



# COMMON PITFALLS IN CARO & SCHEDULE III

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# Introduction

Schedule III

Section 129(1) of the Companies Act, 2013 prescribes that the financial statements of a company “shall be in the form or forms as may be provided for different class or classes of companies in Schedule III”

Accordingly, certain disclosure requirements are specified in Schedule III which are in addition to the disclosure requirements specified in the Accounting Standards.

Companies  
(Auditor's  
Report) Order,  
2020  
 (“CARO 2020”)

In exercise of the powers conferred under section 143(11) of the Companies Act, 2013, the Central Government, after consultation with the National Financial Reporting Authority, has made the Companies (Auditor's Report) Order, 2020 which requires that the auditor’s report shall include a statement on specified matters.



# AMENDMENTS IN SCHEDULE III



# AMENDMENTS IN SCHEDULE III

**The Ministry of Corporate Affairs (MCA) has amended Schedule III of the Companies Act, 2013**

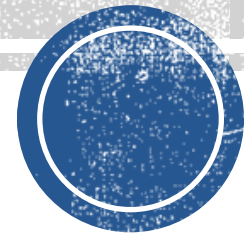
**Applicable : 01<sup>st</sup> April 2021**

**The Schedule III is divided into 3 divisions which are as below**

<b>Division I – Financial Statements for a company whose Financial Statements are required to comply with Companies (Accounting Standards) Rules, 2006</b>	<b>Division II – Financial Statements for a company whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015</b>	<b>Division III - Financial Statements for Non-Banking Financial Company (NBFC) whose financial statements are drawn up in compliance of the Companies (Indian Accounting Standards) Rules, 2015</b>
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# **DIVISION I — ACCOUNTING STANDARDS**



## DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

Particulars	Amendments
<p><b>Compulsory Rounding off figures based on <b>Total Income</b> instead of Turnover. ('May' substituted with 'Shall')</b></p>	<p>a. <b>Total Income</b> less than Rs. 100 crores – Nearest hundreds, thousands, lakhs or millions</p> <p>b. <b>Total Income</b> more than Rs. 100 crores – Nearest lakhs, millions or crores.</p> <p>Now companies have to round off the figures appearing in the financial statements, hitherto it was optional. Once selected it '<b>Should</b>' apply consistently'</p> <p>Point / Question – Definition of Total Income? Not defined under Act / Schedule</p>
<p><b>Changes – Part I - Balance Sheet (face)</b></p>	<p>Addition/Deletion under sub head Non-Current Assets</p> <p>II. ASSETS</p> <p>Non-current assets</p> <p>(1)(a) Property, Plant and Equipment and <b>Intangible assets</b></p> <p>(i) <del>Tangible assets</del> Property, Plant and Equipment</p> <p>(ii) <b>Intangible Assets</b></p> <p>Point / Question - The disclosure was earlier warranted as per AS, now it's a specific sub - heading on the face of the B/S</p>



# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL DISCLOSURES UNDER NOTES - BALANCE SHEET UNDER EACH HEAD

### ▪ Share Capital

**Shareholding of Promoters** at the end of the Year in tabular form containing

- Name
- No of Shares (separately for each class of shares)
- % of Total Shares (separately for each class of shares)
- % change during the year (computed with respect to the number at the beginning of the year or if issued during the year for the first time then with respect to the date of issue)

Promoters – means as defined u/s 2(69)

"promoter" means a person—

(a) who has been named as such in a prospectus or is identified by the company in the annual return referred to in section 92; or

(b) who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or

(c) in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act:

Provided that nothing in sub-clause (c) shall apply to a person who is acting merely in a professional capacity;



# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL DISCLOSURES UNDER NOTES - BALANCE SHEET UNDER EACH HEAD

### Short-term borrowings

**Current maturities of Long-term borrowings** shall be disclosed separately

Point / Question – As a practice this was being disclosed – now it is mandatory





# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL DISCLOSURES UNDER NOTES - BALANCE SHEET UNDER EACH HEAD

### Trade payables

Insertion of sub-heading - **Trade payables due for payment and the Ageing Schedule as below:**

#### Trade Payables ageing schedule

(Amount in Rs.)

Particulars	Outstanding for following periods from due date of payment#				Total
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
(i)MSME					
(ii)Others					
(iii) Disputed dues – MSME					
(iv) Disputed dues - Others					

# similar information shall be given where no due date of payment is specified in that case disclosure shall be from the date of the transaction.

Unbilled dues shall be disclosed separately;

# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL DISCLOSURES UNDER NOTES - BALANCE SHEET UNDER EACH HEAD

### Trade payables

- Point / Question –
  - Necessary to determine due date of payment
  - In case no due date of payment is specified disclosure shall be from the date of the transaction
  - Unbilled – whether will include certain estimations / provision
  - Bucketing to be built into the system to ensure that information is available
  - Whether additional note to be provided for time barred debt?
  
- **Other Current Liabilities** – sub-heading (a) Current maturities of long-term debt is omitted



# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL DISCLOSURES UNDER NOTES - BALANCE SHEET UNDER EACH HEAD

### Property, Plant and Equipment & Intangible Assets

- 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, amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment) and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.
- Point / Question –
  - Calculation of change on account of revaluation for each class of PPE
  - Reversals are also specifically disclosed (this was not there earlier)



# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL DISCLOSURES UNDER NOTES - BALANCE SHEET UNDER EACH HEAD

### Security Deposits –

Omitted from Long Term Loans & Advances  
added under Other Non-current Assets

Point / Question

Where to disclose – in accordance with AS

### Utilisation of Borrowings

Where the company has not used the borrowings from banks and financial institutions for the specific purpose for which it was taken at the balance sheet date, the company shall disclose the details of where they have been used.

Point / Question

Tracking of money trail will not be easy task

Ensuring that all related details are available will be necessary

Onus on the Company to prove that it was utilized for the purpose of borrowing



# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL DISCLOSURES UNDER NOTES - BALANCE SHEET UNDER EACH HEAD

- Trade Receivables
- Ageing Schedule

### Trade Receivables ageing schedule

(Amount in Rs.)

Particulars	Outstanding for following periods from due date of payment#					Total
	Less than 6 months	6 months - 1 year	1-2 years	2-3 years	More than 3 years	
(i) Undisputed Trade receivables – considered good						
(ii) Undisputed Trade Receivables – considered doubtful						
(iii) Disputed Trade Receivables considered good						
(iv) Disputed Trade Receivables considered doubtful						

# similar information shall be given where no due date of payment is specified, in that case disclosure shall be from the date of the transaction.

Unbilled dues shall be disclosed separately.”;

# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL DISCLOSURES UNDER NOTES - BALANCE SHEET UNDER EACH HEAD

### Trade Receivables

- Point / Question –
  - Schedule of ageing is under both Trade Receivable & Other Non-Current Asset
  - If the receivable is non-current – ideally ageing upto 1 year will not be available
  - If the receivable is current, then unless the operating cycle is longer – it cannot be more than 1 year
  - ‘Due date of payment’ is mentioned – it should be from the ‘date it is due’
  - In case no due date of payment is specified disclosure shall be from the date of the transaction
  - Bucketing to be built into the system to ensure that information is available
  
- **Disclosure relating to SBN**
- Finally deleted



# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL REGULATORY INFORMATION

### **Title deeds of Immovable Property not held in name of the Company**

- (i) Details of all the Immovable Property (other than under lease and the agreement is in the name of the Co) whose title deeds are not held in name of the Company. If the same is held jointly with others, details to the extent of the company's shares shall be disclosed.

Relevant line item in the Balance sheet	Description of item of property	Gross carrying value	Title deeds held in the name of	Whether title deed holder is a promoter, director or relative# of promoter*/director or employee of promoter/director	Property held since which date	Reason for not being held in the name of the company**
PPE -	Land Building	-	-	-	-	**also indicate if in dispute
Investment property -	Land Building					
PPE retired from active use and held for disposal -	Land Building					
others						

#Relative here means relative as defined in the Companies Act, 2013.

\*Promoter here means promoter as defined in the Companies Act, 2013.

# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL REGULATORY INFORMATION

- Point / Question –
  - Detailed inspection of documents will be required
  - In case of Companies which are very old – getting all documents may be an issue
  - Reason for not being held in the Name of the Company may be difficult to ascertain
  - Relative is a wide term
  - Collation of all disputes will also be necessary
- Disclosure of revaluation of Property, Plant and Equipment – whether based on the valuation by a **registered valuer** as defined under rule 2 of the Companies (Registered Valuers and Valuation) Rules, 2017.

Type of Borrower	Amt of Loan or Adv o/s	% of total L & A
Promoters/ Directors/ KMPs/RP		

- In case of Loans or Advances in the nature of loans are granted to **promoters, directors, KMPs and the related parties either severally or jointly with any other person**, that are: (a) repayable on demand or (b) **without specifying any terms or period of repayment.**





# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL REGULATORY INFORMATION

- **Capital Work In Progress (CWIP) & Intangible Assets-**
- Ageing schedule

CWIP	Amount in CWIP for a period of				Total*
	Less than 1 year	1-2 years	2-3 years	More than 3 years	
Projects in progress					
Projects temporarily suspended					

\*Total shall tally with CWIP amount in the balance sheet.

- For CWIP/ Intangible Assets, whose completion is overdue or has exceeded its cost compared to its original plan, CWIP completion schedule mandatory – (Projects where activity is Suspended to be given separately:

Intangible assets under development	To be completed in			
	Less than 1 year	1-2 years	2-3 years	More than 3 years
Project 1				
Project 2				



# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL REGULATORY INFORMATION

- Point / Question –
- Loans & Advances
  - Open ended lending is being curbed
  - More details required
- CWIP / Intangible schedules (ageing & completion)
  - Reproduction of AWP
  - Very detailed information is required
  - Careful reading of project / extension etc.,
  - Activities are suspended? – whether project is suspended?
- **Details of Benami Property Held**
  - Disclosure of any proceedings initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 with all details like Details of such property, including year of acquisition, Amount, Beneficiaries, reference to the item in the Balance Sheet (if it is in Books of account), If property is not in the books, then the fact shall be stated with reasons, any proceedings against the company under this law as an abettor of the transaction or as the transferor then the details shall be provided, Nature of proceedings, status of same and company's view on same.



# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL REGULATORY INFORMATION

- Point / Question –
  - Details of Beneficiaries – may not be available readily
  - If property is not in the books – way to find out?
  - All pending cases in this regard along with status to be collated
  
- **Enhanced Disclosure for borrowings from banks or financial institutions on the basis of security of current assets:**
  - Whether quarterly returns or statements of current assets **filed by the Company with banks or financial institutions are in agreement with the books of accounts.**
  - if not, **summary of reconciliation and reasons of material discrepancies**, if any to be adequately disclosed
  
- Point / Question
  - Company has to make available all the details and tally it with books of account
  - Preparation of reconciliation and reasoning out discrepancies will require dedicated time & resource
  - Estimations / projections?
  - Bank may not accept provisional information in that case



# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL REGULATORY INFORMATION

- Where a company is a declared willful defaulter by any bank or financial Institution or other lender – [“willful defaulter” here means a person or an issuer who or which is categorized as a willful defaulter by any bank or financial institution (as defined under the Act) or consortium thereof, in accordance with the guidelines on willful defaulters issued by the Reserve Bank of India.]
- (a) **Date of declaration** as willful defaulter, (b) Details of defaults (**amount and nature of defaults**)
- Disclosure of any transactions with struck off Companies u/s 248 or 560

Name of struck off Company	Nature of transactions with struck-off Company	Balance outstanding	Relationship with the Struck off company, if any, to be disclosed
	Investments in securities		
	Receivables		
	Payables		
	Shares held by stuck off company		
	Other outstanding balances (to be specified)		

# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL REGULATORY INFORMATION

- Where any charges or satisfaction yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof shall be disclosed.
- Where Company has not complied with the no. of layers prescribed u/s 2(87) read with Rules, name and CIN of the companies beyond the specified layers and the relationship/extent of holding of the company in such downstream companies shall be disclosed.
- Ratios with explanation for items included in numerator & denominator - Reasons for 25% or more variation as compared to PY
  - Current Ratio
  - Debt-Equity Ratio
  - Debt Service Coverage Ratio
  - Return on Equity Ratio
  - Inventory turnover ratio
  - Trade Receivables turnover ratio
  - Trade payables turnover ratio
  - Net capital turnover ratio
  - Net profit ratio
  - Return on Capital employed
  - Return on investment



# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL REGULATORY INFORMATION

- In case Scheme of Arrangements has been approved in terms of sections 230 to 237, the Company shall disclose that the effect of such Scheme of Arrangements **have been accounted for in the books of account of the Company 'in accordance with the Scheme' and 'in accordance with accounting standards and deviation in this regard shall be explained.**
- Point / Question
- Very wide reporting in terms of charges etc., - these are covered under secretarial report
- Ratios not defined specifically – may lead to ambiguity
- Statutory auditor's certificate is issued in w.r.t adherence to scheme – reconfirmation in FS
- **Utilisation of Borrowed funds and share premium**
- In case the Co has advanced or loaned or invested funds (**either borrowed funds or share premium or any other sources or kind of funds**) to any other person(s) or entity(ies), including foreign entities (Intermediaries) with the understanding (**whether recorded in writing or otherwise**) that the Intermediary shall:
- [**Similar provisions shall apply in case the Co has received any funds**]



# DIVISION I – INDIAN GAAP (PART 1 – BALANCE SHEET)

## ADDITIONAL REGULATORY INFORMATION

- (i) 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
  - (ii) provide any guarantee, security or the like to or on behalf of the Ultimate Beneficiaries; the company shall disclose the following
    - date and amount of fund advanced /loaned /invested with complete details of each Intermediary.
    - date and amount of fund further advanced or loaned or invested by such Intermediaries to other intermediaries or Ultimate Beneficiaries along with complete details
    - date and amount of guarantee, security or the like provided to or on behalf of the Ultimate Beneficiaries
    - declaration that relevant provisions of the FEMA, Companies Act has been complied with for such transactions and the transactions are not violative of the Prevention of Money-Laundering act, 2002
- Point / Question
  - Compilation of data for this disclosure will be a task
  - Completeness of information is always questionable - Whether in writing or otherwise
  - Compliance with all laws and very detailed disclosure
  - Other sources / kind of funds
  - Declaration separately or as part of Notes?



## DIVISION I – INDIAN GAAP (PART 2 – STATEMENT OF PROFIT & LOSS)

Particulars	Amendments
<b>Changes – Part 2 Statement Profit &amp; Loss Face</b>	a. Addition / Deletion under III is as below I. Revenue from Operations II. Other Income III. Total Revenue <del>Income</del> (I+II)
<b>Additional disclosure under Notes Statement of Profit and Loss</b>	1. <u>Revenue from Operations</u> <b>Grants or donations received</b> (relevant in case of section 8 companies only)  2. <u>Undisclosed Income</u> Co. shall give details of any <b>transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments</b> under the Income Tax Act, 1961 (such as, search or survey or any other relevant provisions of the Income Tax Act, 1961), unless there is immunity for disclosure under 11 any scheme and also shall state whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.





# DIVISION I – INDIAN GAAP (PART 2 – STATEMENT OF PROFIT & LOSS)

## Corporate Social Responsibility (CSR)

When the company is covered under section 135 disclosure of :

- a. Amount required to be spent during the year
- b. Amount of expenditure incurred
- c. shortfall at the end of the year
- d. **total of previous years shortfall**
- e. **reason for shortfall**
- f. nature of CSR activities
- g. details of related party transactions, - **contribution to trust controlled by Co as per AS**
- h. Where a provision is made w.r.t liability incurred, the movement in provision during the year should be shown separately.

## Details of **Crypto Currency or Virtual Currency**

Where the Company has traded or invested in Crypto currency or Virtual Currency during the financial year, the following shall be disclosed:-

- a. profit or loss on transactions involving Crypto currency or Virtual Currency
- b. amount of currency held as at the reporting date,
- c. deposits or advances from any person for the purpose of trading or investing in Crypto Currency/ virtual currency.



# **DIVISION II — INDIAN ACCOUNTING STANDARDS**



## DIVISION II – IND AS (PART 1 – BALANCE SHEET)

Particulars	Amendments
<b>Changes – Part I Balance sheet face</b>	<p><b>Additional disclosures in division II</b></p> <p><u>1. Addition under head Equity and Liabilities</u></p> <p>II. Equity and Liabilities Liabilities</p> <p>(1) Non – Current Liabilities</p> <p>(a) Financial Liabilities</p> <p>(ia) <b>Lease Liabilities</b></p> <p>Current Liabilities</p> <p>(a) Financial Liabilities</p> <p>(ia) <b>Lease Liabilities</b></p>
<b>Additional disclosures under Notes Balance sheet each head wise</b>	<p>1. <u>Other Financial Assets</u></p> <p>i. Security Deposits</p> <p>ii. Bank deposits with more than 12 months maturity</p> <p>iii. Others (to be specified)</p>



## **DIVISION II – IND AS (PART 1 – BALANCE SHEET)**

~~Statement of Changes in Equity~~

**Equity Share Capital** – additional disclosure - Changes in Equity Share Capital **due to prior period errors** - Restated balance at the beginning of the current reporting period

**Trade Receivables** – ageing schedule along with additional classification into

Undisputed Trade receivables – considered good

Undisputed Trade Receivables – which have significant increase in credit risk

Undisputed Trade Receivables – credit impaired

Disputed Trade Receivables– considered good

Disputed Trade Receivables – which have significant increase in credit risk

Disputed Trade Receivables – credit impaired

### **Trade Payable**

- Classification into – MSME – Others – Disputed dues MSME- Disputed dues Others
- Point / Question

Inclusion of changes due to prior period errors in SOCIE

Classification / detailing may be painful



## DIVISION II – IND AS (PART 1 – BALANCE SHEET)

**Other Financial Assets:** This is an all-inclusive heading, which incorporates financial **assets that do not fit into any other financial asset categories**, such as, Security Deposits

**Other Financial Liabilities:** Current maturities of long-term debt & Current maturities of finance lease obligations – omitted

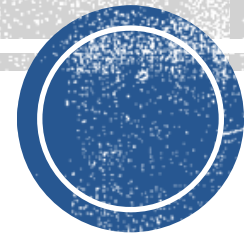
**Non-Current liabilities :** Long term maturities of finance lease obligations - omitted

### ▪ **Additional Regulatory Information**

- Disclose as to whether the fair value of investment property (as measured for disclosure purposes in the financial statements) is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017
- Where the company has revalued its intangible assets/ PPE(including ROU), the company shall disclose as to whether the revaluation is based on the valuation by a registered valuer



**DIVISION III – NBFC WHOSE FS  
ARE PREPARED ON IND AS BASIS**



## DIVISION III – NBFC (PART 1 – BALANCE SHEET)

Particulars	Amendments
<b>Additional Regulatory Information</b>	<b>Additional disclosures in division II</b> Similar to Div I & II  Following ratios shall be disclosed (a) Capital to risk-weighted assets ratio (CRAR) (b) Tier I CRAR (c) Tier II CRAR (d) Liquidity Coverage Ratio



# Signing of Financial Statements





# SIGNING OF FINANCIAL STATEMENTS

## Provisions of Companies Act, 2013

**Section 134(1):** The financial statement, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board by the chairperson of the company where he is authorized by the Board or by two directors out of which one shall be managing director, if any, and the Chief Executive Officer, the Chief Financial Officer and the company secretary of the company, wherever they are appointed, or in the case of One Person Company, only by one director, for submission to the auditor for his report thereon.



# SIGNING OF FINANCIAL STATEMENTS

## Provisions of Companies Act, 2013

**Section 158:** Every person or company, while furnishing any return, information or particulars as are required to be furnished under this Act, shall mention the **Director Identification Number** in such return, information or particulars in case such return, information or particulars relate to the director or contain any reference of any director.

### FRRB Observation (ICAI)

It was noted that one of the director has signed Financial Statements without incorporating his full name and DIN.

Accordingly, it was viewed that the requirements of section 134 read with section 158 have not been complied with.



# SIGNING OF FINANCIAL STATEMENTS

## FRRB Observation

From the Annual Report of a company, it has been noted that the auditor has signed the audit report at one place while he has signed the financial statements on the same day at a different place ?

Response: It was noted that the place of signature of the auditor's report is different from the place of signature of the financial statements. It was possible that the financial statements are signed by the directors at a different location. It was viewed that when these are signed by the auditors along with the audit report both should be signed at the same location.

Hence, signing auditor's report at one place and financial statement at another place is not appropriate.



# SIGNING OF FINANCIAL STATEMENTS

## FRRB Observation

From the Balance Sheet and the Statement of Profit and loss given in the Annual Report, the following has been stated

Director

Director

Response: It may be noted that section 215(1) of the Companies Act, 1956\* states as follows:

“215. Authentication of Balance Sheet and Profit and loss Account

(1) Save as provided by the sub-section(2), every Balance Sheet and every profit and loss account of a Company shall be signed on behalf of the Board of Directors.....”

From the given abstract of the Balance Sheet and Statement of Profit and loss, it was viewed that in the absence of Statement “For and On behalf of the Board of Directors”, it prima facie appears that Directors have signed the documents in their individual capacity which does not meet the requirements of section 215(1) of the Companies Act, 1956. to get these

# SIGNING OF FINANCIAL STATEMENTS

## FRRB Observation

Extract from illustrative

For and on behalf of the Board of Directors of  
[Name of the Company]  
CIN:

[Name of Director]  
Director  
DIN:

Place:  
Date:

[Name of CFO]  
Chief Finance officer

Place:  
Date:

[Name of CS]  
Director  
DIN:

Place:  
Date:

[Name of CS]  
Company Secretary  
Membership No:

Place:  
Date:



# SIGNING OF FINANCIAL STATEMENTS

## FREQUENTLY ASKED QUESTIONS

- Can the audit report be digitally signed?

Response: Yes, The Auditing and Assurance Standards Board of ICAI had released an announcement for use of electronic signature for signing of Audit Reports and Certificates. Kindly refer to the circulation by Audit QR in this regard on April 16, 2020 (Internal Guidance – 06/2020)

- Can financial statements be digitally signed by the auditors as well as the signatories from the client side ?

Response: Yes, the financial statement can be digitally signed by the auditors as well as signatories from the client side.

- Whether auditor's stamp and initials are required on every page of the financial statement?

Response: In case the financial statements are digitally signed, then there is no requirement for stamp and signature of the auditors.



# SIGNING OF FINANCIAL STATEMENTS

## FREQUENTLY ASKED QUESTIONS

- Whether the auditor can sign the financial statements and audit report on different dates?

Response: The date of signing of financial statement and the audit report cannot be different. It needs to be the same date.

- Whether the date of signature of the Board of Directors and Auditor need to be on the same date on the financial statements?

Response: As per provisions of Companies Act, 2013, signing of the financial statements is allowed only after the approval of Board of Directors. Once the FS has been approved in the Board Meeting, the same needs to be sent to the Directors for signing. Once the financials are signed by the Board of Directors, only then it can be sent for auditor's sign. The auditor needs to mention the date and place of signing of FS.

# SIGNING OF FINANCIAL STATEMENTS

## FREQUENTLY ASKED QUESTIONS

- Which financials are to be signed first ? The subsidiary or the holding company consolidated FS?

Response: The subsidiary's FS needs to be signed first and only then the consolidated FS can be signed.

- Whether standalone and consolidated FS are to be signed on the same date?

Response: Standalone and consolidated FS can be signed on different dates, but consolidated FS should be signed after the signing of Standalone FS

- What if out of the total directors, one signing director is outside India and other director is in India?

Response: The same can be digitally signed on the same day.

- Whether Company Secretary (CS) is required to sign the Financial Statements?

Response: If the Company is required to appoint the CS, then the financials are required to be signed by the CS.





# SIGNING OF FINANCIAL STATEMENTS

## FREQUENTLY ASKED QUESTIONS

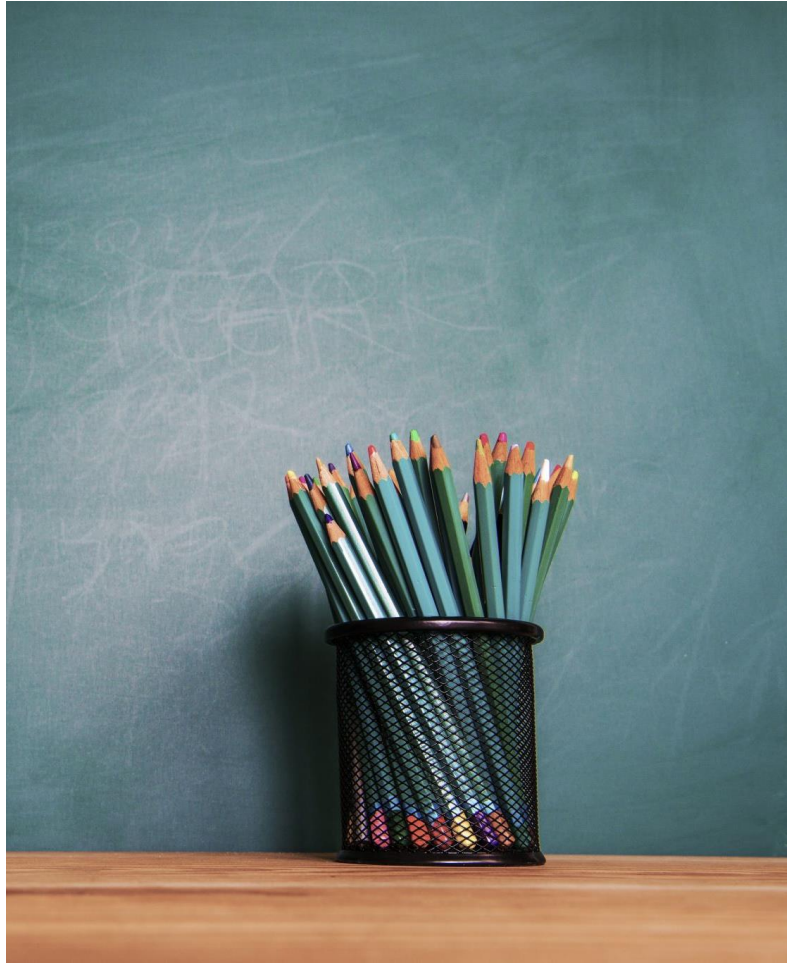
- What if the Company Secretary is not appointed or the Company Secretary has resigned before the financial statements are signed and new Company Secretary has not been appointed?

Response: As per Section 134 of Companies Act, the FS needs to be signed by the Company Secretary of the company, wherever appointed. If there is a temporary vacancy, it can be filled up by the board within period of six months from the date of vacancy as per Section 203. However, the fact is to be stated in the notes to FS. Also ET to evaluate the impact on auditor's report as well.

- In case any of the Director signing the Financial Statements is a non-resident director and will be signing the Financial Statements outside India, can Auditor and Directors of the Company sign the Financial Statements on different dates?

Response: Yes, however Auditor shall always sign the Financial Statements after those are signed off by all the directors.





# SCHEDULE III



# Key Reminders - General

## General:

Title of the "Balance Sheet" and "Statement of Profit and Loss" to be as specified in Schedule III of the Act.

Ensure that the headings and subheadings for the financial statement line items are consistent with the nomenclature specified in the Schedule III. For e.g.: "Cash and cash equivalents" cannot be presented as "Cash and bank balances".

Rounding off in the financial statements to be done as per the Schedule III. Once fixed, uniformity to be ensured across the financial statements, including the footnotes.

Total Income	Rounding off
(i) less than one hundred crore rupees	To the nearest hundreds, thousands, lakhs or millions, or decimals thereof
(ii) one hundred crore rupees or more	To the nearest, lakhs, millions or crores, or decimals thereof.



# Key Reminders - General

## General:

Auditor shall ensure that the assets and liabilities are classified under appropriate heads. Some instances include:

Salary advances and advance to creditors – Classify as Other Current/Non-Current Assets

PF and PT payable – Classify as Statutory dues payable (Other Current Assets)

Director's sitting fee – Classify as Other expenses

Interest on Income taxes – Classify as Finance costs

Auditor may refer the Guidance Note on Schedule III for further guidance.

Wherever applicable, nature of the financial statement line items in the respective notes must be specified. For e.g.: Mention of "Other Receivables" under Other Current Financial Assets or "Miscellaneous provisions" under Trade Payables is not appropriate.

Netting-off should be done only when permitted. For e.g.: Deferred Tax Assets and Deferred Tax Liabilities cannot be shown separately, they must be disclosed on a net-basis and explained in the relevant notes.



# Key Reminders - General

## Consistency checks:

Cross referencing of each relevant line item on the face of the Balance Sheet/Profit and Loss to the respective notes, including Earnings per share and Taxes.

Consistency in nomenclature of the financial statement line items between the face of the financial statements and the respective notes.

Ensuring that the accounting policies cover all the financial statement line items and all relevant aspects of those financial statement areas.

Ensuring that previous year figures tie-out to the comparatives presented. In case of any differences, appropriate explanation to be included in the notes as required by the standards.

Comparatives to be presented for all the notes disclosed



# Key Reminders - Assets

## Investments:

Investments should be appropriately categorised into Quoted and Unquoted investments. In case of Quoted investments, the market value should also be disclosed.

The disclosure shall also mention clearly, the provision for diminution in value of investments (Div I)/Impairment in value of the investments (Div II), including the nature/circumstances for such an impairment.

## Cash and cash equivalents (and other bank balances):

Auditor shall ensure appropriate classification of the fixed deposits into Current and Non-Current based on the remaining period until maturity, including relevant accrued interest.

Auditor shall ensure that any fixed deposits which are not categorised as cash and cash equivalents (having original maturity period exceeding 3 months) are categorised as “Other Bank balances” within Cash and cash equivalents under Div I and as “Bank balances other than (x) above” under Div II.

Further, Fixed deposits held with banks as margin/security cannot constitute as “Cash and cash equivalents”.

Bank overdrafts are to be disclosed as liabilities, and no netting-off is allowed.



# Key Reminders - Assets

## Trade Receivables:

The bifurcation of Trade receivables is required to be done as follows:

- Div I - Considered good – Secured or Unsecured, and Doubtful.
- Div II - Considered good – Secured or Unsecured, Having significant increase in Credit Risk and Credit impaired.

The allowance for bad and doubtful debts is to be disclosed under the relevant heads separately.

Separate disclosure of receivables due from Directors or other officers of the company or connected firms or private companies of the directors is mandated by Schedule III.

Ageing schedule is required to be maintained for Disputed/Undisputed receivables, in addition to each of the classification mentioned above. The ageing is to be computed from the due date of payment, and if no date is agreed upon, from the date of transaction.

Consistency must be ensured between the ageing schedule presented and the figures mentioned in the notes.

The disclosure requirements of Trade Receivables also apply to Contract Assets (Ind AS 115)



# Key Reminders - Assets

## Loans and Advances:

The bifurcation of Loans receivable is required to be done as follows:

- Div I - Considered good – Secured or Unsecured, and Doubtful.
- Div II - Considered good – Secured or Unsecured, Having significant increase in Credit Risk and Credit impaired.

The allowance for bad and doubtful loans is to be disclosed under the relevant heads separately.

Separate disclosure of loans due by Directors or other officers of the company or connected firms or private companies of the directors is mandated by Schedule III.

The Loans must be segregated into Loans given to related parties and Loans give to others. Further, the nature of the loans must be specified.





# Key Reminders - Equity

Auditor to ensure that the note on Share Capital of the entity contain, for each class of shares, inter-alia:

A reconciliation of the number of shares, alongside the amounts.

The rights, preferences and restrictions of each class of shares including restrictions on the distribution of dividends and the repayment of capital

The shares reserved for issue under options and contracts/commitments for the sale of shares/disinvestment.

Promoter Shareholding with percentage to total shares. A promoter share be as defined in the Companies Act, and auditor judgement may be involved in assessing the promoters of the company.

Auditor to ensure that the note on Reserves and Surplus/Other Equity of the entity also specified the purpose and nature of every reserve created.



# Key Reminders - Liabilities

## Borrowings:

Borrowings are required to be appropriately classified into the specified categories mentioned in the Schedule III (eg: Bonds/debenture, Term loans etc). It may be noted that loans repayable on demand would not qualify the definition of 'Term loans' and must be disclosed separately along with the nature.

The terms of repayment are required to be disclosed for all short term and long term loans alongside the rate of interest applicable.

All bonds/debentures are required to be mentioned in the descending order of their maturity/conversion (furthest repayment at the beginning) alongside the rate of interest and redemption terms.



# Key Reminders - Liabilities

## Trade Payables:

The bifurcation of Trade payables towards Micro, Small and Medium Enterprises should be disclosed on the face of the Balance sheet and must be consistent to the notes.

Ageing schedule is required to be maintained for each classification – MSME/Non-MSME and Disputed/Undisputed dues. The ageing is to be computed from the due date of payment, and if no date is agreed upon, from the date of transaction.

Consistency must be ensured between the ageing schedule presented and the figures mentioned in the notes.

## Provisions:

Any provisions on leave encashment or gratuity must be appropriately classified as Current and Non-current, and the basis of the same must be disclosed in the Accounting Policies.



# Key Reminders - Expenses

The financial statements of the entity shall categorise payments to the auditor as (a) auditor, (b) for taxation matters, (c) for company law matters, (d) for management services, (e) for other services, and (f) for reimbursement of expenses

Charges collected from customers as part of revenue from operations should be disclosed separately as revenue from operations rather than as a deduction from direct expenses. Auditor judgement is required to ensure appropriate classification.

In case of Div II to Schedule III, Income taxes on Other Comprehensive Income (OCI) should be disclosed in the OCI section and shall be segregated for Income tax on items that will be reclassified to the profit and loss, and those that will not be reclassified.

MAT Credit Entitlement, if applicable, shall be grouped with deferred tax in the Statement of Profit and Loss, and a separate note should be provided specifying the segregation.



# Key Reminders - Other Notes

Note on Corporate Social Responsibility (CSR) expenditure of the entity shall include all ongoing projects and other than ongoing projects, and must specify

- Amount required to be spent, and the amount actually spent.
- In case of a shortfall in the year (or in the comparative year), the reason for shortfall.
- Nature of CSR activities undertaken by the entity.
- Details of related party transactions, e.g., contribution to a trust controlled by the company in relation to CSR expenditure
- Where a provision is made with respect to a liability incurred, the movements in the provision during the year should be shown separately.

The Guidance note on Sch III provides guidelines for computation of Analytical Ratios. Auditor must ensure that the guidelines are considered in the computation.

In case Division I to Schedule III is applicable, auditor must ensure the disclosure of:

- Value of imports calculated on C.I.F basis
- Expenditure in foreign currency
- Total value of all imported and indigenous raw materials, spare parts and components
- Earnings in foreign exchange classified under the specified heads



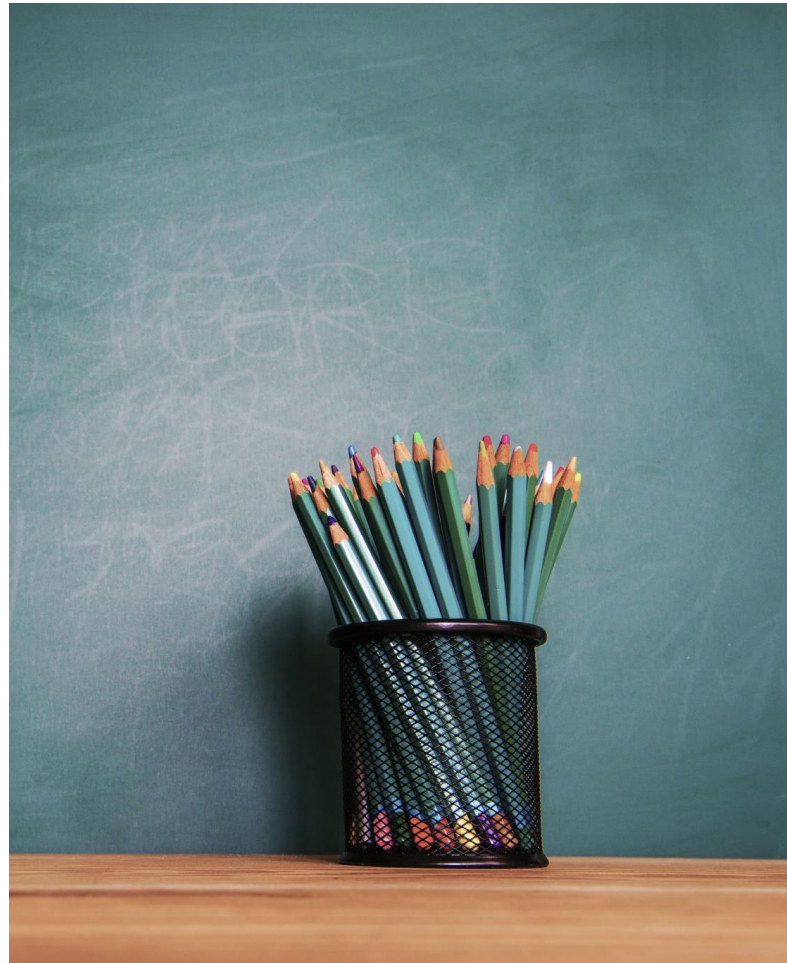
# Key Reminders - Consolidation

In case consolidated financials are issued, the title of the Balance sheet and Statement of profit and loss must be modified accordingly, for e.g.: “Standalone Balance Sheet” or “Consolidated Statement of profit and loss”

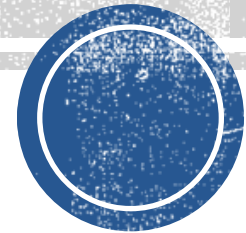
Certain exemptions have been specified in the Guidance note to Schedule III from the reporting in the consolidated financial statements. Some key exemptions include:

- Payments to auditors (bifurcation of fees is not required)
- Expenditure incurred on CSR
- Disclosures required under MSMED Act, 2006
- Title Deeds verification of immovable properties
- Analytical Ratios





# OTHER KEY DISCLOSURES



# Key Reminders – Cash Flow Statement

Case to case analysis of the areas must be done to ensure appropriate classification into operating activities – For e.g.: Changes in capital advances cannot generally be considered as operating activity unless the nature of the entity warrants.

Appropriate classification into Changes in Working Capital and Non-cash Items must be ensured. For e.g.: Int accrued on borrowings is a non-cash item, and hence, cannot be adjusted under Changes in working capital.

In case of Financing activities, Repayment of borrowings and Proceeds from borrowings cannot be shown on a net basis, even if they pertain to the same entity.

Difference in foreign exchange on EEFC accounts should be separately shown in the reconciliation to cash and cash equivalents at the bottom of the Cash flow statement.





# Key Reminders – Related Party Transactions

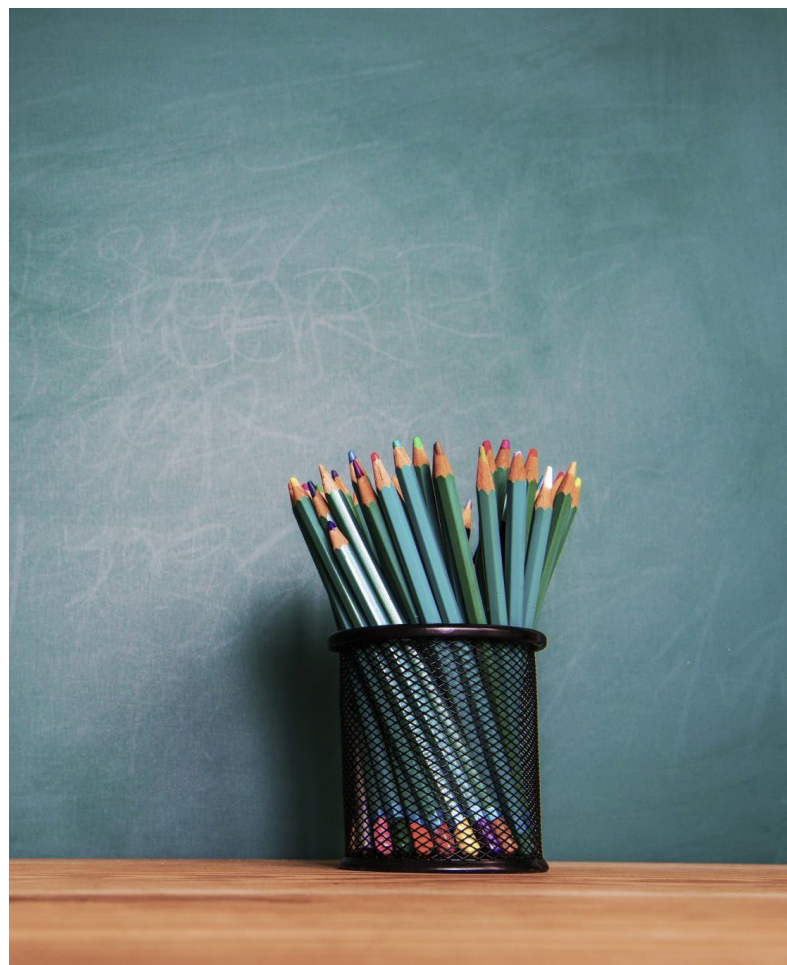
The names of the Parent/Controlling entity is to be disclosed irrespective of whether or not there have been transactions between the related parties. Moreover, in case Ind AS is applicable, the name of the Ultimate parent/Next most senior parent is also required to be mentioned.

Ensure the consistency of the names and nature of relationships of the related parties across the financial statements.

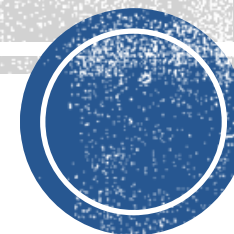
Details of balances outstanding at the end of year are to be disclosed alongside the transactions entered into during the year. For e.g.: Loans outstanding at the end of year to be disclosed alongside amount of loans given during the year.

In case Ind AS is applicable, key management personnel compensation must be categorised and disclosed into the following: short-term employee benefits, post-employment benefits, other long-term Benefits, termination benefits, and share-based payment.





CARO 2020



# Key Reminders - CARO

## Maintenance of proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment and Intangible assets. (3(i)(a))

The Guidance note on CARO 2020 specifies certain details that must be present in the client records to constitute as 'proper records'. Auditor must ensure that all relevant details are captured in the client schedules, which inter-alia must include: The description of the asset, Situation/Location, Class of asset and Quantity.

## Physical verification of Property, Plant and Equipment by the management (3(i)(b))

Auditor shall examine the instructions issued to the staff of the management (which should, therefore, be in writing) and should examine the working papers of the staff to substantiate the fact that verification was done and determine the name and competence of the person who did the verification. Auditor may also observe the count being done by the management if verification is possible to be done in a relatively short period of time.

## Reporting on title deeds being held in the name of the company for all immovable properties (3(i)(c))

Title deeds of all immovable properties including leasehold properties should be verified. Further, investment property (Ind AS 40) and non-current assets held for sale (Ind AS 105), as well as ROU assets covered under Ind AS 116 should be considered for reporting under this clause.



# Key Reminders - CARO

## Physical verification of inventory by the management (3(ii)(a))

Auditor to report on discrepancies noticed by the management in their physical verification if it exceeds 10% of the aggregate value for each class of inventory and comment whether they have been properly dealt with in the books of account.

Auditor must evaluate the instructions sent to the count personnel, their working sheets authorised by appropriate individuals and other relevant internal memos/documents surrounding their physical verification.

Auditor to ensure management count procedures also include coverage on stocks lying with third parties and goods-in-transit (which may be done through management confirmations).

## Verification of quarterly returns or statements filed by the company with banks/financial institutions (3(ii)(b))

Applicable if sanctioned working capital limits on the security of current assets exceed Rs. 5 Crores.

Auditor to ensure that the returns or statements filed are in accordance with the books of accounts. Verification may include: quantity and value of stock, amount of debtors/creditors, or ageing analysis of debtors etc.



# Key Reminders - CARO

## Documentation on Loans and guarantees to related party not being prejudicial to the interest of the company (3(iii)(b))

Appropriate documentation is required to be done by auditor indicating the factors assessed to ascertain whether the loans, advances, investments and guarantees are not prejudicial to the interest of the company.

## Loans and advances - verification of schedule of repayment (3(iii)(c) & 3(iii)(d))

Auditor shall ensure that the schedule of repayment of principal and payment of interest has been stipulated and the repayments are regular.

In case the repayments have exceeded 90 days, auditor shall verify and ensure that reasonable steps have been taken by the management for recovery of the principal and interest.

## Evergreening of Loans (3(iii)(e))

Auditor shall examine if any fresh loans were granted/extensions were made/renewals were done against existing overdue loans of the same parties.



# Key Reminders - CARO

## Compliance with Section 185 & 186 of the Companies Act, 2013 (3(iv))

Auditor to ensure that the company is in compliance of Sec 185 and 186 of the Act, and all the approvals from the Audit Committee/Board of Directors/Shareholders are in place.

In case of non-applicability, the fact should be clearly reported on.

In particular, regarding Sec 186, auditor to ensure that no loans are given without charging interest, and all the elements: Loans, Guarantees, Investments and Securities are considered for reporting.

Auditor to ensure that disclosures are made in the financials, including, int-alia, the purpose for which the loans, guarantees, investments, and securities were granted.



# Key Reminders - CARO

## Reporting on deposition of statutory dues (Clause 3(vii)(a))

Auditor to ensure that all the statutory dues applicable to the entity are reported on

Auditor to maintain appropriate documentation that is consistent with the reporting done in the clause.

## Reporting on disputed statutory dues (3(vii)(b))

Auditors are required to mention the entire title of the statute.

Amount paid under protest must be reported. Though amounts under protest is not contemplated for reporting under this clause, since it has been deposited, the fact of such deposit should be brought out under this clause.

Auditor to ensure that the correct forum of dispute are reported.



# Key Reminders - CARO

## Reporting on defaults of loans (3(ix)(a))

Auditor shall disclose all defaults of loans/borrowings here (Eg: Debentures, Loans from related parties, etc.), in addition to lender wise details of banks, financial institutions and Government.

## Reporting on Wilful Defaulters (Clause 3(ix)(b))

Auditor's procedures may include getting a confirmation from lender or performing research of information in public domain.

## Term loans applied for the purpose for which the loans were obtained (3(ix)(c))

## Funds raised on short term basis have been utilised for long term purposes (3(ix)(d))

## Moneys raised by way of initial public offer or further public offer (including debt instruments) applied for the purposes for which those are raised (3(x)(a))

## Funds raised through preferential allotment or private placement of shares or convertible debentures have been used for the purposes for which the funds were raised (3(x)(b))

Appropriate trail should be maintained by the management for the funds raised. Auditor must apply judgement and consider reporting as necessary.





# Key Reminders - CARO

## Reporting on fraud during the year (3(xi)(a))

Auditor is required to report on any fraud by the company or any fraud on the company.

Reporting is required even if the matter does not materially misstate the financial statements of the company.

Sec 143(12) reporting requirements must also be ensured. As per NFRA circular, reporting is required even in cases where the Statutory Auditor is not the first person to identify the fraud/suspected fraud.

## Verification of whistle blower complaints (3(xi)(c))

Auditor shall obtain an understanding of the whistle blower process of the company.

Evaluation shall be done of the register of complaints, and how the matters were investigated and resolved.



# Key Reminders - CARO

Documentation on whether the company had an internal audit system commensurate with its size and nature of its business (3(xiv)(a))

The auditor must obtain information about the internal audit function including information about the team size, qualifications, their responsibilities and the reporting channel to the management/TCWG.

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 (3(xvii))

Auditor must follow the Guidance note on CARO 2020 (Paragraph 82) which specifies guidelines for computation of cash losses.

Cash losses in any one of the years (i.e. current financial year or preceding financial year) must be reported in this clause.

Reporting for Consolidated Financial Statements (3(xxi))

Auditor shall report any remarks in the CARO reports of the entities included in the consolidated financial statement. Auditor shall indicate the details of the companies, CIN of the company, nature of entity and the paragraph numbers of the CARO report



# Further Reading

**Guidance Note on Schedule III - Div I**

[GN on Sch III Div I \(icai.org\)](https://www.icaai.org/)

**Guidance Note on Schedule III - Div II**

[GN on Sch III Div II\(icai.org\)](https://www.icaai.org/)

**Guidance Note on CARO 2020**

[GNCARO2020\(icai.org\)](https://www.icaai.org/)





