

Non-compliances observed in the Ind AS Financial Statements pertaining to CARO, 2016

Contributed by the Financial Reporting Review Board of the ICAI.
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Financial Statements are the paramount source in hands of the stakeholders to understand the financial well-being of an enterprise. The users are highly reliant on the information presented in the financial statements and therefore the preparers ought to ensure that it is correct, complete, relevant and adhere to the applicable regulatory requirements. Financial Reporting Review Board (FRRB) reviews the General Purpose Financial Statements (GPFS) of enterprises with the view to identify the non-compliances with Accounting Standards/ Ind AS and Standards of Auditing, CARO, Companies Act, and other applicable statutory requirements. The non-compliances observed by the Board are compiled and published under the name of "Study on Compliance with Financial Reporting Requirement". Till date three volumes of the aforesaid publication have been released by the Board. Further, two more publication on "Study on Compliance of Financial Reporting Requirements (Ind AS Framework)" has been released for preparers and auditors of the Ind AS financial statements. In addition, the Board publishes such non compliances observed by way of articles in the 'Journal' of the Institute.

This article is in furtherance of the FRRB's endeavour to update the members and other stakeholders in the field of financial reporting. It may be noted that in the article, the observations related to Ind AS framework have been classified on the basis of components of financial statements i.e. Assets, Equity, Liabilities for Balance Sheet and revenue, interest income, employee benefits etc. for Statement of Profit and Loss and likewise. This article deals with the non-compliances, observed by the Board, with regard to CARO, 2016 which is an important element for Ind AS financial statements.

Observations related to CARO, 2016

Security Provided

Case:

The relevant abstract of paragraph (iv) of Annexure A to the Independent Auditor's Report (reporting under CARO, 2016) reads as follows:

"According to the information and explanation given to us, the Company has not made any loan, investment, and guarantees to any person specified under section 185 and section 186 of the Companies Act, 2013. Therefore, the provisions of paragraph 3(iv) of the Order are not applicable to the Company."

Principle: Companies (Auditor's Report) Order, 2016

Paragraph 3 (iv)

"In respect of loans, investments, guarantees, and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof."

Observation:

The Board noted from the paragraph (iv) of Annexure A to the Auditor's Report wherein the auditor reported that the company has not made any loan, investment, and guarantees to any person specified under section 185 and section 186 of the Companies Act, 2013. It was viewed that although the auditor has reported about loans, investments and guarantees under said paragraph but the auditor has not reported on 'security', as required under clause 3 (iv) of CARO, 2016.

Accordingly, it was viewed that the auditor has not appropriately reported on paragraph 3 (iv) of CARO, 2016.

Compliance of the Companies Act, 2013

Case:

The relevant abstract of the paragraph (iv) of Annexure A to the

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Independent Auditor's Report (reporting under CARO, 2016) is reproduced below:

"In our opinion, in respect of loans, investments, guarantees and security the provisions of section 185 has been complied & section 186 has not been complied."

Principle: Companies (Auditor's Report) Order, 2016

Paragraph 3 (iv)

"In respect of loans, investments, guarantees, and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof"

Paragraph 39 (B) (c) of Guidance Note on CARO, 2016

"B. Compliance of Section 186 of the Companies Act, 2013: Loan and investment by company

Relevant Provisions...

c) ...Non-compliance may be reported incorporating following details: -"

Observation:

The Board noted from the paragraph (iv) of Annexure A to the Independent Auditor's Report that **the auditor has, although, reported the fact that there has been non-compliance of section 186 of the Companies Act, 2013, however, the details of such non-compliance have not been reported.** It was viewed that details of such non-compliance should have been reported by the auditor in the manner specified under paragraph 39 (B) (c) of Guidance Note on CARO, 2016 as given above.

Accordingly, it was viewed that the requirements of paragraph 3 (iv) of CARO, 2016 read with paragraph 39 (B) (c) of Guidance Note on CARO, 2016 have not been complied with by the auditor.

Loans granted

Case:

The relevant abstract of the paragraph (iv) of Annexure A

to the Independent Auditor's Report (reporting under CARO, 2016) reads as follows:

"In our opinion and according to information and explanations given to us, the company has complied with the provisions of Section 185 and 186 of the Companies Act, 2013 in respect of grant of loans, making investments and providing guarantees and securities, as applicable."

Principle:- Companies (Auditor's Report) Order, 2016

Paragraph 3 (iv)

"In respect of loans, investments, guarantees and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof."

Observation:

It was noted from the paragraph (iv) of Annexure A to the Independent Auditor's Report that the auditor has stated that the company has complied with the provisions of Section 185 and 186 of the Companies Act, 2013. However, it was observed from the financials that the company has neither granted loans nor does it have any investments. The Board was of the view that auditor should have reported under the paragraph 3 (iv) of CARO, 2016 based on the factual position.

Accordingly, it was viewed that the auditor has not properly reported on paragraph 3 (iv) of CARO, 2016.

S. No	Non-compliance of Section 186			
	Name of Company/ Party	Amount Involved	Balance as at Balance Sheet	Remarks, if any
1.	Investment through more than two layers of investment companies			
2.	Loan given or guarantee given, or security provided or acquisition of securities exceeding the limits without prior approval by means of a special resolution			
3.	Loan given at rate of interest lower than prescribed			
4.	Any other default			

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Undisputed Statutory dues

Case:

The relevant abstract of the Auditor's Report under CARO, 2016 reads as below:

"vii. a) The Company is generally regular in depositing undisputed statutory dues, including Provident fund, Employees' State Insurance, Income-tax, Sales Tax, Service Tax, Customs Duty, Value Added Tax, Cess, and other material statutory dues applicable to it to the appropriate authorities except GST."

Principle:- Companies (Auditor's Report) Order, 2016

Paragraph 3 (vii) (a)

"whether the company is regular in depositing undisputed statutory dues including 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."

Observation:

The Board noted from the paragraph (vii) (a) as reproduced above that the auditor has reported that the company is regular in depositing statutory dues except GST. **It was viewed that the auditor's comment under paragraph (vii)(a) of CARO, 2016 is not complete as he**

has not commented on other part relating to the extent of the arrears of statutory dues (GST) outstanding as on the last day of the financial year for a period of more than six months from the date, they became payable.

Accordingly, it was viewed that the requirements of CARO, 2016 have not been complied with.

Defaults in Repayment

Case:

In one of the financial statements abstract of the paragraph (viii) of report under CARO, 2016 reads as follows:

"In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of dues to financial institutions, banks, and debenture holders."

Principle: Companies (Auditor's Report) Order, 2016

Paragraph 3 (viii)

"Whether the company has defaulted in repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders? If yes, the period and the amount of default to be reported (in case of defaults to banks, financial institutions, and Government, lender wise details to be provided)".

Observation:

The Board noted from the financial statements that the company had not borrowed any fund from Banks, Financial Institutions (FIs), and Government. **Only borrowing,**

as per the financial statements, that company raised was in form of debentures which were issued to the holding company. Therefore, reporting made by auditor as to "no defaults" has been made by company in repayment of dues to FIs, banks is not correct.

Accordingly, it was viewed that the reporting done by auditor is not appropriate as per the requirements of CARO, 2016.

Utilization of fund raised

Case:

The relevant abstract of paragraph (ix) of Annexure 1 to the Independent Auditor's Report under CARO, 2016 is reproduced below:

"In our opinion and according to the information and explanations given by the management and on an overall examination of the balance sheet, the monies raised by way of debt instruments in the nature of foreign currency bonds and term loans were applied for the purposes for which those were raised, though idle/surplus funds which were not required for immediate utilization have been temporarily invested in fixed deposits / mutual funds."

Principle: Guidance Note on Companies (Auditor's Report) Order, 2016:

Paragraph 45(s) of Guidance Note on CARO, 2016 prescribed following reporting format under paragraph 3 (ix) of CARO, 2016:

In our opinion and according to the information and explanations given to us, the Company has utilized the

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money raised by way of initial public offer/ further public offer (including debt instruments) and the term loans during the year for the purposes for which they were raised, except for:

Nature of the fund raised	Details of default (Reason /Delay)	Amount (Rs.)	Subsequently rectified (Yes/No) and details
.....	---”

Observation:

The Board noted from the auditor’s comment in reproduced paragraph of CARO reporting that monies were raised by the company through debt instruments and term loans and some of these funds were applied for the purpose for which they were raised, however, there were certain idle funds which were not so utilized and have been temporarily invested in fixed deposits / mutual funds. **It was viewed that though auditor has reported on funds not utilized for intended purposes which they were raised for, in line with paragraph 3 (ix) of**

CARO, 2016, however, he has not adhered to the suggested reporting format as prescribed under 45(s) of Guidance Note on CARO, 2016.

Accordingly, it was viewed that the requirements of Guidance Note on CARO, 2016 have not been complied with by the auditor.

Related Party Transactions

Case:

The relevant abstract of the paragraph (xiii) of Annexure A to the Independent Auditor’s Report (reporting under CARO, 2016) reads as follows:

“In our opinion and according to the information and explanation given to us, the related party transactions are in compliance with section 177 and 188.”

Principle: Companies (Auditor’s Report) Order, 2016

Paragraph 3 (xiii)

Whether all transactions with the related parties

are in compliance with section 177 and 188 of Companies Act, 2013 where applicable, and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards”

Observation:

It was noted from the paragraph (xiii) of Annexure A to the Independent Auditor’s Report that **auditor has stated that transactions with related parties are in compliance with the section 177 and 188 of the Companies Act, 2013, however, he has not reported as to whether these transactions with the related parties were disclosed in the financial statement in compliance with the applicable accounting standard i.e., Ind AS 24.**

Accordingly, it was viewed that the requirements of paragraph 3 (xiii) of CARO, 2016 have not been complied with by the auditor.

