INDIA
J.B. NAGAR CPE STUDY CIRCLE OF WIRC
OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
PHYSICAL STUDY CIRCLE MEETING
CPE 4 HRS
Session
Enhancing Financial Reporting Quality – Key Observations of the FRRB
Speaker :
CA. Chintan Shah
VENUE : Hotel Kohinoor Continental, J B Nagar , Andheri (E), Mumbai 400059
Day : Sunday ,
Date : 23rd August 2026
Time : 08.45 am - 01.15 pm
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ICAI

J B NAGAR CPE Study Cirlce of WIRC of ICAI

COMPANY AUDIT & CARO

Enhancing Financial Reporting Quality - FRRB Insights-

Accounting Standards (AS)
Schedule III – Companies Act, 2013
& CARO

“It's good to learn from your mistakes.

It's better to learn from other people's mistakes.”

Warren Buffett

Session Agenda

FRRB Overview & Why Disclosure Errors Are Critical

PART A: Common Errors in Disclosures as per Accounting Standards

AS 1 — Accounting Policies

AS 2 — Inventories

AS 9 — Revenue Recognition

AS 10 — PPE |

AS 26 — Intangible Assets

AS 15 — Employee Benefits

AS 16 — Borrowing Costs

AS 18 — Related Party

AS 22 — Deferred Tax

AS 29 — Provisions & Contingcies

Session Agenda

Part B; Common Errors in Financial Statements as per Schedule III

Schedule III – Balance Sheet Errors

Schedule III – Statement of P&L Errors

Schedule III – Notes to Accounts: Omissions

PART C : Errors in CARO

Conclusion & Key Takeaways

Partner in Nation Building – Supporting Regulators

MCA	SEBI	IRDAI	RBI	C&AG	ECI	NABARD	NITI AAYOG	CBDT

Undertakes review of cases referred by Regulators (MCA, SEBI, CAG, ECI)

Refer cases to Regulators where significant non-compliances affecting true and fair view of the financial statements are found (MCA, SEBI, RBI, IRDA)

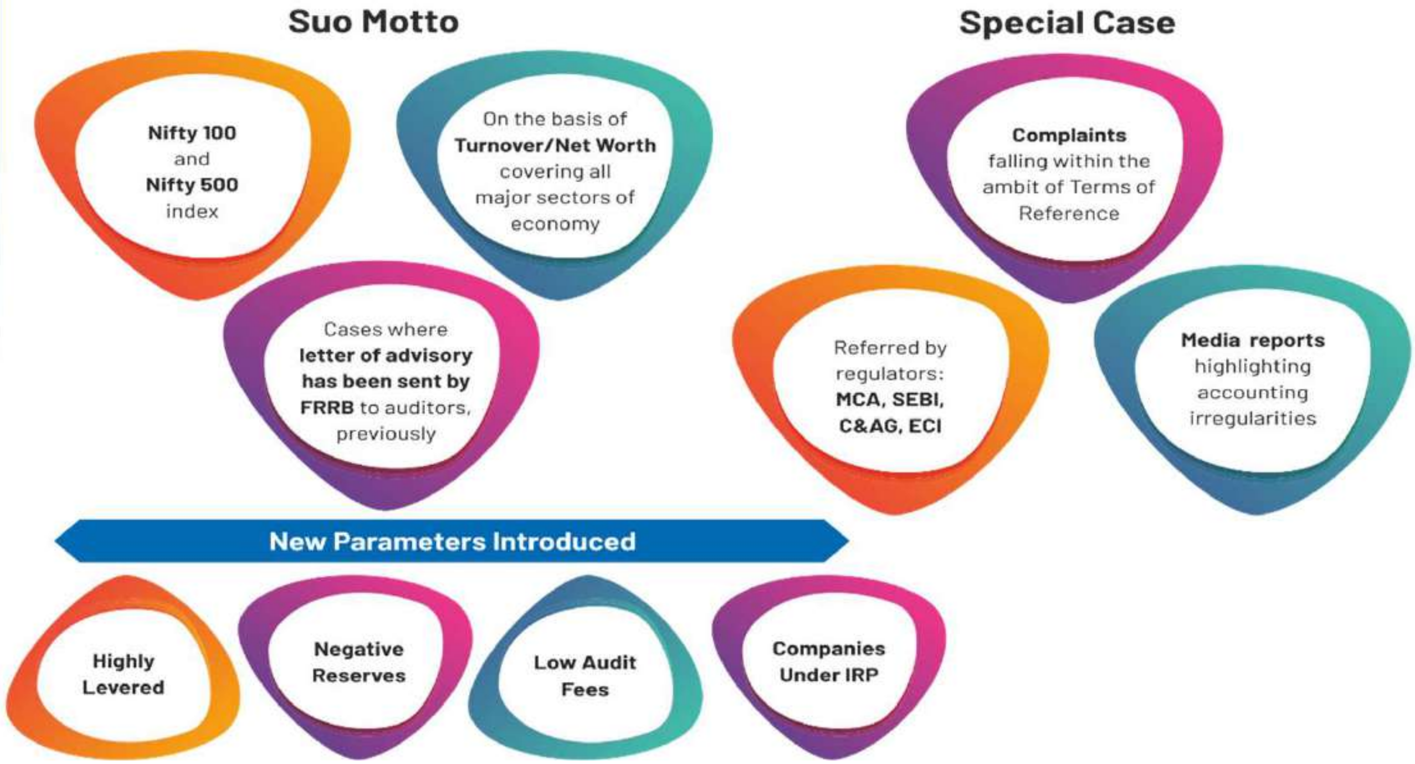
Submits presentation to MCA on significant non-compliances observed

Special invitees from various Regulators (NABARD, CBDT, Niti Aayog) on Board

ICAI's alliance with regulators proves to be instrumental in improving the financial reporting practices in India.

Selection of Enterprises for Review

Multi-Faceted Selection Process ensuring comprehensive assessment of wide range of entities, encompassing:



Action Taken Based on Review

Action taken after review

Material Non-compliance **affecting True & Fair view of the Financial Statements**

- ***Action against the Auditor(s):*** Refer the case to the Director (Discipline)
- ***Action against the Enterprise :*** Inform irregularity to the regulatory body relevant to the enterprise

Non-compliance, which are not material and **does not affect the True & Fair view of the Financial Statements**

- ***Bring the non-compliance to the attention of the auditor*** *by way of advisory. To make regulatory mechanism of the Institute more effective share relevant details with Peer Review Board so that it may accordingly be considered during the Peer Review*

Overview — Why Disclosure Errors Are Critical

Mandatory

Disclosures under AS are NOT optional

Schedule III

Prescribes exact format of financial statements

MCA / SEBI

Regulators penalise non-compliant financials

Audit Qual.

Non-disclosure leads to qualified/modified opinion

Part A — Accounting Standard Disclosures

- Every AS prescribes specific disclosures in Notes to Accounts
- Failure = non-compliance even if numbers are correct
- Common areas: AS 1, 2, 9, 10, 15, 16, 18, 22, 26, 29
- Auditors are required to report omission of AS disclosures under CARO
- Non-disclosure of related party transactions attracts special scrutiny

Part B — Schedule III (Companies Act 2013)

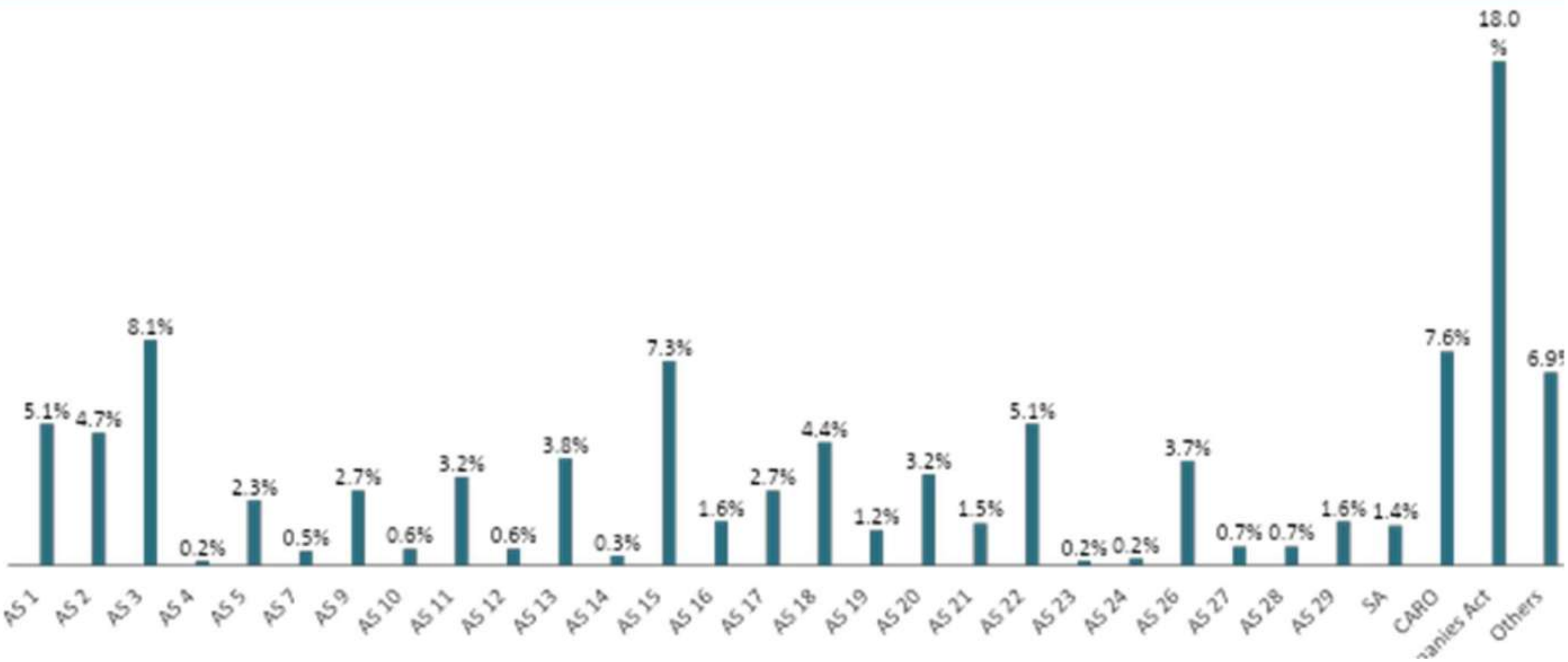
- Schedule III mandates exact format for Balance Sheet & P&L
- Division I –AS companies | Division II – Ind AS companies
- Notes are an integral part of financial statements (not optional)
- Common errors: wrong classification, missing sub-classifications
- MCA amendments (2021, 2022) added new disclosure requirements

PART A

Accounting Standard Disclosure Errors

Common omissions & mis-statements in mandatory AS disclosures

At a Glance: Non-compliances Observed by the Board During the Course of Review (IGAAP)



"Detailed observations are available in "Study on Compliance of Financial Reporting Requirements, Volume III" at [Publication Indian-GAAP]

AS 1 — Disclosure of Accounting Policies : Common Disclosure Errors

Standard Mandate: All significant accounting policies adopted must be disclosed; changes in policies must be disclosed with effect.

Policy Not Disclosed

- Depreciation method and rates not stated in notes
- Method of inventory valuation (FIFO/WA) not mentioned
- Revenue recognition policy absent or too vague

Change in Policy – No Disclosure

- Change from SLM to WDV without disclosing reason
- Retroactive effect on profit/loss not quantified & disclosed
- Prior-period comparatives not restated with explanation

Boilerplate / Generic Policies

- Policies copied verbatim from another company's financials
- Policy statement says 'AS applicable' without specifying which
- Going-concern basis stated without any evidence/assessment

Incomplete / Misleading Disclosure

- Estimation basis for provisions not disclosed
- Basis of foreign currency translation not stated
- Significant judgements in applying policies not highlighted

⚠ CARO 2020 – Auditor must report whether company has disclosed all significant accounting policies consistently.

AS 2 — Inventories : Disclosure Errors

AS 2 — Inventories

Mandatory Disclosures Often Omitted

- Cost formula used (FIFO / Weighted Average) NOT disclosed
- Carrying amount of inventories by category (RM/WIP/FG) not shown
- Amount of inventory written down to NRV not separately disclosed

Wrong Presentation / Misclassification

- Slow-moving inventory shown at cost; write-down to NRV not disclosed
- Reversal of prior-year write-down not disclosed with circumstances
- Inventories pledged as security: carrying amount not disclosed

AS 9 — Revenue Recognition : Disclosure Errors

AS 9 — Revenue Recognition

Key Disclosure Omissions

- Revenue recognition policy not disclosed (trigger point not specified)
- Construction contracts: % completion method basis not stated
- Multiple-element arrangements: allocation basis not explained

Measurement & Presentation Errors

- Gross revenue shown without deducting trade discounts / returns
- Agent vs. Principal not evaluated — gross/net presentation incorrect
- Deferred revenue balance not disclosed as liability in notes

Audit Impact — Non-disclosure of revenue recognition policy is a frequent basis for QUALIFIED OPINION

Where percentage of completion method is used for long-term contracts, the following must be disclosed: method used to determine stage, contract revenue recognised, and unbilled/deferred amounts.

AS 10 — Property, Plant & Equipment : Disclosure Errors

AS 10 — Property, Plant & Equipment

Gross Block Movement Not Disclosed

- Opening/closing gross block & accumulated depreciation not reconciled
- Additions, disposals, adjustments not separately shown in schedule
- Capital work-in-progress not separately classified from PPE

Depreciation & Revaluation

- Useful life or depreciation rate used not disclosed
- Basis for revaluation not disclosed; independent valuer not mentioned
- Revaluation surplus in equity — restrictions on distribution not stated

Fixed Asset Schedule – Mandatory Columns in Notes (AS 10 Para 74)

Gross Block (Opening)	Add: Additions	Less: Disposals	Gross Block (Closing)
Acc. Depreciation (Opening)	Dep. for year	Acc. Dep. (Closing)	Net Block

AS 26 — Intangible Assets : Disclosure Errors

AS 26 — Intangible Assets

Useful Life & Amortisation

- Useful life (or amortisation rate) not disclosed per class of intangible
- Finite vs. indefinite useful life classification not stated
- Where life > 10 years — justification in notes mandatory but often absent

Movement Schedule & R&D

- Gross carrying amount movement schedule not presented
- Research vs. development expenditure split not disclosed
- Internally generated vs. acquired intangibles not separately identified

AS 15 — Employee Benefits : Disclosure Errors

AS 15 — Employee Benefits

Defined Benefit Plans – Disclosures Missed

- Actuarial assumptions (discount rate, salary escalation, mortality) not disclosed
- Reconciliation of opening to closing defined benefit obligation absent
- Components of gratuity expense not split into service cost / interest cost

Other Employee Benefit Errors

- Leave encashment: actuarial basis vs. proportionate basis not disclosed
- Short-term accumulated compensated absences: provision basis not stated
- ESOP: fair value method vs. intrinsic value — basis and effect not disclosed

✔ Best Practice (AS 15):
Disclose a full table: Present Value of DBO | Fair Value of Plan Assets | Net (Asset)/Liability | Actuarial gain/loss | Components of expense in P&L. Attach actuarial report as annexure.

AS 16 — Borrowing Costs : Disclosure Errors

AS 16 — Borrowing Costs

Capitalisation Disclosures Omitted

- Amount of borrowing cost capitalised during the year not disclosed
- Capitalisation rate for general borrowings not disclosed
- Commencement and cessation dates of capitalisation not mentioned

Classification & Presentation Errors

- Finance charges on leases included without disclosure of segregation
- Exchange differences on foreign currency borrowings: capitalisable portion not shown
- Suspension of capitalisation during extended interruptions not mentioned

AS 18 — Related Party Disclosures : Errors

AS 18 — Related Party Disclosures

Identification Omissions

- Entities under common control of KMP's family members not identified
- Fellow subsidiaries and Step-down subsidiaries missed

Transaction Disclosures

- Transaction amount + outstanding balance must be disclosed per party
- Terms & conditions (especially interest-free loans) not stated
- Write-offs, provisions for doubtful debts with related parties not shown

AS 22 — Deferred Tax (Taxes on Income) : Errors

AS 22 — Taxes on Income

Deferred Tax Disclosures

- Nature of each component of DTA/DTL not explained
- Movement in deferred tax balance not reconciled year-on-year
- DTA recognised on carry-forward losses: evidence of certainty not stated

Current Tax Disclosures

- Reconciliation of effective tax rate to statutory rate often absent
- MAT credit entitlement and utilisation not properly explained
- No disclosure of contingent tax liability for pending assessments

AS 29 — Provisions & Contingencies : Errors

AS 29 — Provisions & Contingencies

Provision Disclosures

- Opening/closing balance movement not shown per class of provision
- Unused amounts reversed — reason and amount not disclosed
- Expected timing of outflow not indicated in notes

Contingent Liability Omissions

- Pending litigations / claims not quantified
- Guarantees given on behalf of subsidiaries / associates not shown
- 'Remote' vs 'possible' classification not explained in notes

PART B

Schedule III Errors

Common errors in Financial Statements as per Schedule III – Companies Act, 2013

Schedule III — Companies Act 2013 : Structure (Divisions I, II, III)

Division I
Non-Ind AS Companies

- Balance Sheet format
- P&L format
- Notes requirements

Division II
Ind AS Companies

- Ind AS compliant format
- OCI presentation
- Equity reconciliation

Division III
NBFCs

- Specific to NBFC format
- RBI guidelines overlay
- Ind AS applicable

Schedule III — Companies Act 2013 : Key Amendments (2021 & 2022)

Key Amendments — MCA Notification March 2021 & September 2022 added significant new disclosure requirements

2021 Amendment – New Requirements

- Ageing schedule of trade receivables & payables (outstanding > 6M, 1–2yr, 2–3yr, >3yr)
- Disclosure of transactions with struck-off companies
- CSR obligation and shortfall disclosure with reasons
- Details of benami property held, if any
- Ratio analysis: 8 mandatory financial ratios with YoY comparison

2022 Amendment – Additional Requirements

- Details of crypto-currency / virtual currency holdings
- Details of undisclosed income surrendered during search
- Quarterly returns / statements filed with banks reconciled to books
- Utilisation of borrowings from banks / FIs for stated purpose
- Title deeds of immovable property not held in name of company

Schedule III — Balance Sheet (Equity & Liabilities) : Errors

EQUITY & LIABILITIES SIDE

Share Capital Note (Mandatory Sub-items)

- Reconciliation of shares outstanding at beginning & end not shown
- Rights, preferences, restrictions for each class not disclosed
- Shareholders holding > 5% shares: name & %age not disclosed
- Aggregate no. of shares allotted as bonus / bought back in 5 yrs

Borrowings & Current Liabilities

- Current vs. non-current split of long-term loans not done correctly
- Secured borrowings — nature of security not described
- Period and amount of default in repayment of loans not disclosed
- Dues to MSME suppliers >45 days not separately classified

MSME Disclosure (Section 22 – MSMED Act, 2006): Companies must disclose: (a) principal amount and interest due to MSME (b) interest paid in terms of Section 16 (c) further interest due (d) interest accrued and remaining unpaid (e) amount of interest disallowed u/s 23. This is frequently omitted entirely.

Schedule III — Balance Sheet (Assets Side) : Errors

ASSETS SIDE

PPE (Fixed Assets) & Investments

- Assets held for sale not reclassified from PPE
- Investments: quoted market value vs. carrying value not compared
- Goodwill on consolidation not tested for impairment / disclosed
- CWIP ageing schedule (> 1yr, 1-2yr, 2-3yr, >3yr) not prepared

Trade Receivables & Cash

- Ageing of trade receivables with amounts outstanding >6M not shown
- Cash & cash equivalents: restricted cash not separately disclosed

Schedule III — Statement of P&L (Revenue, Employee & Finance Costs)

Schedule III prescribes mandatory line items — additions / deletions are not permissible without specific justification.

Revenue Presentation

- Excise duty/GST netting — basis of net vs. gross not clearly stated
- Other operating income mixed with 'Revenue from Operations'
- Sale of services and sale of goods not separately shown

Employee Benefit Expenses

- Gratuity expense not classified into components (service cost, interest)
- ESOP expense not separately disclosed
- Director remuneration not separately identifiable in notes

Finance Costs

- Bank charges clubbed with interest expense
- Interest cost not split: borrowings / lease liabilities / others
- Unwinding of discount on provisions not shown as finance cost

Schedule III — Statement of P&L (Depreciation, Other Exp & Tax/EPS)

Schedule III prescribes mandatory line items — additions / deletions are not permissible without specific justification.

Depreciation & Amortisation

- Amortisation of intangibles not separately shown from depreciation
- Impairment losses not separately disclosed on face of P&L
- Depreciation on investment property merged with PPE depreciation

Other Expenses – Common Omissions

- Payments to auditors not separately disclosed
- Expenditure on CSR: gross amount vs. through implementing agency
- Donations to political parties: u/s 182 Companies Act not stated

Tax & EPS Line Items

- Current tax / deferred tax not separately shown below PBT
- Exceptional items not separately classified before tax
- EPS — basic and diluted must be shown; face value specified

Schedule III — Notes to Accounts (Corporate Info, Judgements & Capital Risk)

Notes are an integral part of financial statements. Omission of a mandatory note = non-compliance with Schedule III.

Corporate Information & Basis

- Company's nature of business and place of registration
- Statement that FS comply with Companies Act, 2013 & applicable AS
- Reporting period and currency — explicitly stated
- Going concern assumption — explicitly confirmed or basis given

Significant Accounting Judgements

- Key sources of estimation uncertainty identified
- Critical judgements in applying accounting policies
- Management's assessment of going concern (potential losses)

Capital & Risk Management

- Capital management objective & policy
- Loan covenants — breach or waiver during the year
- Changes in liabilities from financing activities (cash flow)
- Concentration of credit risk — geographic / counterparty

Schedule III — Notes to Accounts (Ratio Analysis, Loans & Other Omissions)

Notes are an integral part of financial statements. Omission of a mandatory note = non-compliance with Schedule III.

Ratio Analysis — New 2021 Requirement

- 8 mandatory ratios: Debt-Equity, Debt Service Coverage, ROE, Inventory Turnover, Receivables T/O, Payables T/O, Net Capital Turnover, Net Profit
- Previous year comparatives mandatory
- Where ratio changes by > 25% — explanation in notes required
- Many companies disclose ratios without YoY explanation

Loans & Advances — New Requirements

- Loans to related parties — purpose, security, repayment terms
- Loans to directors / officers of company
- Utilisation of borrowed funds — whether used for stated purpose
- Funds advanced / loaned without business purpose (round-tripping)

Other Frequently Missed Disclosures

- Title deeds of immovable property: if not in company name, details
- Struck-off company transactions: names, nature, amount
- Layer structure of subsidiaries (Section 2(87) compliance)
- Undisclosed income surrendered in searches/surveys

Schedule III (2021 Amendment) — Ageing Schedules & Ratio Analysis : Common Errors

MCA 2021 Amendment — Effective from financial years beginning 1st April 2021. Non-compliance is reportable under CARO 2020.

Trade Receivables Ageing Schedule — Required Format & Errors

Category	Outstanding < 6M	6M – 1Yr	1Yr – 2Yr	2Yr – 3Yr	> 3Yr
Undisputed – Good	✔ Amount	✔ Amount	✔ Amount	✔ Amount	✔ Amount
Undisputed – Doubtful	✔ Amount	✔ Amount	✔ Amount	✔ Amount	✔ Amount
Disputed – Good	✔ Amount	✔ Amount	✔ Amount	✔ Amount	✔ Amount
Disputed – Doubtful	✔ Amount	✔ Amount	✔ Amount	✔ Amount	✔ Amount

Common Errors in Ageing Schedule Preparation

Data Accuracy

- Outstanding balances bucketed by invoice date instead of due date
- Credit note balances not netted from the respective bucket
- Disputed vs. undisputed classification not done from legal/commercial angle

Trade Payables Ageing

- MSME creditors not separately identified from other creditors
- Advances to suppliers shown in payables ageing table
- Credit balances in debtors not reclassified to payables

Ratio Analysis Errors

- Ratios computed on wrong base (e.g., gross sales instead of net)
- Return on Equity: average equity not used in denominator
- No explanation provided where ratio changed by more than 25%

PART C

CARO

Common errors in CARO

Clause 3(i)(a) of CARO, 2020

Case:

Following are some of the cases, where auditor has reported in a very casual manner while reporting in pursuance to clause 3(i)(a):

The Company has maintained **reasonable records** showing full particulars, including quantitative details and situation of Property, Plant and Equipment.

The Company **generally maintained proper records** showing full particulars including quantitative details and situation of Property, Plant and Equipment.

Observation:

In the first case, auditor's comment does not clearly mention whether proper records were maintained or not.

In second case, usage of word **'generally'** gives an impression that there might be instances where proper records of Property, Plant and Equipment have not been maintained

Clause 3(i)(b) of CARO, 2020

Case:

Various instances were observed where auditors have reported in pursuance to clause 3(i)(b) in following manner:

- **As explained to us**, Property, Plant and Equipment are physically verified by the management at reasonable intervals in a phased manner in accordance with a program of physical verification.
- **We are informed** that no material discrepancies were noticed on such verification.
- The management, at the end of the year, has physically verified the Property, Plant and Equipment and **we have been informed** that no material discrepancies were noticed on such verification.
- **According to information and explanation given to us and as certified to us**, the management during the year physically verified the assets.
- **As informed to us**, the Property, Plant and Equipment have been physically verified by the management during the year as per phased programme of physical verification of Property, Plant and Equipment.
- **As informed**, no material discrepancies between the book records and the physical existence have been noticed.

Observation:

- The use of words such as ‘we are/ have been informed’ or ‘as informed …’or ‘as explained to us’ or ‘as certified to us’, indicates that auditor has not carried out adequate procedures to confirm whether actual verification was done or not and also whether a discrepancy found, if any, is material or not.
- Further, in many instances the auditor has not explicitly reported as to whether the physical verification of PPE was performed at a reasonable interval by the management.

Case:

Various instances were observed where auditors have reported in following manner, while reporting in pursuance to clause 3(ii)(a):

Inventories have been physically verified by the management. According to the information & explanations given to us, no discrepancies were noticed on physical verification of inventories.

As per the information and explanations given to us, the management has conducted physical verification of inventory at reasonable intervals during the year **wherever possible and required**, and the discrepancies noticed have been properly dealt with in the books.

Observation:

In the first case, auditor has not reported as to whether the physical verification was done at reasonable intervals.

In the second case, the use of the phrase "wherever possible and required" is not appropriate, as it may create ambiguity in the minds of readers. The CARO reporting should be based on factual information.

Case:

While reporting in pursuance to clause 3(iii)(c), the auditor reported as follows:

According to the information given to us, the borrowers have been regular in the repayment of principles and interest on loans as stipulated.

Observation:

The use of such expression ''According to the information given to us'' may lead users of the financial statements to believe that the auditor has merely relied on the information provided by the management without carrying out any other appropriate audit procedures to verify the information as to whether the repayment of principles and interest on loans is regular or not.

Case:

….the company has complied with the provisions of Section 185 and 186 of the Companies Act, 2013 in respect of making investments.

The Company has not made any loans and guarantees or security to person covered in section 185, therefore, requirement of section 185 of the Companies Act, 2013 is not applicable.

Auditor reported that requirements of Section 186 has been complied with, however, the company has provided interest free loans to its holding company, which is non-compliance of section 186(7).

… Based on the information and explanations given to us, being an infrastructure company, provision of section 186 of the Act is not applicable to the Company and hence not commented upon.

Observation:

The auditor has not reported on compliance of section 185 and 186 in respect of loans given, and guarantee & security provided.

The relevant notes show that the company had given loan to directors.

Auditor's reporting contradicts with the facts presented in the financial statements.

Auditor's reporting contradicts with the facts presented in the financial statements.

The requirement of section 186(1) is applicable to infrastructure companies, and therefore, auditor should have given his comment on compliance with section 186(1) by the company in line with paragraph 3(iv) of CARO, 2020. **(Refer Section 186(11)(a) of the Companies Act, 2013)**

Case:

In pursuance to clause 3(v), the auditor reported as follows:

"The Company has not accepted deposits from the public, under the directives issued by the Reserve Bank of India and the provisions of the section 73 to 76 of the Act and the rules framed there under. However, temporary loans have been taken from employee welfare trust without adequate records."

Observation:

If those temporary loans fall within purview of Section 73 to 76 of Companies Act, they should have been clearly reported. However, if the loans fall outside the scope of these sections and the auditor still wishes to draw the reader's attention to such facts, it should have been reported as 'Emphasis of Matter' in accordance with SA 706.

Case:

In pursuance to clause 3(vi), the auditor reported as follows:

"The Central Government has prescribed maintenance of cost records under section 148(1)(d) of the Companies Act, 2013. **As explained to us such records are at the advance stage of preparation**."

Observation:

The auditor has stated that 'as explained to us', which **indicates that he has not examined the facts being reported**. On the contrary, he had simply relied on the explanation of the management regarding the maintenance of cost records. Appropriate audit procedures should be adopted by the auditor.

Case:

While reporting in pursuance to clause 3(vii)(a), certain auditors have reported in following manner:

- According to information and explanation given to us there are no dues relating to sales tax, wealth tax, income tax, service tax etc. which have not been deposited on account of any dispute.
- The company is regular in depositing with appropriate authorities undisputed statutory dues, including Provident Fund, Employees State Insurance, Income Tax, Sales Tax, service tax, duty of Custom, duty of excise, value added tax, cess and any other statutory dues applicable to it.

Observation:

In first case, the auditor has commented on dues relating to sales tax, wealth tax, income tax, service tax, **but omitted to comment on customs duty, excise duty and cess.** Although the word 'etc.' has been used, however, the auditor should specifically comment on each of the stated statutory dues. In case, if they are not applicable, it should be mentioned accordingly.

With regard to second case, the financial statement shows that the company has neither paid employee benefits nor contributed to the provident fund or ESI. However, the auditor's report states that the company is regular in depositing statutory dues for provident fund and ESI.

Case:

While reporting in pursuance to clause 3(vii)(a), the Auditor had reported on outstanding statutory dues in respect of income tax, sales tax, excise duty and custom duty, however, he has not reported the period to which such dues related.

Observation:

The reporting under this clause should be provided in the format prescribed under Paragraph 59(r) of Guidance Note on CARO, 2020 which is as follows:

Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Due Date	Date of Payment	Remark, if any

Clause 3(vii)(b) of CARO, 2020

Case:

While reporting under this clause, the auditor reported as follows:

- In our opinion, there are no material dues of the duty of customs, service tax, excise duty, Goods and Service Tax, VAT, which have not been deposited on account of dispute.
- In another case, the auditor has omitted to report the period to which disputed dues relates and forum where dispute is pending.

Observation:

In the first case, the usage of such phrase “no material dues” gives an impression that the auditor has verified and reported only the dues that were material in nature and has not covered all the applicable dues that were under dispute.(Refer paragraph 60(a) of Guidance Note on CARO, 2020) (Revised 2022)

With regard to second instance, the reporting should be provided in the format prescribed under Paragraph 60(h) of Guidance Note on CARO, 2020 which is as follows:

Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Due Date	Date of Payment	Remark, if any

Case:

Following were observed from the auditor's reporting in pursuance to clause 3(ix)(a):

- While reporting under this clause, the auditor only reported regarding non-default of loans taken from Government and not dues to debenture holders.
- In another case, the auditor has reported the default in repayment of loan from certain banks without providing adequate details.

Observation:

In first case, along with others, the auditor should have also reported with respect to dues to debenture holders.

In second case, the auditor requires to give lender-wise details in case of default in repayment of loans from Banks, FIs and Govt in the format prescribed under paragraph 62(n) of Guidance Note on CARO, 2020, which is as follows:

Nature of borrowing including debt securities	Name of lender*	Amount not paid on due date	Whether principal or interest	No. of days of delay or unpaid	Remarks, if any
	*lender wise details to be provided in case of defaults to banks, financial institutions and Government.				

Case:

In pursuance to clause 3(ix)(c), the auditor reported as follows:

…The company did not raise any money by way of initial public offer or further public offer and term loans during the year. Accordingly, our comment on this clause is not required.

Observation:

The auditor's reporting under paragraph 3(ix)(c) of CARO, 2020 contradicts the financial statements, which disclose 'Proceeds from long-term borrowings' in the Cash Flow Statement and 'outstanding balances' under Note on 'Non-current Borrowings.' This inconsistency has also led to the omission of reporting on whether term loans were applied for their intended purpose.

Case:

The auditor's reporting in pursuance to Clause 3(xi)(a) is as follows:

"According to information and explanations given to us, no fraud on or by the Company has been noticed or reported **during the course of our audit.**"

Observation:

The auditor should have reported on all frauds noticed or reported **'during the year'** rather than reporting only on frauds that were noticed 'during the course of his audit'.

Case:

While reporting under the clause 3(xiii), the auditor reported as follows:

- As informed by the management, transactions with related parties are in compliance with Sections 177 and 188 of the Act, where applicable, and details of such transactions have been disclosed in the financial statements as required by the applicable accounting standards.
- In another case, the auditor reported that since the company has not entered into related party transaction during the year, therefore, the requirements of clause 3(xiii) are not applicable.

  However, Note to the accounts disclosed related party transactions.

Observation:

In first case, usage of the phrase "As informed by the Management", implies that auditor has not performed adequate procedure to satisfy himself about the related parties and the transactions entered into with them and relied solely on the assertions made by the management.

With regard to second case, reporting done by the auditor under clause 3(xiii) is not correct.

KEY TAKEAWAYS

ICAI CPE Seminar

01 Disclosures Are Non-Negotiable

Every Accounting Standard contains specific disclosure requirements. Incorrect numbers can sometimes be revised; non-disclosure is a standalone compliance failure.

02 Schedule III Has Changed — Stay Updated

MCA 2021 & 2022 amendments introduced ageing schedules, ratio analysis, struck-off company disclosures and crypto disclosures. These are commonly missed.

03 Audit Trail Starts with Notes

Regulators, investors and auditors use Notes to Accounts as the primary document for scrutiny. Gaps in notes invite adverse remarks under CARO and Companies Act.

04 Checklist Approach for Preparers

Use a comprehensive disclosure checklist against each applicable AS before signing off financials. Cross-reference with Schedule III requirements for each line item.

05 Penalty & Reputational Consequences

Section 134 / 448 – Companies Act: False statements in financial statements attract criminal liability. SEBI action for listed entities. Restatements damage credibility.

Thank You

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Questions & Discussions Welcome