control by virtue of their **shareholding** or **management rights** or **shareholders agreements** or voting agreements or in any other manner
- **"Subsidiary Company" or "Subsidiary"** in relation to any other company (that is to say the holding company), means a company in which the holding company –
 - Controls the **composition of the Board of Directors** (Control includes power to appoint / remove all or majority of directors); or
 - **Exercises or controls more than one-half of the total share capital** either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall **not have layers of subsidiaries beyond such numbers as may be prescribed** (2 layers have been maximum prescribed). Layers can be more than 2 ie. 3 if there is an wholly owned subsidiary in that chain.

Explanation

For the purposes of this clause

- Subsidiary company to include subsidiary of subsidiary company;
- **"Company"** includes **anybody corporate**;
- **"Layer"** in relation to a holding company means its subsidiary or subsidiaries
- **"Turnover"** means the aggregate value of the realization of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year;

Section 2(87) - Restriction on number of layers for certain classes of holding companies (w.e.f. 20 Sep 2017)

No company, other than a company belonging to a class specified in sub-rule (2), shall have more than two layers of subsidiaries

Provided one layer which consists of wholly owned subsidiary or subsidiaries shall not be taken into account.

Exceptions:

Provided that the provisions of this sub-rule shall not affect a company from acquiring a company incorporated outside India with subsidiaries beyond two layers as per the laws of such country:

Not Applicable:

The provisions of this rule shall not apply to the following classes of companies, namely:—

- a) a banking company;
- b) a non-banking financial company;
- c) an insurance company;

d) a Government company

Transitional Provisions

Every company, other than a company referred to in above, existing on or before the commencement of these rules, **which has number of layers of subsidiaries in excess of the Layers** specified -

- i. shall file, with the Registrar a return in Form CRL-1 disclosing the details specified therein, within a period of 150 days from the date of publication of these rules in the Official Gazette;
- ii. shall not, after the date of commencement of these rules, have any additional layer of subsidiaries over and above the layers existing on such date; and
- iii. shall not, in case one or more layers are reduced will increase it beyond permissible limits.

Fine

May extend to 10,000 rupees and where the contravention is a continuing one, with a further fine which may extend to 1,000 rupees for **every day after** the first during which such contravention continues.

FOREIGN COMPANY

"Foreign Company" means any company or body corporate incorporated outside India which —

- has a place of business in India whether by itself or through an agent, physically **or through electronic mode; and**
- **conducts** any **business activity** in India in any manner.

Application of Companies Act 2013 on Foreign Companies:

Section 379:

At least 51% or more of paid-up share capital (equity or preference) held by one or more

- citizens of India or
- by one or more companies or bodies corporate incorporated in India, (whether singly or in the aggregate)
- such company shall comply with specified provisions **with regard to the business carried on by it in India**
- as if it were a company incorporated in India.

Specified Provisions relating to Financial Statement of every foreign company include:

- 1) **Prepare and File Financial Statement** in every calendar year providing Balance Sheet, Profit and Loss Statement and other particulars (Section 381)
- 2) Provisions of **Section 128**, requiring it to keep at its principal place of business in India, the books of account referred to in that section (Section 384)
- 3) Financial statements to be as per **Schedule III** and shall have all annexures as required under this Chapter along with copy of **Consolidated Financial Statement**

of its Holding Company as presented in the foreign country of incorporation (Rule 4 of Companies (Registration of Foreign Company Rules) 2014)

- 4) Schedule of **related party transactions** along with information of repatriation of profits and distribution of dividends to related parties including H-S-A-JV (Rule 4)
- 5) Return To be filed for its Indian business and within a period of **6 months** of close of financial year (Rule 4)
- 6) Audit of accounts of Indian business of foreign company by CA as per provisions of Chapter X of the Act to be conducted (Rule 5)

COMPANIES (ACCOUNTS) RULES, 2014

Rule No - 6:- Manner of consolidation of accounts:-

Consolidation of FS to be as per AS and Schedule 111

Exception - Provided that in case of a company not required to prepare consolidated financial statements under the AS, it shall be sufficient if the company complies with provisions on consolidated financial statements provided in Schedule 111 of the Act.

Exception to an **Intermediate wholly owned subsidiary** – Not required to prepare Consolidate Financial Statement if:

- a) It is **100% intermediate subsidiary**
- b) **Holding company is not a company incorporated outside India**
- c) Consolidation is not **required by any law**

130. RE-OPENING OF ACCOUNTS ON COURT'S OR TRIBUNAL'S ORDERS

Re-opening of accounts on Court's or Tribunal's Orders

Section 130 of the Companies Act, 2013 states that a company shall not re-open its books of account and not recast its financial statements, unless an application in this regard is made by the Central Government, the Income-tax authorities, the Securities and Exchange Board, any other statutory regulatory body or authority or any person concerned and an order is made by a court of competent jurisdiction or the Tribunal to the effect that –

- i. **the relevant earlier accounts were prepared in a fraudulent manner; or**
 - ii. **the affairs of the company were mismanaged during the relevant period, casting a doubt on the reliability of financial statements.**
- However, a notice shall be given by the Court or Tribunal in this regard and shall take into consideration the representations, if any
 - Period of coverage: preceding 8 financial years.

131. VOLUNTARY REVISION OF FINANCIAL STATEMENTS OR BOARD'S REPORT

Voluntary revision of financial statements or Board's report: Section 131 of the Companies Act, 2013 states that if it appears to the directors of a company that–

- a) the financial statement of the company; or
- b) the report of the Board,

do not comply with the provisions of section 129 (Financial statement) or section 134 (Financial statement, Board's report, etc.) they may prepare revised financial statement or a revised report in respect of any of the **three preceding financial years** after obtaining approval of the Tribunal on an application made by the company in such form and manner as may be prescribed and a copy of the order passed by the Tribunal shall be filed with the Registrar.

132. CONSTITUTION OF NATIONAL FINANCIAL REPORTING AUTHORITY (Refer Handwritten notes)

133. CENTRAL GOVERNMENT TO PRESCRIBE ACCOUNTING STANDARDS

- CG to prescribe in consultation with NFRA (NACAS till NFRA is notified)
- AS as recommended by ICAI to be prescribed
- Till any AS notified, AS as notified by NACAS in Companies (AS) Rules 2006 to be applicable to all companies
- As per the said Rules AS 1 to 29 are to be followed by companies subject to SMC exemptions provided in the said Rules

UNIT 5

ACCOUNTS OF COMPANIES

134. FINANCIAL STATEMENT, BOARD'S REPORT ETC.

FINANCIAL STATEMENTS & AUDITOR'S REPORT

FS & Consolidated FS shall be approved by the BOD Signed by:

- **Chairperson if authorized** by BOD or by **2 directors** (one being MD) + CEO + **CFO + CS** if appointed
 - For One Person Company By director
- The **auditors' report** shall be attached to every financial statement.

CONTENTS OF THE DIRECTORS' REPORT

BOD Report's to be attached with financial statements shall include —

- The extract of the annual return
- **number of meetings of the Board;**
- **Directors' Responsibility Statement 134(5)**
Details in respect of frauds reported by auditors under sub-section (12) of section 143 other than those which are reportable to the Central Government. (As per Companies (amendment) Act, 2015)
- A statement **on declaration given by independent directors** under sub – section (6) of section 149;
- in case of a company covered under sub-section (1) of section 178 (limits as applicable for maintaining audit committees), company's policy on directors' appointment and remuneration including criteria for determining qualifications, positive attributes, independence of a director and other matters provided under sub-section (3) of section 178 (**Nomination and Remuneration Committee**);
- **Explanations or comments by the Board on every qualification**, reservation or adverse remark or disclaimer made -
 - i. By the **auditor in** his report; and
 - ii. By the **company secretary** in practice in his secretarial audit report;
- Particulars of **loans, guarantees or investments** under section 186;
- Particulars of contracts or arrangements with related parties referred to in sub-section (1) of section 188 in the prescribed form(Related party transactions);
- The state of the company's affairs;
- The amounts, if any, which it proposes to carry to any reserves;
- The amount, if any, which it recommends should be paid by way of dividend;
- **Material changes and commitments**, if any, affecting the financial position of the company which have occurred between the **end of the financial year of the company to which the financial statements relate and the date of the report**;
- The **conservation of energy, technology absorption, foreign exchange earnings and outgo**, in such manner as may be prescribed;

- A statement indicating development and implementation of a **risk management policy** for the company including identification therein of elements of risk, if any, this in the opinion of the Board may threaten the existence of the company;
- The details about the policy developed and implemented by the **company on corporate social responsibility initiatives** taken during the year;
- In case of a listed company and every other public company having such paid-up share capital as may be prescribed, a statement indicating the manner in which **formal annual evaluation has been made by the Board of its own performance and that of its committees and individual directors;**
- Such other matters as may be prescribed. [Rule 8]

DIRECTOR'S RESPONSIBILITY STATEMENT

The **Directors' Responsibility Statement** referred to in clause (c) of sub-section (3) shall state that -

- Compliance with AS along with proper explanation relating to material departures;
- the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view;
- The directors had taken proper and sufficient care for the maintenance of adequate accounting records, for safeguarding the assets and for preventing and detecting fraud and other irregularities;
- The directors had prepared the annual accounts on a going concern basis; and
- The directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.

Explanation — For the purposes of this clause, the **term "internal financial controls"** means the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including

- **adherence** to company's policies,
- the **safeguarding of its assets,**
- the prevention and detection of **frauds and errors,**
- the accuracy and completeness of the **accounting records,** and
- the timely preparation of **reliable financial information;**

- The directors had devised proper systems to ensure **compliance with the provisions of all applicable laws and that such systems** were adequate and operating effectively.
- **Details of top ten employees in terms of remuneration**
- **Web link of annual returns and risk management policies.**
- **Details of employees employed for the full years getting salary exceeding Rs. 10,200,000/ annum or Rs. 8,50,000/ month if employed for part of the year.**
- **Reasons of Section 130 & 131.**

SIGNATURE ON BOARD'S REPORT

Authorized Chairperson and where he is not so authorized, shall be signed by at least two directors, one of whom shall be a managing director, or by the director where there is one director.

CIRCULATION OF FINANCIAL STATEMENTS

A signed copy of every financial statement, including consolidated financial statement, if any, shall be issued, circulated or published along with a copy each of:

- a) Any notes annexed to or forming part of such financial statement;
- b) The auditor's report; and
- c) The Board's report referred to in sub-section (3).

FINE

Fine - 50,000 to 25 Lakhs with 0 to 3 years imprisonment

Companies Act 2013 - Related Definition

"**One Person Company**" means a company which has only one person as a member;

COMPANIES (ACCOUNTS) RULES, 2014**Rule No - 8:- Matters to be included in Board's report.**

1. Board's Report to be on the stand-alone financial statements + separate section on performance and financial position of each S-JV-A included in the consolidated financial statement
2. Report of the Board shall contain the particulars of contracts or arrangements with related parties
3. The report of the Board shall contain the following information and details, namely:-
 - A. **Conservation of energy - Steps for conservation** of energy, for utilizing alternate sources of energy and capital investment on energy conservation equipments;
 - B. **Technology absorption** - Efforts towards technology absorption, benefits derived like product improvement, cost reduction, expenditure on Research and Development along with details of technology imported, year of import, whether fully absorbed, etc.
 - C. **Foreign exchange earnings and Outgo** - Actual inflows and outflows during the year.
4. **Annual Evaluation of BOD —**
Listed company and other public company having a paid up share capital \geq 25 crore rupees (at the end of the preceding financial year)
Include in report a statement indicating the manner in which **formal annual evaluation** has been made by the Board of its own performance and that of its committees and individual directors
5. **Additional Information —**
 - The financial summary or highlights;
 - The change in the nature of business, if any;

- The **details of directors or key managerial personnel** who were appointed or have resigned during the year;
- the names of companies which have **become or ceased to be its Subsidiaries, joint ventures or associate companies** during the year;
- The details relating to deposits and deposits not in compliance
- The details of **significant and material orders** passed by the **regulators or courts or tribunals** impacting the **going concern status and company's operations** in Future;
- The details in respect of **adequacy of internal financial controls** with reference to the Financial Statements.

135. CORPORATE SOCIAL RESPONSIBILITY

APPLICABILITY:

➤ Every

- a) Company including its Holding and Subsidiaries (not Associates); and
- b) Foreign Company, based on their financial statements for Indianops, having
- c) Turnover of 1000 crore / **Net Worth** of Rs 500 Crores / **Net profit** of 5 crore or more **during any financial year**
- d) shall constitute a **CSR Committee** with ≥ 3 Director with atleast 1 Independent with its composition disclosed in the BODs report. In case of foreign company 2 person including one nominee by foreign company

EXEMPTION

However, companies that were **earlier covered** and subsequently **not covered in these limits for consecutive period of 3 years shall be exempted**

ROLE OF CSR COMMITTEE& BOD:

- Formulate and recommend to the Board CSR Policy indicating activities to be undertaken as specified in **Schedule VII**
- Along with recommendation for expenditure and its monitoring
- such policy to be approved by the BOD and placed on the website and its report along with ensuring its compliance

EXPENDITURE ON CSR

- Board shall ensure that the company spends, **in every financial year**, $\geq 2\%$ of the **average net profits of the company** made during the **three immediately preceding financial years** (with preference to spending in local areas). Net profits to be as per **Section 198**.
- Any **surplus on CSR activities** to not form part of profits of the company
- Expenditure incurred in the normal course of business like staff welfare expenses, etc shall not qualify to be expenditure on CSR
- Companies can build CSR capacities of **own personnel / implementing agencies** but such expenditure to be nor more than **5% of total CSR spend**

EXCEPTIONS TO CSR ACTIVITIES

The Companies (CSR Policy) Rules, 2014 provides following not considered as CSR activities:

- Projects or Programmes **outside India**
- Projects or Programmes for benefit of only the **employees** of the company and their families
- Contribution of any amount directly or indirectly to any political party under **section 182 of the Act.**
- Contributions in the form of scholarships and prize distribution at marathons etc.
- Contributions done within its charitable objects.

CALCULATION OF AVERAGE NET PROFIT

- As per Section 198
- "Net profit" shall **not include the** Following:
 - Any profit From any **overseas branch**
 - Dividends received from other company which are themselves **covered under this Section 135 of CSR**

FAILURE TO SPEND CSR AMOUNT

BOD to specify the reasons in its report. **However, no penalty for non-compliance is prescribed**

COMPANIES ACT 2013 - RELATED DEFINITION

- "**Net worth**" means the aggregate value of the **paid-up share capital** and **all reserves created out of the profits and securities premium account**, after deducting the aggregate value of the **accumulated losses, deferred expenditure and miscellaneous expenditure not written off**, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation;
- "Free reserves" means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend: Provided that —
 - Any amount representing unrealized gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or
 - Any change in carrying amount of an asset or of a liability recognised including surplus in profit and loss account on measurement of the asset or the liability at fair value, shall not be treated as free reserves equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value, shall not be treated as Free reserves;

COMPANIES (ACCOUNTS) RULES 2004**Rule No - 9:- Disclosures about CSR Policy:-**

The disclosure of contents of Corporate Social Responsibility Policy in the **Board's report** and on the **company's website**, if any, shall be as per annexure attached to the Companies (Corporate Social Responsibility Policy) Rules, 2014.

CORPORATE SOCIAL RESPONSIBILITY RULES

ACTIVITIES SPECIFIED UNDER SCHEDULE VII:

Activities which may be included by companies in their CSR Policies Activities as specified under Schedule VII are as follows:

- Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation and making available safe drinking water;
- Promoting education, including special education and employment enhancing vocation skill se specially among children, women, elderly, and the differently abled and livelihood enhancement projects;
- Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing in equalities faced by socially and economically backward groups;
- Ensuring environ mental sustain ability, ecological balance, protection of flora and fauna, animal welfare, agro forestry, conservation of natural resources and maintaining quality of soil, air and water;
- Protection of national heritage, art and culture including restoration of building sand sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;
- Measures for the benefit of armed forces veterans, war widows and their dependents;
- Training to promote rural sports, nationally recognised sports, paralympic sports and. Olympic sports;
- Contribution to the Prime Minister's National Relief Fund or any other- fund set up by the Central Government for socio- economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;
- Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;

The Board of a company may decide to undertake its CSR activities approved by the CSR Committee, through

- a) a company established under section 8 of the Act or a registered trust or a registered society, established by the company, either singly or along with any other company, or
- b) a company established under section 8 of the Act or a registered trust or a registered society, established by the Central Government or State Government or any entity established under an Act of Parliament or a State legislature : Provided that –
 - if, the Board of a company decides to undertake its CSR activities through
 - a company established under section 8 of the Act or a registered trust or a registered society, other than those
 - specified in this sub-rule,
 - such company or trust or society shall have an established track record of 3 years in undertaking similar programs or projects

- The Ministry of Corporate Affairs have made a clarification with respect to CSR: General Circular No. 09/2021 Dated 5th May, 2021
- In continuation to this Ministry's General Circular No. 10/2020 dated 23.03.2020, wherein it was clarified that spending of CSR funds for COVID-19 is an eligible CSR activity, it is further clarified that spending of CSR funds for 'creating health infrastructure for COVID care', 'establishment of medical oxygen generation and storage plants', 'manufacturing and supply of Oxygen concentrators, ventilators, cylinders and other medical equipment for countering COVID-19' or similar such activities are eligible CSR activities under item nos. (i) and (xii) of Schedule VII of the Companies Act, 2013 relating to promotion of health care, including preventive health care, and, disaster management respectively.
- Reference is also drawn to item no. (ix) of Schedule VII of the Companies Act, 2013 which permits contribution to specified research and development projects as well as contribution to public funded universities and certain Organisations engaged in conducting research in science, technology, engineering, and medicine as eligible CSR activities.
- The companies including Government companies may undertake the activities or projects or programmes using CSR funds, directly by themselves or in collaboration as shared responsibility with other companies, subject to fulfillment of Companies (CSR Policy) Rules, 2014 and the guidelines issued by this Ministry from time to time.

General Circular 13/2021 dated 30th July, 2021

- The Ministry of Corporate Affairs vide General Circular 10/2020 dated 23.03.2020 clarified that spending of CSR funds for COVID- 19 is an eligible CSR activity. In continuation to the said circular, it is further clarified that spending of CSR funds of COVID- 19 vaccination for persons other than the employees and their families, is an eligible CSR activity under item no. (i) of Schedule VII of the Companies Act, 2013 relating to promotion of health care including preventive health care and item no. (xii) relating to disaster management.

Additional reporting requirement - Report on the highlights of performance of subsidiaries, associates and joint venture companies and their contribution to the overall performance of the company during the period under report to be also reported.

136. RIGHT OF MEMBER TO COPIES OF AUDITED FINANCIAL STATEMENT

COPY OF FS INCLUDING CONSOLIDATED FINANCIAL STATEMENTS WITH AUDITOR'S REPORT AND OTHER ANNEXURES & ATTACHMENTS

Shall be sent to every:

- member of the company,
- trustee for the debenture-holder of any debentures issued by the company, and

➤ to all persons so entitled,
not less than 21 days before the date of the annual general meeting under Section 101. Amendment – 14 days in case of Sec 8 company.

EXCEPTION - LISTED COMPANIES

- Sufficient to deliver statement containing the **salient features** of such documents 21 days prior to the meeting (**Form AOC 3** — Rule 3); and
- Making **copies of the documents available for inspection** at its registered office during working hours for a period of 21 days before the date of the meeting
- However, the shareholders may ask for Full financial statements

SPECIAL PROVISION FOR MANNER OF CIRCULATION OF FINANCIAL STATEMENTS (RULE NO -11)

Applies on:

All **listed companies**, and

Public companies which have a

➤ **Net worth of > 1 Crore and**

➤ **Turnover of > 10 Crore,**

Manner:

the financial statements may be sent –

- Members with **DMAT & Email Ids Registered with Depository** - By electronic mode;
- Other Members — By **electronic mode** to members who have **positively consented** in writing for receiving by electronic mode; and
- Other Cases - By dispatch of **physical copies** through any recognized mode of delivery as specified under section 20 of the Act (Registered Post, Speed Post, Courier or Hand Delivery)

PLACING OF FS ON WEBSITE

Listed companies to place FS + Consolidated FS + Attachments / Annexures

FS OF SUBSIDIARY COMPANIES

Every company (and not just listed companies)

- To place FS of subsidiaries on its website, if any;
- Provide a copy of separate audited financial statements in respect of each of its subsidiary, to any shareholder of the company who asks for it.

INSPECTION OF FS & ATTACHMENTS / ANNEXURES

A company shall allow every member or trustee of the holder of any debentures issued by the company to inspect the documents at its registered office during business hours.

PENALTY

Company 25,000/- Officer 5000/-

COMPANIES ACT 2013 — RELATED DEFINITION

"Member" in relation to a company, means –

- The subscriber to the memorandum of the company who shall be deemed to have agreed to become member of the company, and on its registration, shall be entered as member in its register of members;
- Every other person who agrees in writing to become a member of the company and whose name is entered in the register of members of the company;
- Every person holding shares of the company and whose name is entered as a beneficial owner in the records of a depository;

137. COPY OF FINANCIAL STATEMENT TO BE FILED WITH REGISTRAR

WHEN FS ADOPTED IN AGM

FS + Consolidated FS + Attachments and Annexures to be filed with Registrar in FORM AOC 4, in XBRL form on prescribed companies (Rule 12). No requirement to file FS of subsidiary companies by holding companies except in case when subsidiary is a company incorporated outside India and is not a foreign company (i.e. has no place of business in India)

WHEN FS NOT ADOPTED IN AGM

If FS not adopted in AGM then **unadopted FS to be filed within 30 days** of AGM as provisional FS till adopted FS are filed in adjourned AGM for that purpose (**again within 30 days**)

WHEN AGM NOT HELD

If AGM not held than file FS within 30 days of last due date of AGM duly signed with reasons for not holding the AGM.

ONE PERSON COMPANY

FS duly adopted by its member to be filed in **180 days from the course of the financial year**

PENALTY

- Company – 1000 per day (maximum 10,00,000/-)
- Officers – CFO + MD or concerned director or if no concerned director, then all directors – Fine 1 lakh and Rs. 100/ day to the maximum of 5 Lakhs.

Section 8 companies defaulting in filing its financial statements under section 137 or annual return under section 92 of the said Act with the registrar will be devoid of all exemptions provided specifically to such companies.

138. INTERNAL AUDIT

APPLICABILITY (RULE 13)

Companies required to appoint internal auditor / firm of internal auditors:

- Every listed company;

- Every **UNLISTED PUBLIC COMPANY** having –
 - I. ≥ 25 Crores - Outstanding deposits at point of time during the preceding financial year ; or
 - II. ≥ 50 Crores – Paid up share capital during the preceding financial year; or
 - III. ≥ 100 Crores – Outstanding loan / borrowings from banks or public financial institutions at any point of time during the preceding financial year; or
 - IV. ≥ 200 Crores – Turnover during the preceding financial year
- Every **PRIVATE COMPANY** having-
 - I. ≥ 100 Crores – Outstanding loans / borrowings from banks or public financial institutions at any point of time during the preceding financial year; or
 - II. ≥ 200 Crores – Turnover during the preceding financial year

Transition provisions – Existing company covered in the criteria to comply within 6 months of 1 April 2014

QUALIFICATIONS

- CA, CMA, or other professional as decided by the Board to conduct such audit
- May or may not be an employee of the company
- “Chartered Accountant” shall mean a Chartered Accountant whether engaged in practice or not for this section
- Internal Auditor can be either an individual or a partnership firm or a body corporate and be a CA or CWA whether in practice or not

SCOPE

- The Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.
- CG may, by rules, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the board.

DIVIDENDS & OTHER PROVISIONS

DIVIDENDS TO BE PAID OUT OF

- **Current year profits** after charging depreciation and / or previous year profits after charging depreciation
- Depreciation to be charged as per Schedule II
- No dividend shall be declared or paid by a company from its reserves other than free reserves
- Out of money provided by the Central Government or a State Government for the payment of dividend. Amendment - 2
- Provided also that no company shall declare dividend unless carried over previous losses and depreciation not provided in previous year or years are set off against profit of the company for the current year. (As per Companies (amendment) Act, 2015)

TRANSFER TO RESERVES

Company may transfer such percentage of its profits for that financial year **as it may consider appropriate to the reserves** of the company:

However, distribution of dividends out of reserves made from accumulated profits to be in accordance with such rules as may be prescribed in this behalf

INTERIM DIVIDENDS

BOD may declare **interim dividend** out of the

- surplus in the profit and loss account (**Opening balance**) and
- out of **profits of the current financial year**

In **case of losses** in current year

- In case if there are losses current financial year up to the **end of the quarter immediately preceding the date of declaration of interim dividend,**
- **Maximum rate of dividend** to be average dividends declared during the immediately preceding 3 financial years

Interim dividend to be deposited in a scheduled bank in a separate account within 5 days like final dividend. However this requirement not applicable on 100% government company.

UNPAID / UNCLAIMED DIVIDENDS [SECTION 124, AND 125]

- Dividend **not paid / claimed in 30 days**, to be within 7 days **deposited in scheduled bank** to be called the Unpaid Dividend Account else in case of delay interest @ **12% pa** shall be payable to the members.
- **Within 90 days of such transfer** a statement containing the names, their last known addresses and the unpaid dividend to be paid to each person and place it on the website of the company. In Nidhi companies dividend may be paid by creating member's account.
- Amount so transferred **if unpaid for 7 years** from the date of transfer shall be transferred along with interest to **Investor Education and Protection Fund**. Claimant

of can even subsequently claim his share after complying with prescribed procedures. Statement of amounts to be credited to investor education and protection Fund shall be filed in Form DIV-5 (Rule 4)

- **Penalty** – [Section 127]
 - Every director of the company shall, if he is knowingly a party to the default, 0- 2 years with fine 1000 per day
 - Company Liable to pay **18% pa interest**
- **No offence** IF:
 - *where the dividend could not be paid by reason of the operation of any law;*
 - *where a shareholder has given directions to the company regarding the payment of the dividend and those directions cannot be complied with and the same has been communicated to him;*
 - *where there is a dispute regarding the right to receive the dividend;*
 - *where the dividend has been lawfully adjusted by the company against any sum due to it From the shareholder;*
 - *where, for any other reason, the failure to pay the dividend or to post the warrant within the period under this section was not due to any default on the part of the company.*

DISTRIBUTION OF DIVIDENDS OUT OF RESERVES [COMPANIES (DECLARATION AND PAYMENT OF DIVIDEND) RULES, 2014]

In the event of adequacy or absence of profits in any year, a company may declare divided out of surplus subject to the fulfillment of the following conditions, namely:-

- Maximum dividend \leq Average rate of last 3 years (not applicable if company has not declared any dividend in each of the three preceding financial year)
- Total amount to be drawn from such accumulated profits shall \leq 10% of (paid-up share capital and free reserves) – Current year losses
- Balance of reserves after such withdrawal shall not be $<$ 15% of paid up share capital

SET OF ACCUMULATED LOSSES OR DEPRECIATION LOSS, WHICHEVER IS LESS AND ARREARS OF DEPRECIATION

No company shall declare dividend unless:

- Depreciation not provided in previous year are set off against profit of the company of the current year, and
- Accumulated loss or depreciation loss, whenever is less, in previous years is set off against the profit of the company for the year for which divided is declared paid

As per Accounting Standards (AS) 4 (amended)- Contingencies and Events Occurring After the Balance Sheet Date and Ind AS 10- Events after the Reporting Period, if dividends are declared after the balance sheet date but before the financial statements are approved for issue, the dividends are not recognised as a liability at the balance sheet date because no obligation exists at that time unless a statute requires otherwise. Such dividends are disclosed in the notes.

VARIOUS PROVISIONS AFFECTING DIVIDENDS

Section 2(35): Definition Dividends	"Dividend" includes any interim dividend
Section 2(43) Dividend to be distributed out of Free Reserves: Definition of Free Reserves	"Free reserves" means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend: Provided that — i. any amount representing unrealised gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or ii. any change in carrying amount of an asset or of a liability recognised in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value, shall not be treated as free reserves;
Section 8: Not for Profit Cos	Companies with charitable objects, etc. to prohibit the payment of any dividend to its members
Section 51: Dividend in proportion to paid up capital	51. A company may if so authorised by its articles, pay dividends in proportion to the amount paid-up on each share.
Section 63 Bonus Shares	The bonus shares shall not be issued in lieu of dividend.
Section 43: Types of Share Capital	Preference shareholders have a preferential right to receive dividends
Section 43: Types of Share Capital	Company can issue shares with differential dividend rights
Section 164: Director disqualification	Dividends declared not paid for one year shall disqualify the directors from appointment
Section 123	No dividend to be declared in case of any contraventions concerning public deposits specified under section 73, 74

DEPRECIATION

- Section 123 prohibits a company from declaring dividend out of its profits before providing for depreciation in the manner laid down in the section.
- Section 123 provides that the dividend shall be declared or paid by a company for any financial year out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of Schedule II "Useful lives to compute Depreciation", to the Companies Act, 2013.
- Schedule II to the Act, provides that useful life of an asset shall not ordinarily be different from the useful life specified in Part 'C' to the said Schedule and the

residual value of an asset shall not be more than 5% of the original cost of the asset. If a company does not use the useful life or residual value of the asset as provided in the Schedule II, then justification for the difference shall be disclosed in its financial statement.

- Where during any financial year, any addition has been made to any asset, or where any asset has been sold, discarded, demolished or destroyed, the depreciation on such asset shall be calculated on a pro rata basis from the date of such addition, or as the case may be, up to the date on which such asset has been sold, discarded, demolished or destroyed.
- If an asset is used for any time during the year for double shift, the depreciation will increase by 50% for that period and in case of the triple shift the depreciation shall be calculated on the basis of 100% for that period.
- The useful life or residual value of any specific asset as notified for accounting purpose by a Regulatory Authority constituted under an Act of Parliament or by the Central Government shall be applied in calculating the depreciation to be provided for such asset irrespective of the requirements of Schedule II.
- The Schedule II to the Companies Act, 2013 needs disclosure in the financial statements about the depreciation method used and the useful lives of the assets for computing depreciation, if they are different from the life specified in the Schedule II.
- Schedule III "General Considerations for preparation of Balance Sheet and Statement of Profit and Loss of a Company", to the Companies Act, 2013, requires separate disclosure of depreciation charged and impairment losses/reversals along with a reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments.
- Section 123(1) of the Companies Act, 2013 also prescribes that if a company has not provided for depreciation for any previous financial year it shall, before declaring, or paying dividend, provide for such depreciation:
 - either out of the profits of that financial year, or
 - out of the profits of any other previous financial year or years.
- The implication of this provision is that if, for example, the profits of a company for the year ending 31st March, 2014 are proposed to be distributed, and it is found that due to inadequacy of profits no provision for depreciation had been made for the year ended 31st March, 2013 it would be necessary to make provisions in respect of the depreciation, for the year ended 31st March, 2013 as well as 2014 and only the balance of the profits for the year 31st March, 2014 would be available for distribution as a dividend.

Ascertainment of depreciation for computing net profits for the purpose of managerial remuneration: Under Section 197(1) of the Companies Act, 2013, depreciation calculated in the manner specified in Section 198 of the Companies Act, 2013 must be deducted for arriving at the amount of net profits, on which remuneration payable to managerial personnel is to be calculated

SALIENT FEATURES OF LIMITED LIABILITY PARTNERSHIPS (LLP) AUDIT

- An LLP shall be under obligation to maintain annual accounts reflecting true and fair view of its state of affairs. A "Statement of Accounts and Solvency" in prescribed Form shall be filed by every LLP with the Registrar every year.
- The accounts of every LLP shall be audited in accordance with Rule 24 of LLP, Rules 2009. Such rules, provides that any LLP, whose turnover does not exceed, in any financial year, Forty lakh rupees, or whose contribution does not exceed twenty five lakh rupees, is not required to get its accounts audited. However, if the partners of such limited liability partnership decide to get the accounts of such LLP audited, the accounts shall be audited only in accordance with such rule.
- No mandatory insurance has been proposed in the Act. It would be difficult to assess insurance requirements of different types and sizes of LLPs. This would depend upon the nature of commercial risk attached with work or assignment handled by each. Applying common insurance requirements across a class of LLPs would result in increasing their costs of operation. Therefore, the underlying concern as to the credit worthiness of the LLP in the event of a contractual default is being addressed through statutory provisions for solvency declaration, disclosure of financial information and audit.
- Every LLP would be required to file annual return in Form 11 with ROC within 60 days of closer of financial year. The annual return will be available for public inspection on payment of prescribed fees to Registrar.
- Every LLP is also required to submit Statement of Account and Solvency in Form 8 which shall be filed within a period of thirty days from the end of six months the financial year to which the Statement of Account and Solvency relates.
- Registrar would have power to obtain such information which he may consider necessary for the purposes of carrying out the provisions of the Act, from any designated partner, partner or employee of the LLP. He would also have power to summon any designated partner, partner or employee of any LLP before him for any such purpose, in case the information has not been furnished to him or in case the Registrar is not satisfied with the information furnished to him.

The following documents/information will be available for inspection by any person:-

- Incorporation document,
 - Names of partners and changes, if any, made therein, S
 - statement of Account and Solvency
 - Annual Return
- The fees for such inspection of an LLP is Rs 50/ - and fees for certified copy or extract of any document u/s 36 shall Rs. 5/- per page.
 - The provisions of the Act require LLPs to file the documents like Statement of Account and Solvency (SAS) and Annual Return (AR) and notices in respect of changes among partners etc. within the time specifically indicated in relevant provisions. The Act contains provisions for allowing LLPs to file such documents after their due dates on payment of additional Fees. It has been provided that in case LLPs file relevant documents after their due dates with additional fees up to 300 days, no action for prosecution will be taken against them. In case there is delay of 300 days or more, the LLPs will be required to pay normal filing fees, additional Fee and shall also be liable to be prosecuted.
 - The Act also contains provisions for compounding of offences which are punishable with Fine only.

APPOINTMENT OF AUDITOR:

The auditor may be appointed by the designated partners of the LLP —

- At any time for the First Financial year but before the end of first financial year,
- At least thirty days prior to the end of each financial year (other than the First Financial year),
- To Fill the causal vacancy in the office of auditor,
- To fill the casual vacancy caused by removal of auditor.
- The partners may appoint the auditors if the designated partners have Failed to appoint them.

LLP'S ARE REQUIRED TO MAINTAIN BOOKS OF ACCOUNTS WHICH SHALL CONTAIN

- Particulars of all sums of money received and expended by the LLP and the matters in respect of which the receipt and expenditure takes place,
- A record of the assets and liabilities of the LLP,
- Statements of costs of goods purchased, inventories, work -in-progress, finished goods and costs of goods sold,
- Any other particulars which the partners may decide.

ADVANTAGES / PURPOSE / NEED OF AUDIT

- Auditing the accounts of a LLP helps in detecting errors & frauds & verification of financial statements

- Disputes, if any between any partners in the matter of accounts can be settled with the help of audited accounts.
- Banks & financial institutions lend money to the firms only on the basis of audited accounts.
- Periodical visits & suggestions by the auditor will be helpful in improving the management of the LLP
- For settling accounts between partners at the time of admission, death, retirement, insolvency, insanity, etc audited accounts are accepted by those concerned who have dealings with the LLP

AUDITOR'S DUTY REGARDING AUDIT OF LLP

- The auditor should get definite instructions in writing as to the work to be performed by him.
- The auditor should mention
 - Whether the records of the firm appear to be correct & reliable
 - Whether he was able to obtain all information & explanation necessary for his work
 - Whether any restriction was imposed upon him
- The auditor should read the LLP agreement & note the following provisions
 - Nature of the business of the LLP
 - Amount of capital contributed by each partner
 - Interest — in respect of additional capital contributed
 - Duration of partnership
 - Drawings allowed to the partners
 - Salaries, commission etc payable to partners
 - Borrowing powers of the LLP
 - Rights & duties of partners
 - Method of settlement of accounts between partners at the time of admission, retirement, admission etc.
 - Any loans advanced by the partners
 - Profit sharing ratio
- If partners maintain minute book he shall refer it for any resolution passed regarding the accounts

OTHER PROVISIONS OF COMPANIES ACT 2013

AUTHORITY STRUCTURE IN A COMPANY

A. DECISIONS TO BE TAKEN IN A BOARD MEETING ONLY: POWERS OF BOD

Section 179 of the Companies Act, 2013, the Board of Directors of a company are entitled to exercise all such powers, as the company is authorised to do except if powers are restricted for shareholders. BOD shall be authorised for passing resolutions at meetings of the Board, for —

- to make calls on shareholders in respect of money unpaid on their shares;
- to authorise buy-back of securities under section 68;
- to issue securities, including debentures, whether in or outside India;

- to borrow monies; **(Delegatable)**
- to invest the funds of the company; **(Delegatable)**
- to grant loans or give guarantee or provide security in respect of loans; **(Delegatable)**
- to approve Financial statement and the Board's report;
- to diversify the business of the company;
- to approve amalgamation, merger or reconstruction;
- to take over a company or acquire a controlling or substantial stake in another company;

Amendment - matters in d, e, f may be decided by BOD by circulation in case of S. 8 company.

B. SOME OF THE MATTERS WHICH ONLY THE SHAREHOLDERS CAN SANCTION AT A GENERAL MEETING:

POWERS EXERCISABLE IN GM WITH SPECIAL RESOLUTION [Section 180]

- to sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company or where the company owns more than one undertaking, of the whole or substantially the whole of any of such undertakings.

(Undertaking-generating > 20%of total income in previous year. or > 20% of investment out of total net worth of company Substantially the whole undertaking > 20%of the undertaking)

- to invest otherwise in trust securities the amount of compensation received by it as a result of any merger or amalgamation;
- to borrow money where Borrowings exceed paid-up share capital and free reserves, apart From temporary loans obtained from the company's bankers in the ordinary course of business:

This power is delegatable to BOD provided the limits are prescribed

- to remit, or give time for the repayment of, any debt due from a director.
- Amendment S. 180 not applicable to private company

CHAPTER-2

AUDIT COMMITTEE & CORPORATE GOVERNANCE

Unit 7

AUDIT COMMITTEE & CORPORATE GOVERNANCE

INDEX

1. The Legal Framework
2. Audit Committee
3. Board of Directors
4. Code Of Conduct
5. Related Party Transactions
6. Vigil Mechanism
7. Subsidiary of Listed Entity
8. Statement of Deviation(s) or Variation(s)
9. Disclosures - Management Discussion and Analysis
10. Information to Shareholders
11. Stakeholders Relationship Committee
12. Transfer or Transmission or Transposition of Securities
13. Compliance Certificate
14. Disclosures
15. Risk Management Committee
16. Nomination and Remuneration Committee
17. Report on Corporate Governance
18. Auditors' Certificate

1) THE LEGAL FRAMEWORK

WHY LODR?	<p>Listing agreement is a statutorily mandated contract between the listed entity and the stock exchange where it is listed, it does not have the authority of law behind it.</p> <p>Hence, on <u>September 2, 2015</u>, SEBI issued the <u>Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015</u> ("LODR Regulations"), with the objective of <u>streamlining</u> and <u>consolidating</u> the provisions of <u>various listing agreements in operation for different segments of the capital markets, such as equity shares,</u></p>
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LODR → class 45

	preference shares, debt instruments, units of mutual funds, Indian depository receipts, securitized debt instruments and any other securities that the SEBI may specify.
LODR & CLAUSE 49	The <u>LODR Regulations</u> also <u>capture</u> the <u>corporate governance principles</u> found in <u>Clause 49 of SEBI's Model Listing Agreement</u> . It may be noted that the <u>LODR Regulations deal with only post-listing requirements and exclude all pre-listing requirements.</u>
APPLICABILITY OF LODR REGULATIONS [REGULATION 3]	<p><u>Unless otherwise provided, these regulations shall Apply to the listed entity who has listed any of the following designated securities on recognized stock exchange(s):</u></p> <ul style="list-style-type: none"> • <u>specified securities (equity and convertibles) listed on main board or SME Exchange or institutional trading platform (ITP)</u> • <u>non-convertible debt securities, non-convertible redeemable preference shares, perpetual debt instrument, perpetual non-cumulative preference shares; Indian depository receipts (IDR);</u> • <u>securitized debt instruments;</u> ✓ • <u>security receipts;</u> ✓ • <u>units issued by mutual funds;</u> • <u>other securities be specified by the Board</u> → SEBI

QIBs / NII/AF / HNI

2) **AUDIT COMMITTEE**

AUDIT COMMITTEE (UNDER REGULATION 18 & COMPANIES ACT SECTION 177)	PARTICULARS	LODR	SECTION 177
	Applicable	Provisions of Audit Committee and Corporate Governance given in Chapter IV of LoDR are applicable to all <u>listed companies</u> that have listed <u>equity shares or convertibles on recognized stock exchange</u> except	Applies to:- All listed public companies (Section 177); and Other public companies with: <ul style="list-style-type: none"> a. Paid Up Capital > = 10 Crores, or b. Loans, Borrowings, Debentures, Deposits outstanding > 50 Crores, or c. Turnover > = 100 Crores as per last audited FS (Section 177 and Rule

	provisions given in Reg. 17 to 27 are not applicable to: a) <u>Companies listed on SME exchange</u> b) <u>Companies with:</u> a. <u>Paid Up Equity Share Capital of < = 10 Crores;</u> and b. <u>Net Worth < = 25 Crores</u>	4 of Cos (Appointment & Qualification of Director) Rules, 2014) Once covered in limit covered for 3 consecutive years Excluding Unlisted public company being JV, Wholly owned subsidiary & Dormant co.
Minimum number of director members	<u>3</u>	<u>3</u>
Minimum non-executive directors	<u>NA</u>	<u>NA</u>
Minimum Independent Directors <i>9 x 2/3 = 6 9 → Maj-5</i>	2/3 rd + and in case of a listed entity having <u>outstanding SR equity shares</u> , (shares with superior voting rights) the audit committee shall only comprise of <u>independent directors</u> (Amendment)	Majority
Financial Literacy	<u>All</u>	<u>Majority including chairperson</u>
<u>Financial Management or Accounting Expertise</u>	<u>Atleast 1</u>	<u>NA</u>

	Chairperson	To <u>be independent director and be present at AGM</u>	To <u>be financially literate</u>
	Secretary	<u>Company Secretary to be the secretary of the AC</u>	NA
	Invitees	<u>Finance Director / Head of Finance, Head of Internal Audit, Statutory Auditor, etc MAY BE invited</u>	NA
	Meeting of Audit Committee	<u>Atleast 4 times in a year with max gap of 120 days</u>	No special provision, governed by provisions for committees in CA13
	Quorum	<u>2 or 1/3rd, whichever is higher, with minimum 2 ID</u>	No special provision, governed by provisions for committees in CA13

POWERS OF AUDIT COMMITTEE [REGULATION 18 (2)(c)]

The Audit Committee shall have powers, which should include the following:

- To investigate any activity within its terms of reference.
- To seek information from any employee.
- To obtain outside legal or other professional advice.
- To secure attendance of outsiders with relevant expertise, if it considers necessary. It may be noted that the powers mentioned above are only illustrative and not exhaustive.

The Board may delegate/vest further powers to the committee.

ROLE OF AUDIT COMMITTEE [PART C (A) OF SCHEDULE II]

The role of the Audit Committee shall include the following:

- Oversight** of the listed entity's **financial reporting process** and the **disclosure of its financial information** to ensure that the financial statement is correct, sufficient and credible;
- Recommendation for **appointment, remuneration** and terms of appointment of auditors of the listed entity; **However, in case of Government Company, it is limited to the recommendation for remuneration. (Amendment)**

FRP
 ↓
 A/R
 TOA
 ↓
 Govt
 ↓
 only rest to Pen.

- Approval of **payment to statutory auditors for any other services rendered by the statutory auditors;** (Assurance)
- **Role w.r.t. FS and Audit Report (Important)** Reviewing, with the management, the **annual financial statements and auditor's report** thereon before submission to the Board for approval, with particular reference to:
 - Matters required to be included in the **Director's Responsibility Statement** to be included in the Board's report in terms of clause (c) of sub-section 3 of section 134 of the Companies Act, 2013;
 - **Changes, if any, in accounting policies and practices** and reasons for the same;
 - **Major accounting entries** involving estimates based on the exercise of judgment by management;
 - Significant **adjustments made in the financial statements** arising out of audit findings; (e) **Compliance with** listing and other legal requirements relating to financial statements;
 - Disclosure of any **related party transactions;**
 - **Modified opinion (s)** in the draft audit report;
- **Reviewing, with the management, the quarterly financial statements** before submission to the Board for approval;
- Reviewing, with the management, the **statement of uses/application of funds raised** through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document/prospectus/ notice **and the report submitted by the monitoring agency** monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the Board to take up steps in this matter;
- **Reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;**
- Approval or any subsequent modification of transactions of the listed entity with **related parties;**
- Scrutiny of **inter-corporate loans and investments;**
- Valuation of undertakings or assets of the listed entity, wherever it is necessary;
- Evaluation of **internal financial controls** and **risk management systems;**
- Reviewing the adequacy of **internal audit function**, if any, including the structure of the internal audit department, staffing and seniority of the official heading

	<p>the department, reporting structure coverage and frequency of internal <u>audit</u>;</p> <ul style="list-style-type: none"> • Discussion with internal auditors of any significant findings and follow up there on; • Reviewing the findings of any internal investigations by the <u>internal auditors</u> into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board; • Discussion with <u>statutory auditors</u> before the audit commences, about the <u>nature and scope of audit</u> as well as post-audit discussion to ascertain any area of concern; • To look into the reasons for <u>substantial defaults</u> in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors; • To review the functioning of the Whistle Blower mechanism; (<i>Vigil Mechanism</i>); • Approval of appointment of Chief Financial Officer after assessing the <u>qualifications, experience and background</u>, etc. of the candidate; • Carrying out any other function as is mentioned in the terms of reference of the Audit Committee. • Reviewing the utilization of loans and/ or advances from/investment by the holding company in the subsidiary exceeding rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments existing as on the date of coming into force of this provision" • Consider and comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation etc on the listed entity and its share holders <p>If the company has set up an Audit Committee as per section 177 of the Companies Act, 2013, the company must ensure that the said Audit Committee has such additional functions / features as are contained in the LODR Regulations.</p>
<p>REVIEW OF INFORMATION BY AUDIT COMMITTEE</p>	<p>The Audit Committee shall mandatorily review the following</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <p>Management discussion and analysis of <u>financial condition</u> and <u>results of operations</u>;</p> </div> <div style="text-align: center;">↓</div> <div style="border: 1px solid black; padding: 5px;"> <p>Statement of significant related party transactions (as defined by the Audit Committee), submitted by management; <i>1&8</i></p> </div>

- ① FRP
- ② A/R (C&A) R (C&A)
- ③ Agp → st (Other)
- ④ DBS → st
- ⑤ May A/R (C&A)
- ⑥ S A/R P (C&A)
- ⑦ Review of st → BOD
- ⑧ I/O/P of st → BOD
- ⑨ I.A → st → BOD
- ⑩ I.A → st → BOD
- ⑪ Int. → st → BOD
- ⑫ Int. → st → BOD
- ⑬ I/O/P of st → BOD
- ⑭ CFO → st → BOD
- ⑮ Rational → st → BOD

<p>Schedule II Part C(B): Mandatory Review</p>	<div style="text-align: center;"> <pre> graph TD A[Management letters / letters of internal control weaknesses issued by the statutory auditors;] --> B[Internal audit reports relating to internal control weaknesses; and] B --> C[The appointment, removal and terms of remuneration of the Chief Internal Auditor shall be subject to review by the Audit Committee.] C --> D[Statement of deviations:] D --> E[a. quarterly statement of deviations including report of monitoring agency if applicable and] D --> F[b. annual statement of funds utilized for purposes other than those stated in the offer document/ prospectus/ notice.] </pre> </div>	
<p>AUDIT PROCEDURES FOR AUDIT COMMITTEE RELATED CHECKS</p>	<p>INTRODUCTION</p>	<p>The auditor should ascertain from the minutes book of the Audit Committee and other sources like agenda papers, etc. whether the Audit Committee has reviewed the above-mentioned information. Where certain deficiencies or adverse findings are noted by the Audit Committee, the auditor will be required to see that these have been suitably dealt with by the management in the report on corporate governance.</p>
	<p>ROLE OF AUDITOR IN AUDIT COMMITTEE AND CERTIFICATION OF COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE</p>	<p>Similarly, Section 177 of the Companies Act, 2013 provides the auditors of a company and the key managerial personnel the right to be heard in the meetings of the Audit Committee when it considers the auditor's report but they shall not have the right to vote. The auditor must ensure that he communicates frequently and openly with the Audit Committee on</p>

		<p>key accounting or auditing issues that, in the auditor's judgment, give rise to a greater risk of material misstatement of the financial statements.</p> <p>The auditor has to keep in mind that his role is not to drive corporate governance directly.</p> <p>Amendment: Statutory auditor of listed entity shall undertake limited review of all entities / companies whose accounts are consolidated with the listed entity as per Ind AS in accordance with guidelines issued by SEBI</p>
	<p>AUDITOR'S RESPONSIBILITY</p>	<p>The auditor's responsibility in certifying compliance with the requirements of corporate governance relates to the verification and certification of factual implementation of requirements of corporate governance as stipulated in the LODR Regulations. Such verification and certification is neither an audit nor an expression of opinion on the financial statements of the company.</p>
	<p>GENERAL PRINCIPLES OF AUDIT</p> <p style="text-align: center;">IOP CPS</p>	<p>As in the case of other professional assignments, in certifying the compliance with the requirements of corporate governance, the auditor should comply with the "Code of Ethics".</p> <p>The auditor should conduct verification as stipulated in the LODR Regulations, in accordance with the Guidance Note on Certification of Corporate Governance issued by ICAI.</p>
	<p>MANAGEMENT REPRESENTATIONS</p>	<p>The auditor should consider obtaining management</p>

		representations in accordance with SA 580, "Written Representations".
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3) BOARD OF DIRECTORS

Board of Directors -	Particulars	LODR	Companies Act, 2013
(under Regulations and Companies Act)	Board size	<p>The board of directors of</p> <ul style="list-style-type: none"> the top 1000 listed entities (with effect from April 1, 2019); and the top 2000 listed entities (with effect from April 1, 2020) shall comprise of not less than 6 directors. <p>Explanation: The top 1000 and 2000 entities shall be determined on the basis of market capitalisation as at the end of the immediate previous financial year</p>	<p>The board of directors to comprise of:</p> <ul style="list-style-type: none"> Minimum 3 Maximum 15 directors <p>If more than 15 directors to be appointed obtain permission by passing special resolution (Section 149)</p>
	Composition of BOD	<p>>= 50% of BOD to be of NED Atleast 1 Woman director. (Top 500 listed entities by 1-4-2019 and Top 1000 by 1-4-2020 to have atleast 1 Independent Woman Director)</p>	<p>No specific provision for NED. At least 1 woman director required</p>

		<p>No listed entity shall appoint a person or continue the directorship of any person as a non-executive director who has attained the age of seventy five years unless a special resolution is passed to that effect, in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for appointing such a person.</p> <p>(Amendment)</p>	
	<p>Composition - ID</p>	<ul style="list-style-type: none"> • If Chairperson - NED; then at least 1/3rd be ID • If Chairperson - NED but is a promoter or related to promoters to hold positions at Board or one level below • Then at least 1/2 to be ID Else also at least half be ID • Where the listed company has outstanding SR equity shares, at least half of 	<p>At least 1/3rd ID</p>

		<p>the board of directors shall comprise of independent directors.</p> <p>(Amendment)</p>	
	<p>Chairperson</p>	<p>With effect from April 1, 2020, The top 500 listed entities shall ensure that the Chairperson of the board of such listed entity shall-</p> <ul style="list-style-type: none"> a. be a non-executive director; and b. not be related to the Managing Director or the Chief Executive Officer as per the definition of the term "relative" defined under the Companies Act, 2013: <p>Provided that this sub-regulation shall not be applicable to the listed entities which do not have any identifiable promoters as per the shareholding pattern filed with stock exchanges.</p> <p>Explanation - The top 500 entities shall be determined on the</p>	<p>Refer Section 203 for KMP</p>

		<p>basis of market capitalisation, as at the end of the immediate previous financial year". The LODR Regulations stipulates that Board meetings shall be held at least four times a year and that the maximum time gap between any two meetings should not exceed one hundred and twenty days.</p>	
	<p>Board Meeting</p>	<p>Every company shall hold the first meeting of the Board of Directors within thirty days of the date of its incorporation and thereafter hold a minimum number of four meetings of its Board of Directors every year in such a manner that not more than one hundred and twenty days shall intervene between two consecutive meetings of the Board.</p> <p>Provided that the Central Government may, by notification, direct that the provisions of this subsection shall not apply in relation to any class or description of companies or shall apply subject to such exceptions, modifications or conditions as may be specified in the notification.</p>	
	<p>Quorum for Board meeting</p>	<p>The quorum for every meeting of the board of directors of the top 1000 listed entities with effect from</p>	<p>1/3rd or 2, whichever is higher</p>

		<p>April 1, 2019; and the board of directors of the top 2000 listed entities with effect from April 1, 2020 shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director;</p>	
	<p>Maximum number of directorships including any alternate directorships</p>	<p>A person shall not be a director in more than 8 listed entities with effect from April 1, 2019 and in not more than 7 listed entities with effect from April 1, 2020: Subject to condition that person shall not serve as an independent director in more than 7 listed entities. But, any person who is serving as a whole time director / managing director in any listed entity shall serve as an independent director in not more than 3 listed entities. For the purpose of this sub-regulation, the count for the</p>	<p>Section 165 Maximum 20 directorships</p>

		<p>number of listed entities on which a person is a director / independent director shall be only those whose equity shares are listed on a stock exchange.</p>	
	<p>evaluation of independent directors - Amendment</p>	<p>The <u>evaluation of independent directors</u> shall be done by the <u>entire board of directors</u> which shall include -</p> <ul style="list-style-type: none"> a) <u>performance of the directors</u>; and b) <u>fulfillment of the independence criteria</u> as specified in <u>these regulations</u> and their <u>independence from the management</u>: <p>Provided that in the above evaluation, the directors who are subject to evaluation shall not participate.</p>	
	<p>Recommendation of the board to the shareholders - Amendment</p>	<p>The <u>statement to be annexed to the notice as referred to in sub-section (1) of section 102 of the Companies Act, 2013</u> for each <u>item of special business</u> to be</p>	

		<p>transacted at a general meeting shall also set forth clearly the recommendation of the board to the shareholders on each of the specific items.</p>	
	<p>Exemption</p>		<p>With reference to the above Para, it has been notified that, in case of Section 8 company, section 173 (1) shall apply only to the extent that the Board of Directors, of such Companies shall hold at least one meeting within every six calendar months. It may be noted that, in case of specified IFSC public and private company, it shall hold the first meeting of the Board of Directors within sixty days of its incorporation and thereafter hold at least one meeting of the Board of Directors in each half of a calendar year. Section 173(1) (Amendment)</p>
<p>AN INDEPENDENT NON-EXECUTIVE DIRECTOR</p>	<p>Apart from receiving remuneration, should not have had / should not have any material pecuniary relationship with the listed entity, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year. Also such independent director, either by himself or with any of his relatives should not be a material supplier, service provider or customer or a lessor or lessee of the listed entity, and should not also be a substantial</p>		

RIL Subj

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(2) ID

(B) ID

NSD in company

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	<p>shareholder of the listed entity <u>Who is or was not a promoter of the listed entity or its holding, subsidiary or associate company or member of the promoter group of the listed entity; who is not a non-independent director of another company on the board of which any non-independent director of the listed entity is an independent director.</u></p> <p>In determining 'not a substantial shareholder', he (together with his relatives) should not own 2% or more of total voting power of the listed entity.</p>
<p>REMUNERATION OF DIRECTORS [PART C OF SCHEDULE V]</p>	<p>Disclosure</p> <p>Disclosure requirements regarding directors' remuneration are stated below:</p> <ol style="list-style-type: none"> i. All pecuniary relationship or transactions of the non-executive directors vis-à-vis the listed entity shall be disclosed in the Annual Report. ii. Criteria of making payments to non-executive directors. Alternatively, this may be disseminated on the listed entity's website and reference drawn thereto in the annual report; iii. In addition to the disclosures required under the Companies Act, 2013, the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the Annual Report: <ol style="list-style-type: none"> a) All elements of remuneration package of <u>individual directors</u> summarized under major groups, such as <u>salary, benefits, bonuses, stock options, pension</u> etc. b) Details of <u>fixed component</u> and <u>performance linked incentives</u>, along with the performance criteria. c) <u>Service contracts, notice period, severance fees.</u> d) <u>Stock option details</u>, if any - and whether issued at a discount as well

ID ↔ XSES XESOP

		<p>as the period over which accrued and over which exercisable.</p>
	<p>Approval of Remuneration of Directors [Regulation 17 (6)]</p> <p><i>Remn => NED (preumu) B-R + SH</i></p> <p><i>NED</i></p> <p><i>N-R</i></p> <p><i>SH</i></p> <p><i>Sitting</i></p>	<p>All fees/compensation, if any paid to non-executive directors, including independent directors, shall be fixed by the Board of Directors and shall require previous approval of shareholders in general meeting. The shareholders' resolution shall specify the limits for the maximum number of stock options that can be granted to non-executive directors, in any financial year and in aggregate.</p> <p>The requirement of obtaining prior approval of shareholders in general meeting shall not apply to payment of sitting fees to non-executive directors, if made within the limits prescribed under the Companies Act, 2013 for payment of sitting fees without approval of the Central Government.</p> <p>The approval of shareholders by special resolution shall be obtained every year, in which the annual remuneration payable to a single nonexecutive director exceeds fifty per cent of the total annual remuneration payable to all non-executive directors, giving details of the remuneration thereof.</p> <p>a) Independent directors shall not be entitled to any stock option.</p> <p>b) The fees or compensation payable to executive directors who are promoters or members of the promoter group, shall be subject to the approval of the shareholders by special resolution in general meeting, if -</p> <ol style="list-style-type: none"> i. the annual remuneration payable to such executive director exceeds rupees 5 crore or 2.5 per cent of the net profits of the listed entity, whichever is higher; or ii. where there is more than one such director the aggregate annual

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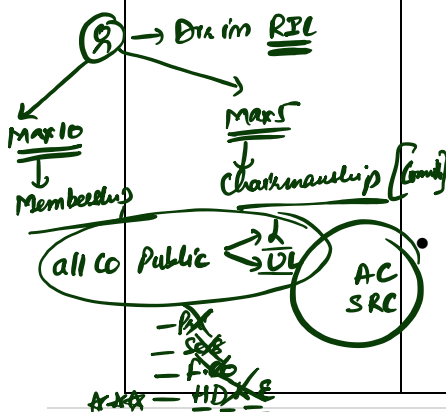
SRM

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		<p>remuneration to such directors exceeds 5 per cent of the net profits of the listed entity:</p> <p>Provided that the approval of the shareholders under this provision shall be valid only till the expiry of the term of such director.</p> <p>Explanation: For the purposes of this clause, net profits shall be calculated as per section 198 of the Companies Act, 2013”.</p>
	<p>In this context, the auditor should:</p>	<ol style="list-style-type: none"> ascertain from the minutes of the Board of Directors’ meetings, shareholders’ meetings, relevant agenda papers, notices, explanatory statements etc., whether the remuneration of non-executive directors has been decided by the Board of Directors after receiving prior approval of the shareholders in the general meeting; refer to the Articles of Association of the company, wherever applicable; Examine the Report of the Board of Directors on corporate governance to be included in the annual report of the company and ascertain whether the same contains the disclosures with respect to remuneration of directors and compensation to non-executive directors. The auditor should correlate this data with that contained in the financial statements. <p>Where application of this clause requires the value of ESOP to be determined the services of expert may have to be utilized. In this regard, reference may be made to SA 620 dealing with “Using the Work of an Auditor’s Expert”.</p>
<p>Limited Review of the audit of all the Entities whose accounts</p>		<p>The statutory auditor of a listed entity shall undertake a limited review of the audit of all the entities/companies whose accounts are to be consolidated with the listed entity as per AS / IndAS in accordance with guidelines issued by SEBI on this matter”. Consequently,</p>

<p>are to be consolidated with the Listed Entity</p>	<ul style="list-style-type: none"> all listed entities whose equity shares and convertible securities are listed on a recognised stock exchange, the statutory auditors of such entities, all entities whose accounts are to be consolidated with the listed entity and the statutory auditors of entities whose accounts are to be consolidated with the listed entity shall comply with the prescribed procedure.
<p>Obligations of Director and Senior Management [Regulations 17(2) to 17(4), 25(5) to 25(6), 26(1) to 26 (2), 26(4) to 26(5)]</p>	<ul style="list-style-type: none"> The Board shall meet at least four times a year, with a <u>maximum time gap of one hundred and twenty days between any two meetings</u> <u>A director shall not be a member in more than ten committees or act as Chairperson of more than five committees across all listed entities</u> in which he is a director. Furthermore, every director shall <u>inform the listed entity about the committee positions he occupies in other listed entities and notify changes as and when they take place.</u> It may be noted that for the purpose of considering the <u>limit of the committees</u> on which a director can serve, <u>all public limited companies, whether listed or not, shall be included</u> and all other companies including private limited companies, foreign companies, <u>HIGH VALUE DEBT LISTED ENTITIES</u> and companies under Section 8 of the Companies Act, 2013 shall be <u>excluded</u> and for the purpose of reckoning the limit under this sub-clause, <u>Chairpersonship / membership of the Audit Committee and the Stakeholders' Relationship Committee</u> alone shall be considered. The Board shall periodically <u>review compliance reports</u> of <u>all laws applicable to the listed entity, prepared by the listed entity as well as steps taken by the listed entity to rectify instances of non-compliances.</u> Non executive directors shall be required to disclose their shareholding (both own or held by / for other persons on a beneficial basis) in the listed entity in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director. An independent director <u>shall be held liable</u>, only in respect of such acts of omission or commission by the listed entity which had <u>occurred with his knowledge, attributable through Board processes,</u> and with his

High Value Debt listed Entity
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 Having NCDs
 ₹ 500 Cr a/c on
 31st March of
 Preceding Fin-y



consent or connivance or where he had not acted diligently with respect of the provisions contained in the LODR Regulations.

- Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (for e.g. dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc.)
- An independent director who resigns or is removed from the Board of Directors of the listed entity shall be **replaced by a new independent** director at the earliest but not later than the **immediate next Board meeting or three months from the date of such vacancy, whichever is later.**

Provided that where the listed entity fulfils the requirement of independent directors in its Board even without filling the vacancy created by such resignation or removal, as the case may be, the requirement of replacement by a new independent director shall not apply.

- **The Board of Directors of the listed entity shall satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management.**
- No employee including key managerial personnel or director or promoter of a listed entity shall enter into any agreement for himself or on behalf of any other person, with any shareholder or any other third party with regard to compensation or profit sharing in connection with dealings in the securities of such listed entity, unless prior approval for the same has been obtained from the Board of Directors as well as public shareholders by way of an ordinary resolution:

Provided that such agreement, if any, whether subsisting or expired, entered during the preceding three years from the date of coming into force of this sub-regulation, shall be disclosed to the stock exchanges for public dissemination **(Amendment)**

Extra :- Top 500 listed Entities by MC (+) HV DLE

Shall undertake Dir's & officer's Insurance for all its I.D for such sum Assured & Such risks as determined by BOD.

4) CODE OF CONDUCT [REGULATIONS 17(5), 26(3), 46(2) AND PART D OF SCHEDULE V]

	<ul style="list-style-type: none"> • The Board shall lay down a code of conduct for all Board members and senior management of the listed entity. • All Board members and senior management personnel shall affirm compliance with the code on an annual basis. • The Code of Conduct shall suitably incorporate the duties of Independent Directors as laid down in the Companies Act, 2013. • The code of conduct shall be posted on the website of the company. • The Annual Report of the company shall contain a declaration to this effect signed by the CEO. <p>For this purpose, the term "senior management" shall mean personnel of the listed entity who are members of its core management team excluding Board of Directors. Normally, this would comprise all members of management one level below the chief executive officer / managing director / whole time director / manager (including chief executive officer / manager, in case they are not part of the board) and shall specifically include company secretary and chief financial officer.</p> <p>(Amendment)</p> <p>The auditor should ascertain whether the Board of Directors of the company has laid down a Code of Conduct for all Board members and senior personnel of the company and obtain a copy of the same. He should also verify whether all Board members and senior management personnel have affirmed compliance with the code on an annual basis and whether the code has been posted on company's website.</p>
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5) RELATED PARTY TRANSACTIONS [REGULATIONS 23]

	<ul style="list-style-type: none"> • The listed entity shall formulate a policy for material related party transaction specifying threshold limits for approval of BOD and BOD to review this atleast once in 3 years (R.23(1)) • A transaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds 10% of the annual
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consolidated turnover of the listed entity as per the last audited financial statements of the listed entity. **(In case of royalty from Brand usage replace 10% with 5%, earlier 2%. (R.23(1A)) (Amendment)**

- All related party transactions shall require **prior approval of the audit committee R.23(2)**
- Audit committee may **grant omnibus approval** for related party transactions proposed to be entered into by the listed entity subject to the following conditions, namely -
 - a) the audit committee shall lay down the criteria for granting the omnibus approval;
 - b) AC satisfy itself for need of such approval
 - c) the omnibus approval shall specify - name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into, the indicative base price / current contracted price and the formula for variation in the price if any; and such other conditions as the audit committee may deem fit. Provided that where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may grant omnibus approval for such transactions subject to their value not exceeding rupees 1 crore per transaction.
 - d) Review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given.
 - e) Such omnibus approvals shall be valid for a period not exceeding one year. R23(4)
- **All material related party transactions shall require approval of the shareholders through resolution and no related parties shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not. This shall not apply to resolution plan approved under insolvency code and disclosed within one day to stock exchange.(R.23(4)). (Amendment)**
- The above provisions of sub-regulations (2), (3) and (4) shall not be applicable:
 - transactions entered into between two government companies;

	<ul style="list-style-type: none"> o transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company • The listed entity shall submit within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges and publish the same on its website. (Amendment) • Provided that a 'high value debt listed entity' shall submit such disclosures along with its standalone financial results for the half year
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Amendment

6) VIGIL MECHANISM [REGULATIONS 22 AND 46 AND PART C OF SCHEDULE V]

	<ul style="list-style-type: none"> • The listed entity shall establish a vigil mechanism for directors and employees to report genuine concerns. • This mechanism should also provide for adequate safeguards against victimization of director(s) / employee(s) or any other person who avail the mechanism and also provide for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases. • The details of establishment of such mechanism shall be disclosed by the company on its website and in the Board's report.
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7) SUBSIDIARY OF LISTED ENTITY [REGULATIONS 16(C), 24 AND 46 AND PART C OF SCHEDULE V]

	<ul style="list-style-type: none"> • At least one independent director on the Board of Directors of the listed entity shall be a director on the Board of Directors of an unlisted material subsidiary, whether incorporated in India or not R.24(1). Explanation - For the purposes of this provision, notwithstanding anything to the contrary contained in regulation 16, the term "material subsidiary" shall mean a subsidiary, whose income or net worth exceeds 20% of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year
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- The **Audit Committee** of the listed entity shall also **review the financial statements**, in particular, the investments made by the **unlisted subsidiary R.24(2)**.
- The **minutes of the Board meetings of the unlisted subsidiary** shall be placed at the Board meeting of the listed entity. The management of the unlisted subsidiary shall periodically **bring to the notice of the Board of Directors of the listed entity, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary**. (not unlisted mat sub inc in India) **R.24(3)**.
- The company shall formulate a policy for determining **'material' subsidiaries** and such policy shall be **disclosed on the company's website** and a web link (R.46) thereto shall be provided in the Annual Report referred in part C, Sch. V. (Reg. 16 (c))
 For the purpose of this clause, a subsidiary shall be considered as material if the investment of the company in the subsidiary exceeds 10% of its consolidated net worth as per the audited balance sheet of the previous financial year if the subsidiary has generated **10 % of the consolidated income** of the company during the previous financial year.
- **A listed entity** shall **not dispose** of shares in its material subsidiary resulting in reduction of its shareholding (either on its own or together with other subsidiaries) **to less than 50%** or cease the exercise of control over the subsidiary without passing a **special resolution in its General Meeting** except in cases where such divestment is made under a scheme of arrangement duly approved by a Court/Tribunal or under a resolution plan duly approved under **section 31 of the Insolvency Code** and such an event is disclosed to the recognized stock exchanges within one day of the resolution plan being approved R.24(5).
- Selling, disposing and leasing of assets amounting to more than twenty percent of the assets of the material subsidiary on an aggregate basis during a financial year shall require prior approval of shareholders by way of **special resolution**, unless the sale/disposal/lease is made under a scheme of arrangement duly approved by a **Court/Tribunal or under a resolution plan duly approved under section 31 of the Insolvency Code** and such an event is disclosed to the **recognized stock**

Ignore

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	<p>exchanges within one day of the resolution plan being approved R. 24(6).</p> <ul style="list-style-type: none"> • Secretarial Audit required for material unlisted subsidiaries incorporated in India - R.24A. (Amendment) 	
	<p>Explanation Refer R.24(4)</p>	<ul style="list-style-type: none"> i. The term “significant transaction or arrangement” shall mean any individual transaction or arrangement that exceeds or is likely to exceed 10% of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the unlisted subsidiary for the immediately preceding accounting year. ii. Where a listed entity has a listed subsidiary which is itself a holding company, the above provisions shall apply to the listed subsidiary insofar as its subsidiaries are concerned.

8) STATEMENT OF DEVIATION(S) OR VARIATION(S) [REGULATION 32 AND PART C OF SCHEDULE II]

	<ul style="list-style-type: none"> • The listed entity shall submit to the stock exchange the following statement(s) on a quarterly basis for public issue, rights issue, preferential issue etc. , - <ul style="list-style-type: none"> ○ Indicating deviations, if any, the use of proceeds from the objects stated in offer document or explanatory statement to the notice for the general meeting; ○ Indicating category-wise variation (capital expenditure, sales and marketing, working capital etc.) between projected utilisation of funds made by it in its offer document or explanatory statement to the notice for the general meeting, as applicable and the actual utilisation of funds. • The statement(s) shall be continued to be given till such time the issue proceeds have been fully utilised or the purpose for which these proceeds were raised has been achieved.
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9) DISCLOSURES – MANAGEMENT DISCUSSION AND ANALYSIS [SCHEDULE V]

	<p>As part of the directors' report or as an addition thereto, a <u>Management Discussion and Analysis report</u> should form part of the <u>Annual Report</u> to the shareholders. This <u>Management Discussion & Analysis</u> should include discussion on the following matters within the <u>limits set by the company's competitive position</u>:</p> <ul style="list-style-type: none"> • Industry structure and developments. • Opportunities and Threats. • Segment-wise or product-wise performance. • Outlook • Risks and concerns. • Internal control systems and their adequacy. • Discussion on financial performance with respect to operational performance. • Material developments in Human Resources / Industrial Relations front, including number of people employed. • Details of significant changes (i.e. change of 25% or more as compared to the immediately previous financial year) in key financial ratios, along with detailed explanations there for, including: (i) Debtors Turnover (ii) Inventory Turnover (iii) Interest Coverage Ratio (iv) Current Ratio (v) Debt Equity Ratio (vi) Operating Profit Margin (%) (vii) Net Profit Margin (%) or sector-specific equivalent ratios, as applicable. • details of any change in Return on Net Worth as compared to the immediately previous financial year along with a detailed explanation thereof • The above information presented by the management is likely to include non-financial information, which may be outside the auditor's area of expertise. • In such situations, the auditor may keep in mind SA 315 relating to "<u>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment</u>" and the <u>fact that he is only required to review the compliance with disclosure requirements and not verify the particular facts as disclosed by the management.</u> SA 720 also relevant now.
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10) INFORMATION TO SHAREHOLDERS [REGULATION 36]

	<p>In case of the appointment of a new director or re-appointment of a director the shareholders must be provided with the following information:</p> <ul style="list-style-type: none"> • A brief resume of the director; • Nature of his expertise in specific functional areas; • Disclosure of relationships between directors inter-se;
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	<ul style="list-style-type: none"> • Names of listed entities in which the person also holds the directorship and the membership of Committees of the Board; and • Shareholding of non-executive directors. • The notice being sent to shareholders for an annual general meeting, where the statutory auditor(s) is/are proposed to be appointed/re-appointed shall include the following disclosures as a part of the explanatory statement to the notice: <ul style="list-style-type: none"> a) Proposed fees payable to the statutory auditor(s) along with terms of appointment and in case of a new auditor, any material change in the fee payable to such auditor from that paid to the outgoing auditor along with the rationale for such change; b) Basis of recommendation for appointment including the details in relation to and credentials of the statutory auditor(s) proposed to be appointed <p>Auditor’s Procedures: The auditor should ascertain from the communications sent, whether in the case of appointment of a new director or re-appointment of a director, the shareholders have been provided with the information stipulated above.</p>
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11) STAKEHOLDERS RELATIONSHIP COMMITTEE [REGULATION 20 AND PART D OF SCHEDULE II]

	<ul style="list-style-type: none"> • The listed entity shall constitute a Stakeholders Relationship Committee to specifically look into various aspects of interest of shareholders, debenture holders and other security holders. • The chairperson of this Committee shall be a non-executive director. • The Board of Directors shall decide other members of this Committee. • The stakeholders relationship committee shall meet at least once in a year. • At least three directors, with at least one being an independent director, shall be members of the Committee and in case of a listed entity having outstanding SR equity shares, at least two thirds of the Stakeholders Relationship Committee shall comprise of independent directors. (Amendment) • The Committee shall consider and resolve the grievances various aspects of interest of—shareholders, debenture holders and other security holders.
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	<ul style="list-style-type: none"> • The Chairperson of the Stakeholders Relationship Committee shall be present at the annual general meetings to answer queries of the security holders. • The role of the Stakeholders Relationship Committee shall be as specified as in Part D of the Schedule II as follows: (Amendment) <ol style="list-style-type: none"> 1. Resolving the grievances of the security holders of the listed entity including complaints related to transfer/transmission of shares, non - receipt of annual report, non - receipt of declared dividends, issue of new/duplicate certificates, general meetings etc.
<p>Audit Procedures</p>	<p>The auditor should ascertain from the minutes book of the Board meetings whether a Board committee, namely a Shareholders/ Investors Grievance Committee has been set up under the chairmanship of a non- executive director to specifically look into the redressal of shareholder and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends, etc. Further the auditor should also ascertain from the minutes book of the Shareholders/ Investors Grievance Committee meetings whether such committee is prima facie functioning.</p> <p>The auditor should also verify from the records of the Shareholders/ Investors Grievance Committee as well as from the certificate obtained by the listed entity from SEBI and stock exchange(s), if any, as regards the investors' grievances pending up to the date of certificate of compliance of conditions of corporate governance.</p>

12) TRANSFER OR TRANSMISSION OR TRANSPOSITION OF SECURITIES [REGULATION 40]

	<p>The Board of Directors of a listed entity shall delegate the power of transfer of securities to a committee or to the compliance officer or to the registrar to an issue and/or share transfer agents. However, the board of directors and/or the delegated authority shall attend to the formalities pertaining to transfer of securities at least once in a fortnight. It may be noted that the delegated authority shall report on transfer of securities to the board of directors in each meeting.</p> <p>Provided that, except in case of transmission or transposition of securities, requests for effecting transfer of securities shall not be processed unless the securities are held in the dematerialized form with a depository.</p>
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The auditor should ascertain from the minutes book of the Board meetings whether the listed entity has delegated the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The auditor should also verify from the records maintained to ascertain whether the delegated authority has attended to share transfer formalities at least once in a fortnight. The auditor may verify whether any transfer request are pending for more than a fortnight and are not attended to in terms of this Regulation.

13) COMPLIANCE CERTIFICATE [PART B OF SCHEDULE II]

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The Chief Executive Officer and the Chief Financial Officer shall certify to the Board that:

- They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:
 - i. These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - ii. These statements together present a true and fair view of the listed entity's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- There are, to the best of their knowledge and belief, no transactions entered into by the listed entity during the year which are fraudulent, illegal or violative of the listed entity's code of conduct.
- They accept responsibility for establishing and maintaining internal controls for financial reporting and that they have evaluated the effectiveness of the internal control systems of the listed entity pertaining to financial reporting and they have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- They have indicated to the auditors and the Audit committee:
 - i. Significant changes in internal control over financial reporting during the year;
 - ii. Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and

→ PCS → Audit

Significant → A.P.S & A.C

	iii. Instances of <u>significant fraud</u> of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the listed entity's internal control system over financial reporting".
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14) DISCLOSURES

The LODR Regulations on Corporate Governance requires disclosure of certain transactions which are discussed below.	
DISCLOSURE AND TRANSPARENCY [REGULATION 4]	The listed entity shall ensure <u>timely and accurate disclosure</u> on all material matters including the <u>financial situation, performance, ownership, and governance</u> of the Listed entity, in the following manner: <ul style="list-style-type: none"> Information shall be <u>prepared and disclosed</u> in accordance with the <u>prescribed standards of accounting, financial and non-financial disclosure</u>. Channels for <u>disseminating information</u> should provide for equal, <u>timely and cost efficient access</u> to <u>relevant information</u> by users. <u>Minutes of the meeting shall be maintained explicitly recording dissenting opinions</u>, if any.
RELATED PARTY DISCLOSURE [REGULATIONS 27, 46 AND SCHEDULE V]	The <u>listed entity</u> shall submit a <u>quarterly compliance report on corporate governance</u> in the format as specified by the Board from time to time to the recognised stock exchange(s) within <u>fifteen days</u> from close of the quarter. Details of all material transactions with related parties shall be disclosed therein. The report shall be signed either by the <u>compliance officer or the chief executive officer of the listed entity</u> . The company shall disclose the <u>policy on dealing with related party transactions on its website</u> and a web link thereto shall be <u>provided in the Annual Report</u> .
DISCLOSURE OF ACCOUNTING TREATMENT [SCHEDULE V]	Where in the preparation of financial statements, a <u>treatment different from that prescribed in an Accounting Standard has been followed</u> , the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is <u>more representative of the true and fair view</u> of the underlying business transaction.

21 Days

15) RISK MANAGEMENT COMMITTEE [REGULATION 21]

	<ul style="list-style-type: none"> The Board of Directors shall constitute a <u>Risk Management Committee</u>.
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	<ul style="list-style-type: none"> • The Risk Management Committee shall have minimum three members with majority of them being members of the board of directors, including at least one independent director and in case of a listed entity having outstanding SR equity shares, at least two thirds of the Risk Management Committee shall comprise independent directors. • The Chairperson of the Risk Management Committee shall be a member of the Board of Directors and senior executives of the listed entity may be members of the committee. • The risk management committee shall meet at least twice in a year. • The quorum for a meeting of the Risk Management Committee shall be either two members or one third of the members of the committee, whichever is higher, including at least one member of the board of directors in attendance. • The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than one hundred and eighty days shall elapse between any two consecutive meetings. • The Board of Directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit and such function shall specifically cover cyber security. • It may be noted that the role and responsibilities of the Risk Management Committee shall mandatorily include the performance of functions specified in Part D of Schedule II. • The provisions of this regulation shall be applicable to top 1000 listed entities, determined on the basis of market capitalisation, as at the end of the immediate previous financial year. • The Risk Management Committee shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise, if it considers necessary.
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16) NOMINATION AND REMUNERATION COMMITTEE [REGULATION 19 AND PART D OF SCHEDULE II]

	<p>A. The Board of Directors shall constitute the Nomination and Remuneration Committee which shall comprise at least three directors, all of whom shall be non - executive directors and</p>
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	<p>at least half shall be independent and in case of a listed entity having outstanding SR equity shares, two thirds of the nomination and remuneration committee shall comprise of independent directors. Chairperson of the committee shall be an independent director. (Amendment)</p> <p>Provided that the Chairperson of the listed entity (whether executive or non executive) may be appointed as a member of the Nomination and Remuneration Committee but shall not chair such committee.</p> <ul style="list-style-type: none"> o The nomination and remuneration committee shall meet at least once in a year o The quorum for a meeting of the nomination and remuneration committee shall be either 2 members or 1/3rd of the members of the committee, whichever is greater, including at least 1 independent director in attendance." <p>B. The role of such committee shall, inter-alia, include the following:</p> <ul style="list-style-type: none"> i. Formulation of the criteria for determining qualifications positive attributes and independence of a director and recommend to the Board of Directors a policy, relating to the remuneration of the directors, key managerial personnel and other employees; ii. Formulation of criteria for evaluation of independent directors and the Board of Directors; iii. Devising a policy on Board diversity; iv. Identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board their appointment and removal. v. Whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors. <p>C. The Chairperson of the Nomination and Remuneration Committee may be present at the Annual General Meeting, to answer the shareholders' queries. However, it would be up to the Chairperson to decide who shall answer the queries.</p>
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17) REPORT ON CORPORATE GOVERNANCE [REGULATION 27 AND SCHEDULE II]

PROVISIONS	<p>The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board from time to time to the recognised stock exchange(s) within 15 days from the close of quarter. The report shall be</p>
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21 Days

	<p>signed either by the <u>Compliance Officer</u> or the <u>Chief Executive Officer</u> of the listed entity.</p> <p>The auditor should ascertain whether the Board of Directors have included in the <u>Annual Report</u> of the listed entity, a separate section on corporate governance with a detailed compliance report on corporate governance.</p> <p>Any data in the report on corporate governance should not be inconsistent with that contained in the financial statements.</p>
<p>CORPORATE GOVERNANCE REPORT</p>	<p>The following disclosures shall be made in the section on the corporate governance of the annual report.</p> <ol style="list-style-type: none"> 1. A brief statement on listed entity's philosophy on code of governance. 2. Board of directors: Composition, attendance, memberships, number of meetings, disclosure of relationship, shareholdings of directors etc. 3. Audit committee: Terms of reference, composition, name of members and chairperson, meetings and attendance during the year. 4. Nomination and Remuneration Committee: As above and performance evaluation criteria for independent directors. 5. Remuneration of Directors: All pecuniary relationship or transactions of the nonexecutive directors, criteria of making payments, disclosures with respect to remuneration 6. Stakeholders' grievance committee: Chairperson, compliance officer, complaints received, resolved, pending, etc 7. General body meetings Location and time where last 3 AGMs held, details of SR passed, postal ballots used, etc. 8. Means of communication: Quarterly results, newspapers wherein results normally published, any website, etc. 9. General shareholder information: AGM - date, time and venue, financial year, dividend payment date, stock code, market price data- high, low during each month in last financial year, performance in comparison to broad-based indices such as <u>BSE sensex</u>, etc, registrar to an issue and share transfer agents, distribution of shareholding, dematerialization of shares and liquidity; outstanding GDR / ADRs 10. Other Disclosures:-

	<p>a) disclosures on materially significant related party transactions that may have potential conflict with the interests of listed entity at large;</p> <p>b) details of non-compliance by the listed entity, penalties, strictures imposed on the listed entity by stock exchange(s) or the board during the last 3 years;</p> <p>c) details of establishment of vigil mechanism</p> <p>d) details of compliance with mandatory requirements and adoption of the non-mandatory requirements;</p> <p>e) web link where policy for determining 'material' subsidiaries, policy on dealing with related party transactions;</p> <p>11. Non-compliance of any requirement of corporate governance report of sub-paras (2) to (10) above, with reasons thereof shall be disclosed.</p>
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18) SECRETARIAL AUDIT AND SECRETARIAL COMPLIANCE REPORT OF LISTED ENTITY AND ITS MATERIAL UNLISTED SUBSIDIARIES [REGULATION 24A]

Every listed entity and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex a secretarial audit report given by a company secretary in practice, in such form as specified, with the annual report of the listed entity.

Every listed entity shall submit a secretarial compliance report in such form as specified, to stock exchanges, within sixty days from end of each financial year.

19) Disclosures in relation to the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 (Schedule V).

Amongst other matters, following should be disclosed in the section on Corporate Governance of the Annual Report:

a.	number of complaints filed during the financial year
b.	number of complaints disposed of during the financial year
c.	number of complaints pending as on end of the financial year

20) AUDITOR'S CERTIFICATE

As per Schedule V, a listed entity shall obtain a compliance certificate from either the auditors or practicing company secretaries regarding compliance of conditions of corporate governance and shall annex it to the Directors' Report.

<p>ADVERSE OR QUALIFIED STATEMENT }</p>	<p>Depending upon the facts and circumstances, some situations may require an adverse or qualified statement or a disclosure without necessarily making it a subject matter of qualification in the Auditors' Certificate, in respect of compliance of requirements of corporate governance for e.g.,</p>
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<p>EXAMPLES OF SUCH CIRCUMSTANCES</p>	<ul style="list-style-type: none"> • The number of <u>non-executive directors is less than 50%</u> of the strength of Board of directors. • A <u>qualified and independent audit committee is not set up.</u> • The <u>Chairman of the audit committee is not an independent director.</u> • The <u>Audit Committee does not meet four times a year.</u> • The necessary powers in terms of Part C of Schedule II have not been vested by the Board in the Audit Committee. • The time gap between two Board meetings is more than <u>one hundred and twenty days.</u> • A director is a member of more than ten committees or acts as Chairman of more than five committees across all companies in which he is a director. • The information of quarterly results is neither put on the listed entity's website nor sent in a form so as to enable the stock exchange on which the entity's securities are listed to enable such stock exchange to put it on its own website. • The power of share transfer is not delegated to an officer or a committee or to the registrar and share transfer agents.
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AMENDMENT AS PER MAY 2020 RTP

<p>RESIGNATION OF STATUTORY AUDITORS FROM LISTED ENTITIES AND THEIR MATERIAL SUBSIDIARIES</p>	
<p>Responsibility of Auditor under Companies Act, 2013</p>	<p>Section <u>140(2)</u> of the Companies Act, 2013 (2013 Act) specifies the procedure to be followed by an auditor when <u>he/she resigns from a company.</u> The procedure is as follows:</p> <ul style="list-style-type: none"> • <u>File a statement in the prescribed form with the company and the Registrar of Companies within 30 days from the date of resignation.</u> For a government or a state government company (companies specified in Section 139(5) of the 2013 Act), file such

	<p>a statement with Comptroller and Auditor General of India.</p> <ul style="list-style-type: none"> Statement should indicate the reasons and other facts as may be relevant with respect to such resignation.
<p>Responsibility of Entity under (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015</p>	<p>From 1 April 2019, the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) also cast responsibility on the listed entities in relation to an auditor's resignation. The listed entities are required to disclose detailed reasons to the stock exchanges when there is a resignation by an auditor as soon as possible but not later than 24 hours of receipt of such reasons from the auditor.</p>
	<p>Aspects covered in circular to all listed entities and material subsidiaries and stock exchange issued by SEBI date Oct 18, 2019</p> <ul style="list-style-type: none"> Recently, SEBI has issued a circular clarifying mandatory condition to be complied with when the statutory auditor of a listed entity or its material subsidiary resigns, in relation to a limited review/audit report. The circular issued by SEBI comes into immediate effect. In case an entity is not required to form an audit committee, then the Board of Directors of the entity is required to ensure compliance with this circular.

		<table border="1"> <tr> <td data-bbox="833 197 954 438">Sr.N o</td> <td data-bbox="954 197 1414 438">Aspects covered in the circular to be complied with by listed entity/ its material subsidiary</td> </tr> <tr> <td data-bbox="833 438 954 622">1.</td> <td data-bbox="954 438 1414 622">Conditions to be complied with while appointing / reappointing an auditor</td> </tr> <tr> <td data-bbox="833 622 954 805">2.</td> <td data-bbox="954 622 1414 805">Procedure to be followed in relation to resignation by auditors</td> </tr> <tr> <td data-bbox="833 805 954 984">3.</td> <td data-bbox="954 805 1414 984">Obligations of a listed entity and its material subsidiary</td> </tr> </table>	Sr.N o	Aspects covered in the circular to be complied with by listed entity/ its material subsidiary	1.	Conditions to be complied with while appointing / reappointing an auditor	2.	Procedure to be followed in relation to resignation by auditors	3.	Obligations of a listed entity and its material subsidiary
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<p>Conditions to be complied with while Appointing / reappointing An auditor</p>	<p>The conditions to be complied by a listed entity/material subsidiary while appointing / re appointing an auditor are as following:</p>	<p>SEBI has also clarified that in case the auditor is rendered disqualified due to operation of any condition mentioned in Section 141 of the 2013 Act, then the provisions of this circular would not apply.</p> <p>(A-J) ⇒ First 45 Days J to Sep</p> <p>a) If the auditor resigns within 45 days from the end of a quarter of a financial year, then the auditor should, before such resignation, issue the limited review/audit report for such quarter.</p> <p>b) If the auditor resigns after 45 days from the end of a quarter of a financial year, then the auditor should, before such resignation, issue the limited</p>								

Q₁ Q₂ Q₃ Q₄
 A-J J-S O-P Q-R J-M

	<p>review/audit report for such quarter as well as the next quarter.</p> <p>c) Notwithstanding the above, if the auditor has signed the limited review/audit report for the first three quarters of a financial year, then the auditor should, before such resignation, issue the limited review/audit report for the last quarter of such financial year as well as the audit report for such financial year.</p>		
<p>Procedure to be followed in relation to resignation of auditors</p>	<p>These procedures are as follows:</p> <table border="1"> <tr> <td data-bbox="521 799 808 2059"> <p>Reporting of concerns with respect to the listed entity / its Material subsidiary to the audit committee</p> </td> <td data-bbox="808 799 1427 2059"> <p>i. In case of any concern with the management of the listed entity / its material subsidiary such as non -availability of information / noncooperation by the management which may hamper the audit process, the auditor should approach the chairman of the audit committee of the listed entity. The audit committee should receive such concerns directly and immediately without specifically waiting for the quarterly audit committee meetings.</p> <p>ii. In case the auditor proposes to resign, all concerns with respect to the proposed resignation, along with relevant documents should be brought to the notice</p> </td> </tr> </table>	<p>Reporting of concerns with respect to the listed entity / its Material subsidiary to the audit committee</p>	<p>i. In case of any concern with the management of the listed entity / its material subsidiary such as non -availability of information / noncooperation by the management which may hamper the audit process, the auditor should approach the chairman of the audit committee of the listed entity. The audit committee should receive such concerns directly and immediately without specifically waiting for the quarterly audit committee meetings.</p> <p>ii. In case the auditor proposes to resign, all concerns with respect to the proposed resignation, along with relevant documents should be brought to the notice</p>
<p>Reporting of concerns with respect to the listed entity / its Material subsidiary to the audit committee</p>	<p>i. In case of any concern with the management of the listed entity / its material subsidiary such as non -availability of information / noncooperation by the management which may hamper the audit process, the auditor should approach the chairman of the audit committee of the listed entity. The audit committee should receive such concerns directly and immediately without specifically waiting for the quarterly audit committee meetings.</p> <p>ii. In case the auditor proposes to resign, all concerns with respect to the proposed resignation, along with relevant documents should be brought to the notice</p>		

		<p>of the audit committee. In cases where the proposed resignation is due to <u>non - receipt of information / explanation from the company</u>, the <u>auditor should inform the audit committee of the details of information / explanation sought and not provided by the management, as applicable.</u></p> <p>iii. On receipt of such information from the <u>auditor relating to the proposal to resign as mentioned above</u>, the <u>audit committee / board of directors</u>, as the case may be, should <u>deliberate on the matter and communicate their views to the management and the auditor.</u></p>
	<p>Disclaimer in case of non - receipt of information</p>	<p>In case the listed entity / its material subsidiary does not provide <u>information required by the auditor</u>, then to that extent, the auditor should provide an appropriate disclaimer in <u>the audit report</u>. The disclaimer should be in accordance with the <u>Standards of Auditing as specified by the Institute of Chartered Accountants of India (ICAI) / National Financial Reporting Authority (NFRA).</u></p>

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	<p>Other procedures</p>	<p>On appointment/re-appointment of auditor:</p> <p>A listed entity/its material subsidiary is required to ensure that all the above conditions (as mentioned for appointing /re-appointing an auditor and procedure to be followed in relation to resignation of auditors) are included in the terms of appointment of the statutory auditor at the time of appointment/re-appointment of the auditor. In case the auditor has already been appointed, then the terms of appointment should be suitably modified.</p> <p>Certificate of compliance:</p> <p>A practicing company secretary is required to certify compliance of the provisions of the circular by a listed entity as mentioned above in their annual secretarial compliance report.</p>
<p>Obligations of a listed entity and its material subsidiary</p>	<p>The circular prescribes the following formats and disclosures to be filed by a listed entity and its material subsidiaries to the stock exchange:</p>	
	<p>Format of information to be obtained from the</p>	<p>Annexure A of the circular specifies the format in which the listed entity / its material subsidiary should obtain information from the auditor on resignation. The format includes</p>

	<p>statutory auditor upon resignation:</p>	<p>information to be filed by the statutory auditor such as:</p> <ul style="list-style-type: none"> • Detailed reasons for resignation • Details of association with the listed entity/its material subsidiary • Whether the inability to obtain sufficient appropriate audit evidence was due to a management-imposed limitation or circumstances beyond the control of the management • Whether the lack of information would have a significant impact on the financial statements/results. • Whether the auditor has performed alternative procedures to obtain appropriate evidence for the purposes of audit / limited review as laid down in SA 705 (Revised), Modifications to the Opinion in the Independent Auditors' Report • Whether the lack of information was prevalent in the previous reported financial statements/results. If yes, on what basis the previous audit/limited review reports were issued • Any other facts relevant to the resignation.
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		<p>Further, a declaration of the above information needs to be given by the statutory auditor that the information so provided is correct and complete and there are no other material reasons for resignation other than those provided above by the statutory auditor.</p>
	<p>Co-operation by listed entity and its material subsidiary:</p>	<p>During the period from when the auditor proposes to resign till the auditor submits the report for such quarter/financial year as specified above, the listed entity and its material subsidiaries are required to continue to provide all such documents / information as may be necessary for the audit/limited review.</p>
	<p>Disclosure of views of the audit committee to the stock exchanges:</p>	<p>Upon resignation by an auditor, the audit committee should deliberate upon all the concerns raised by the auditor with respect to resignation but not later than the date of the next audit committee meeting. The views of the audit committee should be communicated to the management. The listed entity should ensure disclosure of the views of the audit committee to the stock exchanges as soon as possible but not later than 24 hours</p>

		<u>after the date of such audit committee meeting.</u>
Responsibility of Auditor under SEBI – LODR Regulations, 2015 with ICAI implementation guide	<p>The 2013 Act requires only the auditor/s to communicate reasons for resignation to both the company and the Registrar of Companies. Recently, SEBI has amended the Listing Regulations and made it mandatory for the listed entities to disclose to stock exchanges the reasons for resignation of auditors within 24 hours of receipt of such reasons.</p> <p>The ICAI has issued an Implementation Guide on Resignation/Withdrawal from an Engagement to Perform Audit of Financial Statements. This guide elaborates on the following three aspects:</p>	
	Circumstances leading to withdrawal / resignation:	<p>Unless there are circumstances that are covered by Standards of Auditing, SQC-1 and the Code of Ethics issued by ICAI where resignation is the only available alternative, the auditor should complete the engagement.</p>
	Guidance for auditors at the time of resignation / withdrawal from an existing engagement	<ul style="list-style-type: none"> • If the auditor has substantially completed the audit, then the auditor may decide to complete the audit to the extent possible, disclaim an opinion and explain the scope limitation with the Basis of Disclaimer of Opinion section prior to withdrawing. • In certain circumstances, withdrawal from the audit may not be possible if the auditor is required by law or regulation to continue the audit

		<p>engagement. It is, therefore advised that the auditor should discharge his/her professional obligations.</p> <p>The auditor is advised, particularly in case of listed entities, to comply as below:</p> <ul style="list-style-type: none"> • In case an auditor has signed all the quarters (either limited review or audit) of a financial year, except the last quarter, then the auditor has to finalise the audit report for the said financial year before resignation. • In other cases, the auditor should resign after issuing limited review/audit report for the previous quarter with respect to the date of resignation. • To the extent information is not provided to the auditor or the management imposes a scope limitation, the auditor should provide an appropriate disclaimer in the audit report. • In case an auditor has signed all the quarters (either limited review or audit) of a financial year, except the last quarter, then the auditor has to finalise the audit report for the said financial year before resignation. • In other cases, the auditor should resign after issuing limited
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		<p>review/audit report for the previous quarter with respect to the date of resignation.</p> <ul style="list-style-type: none"> To the extent information is not provided to the auditor or the management imposes a scope limitation, the auditor should provide an appropriate disclaimer in the audit report.
<p>Comments</p>	<p>The listed entities may take note of the circular as additional onus is cast on them for disclosure of information in case of resignation of statutory auditors. In the past whenever there has been an auditor resignation its impact has been quite adverse for the investors and hence, in the interest of protecting the interests of the investors the rules for resignation by auditors have been strengthened. However, the circular does not prohibit resignation of auditors but aims at an orderly resignation.</p>	

A performa of the certificate to be issued by the auditors regarding compliance of conditions of corporate governance is shown below:

CERTIFICATE

To,
The Members of.....
(Name of the entity)

We have examined the compliance of conditions of corporate governance by (name of the entity) for the year ended on as stipulated in Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (hereinafter called as "SEBI (LODR) Regulations, 2015").

The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the conditions of the corporate governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the company has complied with the conditions of corporate governance as stipulated in the above mentioned Regulations.

OR (as applicable)

In our opinion, and to the best of our information and according to the explanations given to us, subject to the following:

- 1)
- 2)

We certify that the company has complied with the conditions of corporate governance as stipulated in the above mentioned Regulations.

We state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

For & on behalf of

XYZ & Co.

Chartered Accountants

(Partner / Proprietor) Member

ADDITIONAL READING

Functions of the Audit Committee Section (177)

The Audit Committee performs various important functions like investigating the matters referred by board, discuss about internal control system etc. The sub-sections of Section 177 are reproduced hereunder which specify the terms of reference as well as functions of the Audit Committee:

Sub Section 4: "Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall inter alia, include,-

- i. the recommendation for appointment, remuneration and terms of appointment of auditors of the company (However, in case of Government Company, it is limited to the recommendation for remuneration);
- ii. review and monitor the auditor's independence and performance, and effectiveness of audit process;
- iii. examination of the financial statement and the auditors' report thereon;

- iv. approval or any subsequent modification of transactions of the company with related parties; (However, the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed.

In case of transactions other than transactions referred to in section 188 of the Companies Act 2013, and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board.

Also, in case any transaction involving an amount not exceeding Rupees 1 crore is entered into by a director or officer of the company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorized by any other director, the director concerned shall indemnify the company against any loss incurred by it.

These provisions shall not apply to a transaction, other than a transaction referred to in section 188, between a holding company and its wholly owned subsidiary company.

- v. scrutiny of inter-corporate loans and investments;
vi. valuation of undertakings or assets of the company, wherever it is necessary;
vii. evaluation of internal financial controls and risk management systems;
viii. monitoring the end use of funds raised through public offers and related matters."

Sub Section 5: "The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.

Sub Section 6: "The Audit Committee shall have authority to investigate into any matter in relation to the items specified in sub-section (4) or referred to it by the Board and for this purpose shall have power to obtain professional advice from external sources and have full access to information contained in the records of the company."

Sub Section 7: "The auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote."

Sub Section 8: "The Board's report under sub-section (3) of section 134 shall disclose the composition of an Audit Committee and where the Board had not accepted any recommendation of the Audit Committee, the same shall be disclosed in such report along with the reasons therefor."

Sub Section 9: “Every listed company or such class or classes of companies, as may be prescribed, shall establish a vigil mechanism for directors and employees to report genuine concerns in such manner as may be prescribed.”

Sub Section 10: “The vigil mechanism under sub-section (9) shall provide for adequate safeguards against victimisation of persons who use such mechanism and make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases: Provided that the details of establishment of such mechanism shall be disclosed by the company on its website, if any, and in the Board's report.”

CHAPTER-3

AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

<p>CONSOLIDATED FINANCIAL STATEMENTS - THE FRAMEWORK</p>	<p>INTRODUCTION</p>	<p>Consolidated Financial statements normally include consolidated balance sheet, consolidated statement of profit and loss, consolidated cash flow statement, a consolidated statement of change in equity (if applicable) and any explanatory notes annexed to, or forming part thereof.</p> <p>The formats for preparation of balance sheet, statement of profit and loss and a statement of change in equity (if applicable) are guided under the Schedule III — Division I (AS Based) and Division II (Ind-AS Based) of the Companies Act, 2013.</p> <p>The Guidance Note on Audit of Consolidated FSs provides guidance on the specific issues and audit procedures to be applied in an audit of consolidated FSs.</p>
	<p>LEGAL PROVISIONS (Companies Act, 2013 on CFS)</p>	<p>Section 129(3) of the Companies Act, 2013, where a company has one or more subsidiaries, including associate company and joint venture, it shall, in addition to its own FSs prepare consolidated FS.</p> <p>Section 129(4) provides that the provisions applicable to the preparation, adoption and audit of the FSs of a holding company shall also apply to the consolidated FSs.</p> <p>The CFS shall also be approved by the BOD and shall also be laid before the AGM of the company along with the laying of its own FS.</p>

		The company shall also attach along with its FS, a separate statement containing the salient features of the FS of its subsidiary or subsidiaries in Form AOC-1 .	
	EXEMPTION FROM CONSOLIDATION	<p>However, the requirement related to preparation of CFS shall not apply to a company if it meets the following conditions:</p> <ul style="list-style-type: none"> i. it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting CFS; ii. it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India; and iii. its ultimate or any intermediate holding company files CFS with the Registrar which are in compliance with the applicable Accounting Standards. <p>Central Government may, on its own or on an application by a class or classes of companies, by notification, exempt any class or classes of companies from complying with any of the requirements of section 129 or the rules made there under in public interest.</p>	
	DEFINITIONS	Various terms used in this Guidance Note, have the same meaning as defined in applicable AS	
		Important terms definition as per AS	Associate: An associate is an enterprise in which the investor has significant influence and which is

		<p>neither a subsidiary nor a joint venture of the investor.</p> <ul style="list-style-type: none"> ➤ Control: <ul style="list-style-type: none"> a. The ownership, directly or indirectly through subsidiary(ies), of more than one-half of the voting power of an enterprise; or b. control of the composition of the BOD in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities. ➤ Joint control: Joint control is the contractually agreed sharing of control over an economic activity. ➤ Joint venture: A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control. ➤ Minority interest: Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, through subsidiary (ies), by the parent.
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			<ul style="list-style-type: none"> ➤ Significant influence: Significant influence is the power to participate in the financial and/ or operating policy decisions of the investee but not control over those policies. ➤ Subsidiary: A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).
		<p>Terms defined</p>	<ul style="list-style-type: none"> ➤ Associate: An associate is an entity over which under Ind AS the investor has significant influence. ➤ Control of an investee: An investor controls an investee when the investor is exposed, or has rights, to variable returns From its involvement with the investee and has the ability to affect those returns through its power over the investee. ➤ Joint Control: Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. ➤ Joint Venture: A joint venture is a joint arrangement whereby the parties that have joint control of the

		<p>arrangement have rights to the net assets of the arrangement.</p> <ul style="list-style-type: none"> ➤ Non-controlling Interest: Equity in a subsidiary not attributable, directly or indirectly, to a parent. ➤ Power: Existing rights that give the current ability to direct the relevant activities. ➤ Relevant Activities: Relevant activities are activities of the investee that significantly affect the investee's returns. ➤ Significant influence: Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. ➤ Subsidiary: An entity that is controlled by another entity.
<p>RESPONSIBILITY OF PARENT</p>	<p>The responsibility for the preparation and presentation of CFS, among other things, is that of the management of the parent. This includes:</p> <ol style="list-style-type: none"> a. identifying components, and including the Financial information of the components to be included in the CFS; b. where appropriate, identifying reportable segments for segmental reporting; c. identifying related parties and related party transactions for reporting; d. obtaining accurate and complete Financial information from components; and e. making appropriate consolidation adjustments. f. harmonization of accounting policies and accounting framework; and g. GAAP conversion, where applicable. 	

<p>RESPONSIBILITY OF THE AUDITOR OF THE CFS</p>	<p>AUDITOR'S OBJECTIVE IN ADIT OF CFS</p>	<p>Principal auditor of the CFS is responsible for expressing an opinion on whether the CFS are prepared in accordance with the financial OF CFS reporting framework. Therefore, the auditor's objectives in an audit of CFS are:</p> <ul style="list-style-type: none"> a. to satisfy himself that the CFS have been prepared in accordance with the requirements of applicable financial reporting framework; b. to enable himself to express an opinion on the true and fair view presented by the CFS. c. to enquire into the matters as specified in section 143(1) of the Companies Act, 2013; and. d. to report on the matters given in section 143(3) of the Companies Act, 2013.
	<p>STANDARDS ON AUDITING, STATEMENTS AND GUIDANCE NOTES ON AUDITING MATTERS</p>	<p>Applies in the same manner to audit of CFS. It means that the auditors, while conducting the audit of CFS are, inter alia, expected to:</p> <ul style="list-style-type: none"> a. plan their work to enable them to conduct an effective audit in an efficient and timely manner; b. obtain an understanding of the accounting and internal control systems including IT system like consolidation tool, sufficient to plan the audit and determine the nature, timing and extent of his audit procedures; c. use professional judgement to assess audit risk and to design audit procedures to ensure that the risk is reduced to an acceptable level; etc.
	<p>AUDIT CONSIDERATI ONS & PROCEDURES</p>	<p>The following features of CFS have an impact on the related audit procedures:</p> <ul style="list-style-type: none"> a. The CFS are prepared on the basis of separate FS of the parent and its components, .using the consolidation procedures prescribed by Accounting Standards³ under applicable financial reporting framework; end b. The auditor of the CFS may use the work of other auditors, as per requirement of Standards on Auditing unless the auditor of

		CFS is also the auditor of the other components of the group.
	OTHER FINANCIAL INFO.	<p>The CFS (including the intermediate CFS prepared internally) are prepared using:</p> <ol style="list-style-type: none"> a. separate FS of the parent and its components and b. other financial information, which might not be covered by ,the separate FS of these entities. <p>The 'other financial information' would include disclosures to be made in the CFS about the components, proportion of items included in the CFS to which different accounting policies have been applied where permitted, adjustments made for the effects of significant transactions or other events that occur between the FS of parent and its components, as the case may be, etc.</p>
	USING THE WORK OF OTHER AUDITOR	<p>If principal auditor is of the opinion that his work may not be adequate with respect to other financial information of components he may use the work of component auditor.</p> <p>The principal auditor, if he decides to use the work of another auditor in relation to the audit of CFS, should comply with the requirements of SA 600.</p>
	MATERIALITY CONSIDERATIONS	<p>In carrying out the audit of the standalone FS, the computation of materiality for the purpose of issuing on standalone FS of each component would be done component-wise on a standalone basis. However, with regard to determination of materiality during the audit of CFS (CFS), the auditor should consider the following:</p> <ul style="list-style-type: none"> ➤ The auditor is required Co compute the materiality for the group as a whole. ➤ This materiality should be used to assess the appropriateness of the consolidation adjustments (i.e. permanent consolidation adjustments and current period consolidation adjustments) made by management in the preparation of CFS. ➤ The parent auditor can also use the materiality computed on the group level

		<p>to determine whether the component's FS are material to the group.</p> <ul style="list-style-type: none"> ➤ However, while considering the observations (for instance modification and /or emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone FS, the concept of materiality would not be considered. ➤ Thus, the component auditor's observations, irrespective of whether the auditors of the component are also the auditors of the CFS or not, are required to be included in the parent auditor's report on the CFS, regardless of materiality.
	<p>AUDITING THE CONSOLIDATION</p>	<ul style="list-style-type: none"> a. Understanding of the group structure and group-wide controls including assessment of Information Technology (IT) system and related general and applications IT related controls (manual and automated) for consolidation process; b. understanding of accounting policies of the parent and its components as well as of the consolidation process including the process of translation of FS of foreign components; c. determining and programming the nature, timing, and extent of the audit procedures to be performed based on the assessment of the risk of material misstatement in the consolidation process; d. determining the extent of use of other auditor's work in the audit; and e. coordinating the work to be performed.
	<p>COMPLETENESS OF COMPONENTS</p>	<p>The auditor should obtain a listing of all the components included in the CFS and verify that all the components have been included in the CFS unless these components meet criterion For exclusion. In respect of completeness of this information, the auditor should perform the following procedures:</p> <ul style="list-style-type: none"> a. review his working papers for the prior years for the known components;

		<ul style="list-style-type: none"> b. review the parent's procedures for identification of various components; c. make inquiries of management to identify any new components or disposal of any component d. review investments of parent and components to determine shareholding in other entities e. review the joint ventures and joint arrangements as applicable; f. review other arrangements entered by parent that have not been included in CFS of the group. g. review the statutory records maintained by the parent, for example registers under section 186, 190 of the Companies Act, 2013. h. also identify the changes in the shareholding that might have taken place during the reporting period.
		<p>Components excluded from CFS</p> <p>Auditor should examine the reasons and whether it is in conformity with:</p> <p>a. Applicable financial reporting framework</p> <ul style="list-style-type: none"> a) Under AS - Exclusion of a subsidiary, associate or jointly controlled entity could be due to one, that the relationship of parent with the subsidiary, associate or jointly controlled entity is <ul style="list-style-type: none"> i. intended to be temporary or ii. it operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent).

			<p>b) Under Ind AS — There are no exceptions from consolidation except Ind AS 110 prescribes certain criteria where CFS are not required (in case of subsidiary being an investment company and accounted for under Ind AS 109 provided holding company is not an investment company)</p> <p>b. Companies Act, 2013 Intermediate subsidiary in India is not required to present CFS (discussed at the beginning of this unit)</p>
	<p>CHANGES IN OWNERSHIP STATUS & CATEGORISATION OF GROUP ENTITIES</p>	<p>The auditor should also examine whether there is any change in the status of a component (e.g., subsidiary to associate, JV to associates or vice versa). The auditor, in such cases, should examine whether these changes have been appropriately accounted for in the CFS.</p>	<p>a) CFS under Companies (Accounting Standards) Rules, 2006 FS of the parent and its subsidiaries are combined on a time by line basis by adding together like items of assets, liabilities, income, expenses and cash flows and then certain calculations like determination of goodwill or capital reserve, minorities interest and adjustments like elimination of intra group transactions, balances and unrealised profits etc. are made in accordance with the requirements of</p> <ul style="list-style-type: none"> i. AS 21, "CFS". ii. AS 23 "Accounting for Investments in Associates in CFS"

		<p>iii. AS 27 - "Financial Reporting of Interests in Joint Ventures"</p> <p>b) CFS under Companies (Indian Accounting Standards) Rules, 2015</p> <p>FS of the parent and its subsidiaries are combined as per hid AS 110, "CFS" on a line by line basis by adding together like items of assets, liabilities, income, expenses and cash flows;</p> <ul style="list-style-type: none"> • goodwill/ capital reserve and non-controlling interest is determined as per Ind AS 103; • adjustments like elimination of intra group transactions, balances, unrealised profits and deferred tax etc. are made in accordance with the requirements of Ind AS 110. • Investments in associates and joint ventures are accounted for using the Equity Method as prescribed in Indian Accounting Standard (Ind AS) 28, "Investments in Associates and Joint Ventures". • interests in assets, liabilities, revenues and expenses in a joint operation are accounted For as part of separate FS of the entity in accordance with Indian Accounting Standard (Ind AS) 111 "Joint Arrangements". 	
	<p>SPECIAL AUDIT CONSIDERATIONS</p>	<p>PERMANENT CONSOLIDATION ADJUSTMENTS</p>	<p>Adjustments</p> <p>Adjustments made only on the first occasion or subsequent occasions in which there is a change in the shareholding of a particular entity which is consolidated. Permanent consolidation adjustments are:</p> <p>a) Determination of goodwill or capital reserve as per applicable accounting standards.</p>

		<p>b) Determination of amount of equity attributable to minority/ non - controlling interests.</p>
		<p>Auditor's Procedures on Permanent Consolidation Adjustments</p> <ul style="list-style-type: none"> • The auditor should verify that the above calculations have been made appropriately. • Pay particular attention to the determination of pre-acquisition reserves of the components. • Date(s) of investment in components assumes importance in this regard. • Examine whether the pre-acquisition reserves have been allocated appropriately between the parent and the minority interests / non-controlling interests of the subsidiary. • The auditor should also verify the changes that might have taken place in these permanent consolidation adjustments on account of subsequent acquisition of shares in the components, disposal of the components in the subsequent years. • The parent may choose to net off goodwill and capital reserves arising on 2 different subsidiaries to disclose a single amount in the consolidated

			balance sheet (Only in AS)
		CURRENT PERIOD CONSOLIDATION ADJUSTMENTS	<p>Adjustments</p> <p>Adjustments that are made in the accounting period For which the CFS is done. Current period consolidation adjustments primarily relate to elimination of intra-group transactions and account balances including:</p> <ul style="list-style-type: none"> a) intra-group interest paid and received, or management fees, etc.; b) unrealised intra-group profits on assets acquired / transferred from / to other subsidiaries; c) intra - group indebtedness; d) adjustments related to harmonising the different accounting policies being followed by the parent and its components; e) adjustments to the FS (of the parent and the components being consolidated) for recognized subsequent events or transactions that occur between the balance sheet date and the date of the auditor's report on the CFS of the group including . (SA 560 defines subsequent events) f) adjustments for the effects of significant transactions or other events that occur

			<p>between the date of the components balance sheet and date of the auditor's report on the group's CFS when the FS of the component to be used for consolidation are not drawn up to the same balance sheet date as that of the parent;</p> <p>g) In case of a foreign component, adjustments to convert a component's audited FS prepared under the component's local GAAP to the GAAP under which the CFS are prepared.</p> <p>h) determination of movement in equity attributable to the minorities interest/non-controlling interest since the date of acquisition of the subsidiary.</p> <p>i) adjustments of deferred tax on account of temporary differences arising out of elimination of profit and losses resulting from intra group transactions and undistributed profits of the component.</p>
			<p>Auditor's Procedures on Current Consolidation Adjustments</p>
			<p>A. Review: The auditor should review the memorandum records to verify the adjustment entries made in the preparation of CFS. Apart from reviewing the</p>

			<p>memorandum records, the auditor should inter alia:</p> <ul style="list-style-type: none"> a) verify that the intra group transactions and account balances have been eliminated; b) verify that the CFS have been prepared using uniform accounting policies for like transactions and other events in similar circumstances; c) verify that adequate disclosures have been made in the CFS of application of different accounting policies in case, it was impracticable to harmonize them. d) verify the adjustments made to harmonise the different accounting policies; e) verify the calculation of minorities/non-controlling interest; f) verify adjustments relating to deferred tax on account of temporary differences arising out of elimination of profit and losses resulting from Intergroup transactions (where the parent's accounts are maintained in Ind AS); g) verify that income and expenses of the subsidiary are included in CFS from the date it gains control
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			until the date when the entity ceases.
			<p>B. Management Procedures: The auditor should gain an understanding of the procedures adopted by the management to assist auditor in reducing the audit risk to an acceptably low level.</p> <p>C. Impairment Loss: Goodwill arising on consolidation is carried at the value determined at the date of acquisition of the component, and the same is to be tested for impairment loss at every balance sheet date. The auditor should examine whether any impairment loss has been determined by the parent.</p> <p>D. Reporting Date: The FS of the components should be drawn up to the same reporting date, if not practicable FS are drawn up to different reporting dates, adjustments should be made for the effects of significant transactions or other events that occur between those dates. Maximum difference can be:</p> <ul style="list-style-type: none"> i. 6 months as per AS ii. 3 months as per Ind AS
	NOTES AND OTHER EXPLANATORY	The auditor should:	

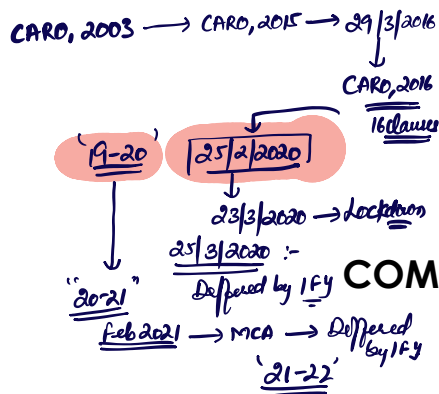
	<p>MATERIAL OF CFS</p>	<p>a) examine that the notes required by the applicable standards necessary for true and fair view of the CFS; and</p> <p>b) examine that additional statutory information disclosed in the separate FS bearing on the true and Fair view of the CFS have been disclosed in the CFS</p> <p>c) In addition, as per Schedule III to the Companies Act, 2013 (general instructions for the preparation of CFS') should be disclosed. For example, Following information is also required to be disclosed in the CFS separately for the parent and each of its components:</p> <ul style="list-style-type: none"> i. amount of net assets and net assets as a percentage of consolidated net assets; ii. amount of share in profit or loss and the percentage share in profit or loss as a percentage of consolidated profit or loss; iii. amount in other comprehensive income (OCI) and the percentage of OCI as a percentage of Consolidated OCI
	<p>MANAGEMENT REPRESENTATIONS</p>	<p>The auditor of the CFS should obtain evidence that the management of the parent acknowledges its responsibility for a true and fair presentation of the CFS in accordance with the financial reporting framework applicable to the parent and that parent management has approved the CFS. In addition, the auditor of the CFS obtains written representations from parent management on matters material to the CFS.</p>
	<p>REPORTING ON CFS</p>	<p>The auditor should, while preparing the report, consider the requirements of Standard on Auditing SA 700, 705 and 706. Where, the auditor uses the work of other auditors in the audit of consolidated FS, the requirements of SA 600 should also be considered.</p>

		<div style="text-align: center; border: 1px solid black; padding: 5px; margin-bottom: 10px;">Reporting on CFS</div> <div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid black; padding: 5px; width: 18%;">When the Parent's Auditor is also the Auditor of all its Components</div> <div style="border: 1px solid black; padding: 5px; width: 18%;">When the Parent's Auditor is not the Auditor of its Components</div> <div style="border: 1px solid black; padding: 5px; width: 18%;">When the Component (s) Auditor Reports on FS under an Accounting framework</div> <div style="border: 1px solid black; padding: 5px; width: 18%;">When the Component (s) Auditor Reports under an Auditing Framework Different than that of the parent</div> <div style="border: 1px solid black; padding: 5px; width: 18%;">Component (s) Not Audited</div> </div>
	<p>When the Parent's Auditor is also the Auditor of all its Components</p>	<p>Auditor should issue an audit report expressing opinion whether the CFS give a true and fair view of on balance sheet date, consolidated profit and loss statement and where the CFS also include a cash flow statement, the auditor should also give his opinion on it.</p>
	<p>When the Parent's Auditor is not the Auditor of its Components</p>	<p>Additionally consider the requirement of SA 600. As prescribed in SA 706, if the auditor considers it necessary to make reference to the audit of the other auditors, the auditor's report on the CFS should disclose clearly the magnitude of the portion of the FS audited by the other auditor(s) in terms of amounts or percentages of total assets, revenues and cash flows of components This is construed as an indication of the divided responsibility between the auditors of the parent and its subsidiaries. No Materiality Consideration For Modifications Or Emphasis Of Matters Reported By Component Auditor (Important)</p> <ul style="list-style-type: none"> • However, while considering the observations (for instance

			<p>modification and for emphasis of matter in accordance with SA 705/706) of the component auditor in his report on the standalone financial statements, the concept of materiality would NOT be considered.</p> <ul style="list-style-type: none"> • Thus, the component auditor's observations, if any, on the component's financial statements, irrespective of whether the auditors of the component are also the auditors of the CFS or not, are required to be included in the parent auditor's report on the CFS, regardless of materiality.
		<p>When the Component(s) Auditor Reports on FS under an Accounting Framework Different than that of the Parent (Like Foreign Subsidiaries)</p>	<p>Local component auditors may be unable to report on FS prepared using the parent's GAAP because of their unfamiliarity with such GAAP. When a component's FS are prepared under different accounting framework the parent's management perform a conversion of the components' audited FS. The conversion adjustments are audited by the principal auditor to ensure that the financial information of the component(s) is suitable and appropriate for the purposes of consolidation.</p> <p>Component May Alternatively Prepare FS On The Basis Of The Parent's Accounting Policies</p> <ul style="list-style-type: none"> • A component may alternatively prepare FS on the basis of the parent's accounting policies, to Facilitate the preparation of the group's consolidated FS.

			<ul style="list-style-type: none"> • A group accounting manual would be used which normally contain all accounting policies, including relevant disclosure requirements, which are consistent with the requirements of the financial reporting framework of the group. • The local component auditor can then audit and issue an audit report on the components FS prepared in accordance with "group accounting policies". • Principal/parent auditors should perform procedures to assess whether FS of component prepared as per group's accounting policies applicable comply with framework applicable to the parent. • This would eliminate need for auditing the differences between the basis used for the component's FS and that of the consolidated FS. • The Principal auditor can then decide whether or not to rely on the components' audit report and make reference to it in the auditor's report on the CFS.
		<p>When the Component (s) Auditor Reports under an Auditing Framework Different than that of the Parent</p>	<p>In order to:</p> <ul style="list-style-type: none"> a) maintain consistency of the auditing framework and b) to enable the parent auditor to rely and refer to the other auditor's audit report in their audit report on the CFS, he components' FS should also be audited under a

			framework that corresponds to Indian GAAS.
		Components Not Audited	Auditor should consider unaudited components in evaluating a possible modification to his report on the CFS. The evaluation is necessary because the auditor has not been able to obtain sufficient appropriate audit evidence in relation to such consolidated amounts / balances . In such cases, the auditor should evaluate both qualitative and quantitative Factors on the possible effect of such amounts remaining unaudited.



CHAPTER-4

CARO, 2020

UNIT-9

COMPANIES (AUDITOR'S REPORT) ORDER, 2020

143(11)

CARO 2020 - UPDATED

The Central Government, in exercise of the powers conferred, under sub-section (11) of section 143 of the Companies Act, 2013, has issued the Companies (Auditor's Report) Order, 2020 (hereinafter referred to as "the Order" or "CARO"). The Order contains certain matters on which the auditors of companies (except of those categories of companies which are specifically exempted under the Order) have to make a statement in their audit report. Thereby the Order is direction to auditor and not the companies, for inclusion of certain matters in their auditor's report and accordingly modifying their audit procedures. The Report is effective For all audit of FS ending 31 March 2022 or later.

ALL ABOUT CARO

Why CARO?

Section 143(11) confers power to the Central Government to issue order to the auditor of the company for matters to be included in his report. Under that Section, Central Government has notified CARO (Companies Auditor Report Order, 2020) making it mandatory for auditor of companies covered under such order to furnish his comments on matters specified in this Order.

CARO - Financial or Propriety Audit?

Though an auditor is concerned with truthful and fairness of financial statements presentation, under CARO an auditor is also required to report on various other matters which are propriety in nature and not necessarily affect financial statement. Like delays in repayment of dues to lenders, statutory dues, etc

Limits or Enhances Responsibility? Exhaustive or Inclusive?

The requirements of the Order are in addition (supplemental) to the existing provisions of section 143 of the Act. Order not to limit, but requires a statement on specified matters to be included in the audit report.

T&F T&C

Report or Certificate? Test or 100% Check?

CARO is a report given by the auditor, & not a certification. Hence, auditor is expected to conduct test check only though being a specific order the sample size would be larger than usual. Further, CARO reporting is no guarantee and still suffers from risk of certain material misstatements remaining undetected by the auditor.

Compulsory Reporting or Exception Reporting?

Report to compulsory mention all the points in CARO, whether the comments are affirmative, justificatory, and explanatory or the clause is not applicable.

Report for the year or as on the reporting date?

The report given is not just on the year end but for the full year. Thereby provisions of CARO are not just to be checked for compliance at year end but for the whole year. For example, while reporting on regularity of statutory dues if auditor finds delays during the year he would be expected to report the matter even if the defaults are paid off by year end.

Whether CARO Report is a part of Auditor's Report?

The auditor's comments in the terms of order Forms part of his report & therefore the Board will be bound to give in its Director's Report under section 134 the Fullest information & explanation regarding every adverse comment in the auditors report, as required u/s 134 Director's Report in Directors Responsibility Statement.

Order on Companies or Auditor? Contravention of CARO would attract any penalty to company?

The Order contains certain matters on which the auditors of companies (except of those categories of companies which are specifically exempted under the Order) have to make a statement in their audit report. Thereby the Order is direction to auditor and not the companies, for inclusion of certain matters in their auditor's report and accordingly auditor to modify their audit procedures.

Non - Compliance with CARO?

Section 147 (PENALTY FOR NON-COMPLIANCE BY AUDITOR WITH SECTIONS 143) imposes on auditor in willful default, be punishable with fine which may extend to 5 Lacs (25 Lacs in case of frauds).

First F.Y :- 21-22
DON :- 25/2/2020

APPLICABILITY *as law as CARO, 2016*

It shall apply to every company including a foreign company (section 2(42)) of the Companies Act, 2013, except –

- a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;
- an insurance company as defined under the Insurance Act, 1938;
- a company licensed to operate under section 8 of the Companies Act;
- a One Person Company as defined under clause (62) of section 2 of the Companies Act and a small company as defined under clause (85) of section 2 of the Companies Act; and
- **a private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than rupees one crore as on the balance sheet date and which does not have total borrowings**

exceeding rupees one crore From any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 (including revenue From discontinuing operations) exceeding rupees ten crore during the Financial year as per the financial statements.

INTERPRETATION OF APPLICABILITY PROVISIONS

The order applies to all companies including companies under section 2(42) (foreign companies) except companies specifically exempted. Thereby the order applies to all the following categories of companies:-

- Foreign companies.
- Chit Fund company, Nidhi Company, Mutual Benefit Company
- Financial institutions, NBFC, Investment Company

Will the order apply on NBFC which has converted itself into a bank at the year end?

NO, the Order would not apply in case of non-banking Finance company, which converts into a banking company and as on the balance sheet date is a banking company.

What is Section 8 Company?

Section 8 applies to companies which have been formed or are about to be formed as limited companies For promoting commerce, art, science, religion, charity or any other useful object and which apply or intend to apply their profits, if any, or other income in promoting their objects and prohibit the payment of any dividend to their members. Such companies are usually in the form of clubs, chambers of commerce, research institutions, etc.

Is CARO applicable to Government Company?

Applicable to government companies too and is in addition to directions given by the Comptroller and Auditor general of India under section 619 in respect of government companies.

Applicability On Branch Audit...

The Order is also applicable to the audits of branch(es) of a company under the Act since sub-section 3(a) of section 228 of the Act clearly specifies that a branch auditor has the same duties in respect of audit as the company's auditor. It is, therefore, necessary that the report submitted by the branch auditor contains a statement on all the matters specified in the Order, except where the company is exempt from the applicability of the Order, to enable the company's auditor to consider the same while complying with the provisions of the Order.

Is CARO applicable to Auditor of Public Financial Institution?

No, as the same is not a company but a body corporate

EXEMPTIONS FROM CARO

Companies exempted under this order are as follows

- Banking Companies
- Insurance companies
- Not for Profit companies under Section 8
- OPC
- Small Companies
- Private Limited Companies satisfying certain conditions

Exemption to PRIVATE COMPANIES

- a private limited company,
- **not being a subsidiary or holding company** of a public company,
- having a paid up capital and reserves and surplus **not more than rupees 1 crore as on the balance sheet date and**
- which does not have total borrowings **exceeding rupees one crore** from any bank or financial institution at any point of time during the financial year and
- which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 (including revenue From discontinuing operations) **exceeding rupees ten crore** during the financial year as per the Financial statements.

Key Interpretation of exemption to Private Companies

- Order exempts only private limited company
- Private unlimited company not exempted under the order irrespective of the size of their paid-up capital and reserves, turnover, borrowings from banks/financial institutions.
- Companies that have accepted public deposits are not private companies hence always covered under the order
- Private company which is a subsidiary of a public company is treated as a public company u/s 3(1)(iv) hence not entitled to exemption, However holding of public companies even if private are not eligible for such exemption
- Paid Up Share Capital:
 - Includes — ESC, PSC, Share Forfeiture, shares issued for other than cash, bonus shares
 - Excludes — Share warrants, Calls in advance, unpaid capital/calls in arrears, Share application pending allotment.
- **RESERVES AND SURPLUS**
 - i. Reserves and Surplus shall be classified as:
 - a) Capital Reserves;
 - b) Capital Redemption Reserve;
 - c) Securities Premium Reserve;
 - d) Debenture Redemption Reserve;

- e) Revaluation Reserve;
 - f) Share Options Outstanding Account;
 - g) Other Reserves (specify the nature and purpose of each reserve and the amount in respect thereof);
 - h) Surplus i.e. balance in Statement of Profit & Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves etc.
- ii. A reserve specifically represented by earmarked investments shall be termed as a 'Fund'.
 - iii. Debit balance of statement of profit and loss shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, if any, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative.

Additional Point Reserves

- Both capital as well as revenue reserves should be taken into consideration
- Revaluation reserve, if any, should also be taken into consideration
- The credit balance in the profit and loss account should also be considered as a part of reserve
- The debit balance of the profit and loss account, if any, should be reduced from the figure of revenue & surplus (but not set off from capital reserves).
- However, miscellaneous expenditure to the extent not written off should not be deducted from the Figure of reserves
- ESOS outstanding is also considered as a part of Reserves and Surplus under Schedule III

TOTAL BORROWINGS

- Loans from banks or financial institutions are normally in the Form of term loans, demand loans, export credits, working capital limits, cash credits, overdraft Facilities, bills purchased or discounted. Outstanding balances of such loans should be considered as Loan outstanding for the purpose of computing the limit of 1 Crores
- Non-Fund based credit facilities to the extent such facilities have devolved and have been converted into fund-based credit facilities should also be considered as outstanding loan.
- In case of term loans, interest accrued and due is considered as a loan whereas interest accrued but not due is not considered as a loan. Credit card dues From bank / FI also treated as loan
- Loans outstanding at any point of year to be checked as against other limits that are checked only on reporting / BS date

TOTAL REVENUE

- Revenue to include Revenue From operations and other Revenue receipts too like interest dividends etc but excludes profit from sale of assets

- Revenue from discontinuing operations to be also included
- For ascertaining the limit of rupees 10 crores:
 - a) sales tax collected or excise duties collected should not be taken into account if they are credited separately to sales tax account or excise duty account;
 - b) trade discounts should be deducted from the figure of turnover;
 - c) commission allowed to third parties should not be deducted from the figure of turnover; and
 - d) sales returns should be deducted from the figure of turnover even if the returns are from the sales made in the earlier years.

Period in relation to which the auditor should comment or report upon the matters specified in the Order - Position at year end or throughout the year?

The better view, is to consider that the auditor is reporting on the state of affairs as they existed during the accounting year and compliance with the requirements of the Order should be judged with reference to the whole accounting year and not merely with reference to the position existing at the balance sheet date or the date at which he makes his report. However, in deciding whether or not to make an unfavourable comment, the auditor should consider what detrimental effect i.e. in substance whether it affects the interest of stakeholders.

CARO requires exercise of judgement by the auditor or application of a purely objective test?

Many of the matters covered by the Order require exercise of judgement by the auditor rather than the application of a purely objective test. For example, the auditor is required to state whether any material discrepancy noticed on physical verification of fixed assets have been properly dealt with in the accounts. This requires the exercise of judgement - firstly, in determining whether the discrepancies are material, and secondly, in deciding whether the accounting treatment is proper.

OTHERS

- For a private limited company to be exempted from CARO, ALL above mentioned conditions to be satisfied
- CARO applicability is to be checked at every year end and not just once
- A Small company will always be exempted From CARO even if it is a private company and does not satisfy any of the above mentioned conditions.
- Any negative comments on, CARO to be supported with reasons
- CARO qualifications may or may not result in modification of Auditor's Opinion on FS

AUDIT AREAS UNDER CARO

(i) (a) (A) *whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment;*

(B) *whether the company is maintaining proper records showing full particulars of intangible assets;*

- (b) *whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;*
- (c) *whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the format below:-*

Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held - indicate range, where appropriate	Reason for not being held in name of company*
-	-	-	-	-	*also indicate if in dispute

- (d) *whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;*
- whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements;*
- (ii) (a) *whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;*
- (b) *whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company, if not, give details;*
- (iii) *whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so, -*
- (a) *whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate-*

- (A) *the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;*
- (B) *the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates;*
- (b) *whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;
In respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;*
- (c) *if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;*
- (d) *whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans];*
- (e) *whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013;*
- (iv) *in respect of loans, investments, guarantees, and security, whether provisions of sections 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof;*
- (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 and the provisions of sections 73 to 76 or any other relevant provisions of the Companies 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 or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not;*
- (vi) *whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained;*
- (vii)
 - (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);
- (viii) **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 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year;**
- (ix) **(a) whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as per the format below:-**

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

- (b) whether the company is a declared wilful defaulter by any bank or financial institution or other lender;
- (c) whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;
- (d) whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;

whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case;
- (e) whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised;
- (x) **(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;
- (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 sub-section (12) of section 143 of the Companies 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;
- (c) whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;
- (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;
- (xiii) ***whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards;***
- (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;
- (xv) ***whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with;***
- (xvi) (a) ***whether the company is required to be registered under section 45-IA of the Reserve Bank of India 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 Reserve Bank of India as per the Reserve Bank of India Act, 1934;
- (c) whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, 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;
- (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;**
- (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;**
- (xix) on the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date;**
- (xx) 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**
- (a) 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;
- (xxi) whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remark**

Reasons to be stated for unfavourable or qualified answers-

- (a) Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavorable or qualified, the auditor's report shall also state the basis for such unfavorable or qualified answer, as the case may be.

Where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons as to why it is not possible for him to give his opinion on the same