

Reporting under Internal Audit

Lesson 8

KEY CONCEPTS

■ Internal Audit Report ■ Internal Audit Checklist ■ CARO 2020

Learning Objectives

To understand:

- The reporting under Internal Audit
- The objectives of Reporting under Internal Audit
- Important aspects of quality reporting under Internal Audit
- Who are the users of Internal Audit Report?
- Layout of Internal Audit Report
- What are the precautions to be taken care of while drafting Internal Audit Report?
- Communication of outcomes of Internal Audit to Management
- Checklist of Internal Audit Report
- Reporting under various clauses of Companies Audit Report Order 2020 [CARO 2020]

Lesson Outline

- Introduction
- The objectives of Reporting
- Important aspects of quality reporting
- Layout of Internal Audit Report
- Communication to Management
- Internal Audit Report Checklist
- CARO – Companies (Auditors Report) Order
- Lesson Round-Up
- Test Yourself
- List of Further Readings

INTRODUCTION

The essential part of internal audit is the dissemination of the results of internal audit and reports the findings to management, and those charged with governance. The internal audit report of the company is a significant aspect which throws light on any kind of non-compliance with the regulations that are needed to be kept in mind. It also highlights the aspects which need to be improved.

The internal auditor should review and assess the analysis drawn from the internal audit evidence obtained as the basis for his conclusion on the efficiency and effectiveness of systems, processes and controls including items of financial statements.

Standard on Internal Audit (SIA) 4 “Reporting” issued by the Internal Audit Standards Board of ICAI specifies that the internal auditor’s report should contain a clear written expression of significant observations, suggestions/ recommendations based on the policies, risks, controls and transaction processing taken as a whole and management responses. The process of reporting flows from overall internal audit objectives, as specified in the appointment letter.

Objectives of Reporting

The objectives of issuing Internal Audit Reports on significant internal audit assignments are to:

- (a) Share with the auditee, details of all significant findings based on audit procedures undertaken;
- (b) Allow management to understand the issues and take corrective actions;
- (c) Leads to improved performance and control framework;
- (d) The follow-up process monitors the progress of agreed upon management action plans and reports this progress to senior management and the audit committee.

The overall objective of reporting results is to highlight the effectiveness of internal controls and risk management processes to enhance governance in line with the Internal Audit Charter.

IMPORTANT ASPECTS OF QUALITY REPORTING

Internal auditor should draft a high-quality report presenting his audit findings and recommendations in the best presentable form, so that timely and relevant information is delivered to key stakeholders. Enhancing the quality of internal audit report would assist to achieve the objective of internal audit by providing relevant assurance and contributing to the efficiency and effectiveness of governance, risk management and control. Internal auditor should share their opinion on the matters that were of most significance in the audit of the current period. Qualitative internal audit report can further support the governance role of the audit committee by creating a better link between the role of the internal audit and the responsibilities of the audit committee and board.

Internal audit report should be compact and easy to read, understandable to a broad audience. Internal audit report should be drafted in such a manner that the readers are easily able to scan an audit finding and take a decision about the corrective steps to be taken. Further, the report should be concrete, descriptive and factual, and it should communicate a precise message. The objectivity in writing report should be maintained and a self-review should be done to ensure that the report is clear, complete and correct.

Users of Internal Audit Report

Generally, the internal audit reports should be drafted taking into account requirements of the various types of readers of the internal audit report which, generally, includes following:

- Board of Directors and Audit Committee

- Senior Management like, CEO, CFO, etc.
- Business Management and Process Owners
- Personnel or Employees tasked with direct implementation of recommendations
- External Auditors
- Other External Stakeholders, like, Regulators.

Accordingly, an analysis of the need and purpose of various readers (stakeholders) of the report would help the internal auditor to appropriately design their report. In conclusion, while drafting the report, the internal auditor should consider the logic of auditing, the analysis of reporting objectives and the analysis of requirement of the readers.

The following are the important aspects which an internal auditor should analyze while drafting internal audit report:

- (a) Most important readers of the internal audit report inside and outside the organization;
- (b) Knowledge of the subject covered in the report by the readers;
- (c) Usage of the report by interested readers;
- (d) Readers should accept conclusions and results;
- (e) Implementation of recommendations that have both short and long-term impact on issue.

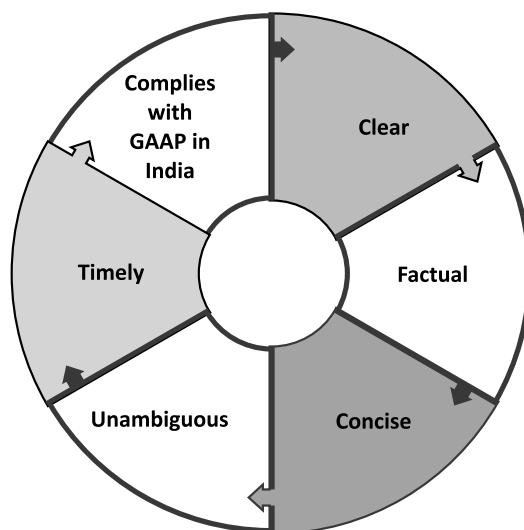
LAYOUT OF INTERNAL AUDIT REPORT

“Reporting” lays down that the internal auditor’s report should ordinarily include certain basic elements. An illustrative layout is given below:

- (a) Title;
- (b) Addressee;
- (c) Period of coverage of the Report;
- (d) Report Distribution List;
- (e) Opening or introductory paragraph:
 - i. identification of the processes/functions and items of financial statements audited; and
 - ii. a statement of the responsibility of the entity’s management and the responsibility of the internal auditor;
- (f) Objectives/Scope paragraph (describing the nature of an internal audit):
 - i. a reference to the generally accepted audit procedures in India, as applicable;
 - ii. a description of the engagement background and the methodology of the internal audit together with procedures performed by the internal auditor; and
 - iii. a description of the population and the sampling technique used.
- (g) Executive Summary, highlighting the key material issues, observations, control weaknesses and exceptions;

- (h) Observations, findings and recommendations made by the internal auditor;
- (i) Comments from the local management;
- (j) Action Taken Report — Action taken/ not taken pursuant to the observations made in the previous internal audit reports;
- (k) Date of the report;
- (l) Place of signature; and
- (m) Internal auditor's signature with Membership Number.

Internal auditor should take care of following while drafting internal audit report so that the methodology and quality of internal audit report is highlighted to audit committee and other stakeholders:



- i. Using the right tone and language;
- ii. Taking a positive approach, i.e., tone is not critical, judgmental or unbalanced;
- iii. Writing clearly and concisely;
- iv. Quality of findings in terms of materiality;
- v. Quality of recommendations in terms of impact so that they correct current conditions and prevent future effects;
- vi. Degree of risks covered by the internal audit plan;
- vii. Root cause analysis of findings which are being carried forward from previous internal audit reports;
- viii. Rating recommendations as high, medium and low in order to assist management in assigning priorities. Sometimes, rating as satisfactory, needs improvement and unsatisfactory is also used by internal auditors;
- ix. Making report user friendly and streamlining contents to eliminate extraneous or redundant information;
- x. Any organizational/ legal constraint or constraint imposed by time and resources should be specified in the report;
- xi. Articulating the findings of internal audit and highlighting the risks impacting the organization.

Title of the Report

The internal auditor's report should have an appropriate title expressing the nature of the Report.

Addressee of the Report

The internal auditor's report should be appropriately addressed as required by the circumstances of the engagement. Ordinarily, the internal auditor's report is addressed to the appointing authority or such other person as directed.

Scope Paragraph

The internal auditor's report should describe the scope of the internal audit by stating that the internal audit was conducted in accordance with generally accepted audit procedures as applicable. The management needs this as an assurance that the audit has been carried out in accordance with established Standards.

"Scope" refers to the internal auditor's ability to perform internal audit procedures deemed necessary in the circumstances.

The report should include a statement that the internal audit was planned and performed to obtain reasonable assurance whether the systems, processes and controls operate efficiently and effectively and financial information is free of material misstatement.

The internal auditor's report, in line with the terms of the engagement, should describe the internal audit as including:

- a) examining, on a test basis, evidence to support the amounts and disclosures in financial statements;
- b) assessing the strength, design and operating effectiveness of internal controls at process level and identifying areas of control weakness, business risks and vulnerability in the system and procedures adopted by the entity;
- c) assessing the accounting principles and estimates used in the preparation of the financial statements; and
- d) evaluating the overall entity-wide risk management and governance framework.

The Report should include a description of the engagement background, internal audit methodology used and procedures performed by the internal auditor mentioning further that the internal audit provides a reasonable basis for his comments.

Limitation on Scope

When there is a limitation on the scope of the internal auditor's work, the internal auditor's report should describe the limitation.

Executive Summary Paragraph

The Executive Summary paragraph of the internal auditor's report should clearly indicate the highlights of the internal audit findings, key issues and observations of concern, significant controls lapses, failures or weaknesses in the systems or processes.

Observations (Main Report) Paragraph

The Observations paragraph should clearly mention the process name, significant observations, findings, analysis and comments of the internal auditor.

Comments from Local Management

The Comments from Local Management Paragraph should contain the observations and comments from the local management of the entity provided after giving due cognizance to the internal auditor's comments. This should also include local management's action plan for resolution of the issues and compliance to the internal auditor's recommendations and suggestions on the areas of process and control weakness/ deficiency. The management action plan, should contain, inter alia:

- a) the timeframe for taking appropriate corrective action;
- b) the person responsible; and
- c) resource requirements, if any, for ensuring such compliance.

Further comments from the internal auditor, in response to the auditee feedback, are to be clearly mentioned. This paragraph should also contain the internal auditor's suggestions and recommendations to mitigate risks, strengthen controls and streamline processes with respect to each of the observations and comments made.

Action Taken Report Paragraph

The Action Taken Report paragraph should be appended after the observations and findings. It should include:

- a) Status of compliance / corrective action already taken / being taken by the auditee with respect to previous internal audit observations;
- b) Status of compliance / corrective action not taken by the auditee with respect to previous internal audit observations and the reasons for non-compliance thereof; and
- c) Revised timelines for compliance of all open items in (b) above and fixation of the responsibility of the concerned process owner.

Date

The date of an internal auditor's report is the date on which the internal auditor signs the report expressing his comments and observations.

Place of Signature

The report should name the specific location, which is ordinarily the city where the internal audit report is signed.

Internal Auditor's Signature

The report should be signed by the internal auditor in his personal name. The internal auditor should also mention the membership number assigned by the Institute of Chartered Accountants of India in the report so issued by him.

COMMUNICATION TO MANAGEMENT

The internal audit report contains the observations and comments of the internal auditor, presents the audit findings, and discusses recommendations for improvements. To facilitate communication and ensure that the recommendations presented in the final report are practical from the point of view of implementation, the internal auditor should discuss the draft with the entity's management prior to issuing the final report. The different stages of communication and discussion should be as under:

Discussion Draft - At the conclusion of fieldwork, the internal auditor should draft the report after thoroughly reviewing the working papers and the discussion draft before it is presented to the entity's management for

auditee's comments. This discussion draft should be submitted to the entity management for their review before the exit meeting.

Exit Meeting - The internal auditor should discuss with the management of the entity regarding the findings, observations, recommendations, and text of the discussion draft. At this meeting, the entity's management should comment on the draft and the internal audit team should work to achieve consensus and reach an agreement on the internal audit findings.

Formal Draft - The internal auditor should then prepare a formal draft, taking into account any revision or modification resulting from the exit meeting and other discussions. When the changes have been reviewed by the internal auditor and the entity management, the final report should be issued.

Final Report - The internal auditor should submit the final report to the appointing authority or such members of management, as directed. The periodicity of the Report should be as agreed in the scope of the internal audit engagement. The internal auditor should mention in the Report, the dates of discussion draft, exit meeting, Formal Draft and Final Report

INTERNAL AUDIT REPORT CHECKLIST

<i>Assignment Name</i>	<i>Assignment No</i>		
	<i>Engagement Manager</i>		
<i>Company Name</i>			
<i>S. No.</i>	<i>Checklist</i>	<i>Status</i>	<i>Remarks</i>
1.	Whether there is an Executive Summary written with summary of high-risk observations for a top management view.		
2.	Whether Objective and Scope Document is given and relates to the Engagement Letter.		
3.	Whether the language used in the Reports are positive, affirmative and objective.		
4.	Whether the language is easily understandable to a general person and jargon free.		
5.	Whether there are no comments which are in an attacking tone and adequate care is taken to keep them free of negative remarks.		
6.	Whether there is adequate numbering system followed and there is a table of contents referring to the report and observations.		
7.	Whether all the observations are supported by evidences and are not ambiguous.		
8.	Are there any trend, Internal Audit Checklist performance information which may be represented using graphs.		
9.	Is caution taken in usage of logos of the clients with adequate written permissions.		

10.	Is the formatting of the report done using standardized formats signed off with the client. Please give extra check on headers, footers, first page, annexure, etc.		
11.	Check whether the valuation of Risk levels is as per the methodology/ score matrix signed off with the client.		
12.	All the observations are linked / mapped to the evidences.		
13.	Ensure that the Audit Report adheres to the Standard of Internal Audit for Reporting issued by Institute of Chartered Accountants of India (ICAI).		
Team Leader Partner		Engagement Manager	

Example**Name of Facility: Admitting and Registration (Healthcare)****Date****Executive Summary**

The objective of this review was to obtain an understanding of the key admitting and registration functions managed by the Patient Access Services Department (PAS). During our review, internal controls related to the admitting and registration functions were reviewed and opportunities for improvement were evaluated with a risk significance of low, moderate, or high. Overall Facility Risk Impact and the most significant opportunities for improvement are identified below:

Issue 1: The insurance eligibility software was not always available to the ministry to confirm patient insurance coverage. – **Risk Significance - High**

Issue 2: Insurance pre-certification has not been consistently performed for highdollar scheduled outpatient procedures and surgical cases prior to the initiation of care. **Risk Significance - High**

Issue 3: The PAS Department is not confirming patient identification according to the guidelines outlined in Policy. – Verification of Patient Identity. **Risk Significance - High**

Issue 4: The PAS department does not check physician suspension lists during inpatient registration to ascertain whether the physician is eligible to admit **Risk Significance – High**

Risk of Low Significance – Adequate controls are in place and operating effectively. The audit issues identified are minor or of low significance.

Risk of Moderate Significance – Controls are generally adequate, but major deficiencies with some compensating controls were encountered. A significant number of minor deficiencies may have been noted.

Risk of High Significance – A weakness noted is of sufficient importance to endanger the acceptable function of the activity or to keep a significant objective of the activity from being met. The issue or deficiency adversely impacts, or may adversely impact to a considerable degree, the adequacy of controls or the effectiveness of performance of a significant function of the activity.

Management Response:

Executive ministry management has reviewed evaluation of the internal controls related to the admitting and

registration functions of the PAS Department. Management has acknowledged agreement with the issues contained in this audit report and will implement the following action plans for the most significant risks identified:

Action plan 1: The Healthcare System is currently undergoing an upgrade for the insurance eligibility software. An alternate insurance eligibility method will be determined if the software upgrade fails to perform as required.

Implementation Dates – Within 2 Month

Action Plan 2: High-dollar scheduled outpatient procedures and surgical cases will be pre-certified according to payer specific guidelines prior to the initiation of care. **Implementation Dates – Within 3 Month**

Action Plan 3: All PAS admitting areas will instruct patients to read back an identifier from the identification band when the band is applied to the patient. **Implementation Dates – Within 1 Month**

Action Plan 4: The PAS Registrars will review the physician suspension listing prior to any inpatient admissions to ensure each physician has current admitting privileges. **Implementation Dates – Within 15 Days**

Additional Comments: Management reviewed a new sample of 10 surgical registrations and noted the following:

1. The software unavailability continues to hinder the eligibility process. THIN is being utilized for insurance eligibility of surgical cases and does not interface with the Meditech system to indicate the eligibility was completed. The pre-admit surgical testing staff will be trained on where to document that the eligibility process was performed.
2. Insurance verification and pre-certification have improved with the employment of additional staff and staff returning from medical leave. Three of the ten cases (all Blue Cross patients) reviewed were not pre-certified. Currently, PFS has a total of five staff responsible for the verification and pre-certification function. The addition of a sixth staff member very soon will enable outpatient Blue Cross and outpatient Medicare patients to be verified and pre-certified.

Additional Procedures and Report Signatures

Based on the above Management Action Plans and the corresponding implementation dates, internal auditor will perform additional follow-up procedures to determine if all action plan steps are implemented in a timely manner. The follow-up procedures will include interviewing key management personnel and observation of supporting documentation where applicable. A status report on the implementation of Management's Action Plan will be presented to the Audit/Corporate Responsibility Committee at regular intervals until all Action Plans have been implemented and/or the issues resolved.

ACCEPTED:

Director of Patient Access Services

Date:

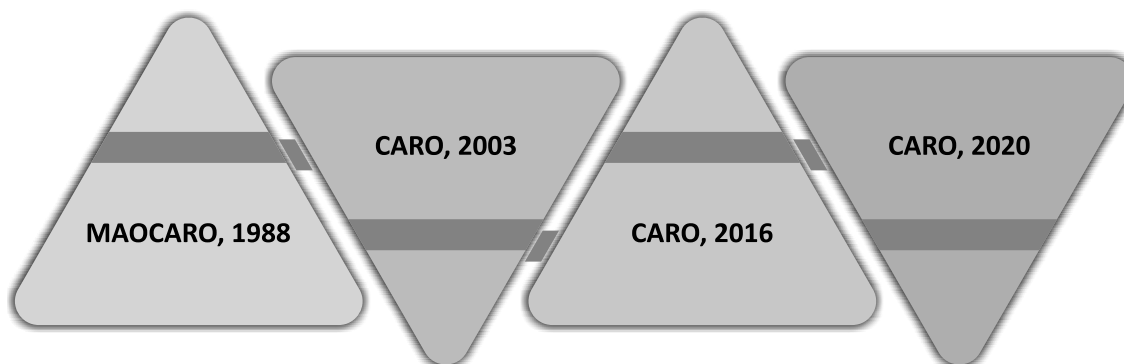
CARO – COMPANIES (AUDITORS REPORT) ORDER

The Central Government, in exercise of the powers conferred under section 227 (4A) of the Companies Act, 1956, had issued CARO, 2003 in June 2003. The Order contained certain matters on which the auditors of companies had to make a statement in their audit report. Thereafter, CARO, 2003 superseded the earlier Order issued in 1988, viz., Manufacturing and Other Companies (Auditor's Report) Order, 1988 (MAOCARO).

It may be worthwhile to note that CARO, 2003 apart from requiring the auditors to report on matters which were included in MAOCARO, 1988 included certain new clauses on which the auditors were now required to make a statement in their audit reports. Some of the significant clauses added, inter alia, by CARO, 2003 required the auditor to report on maintenance of proper inventory records, disposal of significant part of fixed assets of the company affecting the going concern, the use of funds raised by companies through public issues, requiring the auditor to report whether any fraud on or by the company had been noticed or reported during the year under audit, the application of funds raised on short-term basis for long-term purposes, etc. and vice versa.

Thereafter, the Ministry of Corporate Affairs 'MCA', on April 10, 2015, notified the Companies (Auditor's Report) Order, 2015 (CARO, 2015) in supersession of CARO 2003.

Thereafter, the Ministry of Corporate Affairs 'MCA' has issued the Companies (Auditor's Report) Order, 2016 (CARO 2016), on March 29, 2016. This order has been issued in supersession of the Companies (Auditor's Report) Order, 2015, and is applicable for reporting on financial statements of companies whose financial year commences on or after 1st April 2015.



Companies (Auditor's Report) Order, 2020

In order to bring more transparency & faith in Financials Statements of companies, the Ministry of Corporate Affairs introduced the new set of Companies (Auditor's Report) Order, 2020 (CARO 2020). **The CARO, 2020 is applicable for audit of financial statements of eligible companies for the financial years commencing on or after the 1st April, 2021 i.e. 2021-22 onwards.**

The criteria of eligibility of companies on which the CARO, 2020 shall be applicable has not been changed and hence it shall be applicable to all those companies on which CARO, 2016 was applicable. Accordingly CARO 2020 will be applicable to all the companies including foreign companies except the following:

- Banking company,
- Insurance company,
- Section 8 company,
- One Person Company (OPC) [section 2(62)],
- Small company [section 2(85)],
- 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 one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one crore rupees 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 Schedule III to the Act, (including revenue from discontinuing operations) exceeding ten crores rupees during the financial year as per the financial statements.

This order stated that every report of the auditor under Section 143 of Companies Act, 2013 must contain the matters stated in 21 clauses as specified under paragraphs 3 and accord reasons for unfavorable or qualified answer as stated in paragraph 4 of CARO 2020.

CARO 2020 will not be applied with respect to auditor's report on Consolidated Financial Statements except clause (xxi) of paragraph 3. The order 2020 elaborated on all the matters which are to be included in the auditor's report.

Clause by Clause Reporting under Companies (Auditor's Report) Order 2020

Matters to be included in the auditor's report are specified in paragraph 3 of the Order. Paragraph 3 has twenty one clauses in all. The clause-wise details of reporting requirement are given below.

CLAUSE (i) PROPERTY, PLANT & EQUIPMENT

- 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:-

<i>Description of Property</i>	<i>Gross Carrying Value</i>	<i>Held in name of</i>	<i>Whether promoter, director or their relative or employee</i>	<i>Period held – indicate range, where appropriate</i>	<i>Reason for not being held in name of company</i>
					*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;
- e) whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements.

CLAUSE (ii) INVENTORY & WORKING CAPITAL

- 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.

CLAUSE (iii) DETAILS OF INVESTMENTS, LOANS & ADVANCES

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;
- c) 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;
- d) 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;
- e) 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];
- f) 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.

CLAUSE (iv) COMPLIANCE WITH PROVISIONS OF SECTION 185 & 186

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.

CLAUSE (v) DETAILS OF DEPOSITS

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.

CLAUSE (vi) COST RECORDS

Whether maintenance of cost records has been specified by the Central Government under subsection (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained.

CLAUSE (vii) STATUTORY DUES

- 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).

CLAUSE (viii) DISCLOSURE OF UNRECORDED INCOME

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, if so, whether the previously unrecorded income has been properly recorded in the books of account during the year.

CLAUSE (ix) DEFAULTS IN REPAYMENTS

- 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:-

<i>Nature of borrowing, including debt securities</i>	<i>Name of lender*</i>	<i>Amount not paid on due date</i>	<i>Whether Principal or Interest</i>	<i>No. of delays or unpaid</i>	<i>Remarks, if any</i>
	*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;
- e) 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;
- f) 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.

CLAUSE (x) MONEY RAISED THROUGH PUBLIC ISSUE OR OTHERS

- 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.

CLAUSE (xi) REPORTING OF FRAUD

- 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.

CLAUSE (xii) COMPLIANCES BY NIDHI COMPANY

- 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.

CLAUSE (xiii) COMPLIANCES WITH RELATED PARTY TRANSACTIONS

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.

CLAUSE (xiv) REPORTING ABOUT INTERNAL AUDIT SYSTEM

- 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.

CLAUSE (xv) REPORTING FOR NON-CASH TRANSACTIONS

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.

CLAUSE (xvi) COMPLIANCES WITH RBI DIRECTIVES

- a) whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 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.

CLAUSE (xvii) DETAILS OF CASH LOSSES

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.

CLAUSE (xviii) DETAILS OF RESIGNATION OF AUDITORS

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.

CLAUSE (xix) ECONOMIC VIABILITY

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.

CLAUSE (xx) COMPLIANCES OF CSR RELATED OBLIGATIONS

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

CLAUSE (xxi) UNFAVOURABLE REMARK IN SUBSIDIARY/ASSOCIATES' STANDALONE CARO REPORT

Whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.

LESSON ROUND-UP

- **Standard on Internal Audit “Reporting”** issued by the Internal Audit Standards Board of ICAI specifies that the internal auditor’s report should contain a clear written expression of significant observations, suggestions/ recommendations based on the policies, risks, controls and transaction processing taken as a whole and management responses. The process of reporting flows from overall internal audit objectives, as specified in the appointment letter.
- Internal audit report should be compact and easy to read, understandable to a broad audience. Internal audit report should be drafted in such a manner that the readers are easily able to scan an audit finding and take a decision about the corrective steps to be taken.
- **“Reporting”** lays down that the internal auditor’s report should ordinarily include certain basic elements.
- **An illustrative layout is given below:**
 - a) Title;
 - b) Addressee;
 - c) Period of coverage of the Report;
 - d) Report Distribution List;
 - e) Opening or introductory paragraph;
 - f) Objectives/Scope paragraph (describing the nature of an internal audit);
 - g) Executive Summary, highlighting the key material issues, observations, control weaknesses and exceptions;
 - h) Observations, findings and recommendations made by the internal auditor;
 - i) Comments from the local management;
 - j) Action Taken Report — Action taken/ not taken pursuant to the observations made in the previous internal audit reports;
 - k) Date of the report;
 - l) Place of signature; and
 - m) Internal auditor’s signature with Membership Number.
- **Companies (Auditor’s Report) Order, 2020 (CARO 2020):** In order to bring more transparency & faith in Financials Statements of companies, the Ministry of Corporate Affairs introduced the new set of Companies (Auditor’s Report) Order, 2020 (CARO 2020).

TEST YOURSELF

(These are meant for re-capitulation only. Answers to these questions are not to be submitted for evaluation)

1. State the Objectives of Reporting?
2. Who are the users of Internal Audit Report?
3. Illustrate with examples the scope paragraph in Internal Audit Reporting?
4. Is CARO, 2020 (‘the Order’) applicable to audit report of an OPC (One Person Company) for the financial year 2021-22?

5. Will an OPC have to satisfy any conditions such as paid-up capital limit or turnover limit or paid up capital plus reserves limit to qualify for exemption from CARO, 2020?
6. What if paid-up share capital of an OPC is Rs. 1.25 crores as on 31.03.2022 and its turnover figures as per profit and loss account for financial years 2018-19, 2019-20, 2020-21 and 2021-22 are as follows:

<i>Financial Year</i>	<i>Turnover (Rs. in crores)</i>
2018-19	1.6
2019-20	1.8
2020-21	2.9
2021-22	12.0

Will it be exempt from CARO, 2020 for the financial year 2021-22?

7. The paid-up share capital X Private Ltd. as on 31.03.2022 is Rs. 1.50 crores. The reserves and surplus as on that date is Rs. 30 lakhs. The turnover of X Private Ltd as per profit and loss account for financial years 2019-20, 2020-21 and 2021-22 are as follows:

<i>Financial Year</i>	<i>Turnover (Rs. in crores)</i>
2018-19	7
2019-20	12
2020-21	15

Will the company be exempt from CARO, 2020 for the financial year 2021-22?

8. If a private limited company's paid up share capital is Rs. 2 crores or less as at 31.03.2022 and its turnover for 2020-21 is Rs. 20 crores or less, will it be necessary to compute the aggregate of paid up capital and reserves limit of Rs. 1 crore, borrowings limit of Rs. 1 crore and total revenue limit of Rs. 10 crores for determining exemption from applicability of CARO, 2020? Assume that the company is neither a subsidiary nor a holding company of a public company.
9. Is CARO applicable to foreign companies?
10. Is CARO applicable to LLP?
11. Is CARO 2020 applicable to consolidated financial statements?

LIST OF FURTHER READINGS

- **Handbook on Internal Auditing**

Author : CA Kamal Garg

Publishers : Bharat's

- **Compendium of Standards on Internal Audit**

Author: ICAI

Year of Publication: 2022

