

**Question 1**

CA Aarti is conducting a statutory audit of TSPL for FY 2023-24. Turnover of Co. as per P&L a/c for the immediately FY is ₹ 35 crores. In last week of March 2024, she gathered that turnover of Co. during year 2023-24 would also be just nearing ₹ 35 crores. Co. is also registered as a Small Enterprise under the Micro, Small and Medium Enterprises Development Act, 2006. Present paid-up share capital is ₹3.50 crores, which has remained unchanged for past few years. Besides, it is availing & utilizing a working capital credit facility of ₹2 crores from a bank during all these years, including year 2023-24. Co. has acquired all shares of a company based in Hong Kong during the year 2023-24. She wants to be sure about applicability or otherwise of CARO 2020 for year 2023-24.

Identify likely correct statement in this regard:

- Reporting under CARO, 2020 would not be applicable as it is a small company.
- Reporting under CARO, 2020 would not be applicable as it is registered as a small enterprise under Micro, Small and Medium Enterprises Act, 2006.
- Reporting under CARO, 2020 would be applicable as it is not a small company.
- Reporting under CARO, 2020 would not be applicable as it meets certain threshold criteria prescribed for private companies.

Solution: Reporting under CARO, 2020 would be applicable as it is not a small Co. As it is holding Co.

**Question 2**

During audit, CA Paras found that physical verification of inventories has been conducted during the year by management. Following is summary of inventory as per physical verification conducted by management vis-à-vis its books of account as at the year-end:-

Particulars	As per physical verification	As per book of a/c
Raw material	1,000	1,020
Work in progress	200	220
Finished goods	2,000	2,290
Stores & spares	150	120
Total	3,350	3,650

Which instances in the case study to be reported by the auditor on inventories under clause 3(ii)(a) of CARO, 2020?

Solution: To report differences in value of work-inprogress, finished goods & stores & spares since difference in each class of inventory is 10% or more (based on value after adjustments). Auditor should also comment on whether they have been properly dealt with in the books of account.

### Question 3

CA Roy was appointed as a Statutory Auditor of Co. for FY 23-24. Co. obtained working capital facilities from ABC Bank Ltd for ₹ 10 crore hypothecating the Stock of goods as primary security. On inquiry CA Roy was informed by mgt that stock statements are furnished periodically to ABC Bank & details of submission of quarterly stock statement are as follows:

Period of Qtr	Stock value as per Books of a/c at end of Qtr (₹ in Cr)	Stock Value as per quarterly statement submitted to ABC Bank Ltd as at end of qtr (₹ in Cr)
Q1	11.50	14.00
Q2	14.75	17.00
Q3	11.50	14.00
Q4	15.25	15.25

As a Statutory Auditor how CA Roy should deal & discuss the disclosure/reporting requirements if any, as per CARO, 2020.

#### Solution

Mention **Clause (ii)(b) of Para 3 of CARO 2020**

Relate with facts of case:

- Above clause requires auditor to comment whether any point of time of year, Co. been sanctioned working capital limits in excess of ₹ 5 Cr in aggregate. Jam (P) Ltd. has been sanctioned working capital facilities/limit of ₹ 10 Cr which is in excess of ₹ 5 crores.
- Secondly, whether quarterly returns filed by Jam (P) Ltd. with ABC Bank Ltd. are in agreement with book of a/c of Co.
- As per data given, it is clear that there are variations in Q1, Q2 & Q3 requiring reporting under this clause.

CA. Roy should report differences as per Companies Act, 2013 and CARO 2020 as follows:

Qtr	Stock value as per Book Accounts (₹ in Crore)	Stock value as per quarterly statement (₹ in Crore)	Variation
Q1	11.50	14.00	Excess reporting by 2.50 Cr
Q2	14.75	17.00	Excess reporting by 2.25 Cr
Q3	11.50	14.00	Excess reporting by 2.50 Cr

### Question 4

Mr. Arjun was engg. partner for Bhisim & Co., a CA Firm, for conducting statutory audit of Sinwar Ltd., unlisted public Co. Mr. Brijesh, one of senior engg. team members, was given responsibility to audit the matters as per CARO, 2020 & he made following observations:

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

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

Matters to be reported by Mr. Brijesh as per CARO, 2020 are as follows:-

(a) **Mention Clause (i) (d) of Para 3 of CARO 2020**

**Facts:** In given situation, Sinwar Ltd. has revalued one of the Plant and Equipment taken on a lease ('right of use' asset) based on the valuation by a registered valuer. The amount of change in the value of such Plant and Equipment is ₹ 45 lakh. As the net carrying value of Plant and Equipment in aggregate was changed from ₹ 4 crore to ₹ 4.45 crore i.e. change was 10% or more.

**Conclusion:** Auditor is required to report amount of change of ₹ 45 lakh.

(b) **Mention Clause (ii) (b) of Para 3 of CARO 2020**

**Facts:** In instant case, Sinwar Ltd. has been sanctioned a cash credit limit of ₹ 5.5 crore by DMC Bank during the year under consideration, which is exceeding prescribed limit of ₹ 5 crore based on the security of current assets. Further, quarterly returns have also been filed by the company with the DMC bank in this connection which is in agreement with Books of Accounts.

**Conclusion:** Auditor is required to report as per Clause (ii) (b) of Para 3 of CARO 2020.

#### Question 4

Meto Chemicals Limited produces goods for which the Central Government has specified maintenance of cost records. Besides, cost audit has also been mandated under section 148(2) of the Companies Act. The cost auditor has already examined cost records and issued the cost audit report.

As regards cost records is concerned, which of the following statement is correct regarding reporting under clause 3(vi) of CARO, 2020?

- The auditor is required to report whether prescribed cost accounts and cost records have been so made and maintained.
- The auditor is not required to report on maintenance of cost accounts and cost records since cost auditor has already issued the cost audit report. In such situations, the auditor does not have any duty to report under CARO, 2020.

- c. The auditor is required to examine the cost audit report as well as take into account any qualifications therein and report them under clause 3(vi) of CARO, 2020. However, his duty to report on maintenance of cost accounts and cost records does not exist anymore.
- d. The auditor has a duty to report on cost accounts (or cost statements) only. The clause does not require the auditor to comment on maintenance of cost records (e.g. cost records relating to materials, labour, overheads) where specified by the Central Government.

Solution: Required to report whether prescribed cost a/c & records have been so made and maintained.

### Question 5

Following details of dues not deposited on 31<sup>st</sup> March, 2024 on account of disputes: -

Statute	Nature of dues	Forum where dispute pending	Period to which amt relates	Amt (₹ in cr)	Amt unpaid (₹ in cr)	Other comments
Income tax Act, 1961	Income Tax	CIT (Appeals)	AY 18-19	50	50	
Income tax Act, 1961	Income Tax	ITAT	AY 14-15	10	10	Demand stayed by ITAT pending completion of hearing by the Tribunal
EPF Act	PF Contribution	Hon'ble High Court of Rajasthan	FY 17-18	0.10	0.10	
Municipal Corporation Act	Property Tax	Hon'ble High Court of Rajasthan	FY 15-16	0.15	0.15	

Co. has already made provision of ₹10 Cr in FS considering likely outcome of ongoing matters under dispute at ITAT. However, no provision made for income tax matters pending before CIT(Appeals), PF contribution matter & property tax matter pending before Hon'ble High Court.

Select correct statement relating to reporting of statutory dues which have not been deposited on account of disputes under clause 3(vii)(b) of CARO, 2020?

- a. Only matters relating to income tax pending before CIT (Appeals) and PF contribution matter pending before Hon'ble High Court need to be reported.
- b. Only Income tax matter pending before ITAT needs to be reported.
- c. All the four matters for which information has been provided in the fact pattern need to be reported.
- d. Income tax matter pending before CIT (Appeals), PF contribution matter and property tax matter pending before Hon'ble High Court need to be reported, matter pending with ITAT does not require reporting.

Solution: All 4 matters for which information has been provided in the fact pattern need to be reported