

Recent Amendments in the Companies Act, 2013- Schedule III Disclosures and CARO 2020

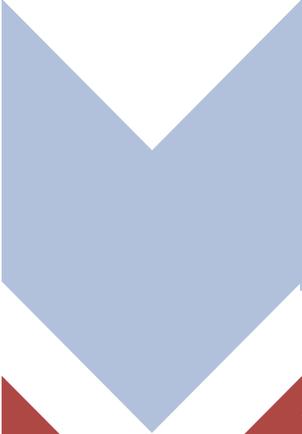
CA Sandeep Shah
The Chamber of Tax Consultants

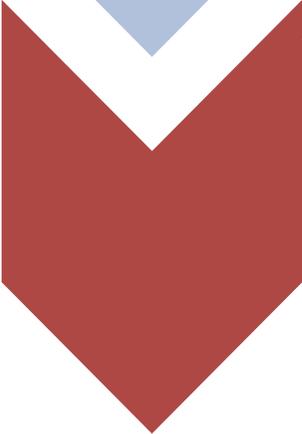
Date: August 16th , 2021

“Change **MEANS**
that what
was before
wasn't perfect.
People want
things to be
better.”

Esther Dyson

CONTENT

- 
- Amendments to Schedule III of the Companies Act, 2013

- 
- Key changes in CARO 2020

MAJOR IMPACT – STAKEHOLDER



Transparency



Stakeholder Satisfaction



Accountability



Investor Confidence



Early warning signs

Amendments in law : followed by questions, deliberation, views and interpretations

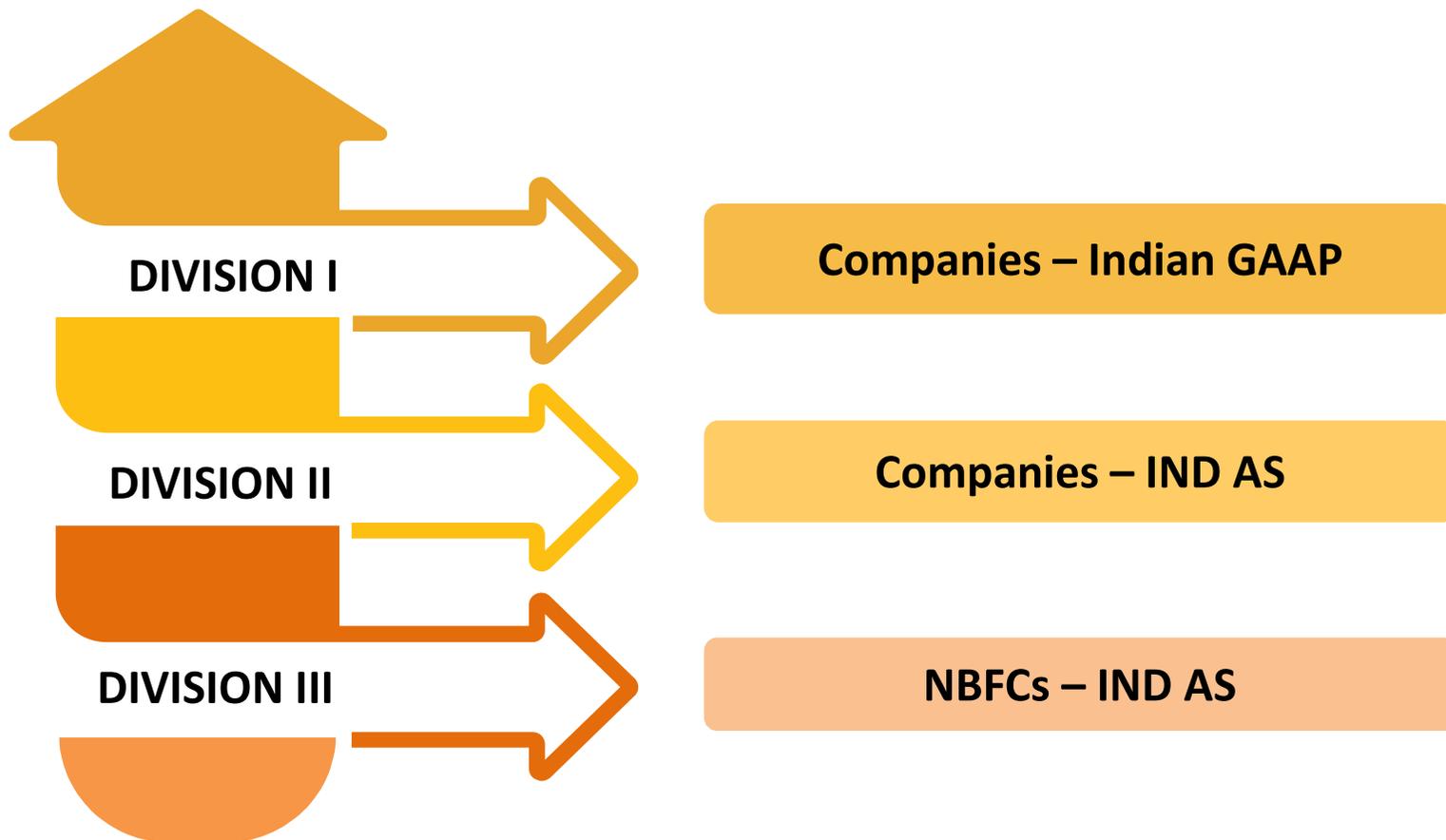


- Don't wait for the year end.
- Proactively initiate talks with client / auditor for critical assessment

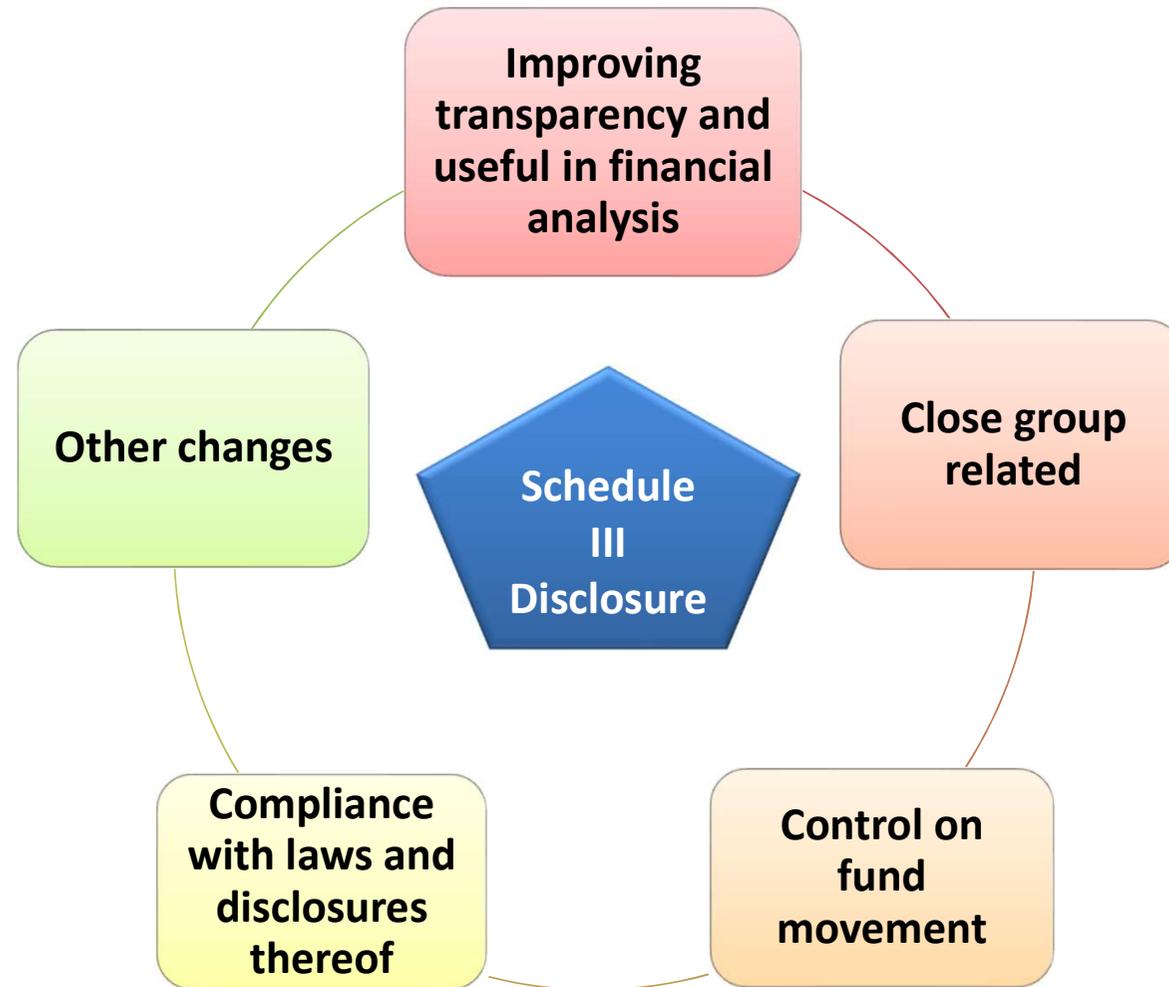


SCHEDULE III AMENDMENTS

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SCHEDULE III AMENDMENTS



IMPROVING TRANSPARENCY AND USEFUL IN FINANCIAL ANALYSIS

Trade payables ageing

Trade receivables ageing

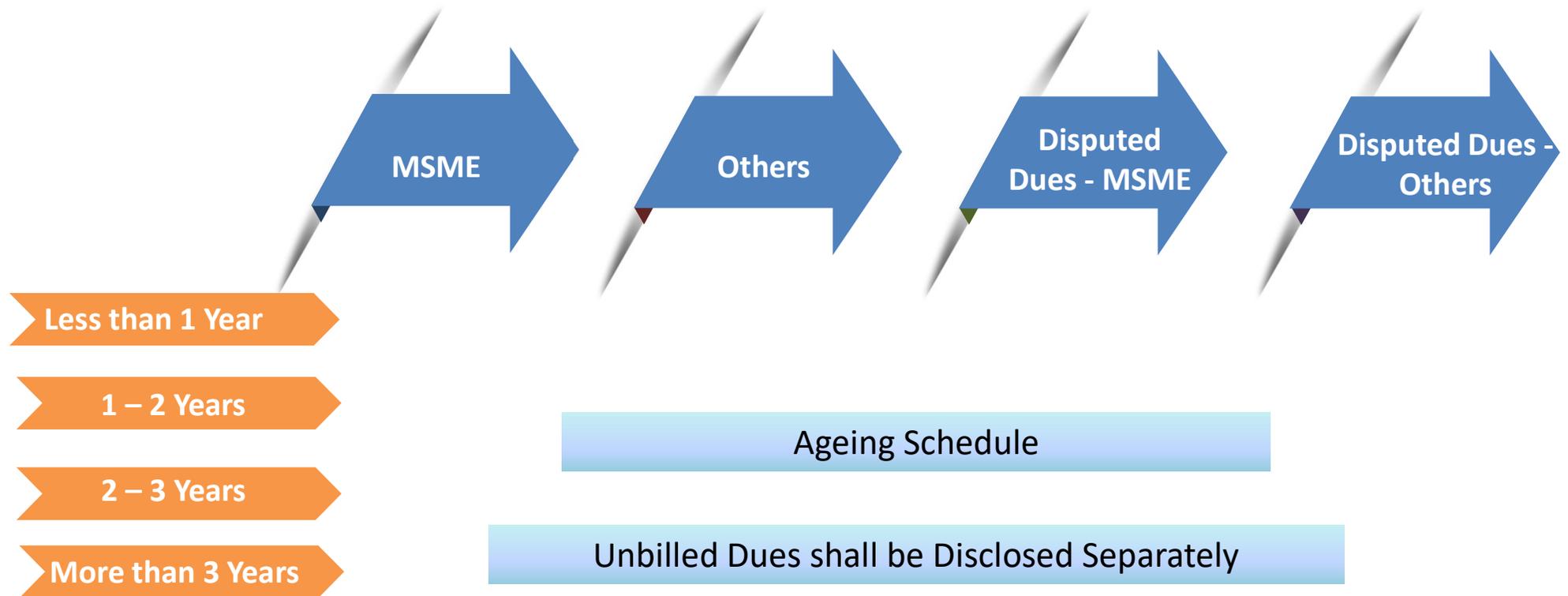
Revaluation/ Fair value

Title deeds of Immovable properties not held in the name of the company

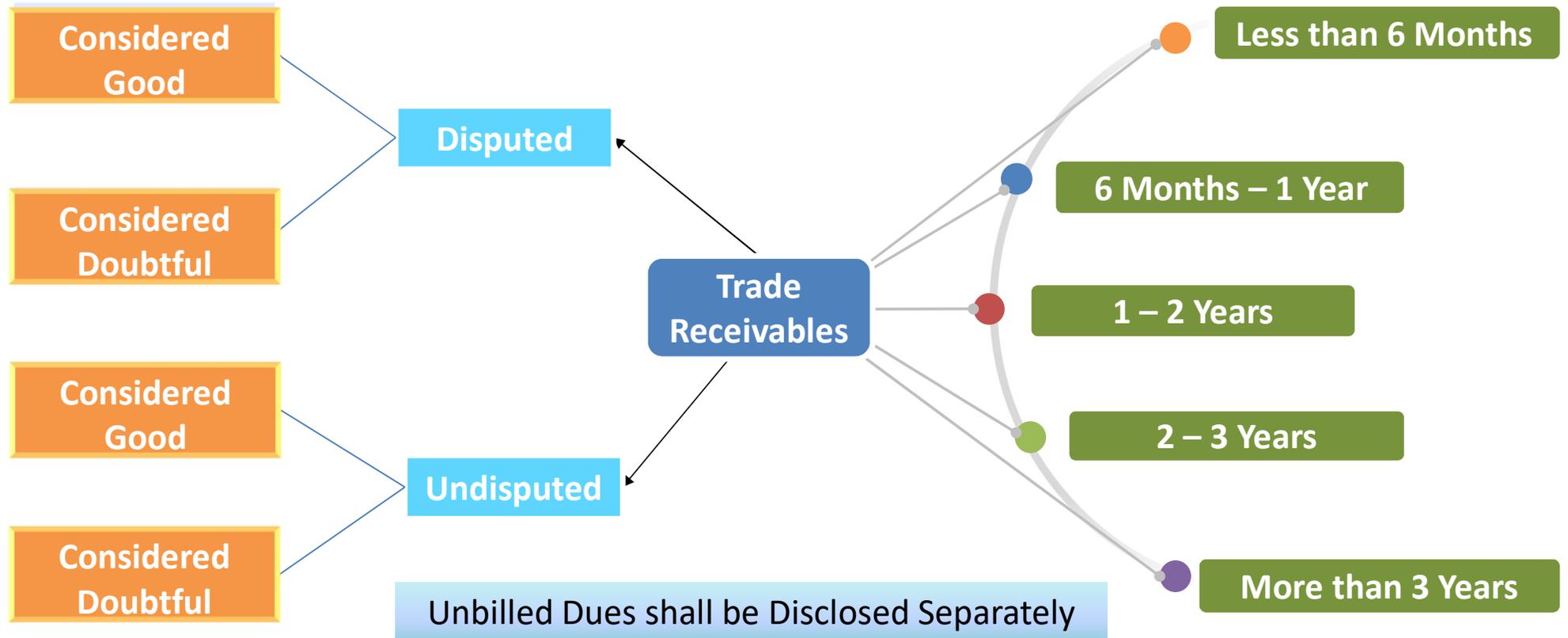
CWIP and intangible assets under development ageing

Financial ratios

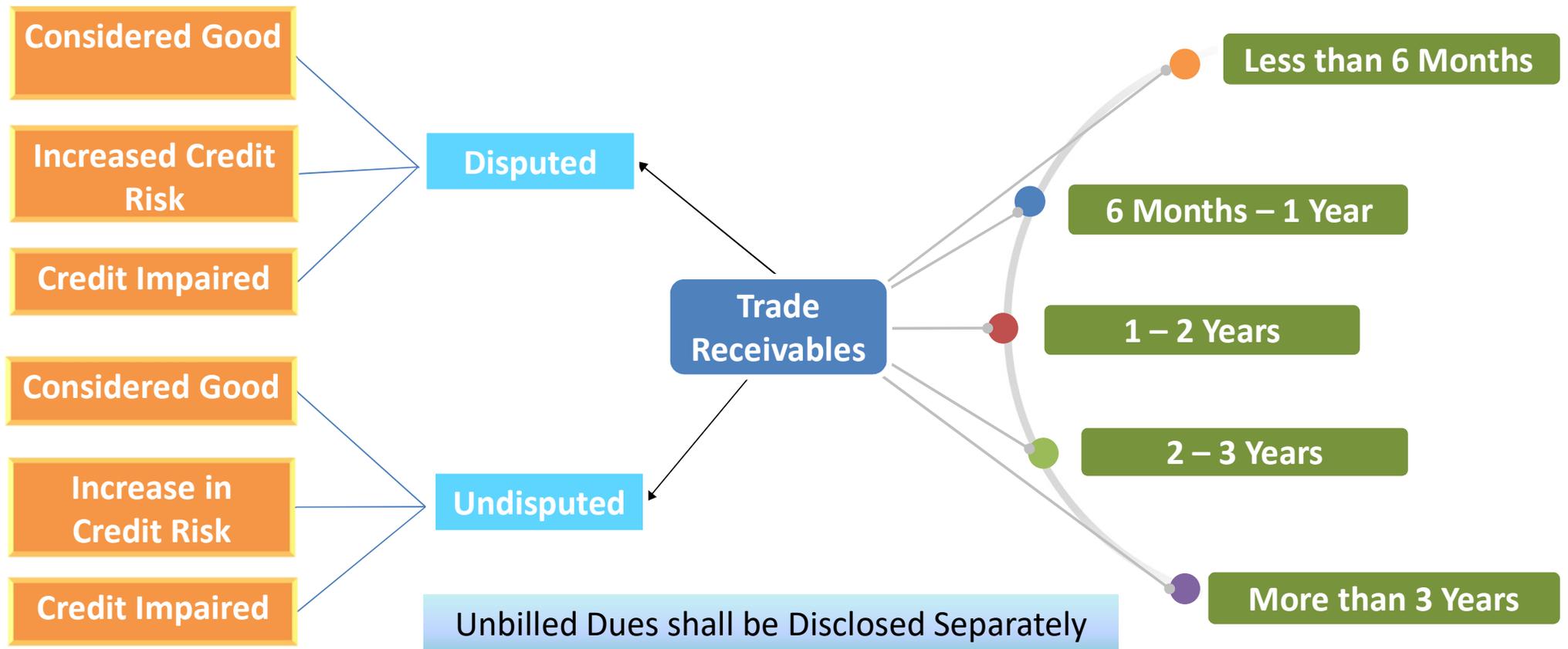
1. TRADE PAYABLES DUE FOR PAYMENT



2. TRADE RECEIVABLES - IGAAP



2. TRADE RECEIVABLES – IND AS



3. REVALUATION / FAIR VALUE

- Property, Plant & Equipment (PPE)/ Intangible assets



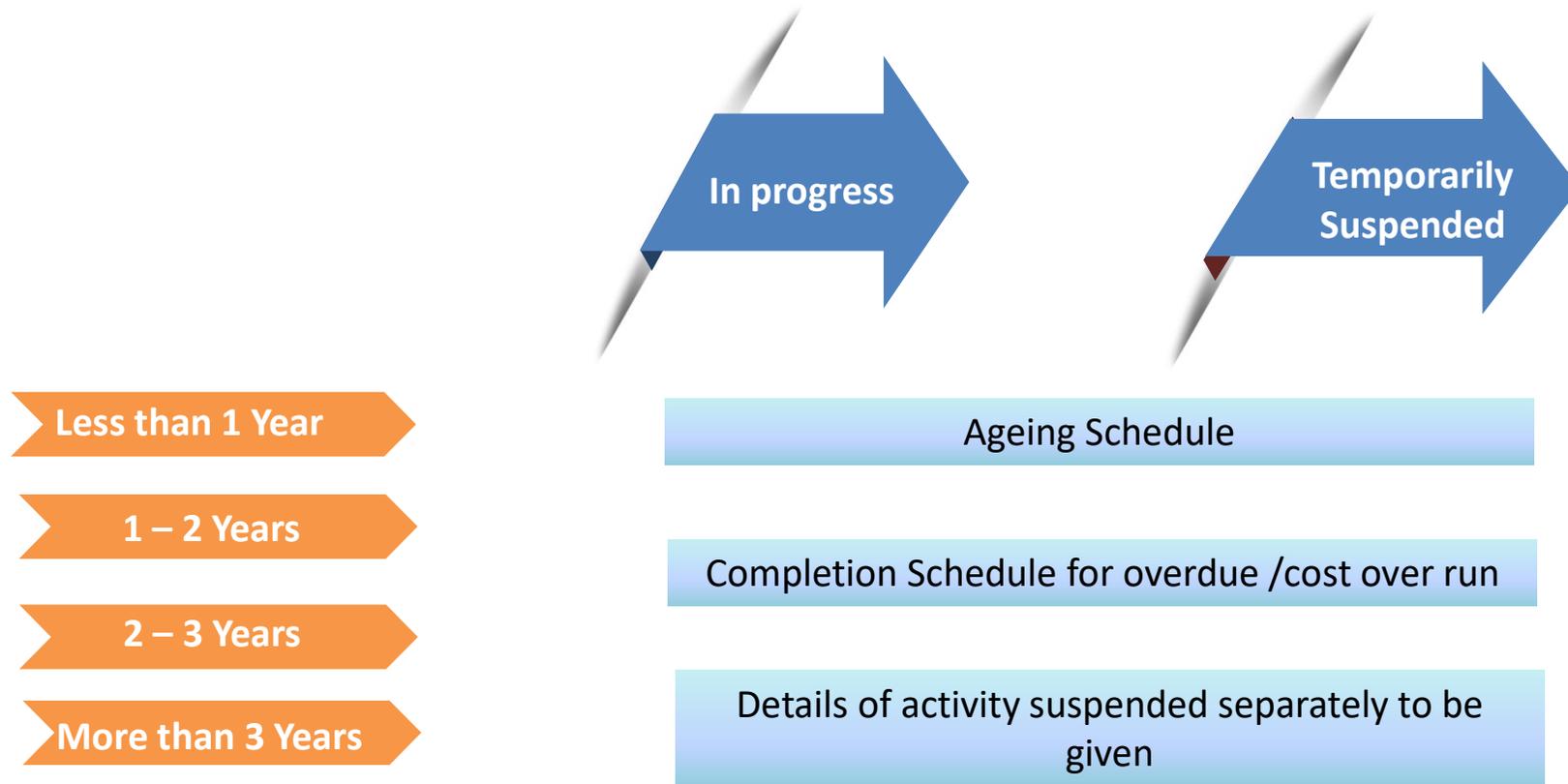
- Basis of Revaluation – Registered valuer or otherwise
- Basis of Fair Value of investment property- Registered valuer or otherwise (Division II)

4. TITLE DEEDS OF IMMOVABLE PROPERTIES NOT HELD IN NAME OF THE COMPANY

- Relevant line item in the balance sheet
- Description of item of property
- Gross carrying value
- Title deed holder along with relationship
- Date since which the property is held
- Reason for not being held in the name of the company
- Dispute, if any

For joint holding of such property, disclosure shall be made to the extent of the company's share.

5. CAPITAL WORK IN PROGRESS / INTANGIBLES



6. FINANCIAL RATIOS

Profitability

- Net profit
- Return on capital employed
- Return on equity
- Return on investment

Liquidity

- Current ratio

Turnover

- Inventory
- Trade receivable
- Trade payable
- Net capital

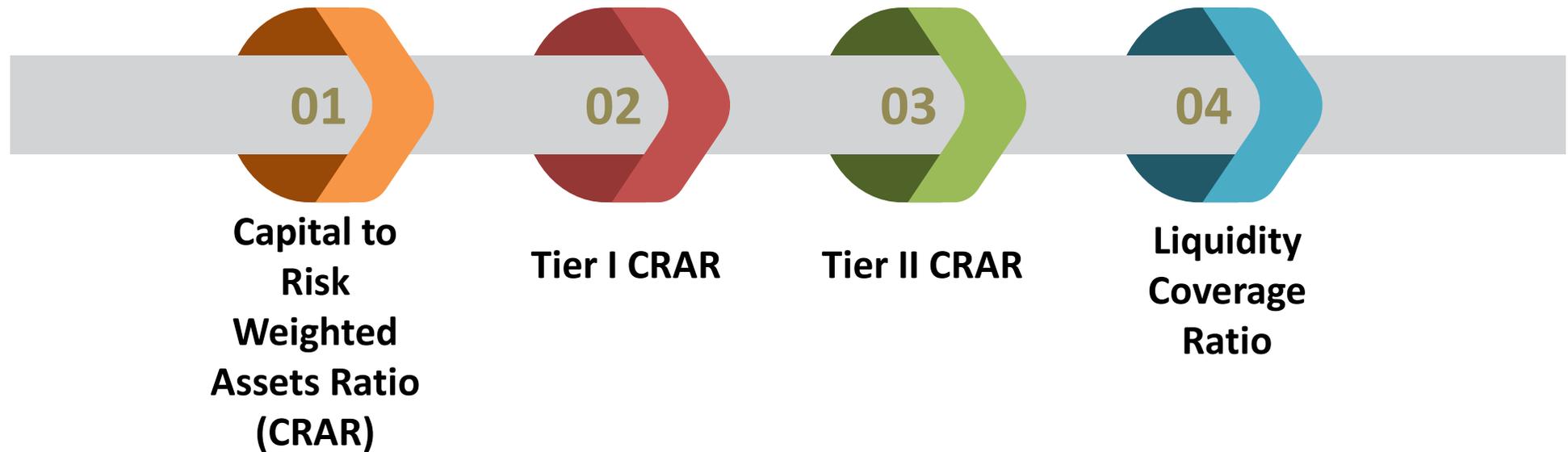
Solvency

- Debt-equity
- Debt service coverage

Numerator and denominator to be explained

Change in the ratio (> **25%**) as compared to the preceding year to be explained

DISCLOSURE OF RATIOS - NBFCs



CLOSE GROUP RELATED

Disclosure of Promoter's shareholding

Loans or advances granted to Promoters, Directors, KMPs and the related parties

1. DISCLOSURE OF PROMOTER'S SHAREHOLDING

Name of the promoter

Number of shares held

Percentage of total shares

Percentage change during the year

- Currently only shareholding of more than 5% needs to be disclosed
- Now need to disclose shareholding of Promoters for each class along with changes
- Promoter as defined in Companies Act 2013

2. LOANS OR ADVANCES GRANTED TO PROMOTERS, DIRECTORS, KMPS AND THE RELATED PARTIES

Loans or advances repayable on demand; or without specifying any terms or period of repayment.

Type of borrower	Amount of Loan or advance in the nature of loan outstanding	Percentage to the total Loans and advances in the nature of loans
Promoter		
Directors		
KMPs		
Related parties		

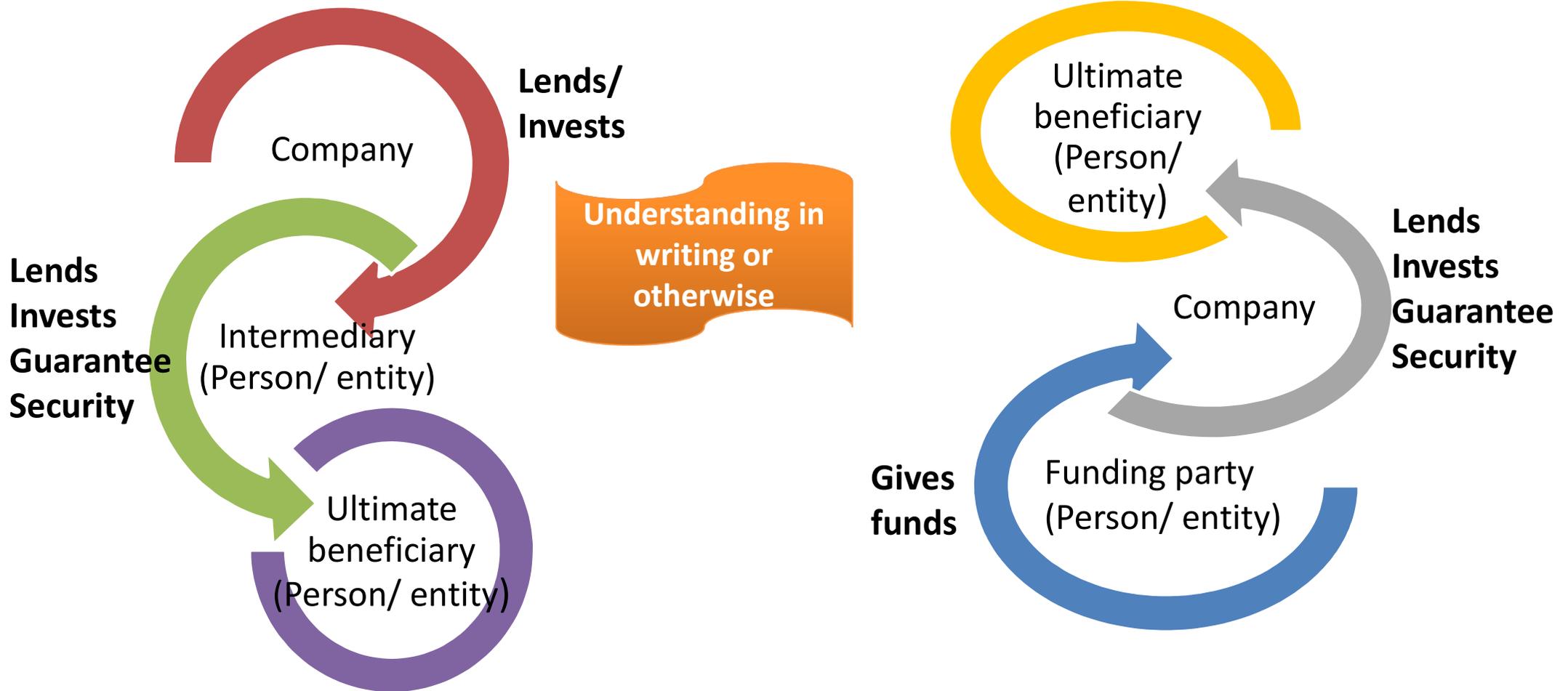
CONTROL ON FUND MOVEMENT

Utilization of funds

Borrowings from banks and/or financial institutions

Company declared as a wilful defaulter

1. UTILIZATION OF FUNDS



1. UTILIZATION OF FUNDS

- Company has advanced or loaned or invested funds – Disclosure:

Date and amount of fund advanced/ loaned/ invested:

- In intermediary (ies)
- By the intermediary (ies)

Details of each intermediary

Details of ultimate beneficiary

Details of guarantee/ security provided to / by ultimate beneficiary

Declaration for compliance with FEMA, Companies Act, PMLA

- Company has received any fund – Disclosure:

Date and amount of fund:

- Received
- Further advanced/ loaned/ invested

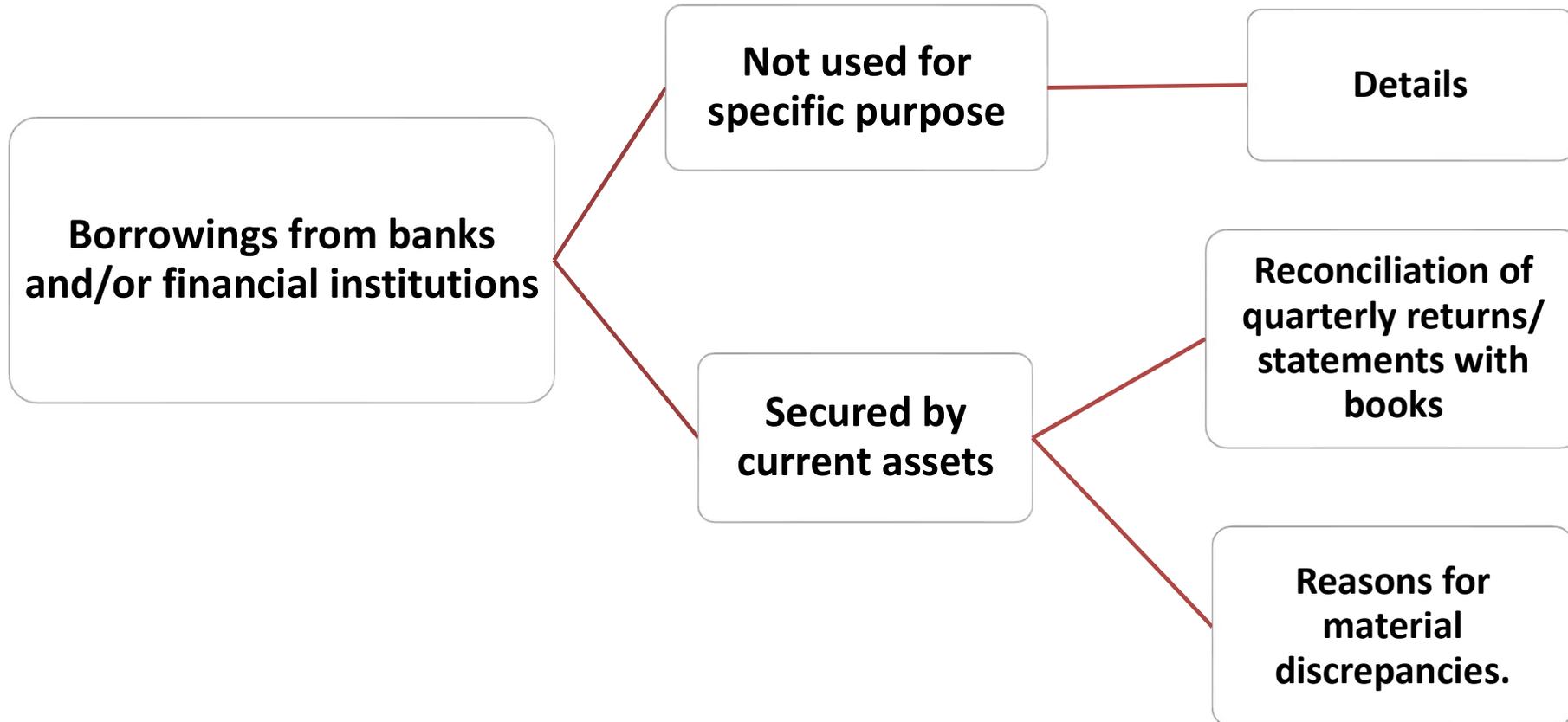
Details of each funding party

Details of other intermediaries/ ultimate beneficiary

Details of guarantee/ security provided to / by ultimate beneficiary

Declaration for compliance with FEMA, Companies Act, PMLA

2. BORROWINGS FROM BANKS AND/OR FINANCIAL INSTITUTIONS



3. COMPANY DECLARED AS A WILLFUL DEFAULTER

Date of declaration as willful defaulter

Details of defaults

COMPLIANCE WITH LAWS AND DISCLOSURES THEREOF

Compliance with approved scheme(s) of arrangements

Compliance with number of layers of companies

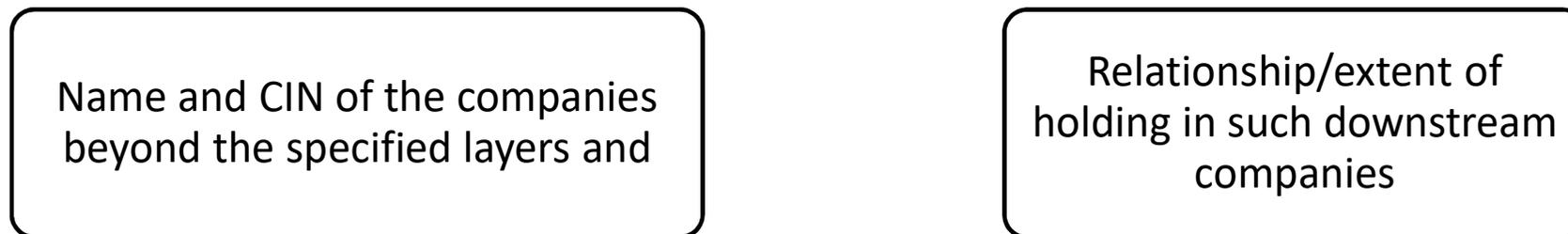
Disclosure regarding CSR

COMPLIANCE WITH LAWS AND DISCLOSURES THEREOF

1. Compliance with approved scheme(s) of arrangements



2. Compliance with number of layers of companies



COMPLIANCE WITH LAWS AND DISCLOSURES THEREOF

3. Corporate social responsibility (CSR)

- Amount required to be spent by the company during the year;
- Amount of expenditure incurred;
- Shortfall at the end of the year;
- Total of previous years shortfall;
- Reason for shortfall;
- Nature of CSR activities;
- Details of related party transactions
- Movements in provision made with respect to a liability incurred by entering into a contractual obligation.

OTHER CHANGES

Presentation related

Additional disclosures

1. PRESENTATION RELATED

PART 1- Balance sheet

(Division I)

Amendment	Pre amendment	Post amendment
Assets - Non-current assets	Property, plant & equipment a) Tangible assets b) Intangible assets	Property, plant & equipment and Intangible assets a) Property, plant and equipment b) Intangible assets
Current maturities of long term borrowings	Under Other current liabilities	Under Short term borrowings
Security deposits	Under Long term loans and advances Loans (Current assets)	Under Other current assets

1. PRESENTATION RELATED

(Division II)

Amendment	Pre amendment	Post amendment
Statement of changes in equity (Division II+ III)	Amendments made in existing requirements	<ul style="list-style-type: none"> • Changes in equity share capital due to prior period errors • Restated opening balances • Any other change
Lease liabilities (both non-current and current)	(a) Financial liabilities (i) Borrowings	(a) Financial Liabilities (i) Borrowings (ia) Lease liabilities
Other financial assets	Newly inserted	Inserted after sub heading "Loans" under heading "Current assets".
Security deposits and Bank deposits	Amendments made in existing requirements	Non-current assets IX. Other financial assets (i) Security deposits (ii) Bank deposits with more than 12 months maturity (iii) Others

1. PRESENTATION RELATED

PART 2 – Statement of profit and loss

(Division I + II)

- **Section 8 Companies** : Under “Revenue from operations” to separately disclose “Grants and Donations received”

(Division I)

- Under the heading “III. Total revenue (I +II)”, for the word “Revenue”, the word “Income” shall be substituted

PART 3 - Rounding off (Division I + II)

Turnover –Total income	Rounding off
(a) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof
(b) one hundred crore rupees or more	To the nearest lakhs, millions or crores, or decimals thereof.

(Division I)

- Rounding off of figures is now mandatory

2. ADDITIONAL DISCLOSURES

A. Registration of charges or satisfaction with Registrar of Companies (ROC)



B. Crypto currency or virtual currency



2. ADDITIONAL DISCLOSURES

C. Undisclosed income

Unrecorded transactions disclosed as
income in the tax assessments

D. Details of Benami property held

Details of any
proceedings
against the
company

Details of
property

Amount
thereof

Details of
beneficiaries

Reference to
the item in
the balance
sheet

If property is
not in books,
then fact with
reasons

2. ADDITIONAL DISCLOSURES

E. Relationship with struck off companies

Name of struck
off company.

Nature of
transaction(s)

Balance
outstanding

Relationship, if
any

CHALLENGES

Comparatives

**Revised guidance
note**

**Proactive
engagement with
management**

**Increased Scope
of work**

**Accounting
software update**



**KEY CHANGES IN
CARO 2020**

APPLICABILITY OF CARO 2016

CARO is not applicable to



- It is applicable to audit of branches of Companies

* Private limited companies

- not being a subsidiary or holding company of a public company;
- PUSC + R&S \leq 1 crore – as on BS date; and
- Total borrowings from bank or FI \leq 1 crore – any point of time during FY; and
- Total revenue \leq 10 crores during FY

APPLICABILITY OF CARO 2020

No change in applicability as compared to CARO 2016



Not applicable to CFS except clause (xxi) – newly added



Financial year commencing from 1st April, 2021

KEY CHANGES IN CARO 2020

CARO 2016

16 clauses

7 new

1 merged

1 deleted

CARO 2020

21 clauses

New clauses

- Disclosure of transactions not recorded in the books
- Internal Audit System
- Cash losses
- Resignation of the statutory auditors during the FY
- Opinion on liquidity
- CSR
- CFS

Merged clause

- Monies raised by IPO or FPO from securities & term loans (+)
- Preferential allotment/private placement of shares/debentures

Deleted clause

- Managerial remuneration

CLAUSE (I) : PPE AND INTANGIBLE ASSETS

Replaced the term 'fixed asset' with 'PPE' and added intangible assets as well

Additional disclosures (e.g.: name of the title owner, relationship, period) for immovable properties whose title deeds are not in the name of the Company

Additional reporting on revaluation of PPE (including ROU) and intangible assets during the year (registered valuer, 10% threshold)

Additional reporting on disclosure of new/pending proceedings in respect of benami properties in financial statements

CLAUSE (II) : INVENTORIES

Additional reporting on coverage and procedure followed for PV;

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;

Reporting on mismatch in quarterly statements submitted to banks (applicable for working capital sanctioned limit > Rs. 5 crores secured against current assets)

CLAUSE (III) : LOANS AND ADVANCES, GUARANTEES, SECURITIES

- Expanding the scope of reporting to cover:
 - all parties against earlier coverage which was restricted to parties covered u/s 189 of Companies Act i.e. mainly related parties
 - guarantees and securities given by the Company
- Additional disclosures:
 - aggregate amount during the year and closing balance for subsidiaries, joint ventures, associates and other parties
 - evergreening of loans - details & percentage to be given for renewed, extended or fresh loans granted to repay existing loans
 - loans repayable on demand/without any terms of repayment. Also, disclosure is required for such loans given to related parties

Format for reporting has been suggested in GN on CARO 2020

CLAUSE (V) : ACCEPTANCE OF DEPOSITS

CARO 2016 - in respect of deposits accepted by the company

CARO 2020 - in respect of deposits accepted by the company or amounts which are deemed to be deposits

- ❑ Examples of deemed deposits:
 - Advance from customers outstanding for more than 365 days
 - Shares not allotted within 60 days and share application money not refunded within 15 days

CLAUSE (VII) : STATUTORY DUES

This clause is same as CARO 2016 clause except following:

Auditor to report on timely payment of **GST** along with other undisputed statutory dues

Reporting of **all unpaid statutory dues** which are disputed. In CARO 2016, reporting was restricted to specified dues (i.e. income tax, sales tax, service tax, custom duty, excise, VAT)

CLAUSE (VIII) : DISCLOSURE OF TRANSACTION NOT RECORDED IN BOOKS



The transactions which are not recorded in the books of account which have been surrendered or disclosed as income during the year in the income tax assessment, if so,

E.g. (i) copy of the statements made in the course of search and survey
(ii) examine the submissions and representations made by the company to the income tax authorities.

Auditor is required to report whether the same has been properly recorded in the books of account or not;

CLAUSE (IX) : DEFAULTS IN REPAYMENT OF LOANS

- Auditor is required to report whether the Company has defaulted in repayment of loan or other borrowings or in the payment of interest thereon **to any lender** (earlier, it was only to the extent of banks, FIs, government or dues to debenture holders). If yes, the period and the amount of default to be reported
- Additional reporting required:

Situation	What needs to be disclosed?
If the company is a declared wilful defaulter by any bank / FI's / other lender (Mirror image of Schedule III)	Report
If term loan is utilized for other purpose	Amount + Usage of loan
If funds raised on short term basis which have been utilized for long term purposes	Amount + Nature
If the Company has taken any funds from any entity/person in order to meet the obligation of its S/JV/A	Amount + Nature
If the Company has raised loans during the year on the pledge of securities held in its S/JV/A	Details + report (if defaulted in repayment)

CLAUSE (X) : PREFERENTIAL ALLOTMENT

Preferential allotment or private placement

- ❑ In CARO 2016, the reporting was required to be made for shares or fully/partially convertible debentures. Optionally convertible debentures is now covered in CARO 2020.
- ❑ CARO 2020 also requires to report on compliance with section 62 of the Act which includes compliance in respect of issue of rights shares, ESOPs, preferential allotment, etc.



CLAUSE (XI) : FRAUD REPORTING



All frauds are to be reported

- In case of fraud on the Company or by the Company , the words "~~by officers or employees~~" **are removed**
- Fraud on the company **by any person** has to be reported in this clause
- Amount + Nature

Filing of form

- Assertive statement about filing of ADT-4 u/s 143(12) of the Act
- Form to be filed by the auditor -
Statutory auditor,
Company Secretary
and Cost Accountant

Whistle blower

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

CLAUSE (XII) : NIDHI COMPANY



CARO 2016 required reporting on maintenance of

>> net owned funds to deposits ratio of 1:20; and

>> 10% of unencumbered term deposits



Additionally, the auditor is required to report on default in repayment of interest and deposit

Nature + Amount + Period + Other

CLAUSE (XIV) : REPORTING ON INTERNAL AUDIT SYSTEM

Auditor required to report

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graph TD; A[Auditor required to report] --> B[whether the company has an internal audit system commensurate with the size and nature of its business;]; A --> C[whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;]
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whether the company has an internal audit system commensurate with the size and nature of its business;

whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;

CLAUSE (XVI) : REGISTRATION WITH RBI

NBFC activities and RBI regulations

- ❑ CARO 2016 introduced reporting in respect of registration requirements as per Section 45-IA of the Reserve Bank of India Act, 1934
- ❑ CARO 2020 - **additional reporting** has been laid down with regard to NBFC:
 - Conducting of NBFC/housing finance activities without a valid Certificate of Registration from RBI
 - If company is core investment company ('CIC')/exempted or unregistered CIC and whether continues to fulfill the criteria applicable to it
 - Indicate the number of CIC's which are part of the group

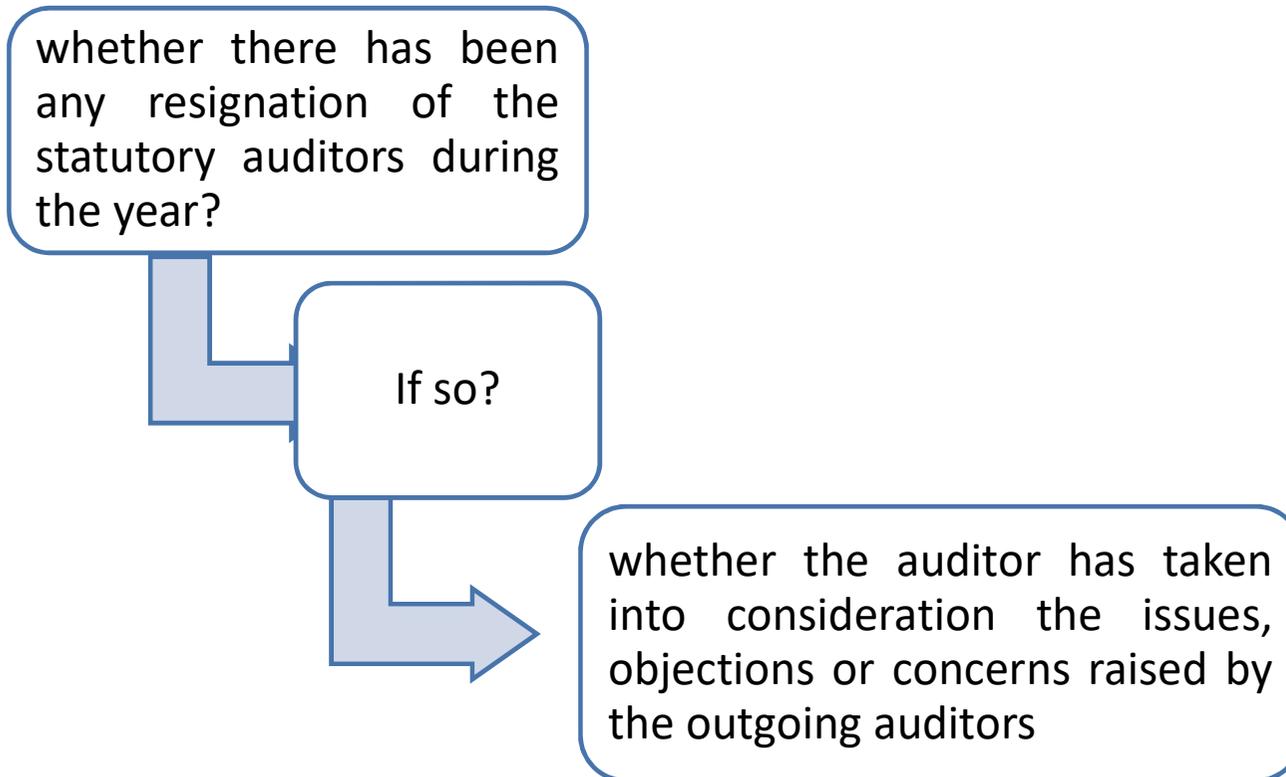
CLAUSE (XVII) : CASH LOSSES

Reporting on cash losses

- CARO 2003 contained reporting for the amount of cash losses incurred by the Company in the current year and the immediately preceding year
- No such provision was there in CARO 2016. The same has been reintroduced
- Term 'cash loss' is not defined
- Non cash item e.g. depreciation, amortization, fair value changes, exchange fluctuation, deferred tax, etc



CLAUSE (XVIII) : RESIGNATION OF STATUTORY AUDITORS



CLAUSE (XIX) : OPINION ON LIQUIDITY

- On the date of audit report – SA 560 (Subsequent events)
- No material uncertainty as to repayment of current liabilities on balance sheet date

Assessment of Going Concern already covers these procedures – SA 570 (Going concern)

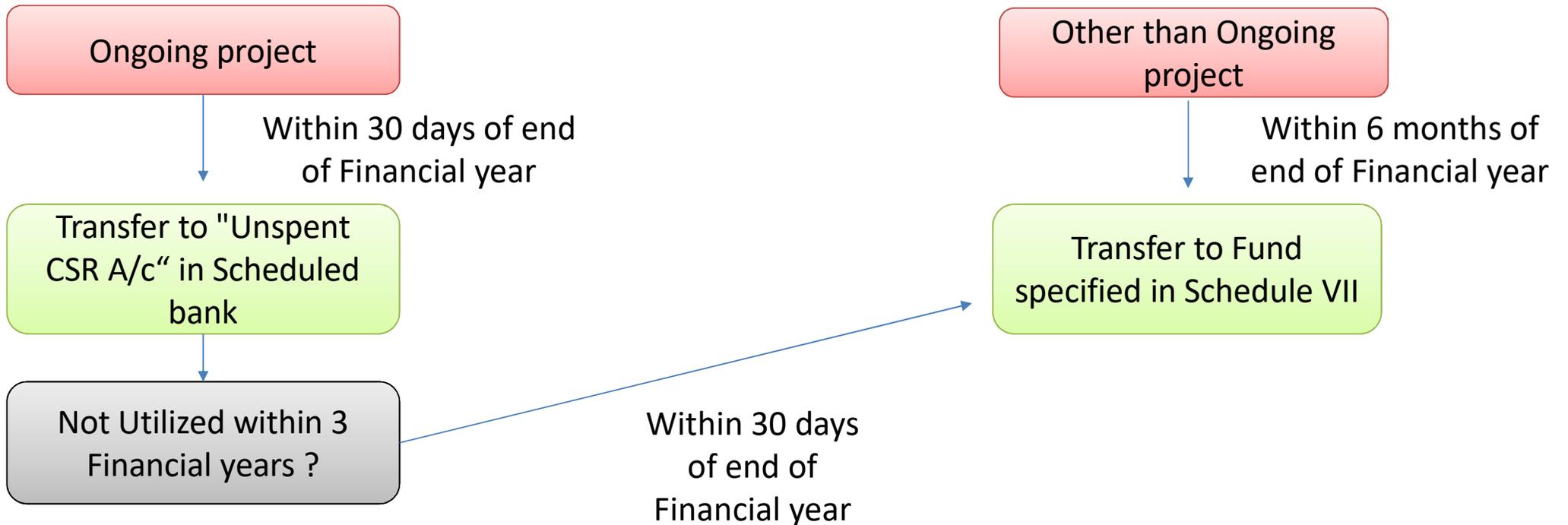
Verify:

- Financial ratios;
- Ageing and expected dates of realisation of financial assets and financial liabilities;
- Other information accompanying the financial statements;
- Auditors knowledge of the Board and management plans

CLAUSE (XX) : CORPORATE SOCIAL RESPONSIBILITY

Auditors' Report shall include a statement on whether company has transferred any unspent amount to an Unspent Fund/Unspent CSR account, as the case may be

Unspent CSR Amount



CLAUSE (XXI) : CONSOLIDATED FINANCIAL STATEMENT

If there are any qualifications or adverse remarks in any company's CARO report included in consolidated financials



Details to be given:
1. Name of the company/ies
2. Paragraph numbers

Qualification/Adverse remark as defined in SA 705

CONCLUSION



“It is not the answer that enlightens, but the question.”

By Eugene Jonesco

THANK YOU!