



Gurugram Branch of NIRC of ICAI

(Setup by an Act of Parliament)

e-Newsletter Chartered Accountants May 2021 Edition

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“Before you start some work always ask yourselves three questions why I am doing it, what the results might be and will I be successful. Only when you think deeply and find satisfactory answers to these questions, go ahead.”

~ Chanakya

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**CA. Nitin Kataria**

Chairman

Dear Members and Students

I hope you all are doing well. I wish for your good health in this difficult time.

Last year we faced a tough situation regarding the covid-19 but slowly and steadily the things were back on track in the last quarter of 2020-21. All of us were very hopeful for the recovery and growth. But once again it seems that the same situation has come in the month of April 2021 but this time with more rigour. Every family is affected with this throughout the country but now we have to learn to live with this pandemic by taking utmost care of ourselves.

The CA fraternity again came forward by contributing all the available resources to serve the mankind and will keep on doing so in the future also. In this we have also formed a COVID task force of Gurugram branch and also arranged 1st COVID Vaccination Drive for the CA Members and their families at branch premises wherein the CMO Gurugram personally paid a visit. But the ultimate truth is that we are the one who has to take care of ourselves and others.

With this the Gurugram branch is also committed to serve the CA Members and CA Students with respect to their continued professional education and related matters. I would also request the readers of this article to come and participate by writing articles for our newsletter. Also, the whole team of Gurugram branch is committed to the betterment of the professional and encourage you to please take active participation in all the events, activities of the chapter.

Take care.

Best Wishes.



Preface and Introduction:

Accessing the US marketplace is the key to success for many businesses around the world. The most effective way to reach this market is with a US company, to take advantage of the world's largest, best integrated national market at the lowest tax rate.

Again, setting up a company in the US as a non-resident is simple when you have the help of team skilled in company formation, immigration, import-export, international tax, real estate and supply chain.

What are options available for you to enter USA?

Whenever you think about setting up a business anywhere, the first question that will ping you is what are the ways or means in which you can enter and retain yourself in market for trade and commerce purposes.

Either it can be as a company, as a sole proprietor, partnership or may be a joint venture.

So, what are options available when we look into for USA?

Following persons are classified as tax payers in USA and which means you can set up your business as one of following entities:

- Ø Sole Proprietorships
- Ø Corporations

- Ø S Corporations
- Ø Personal Service Corporations
- Ø Personal Holding Companies
- Ø Partnerships
- Ø Limited Liability Limited Partnerships
- Ø Limited Liability Partnerships
- Ø Publicly Traded Partnerships
- Ø Limited Liability Companies
- Ø Joint Venture

We will further see details and understand about various routes to enter USA.

1.) Sole Proprietorships:

A sole proprietorship is an unincorporated business that is owned by a single owner and is not organized under any particular state or federal laws.

One of the most distinctive features of this business form is that it does not have a separate and distinct legal status from its owner.

A tax return for the entity is not filed; rather, the business' taxable activity is reported on Schedule C and attached to the owner's individual income tax return, Form 1040.

2.) Corporations:

A corporation, like any business other than a sole proprietorship or a single member LLC, is formed by business associates for the purpose of conducting a business venture and dividing the profits among the investors.

A domestic corporation is formed by filing a charter or articles of incorporation in a state,

a US possession, or with the US Government. A corporation is governed by a set of bylaws, has its business affairs overseen by a board of directors, and is owned by shareholders who possess shares of the corporation's stock.

3.) S Corporations:

An S corporation is a small business corporation that elects S corporation status under IRC 1362(a) and whose shareholders have all consented to the corporation's election. A small business corporation is not an ineligible corporation and which does not:

1. Have more than 100 shareholders
2. Have as a shareholder a person (other than an estate or trust described in IRC 1361(c)(2), or, for tax years beginning after 31 December 1997, an organization described in IRC 1361(c)(6) who is not an individual)
3. Have a non-resident alien as a shareholder, and
4. Have more than 1 class of stock.

4.) Personal Holding Service Corporations

A personal service corporation is an entity in which its employee-owners substantially perform personal services.

Employee-owners are employees who own, directly or indirectly, more than 10% of the outstanding stock of the corporation on any day during its tax year.

5.) Personal Holding Companies

A personal holding company is any corporation in which at least 60% of adjusted ordinary gross income for the tax year is personal holding company and, at any time during the

last half of the tax year, more than 50% in value of its outstanding stock is owned, directly or indirectly, by or for not more than five individuals. Personal holding company income is that part of adjusted gross ordinary income that consists of most types of dividends, interest, royalties and annuities.

6.) Partnership

A partnership includes a syndicate, group, pool, joint venture, or other unincorporated organization that carries on any business, financial operation, or venture, and that is not a trust, estate, or corporation within the meaning of IRC.

7.) Limited Liability Limited Partnership

Limited Liability Limited Partnerships (LLLPs) are entities that operate like traditional LPs. Similar to a traditional LP, LLLPs are formed under the laws of those states that allow the formation of these entities.

The main difference between an LP and an LLLP is the liability protection afforded a general partner. An LLLP's general partners are treated like limited partners and have limited liability.

8.) Limited Liability Partnership

Limited Liability Partnerships (LLPs) is a general partnership in which each individual partner remains liable for his or her own malpractice as well as the liabilities arising out of the wrongful acts or omissions of those over whom the partner has supervisory duties.

9.) Public Traded Partnership

A Publicly Traded Partnership (PTP) is a partnership, including a master limited partnership, with interests traded on an established securities market or readily tradable on a secondary market (or its substantial equivalent). A PTP is taxed as a corporation unless 90% or more of its gross income is derived from qualifying income sources. The term qualifying income means:

- Interest
- Dividends
- Real property rents
- Gain from the sale or other disposition of real property (including property described in IRC 1221(a)(1))
- Income and gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy and timber).
- Any gain from the sale or disposition of a capital asset (or property described in IRC 1231(b)) held for the production of income described in any of the foregoing subparagraphs of this paragraph, and
- In the case of a partnership described in the second sentence of IRC 7704(D)(c)(3), income and gains from the commodities (not described in IRC 1221(a)(1)) or futures, forwards, and options with respect to commodities.

10.) Limited Liability Companies

A Limited Liability Company (LLC) is formed under state law.

LLCs can be either single member LLCs or two or more member LLCs.

A state-registered LLC with two or more members is classified as a partnership for federal income tax purposes, unless it makes an election under Check-the-Box rules to be treated as an association that is taxed as a corporation.

A LLC's member(s), like corporate shareholders, are not personally liable for the entity's debts or liabilities.

A single member LLC may elect to be classified as an association or as an entity that is disregarded as an entity separate from its owner. When a business entity is disregarded as an entity separate from its individual owner, the entity's income and expenses are reported on Schedule C and attached to Form 1040.

11.) Joint Ventures

A joint venture is generally considered a partnership, in contrast with a joint undertaking to share expenses which is not a partnership.

The difference between a joint venture that is a partnership and one that is a joint undertaking to share expenses depends on the facts and circumstances. Mere co-ownership of property that is maintained and leased or rented is not a partnership; however, if the co-owners of the same

property provide services to the tenants then a partnership exists.

How is the type of your entity determined? (Check the box rules):

Purpose:

- There are two basic federal tax classifications for US business entities with two or more members. The first tax classification is a corporation and the second is a partnership.
- Business entities with only one owner are classified as either corporations or disregarded entities.
- The Check-the-Box rules set forth the guidelines for selecting an entity classification for federal tax purposes.

Meaning and Understanding:

Effective 1st January 1997, Check the Box Rule provide eligible entities the opportunity to select their federal tax classification. Under the check the box rules, any business entity, not specifically required to be treated as a corporation, may choose its on tax classification. An eligible entity with two or more members can elect to be classified as either an association or a partnership. An entity with only one member, such as a single member LLC, can elect to be classified as an association (and taxed as a corporation) or it can be disregarded as an entity separate from its owner. All tax calculations and reporting responsibilities of a disregarded business entity flow through to its owner.

-For example, a single member LLC that does not elect to be classified as an association for federal tax purposes would be disregarded.

ed. An individual who is the member of a disregarded single member LLC would perform all tax calculations at the member's individual income tax level.

-A business entity in existence before 1 January, 1997 that does not make an election under Check-the-Box is classified in the same manner as it was prior to 1 January, 1997. Default rules provide that an unincorporated business entity formed after 1 January, 1997 that does not make an election under Check-the-Box is classified as a partnership if it has two or more members, or is disregarded if it has one member.

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Now once you have decided and determined the type/mode/from in which you want to enter the USA, the next question is about- How to register and what are procedures for setting up a business and licensing?

Business Registration and Licensing:

- Business formation and organisation is generally governed by state law in the United States. The forms of business available and their characteristics vary from state to state. State law also governs the registration rules for newly formed entities.

- Registration rules for companies in the US are not industry specific. In most cases, business registration is a part of the company formation process. An existing business may also be required to register in a new state if it establishes a “nexus” there. An unincorporated business does not normally need to register as such, but does need to seek tax registration and possibly employer registration.
- Newly formed companies must obtain an Employer Identification Number (EIN), also known as a Federal Tax Identification Number, from the IRS. To obtain an EIN, a company must complete an Application for Employer Number Form and file it with the local office of the IRS.
- A newly formed business must also register with the tax authority of the state of incorporation, and of any other state where it has “nexus”.
- There is no general requirement for a business to be licensed, state law requires that businesses in certain industries obtain licenses to do business. The industries to which licensing applies and the filing requirements depend on where a company has chosen to incorporate. Examples of companies that would normally be required to obtain a special license to do business are those involved in the agricultural, alcohol, banking, environmental, health, insurance, and legal services sectors. In some cases, licensing may also be required at Federal level. This applies to companies involved in sectors such as financial, services,

air and maritime aviation, firearms, nuclear energy and broadcasting.

And just like most of other countries, USA will obviously lay down some taxes on income you earn in that country and thus that becomes our next important point for consideration when thinking about setting up a business in United States.

So, how does US taxation look and how will you be taxed once you enter and earn in USA market?

Taxation in USA:

The United States of America has separate federal, state, and local governments with taxes imposed at each of these levels. Taxes are levied on income, payroll, property, sales, capital gains, dividends, imports, estates and gifts, as well as various fees.

Taxes are imposed on net income of individuals and corporations by the federal, most state, and some local governments. Citizens and residents are taxed on worldwide income and allowed a credit for foreign taxes. Income subject to tax is determined under tax accounting rules, not financial accounting principles, and includes almost all income from whatever source.

1. Incidence of tax:

The U.S. income tax system imposes a tax based on income on individuals, corporations, estates, and trusts. The tax is taxable income, as defined, times a specified tax rate. This tax may be reduced by credits, some of which may be refunded if they ex-

ceed the tax calculated. Taxable income may differ from income for other purposes (such as for financial reporting). The definition of taxable income for federal purposes is used by many, but far from all states.

2. Charge of tax:

The U.S. income tax system imposes a tax based on income on individuals, corporations, estates, and trusts. The tax is taxable income, as defined, times a specified tax rate. This tax may be reduced by credits, some of which may be refunded if they exceed the tax calculated. Taxable income may differ from income for other purposes (such as for financial reporting). The definition of taxable income for federal purposes is used by many, but far from all states.

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Below mentioned is crystalized view of the variations in tax rates for different income levels in USA for year 2019 and 2020.

Federal Income Tax rates for 2019 and 2020:

• 2019: Filed in April, 2020

Tax Rates	Taxable Income			
	Single	Married Filing Jointly	Married Filing Separately	Head of Household
10%	\$0 – \$9,700	\$0 – \$19,400	\$0 – \$9,700	\$0 – \$13,850
12%	\$9,701 – \$39,475	\$19,401 – \$78,950	\$9,701 – \$39,475	\$13,851 – \$52,850
22%	\$39,476 – \$84,200	\$78,951 – \$168,400	\$39,476 – \$84,200	\$52,851 – \$84,200
24%	\$84,201 – \$160,725	\$168,401 – \$321,450	\$84,201 – \$160,725	\$84,201 – \$160,700
32%	\$160,726 – \$204,100	\$321,451 – \$408,200	\$160,726 – \$204,100	\$160,701 – \$204,100
35%	\$204,101 – \$510,300	\$408,201 – \$612,350	\$204,101 – \$510,300	\$204,101 – \$510,300
37%	\$510,301+	\$612,351+	\$510,301+	\$510,301+

• 2020: Filed in April, 2021

Tax Rates	Taxable Income			
	Single	Married Filing Jointly	Married Filing Separately	Head of Household
10%	\$0 – \$9,875	\$0 – \$19,750	\$0 – \$9,875	\$0 – \$14,100
12%	\$9,876 – \$40,125	\$19,751 – \$80,250	\$9,876 – \$40,125	\$14,101 – \$53,700
22%	\$40,126 – \$85,525	\$80,251 – \$171,050	\$40,126 – \$85,525	\$53,701 – \$85,500
24%	\$85,526 – \$163,300	\$171,051 – \$326,600	\$85,526 – \$163,300	\$85,501 – \$163,300
32%	\$163,301 – \$207,350	\$326,601 – \$414,700	\$163,301 – \$207,350	\$163,301 – \$207,350
35%	\$207,351 – \$518,400	\$414,701 – \$622,050	\$207,351 – \$518,400	\$207,351 – \$518,400
37%	\$518,401+	\$622,051+	\$518,401+	\$518,401+

Various Forms of Return in USA and due dates of filing:

In USA, the forms of returns are divided again in accordance with type of entity filing it or say classification of income on which you are liable to pay tax.

§ Form: 1040

Particulars: U.S. Individual Income Tax Return

Due date: 15th April, unless applied for Automatic tax extension

§ Form: 1040X

Particulars: Amended U.S. Individual Income Tax Return

Due date: Generally, for a credit or refund, you must file form 1040X within 3 years (including extensions) after the date you filed your original return or within 2 years after the date you paid the tax, whichever is later.

§ Form: 1041

Particulars: U.S. Income Tax Return for ITR for Estates and trusts

Due date: The return must be filed on or before the 15th day of fourth month (April 15th) following the close of the tax year.

§ Form: 1065

Particulars: U.S. Return for partnership Income

Due Date: Generally, a domestic partnership must file Form 1065 by the 15th day of the 4th month (April 15th) following the date its tax year ended.

§ Form: 1120

Particulars: U.S. Corporation Income Tax Return

Due date: If calendar year, 15th day of the fourth month following the close of corporation's tax year (i.e. April 15th) or otherwise if non-calendar year is followed, 15th day of the third month following the close of corporation's tax year.

§ Form: 1120S

Particulars: U.S. Income Tax Return for an S Corporation

Due Date: If S corporation is following calendar year, then Form 1120S is to be filed on or before 15th day of the third month following the close of corporation's tax year (March 15th).

§ Form: 2553

Particulars: Election by a Small Business Corporation

Due Date: The election of S corporation status must be made by a qualified corporation, with unanimous consent of the shareholders, on or before the 15th day of the 3rd month (March 15th) of its tax year in order for the election to be effective beginning with the year when made.

All these forms and due dates based on the tax year. But, what actually is tax year and how it is different from accounting year?

Tax year and Corporate accounting year:

A tax year may be:

- > The taxpayer's accounting period, or
- > The calendar year, or
- > The period in which a return is made if the return covers less than 12 months, or
- > For a foreign sales corporation (FSC) or a domestic international sales corporation (DISC), the same taxable year as that of the shareholder (or group of shareholders) having the highest percentage of voting power.

A corporate accounting year is 1st January to 31st December i.e. a Calendar year.

Thus, all the details regarding setting up a business in USA and charge and incidence of tax thereon are as discussed above. This is some bare minimum knowledge when you are willing to set up a company in United states of America.



Delegation – A Successful Essential at the workplace

CA Shraddha Dedhia & CS Jigar Shah

“Deciding what not to do is equally important as deciding what to do.” – Jessica Jackley, American business-woman.

Leaders would agree that this quote is filled with wisdom, but the critical question is, “Are we practicing it?” We often see leaders feeling stressed and overloaded merely because they can’t decide if they can delegate the work. There could be multiple reasons to this – the need for perfection, the need for control or lack of skill. A study found that typically there are three physiological reasons that make people reluctant to delegate:

- They think they can do it better
- They’re nervous about letting go – Letting go can be challenging, but accepting that you can’t do everything yourself is important
- They’re worried that delegating will take longer than just doing the work

In a work environment, delegation typically means the transfer of responsibility of any task from a manager to a subordinate. Delegation does not necessarily imply a transfer of complete responsibility. For instance, a manager may ask a subordinate to prepare workings of a return, but will still keep the responsibility of reviewing and filing the return with himself.

Now since we have known the importance and basics of delegation, let us now look at

some of the common questions relating to delegation that may strike most of us.

When to delegate?

Delegation is win-win when done appropriately which does not inevitably mean that we should delegate anything and at any time. Below are the five questions one needs to ask himself before delegation to have the work done efficiently:

- Is this a task that someone else can do, or you can do it yourself? Is there someone else who has (or can be given) valuable information or expertise to do the task?
- Is this a task that will recur in future in similar form?
- Does the task provide the doer an opportunity to develop and grow his personal skills?
- Do you have enough time to delegate? (considering the time for training, questions, answers, and feedbacks)
- Is this a task that you should delegate, or it needs your own attention?

If you can answer a ‘Yes’ to atleast some of the questions above, it would be totally worth delegating the task.

To whom should you delegate?

The answer to this question is equally important as the earlier question. There are multiple factors to be considered while identifying to whom should you delegate. To begin, you should be answering the below

question in 'Yes' to be able to delegate the task to the appropriate person:

- Does the person have the precise knowledge, skills, and attitude to commence the task?
- Can the person work independently (after the guidance) to accomplish the task?
- Does the task align with the long-term goals and interests of the person you are delegating the task to?
- Does the person have enough time to take on more work?
- Will delegating the task won't require reshuffling of other responsibilities and workloads?

How should you delegate?

Delegating a task in itself isn't merely a task but a responsibility. Mastering the art of how to delegate plays a crucial role. It may look challenging, but following the below principles may play a helping hand:

- Identify constraints and boundaries and clearly convey the desired outcome
- Inclusiveness will help to get the results better. Empower your subordinates to what tasks are to be delegated to them and when
- Draw a line between responsibility and authority. While one can delegate the responsibility but not the ultimate accountability
- Build motivation and commitment. Discuss with your subordinates and comfort them

by making them understand how the task delegated will impact their future responsibilities and informal recognitions in a positive way

- Establish and maintain controls by clearly indicating timelines, agreeing on schedule of check points and feedback sessions

What are the skills required for delegation?

Training: You have to make sure the person tasked with a job or project has the tools and resources they need to be successful. A good training thumb rule is: 'I do, we do, you do' which simply implies 'watch me do this, then let's do it together, now you try'.

Trust: Delegate responsibility with authority. Don't let your subordinates be in a situation where they are tasked with something but aren't fully empowered to make decisions. This may result in impeding the work due to dependency and which may eventually take longer time than usual. Fostering an environment and culture where people feel they're able to make decisions, ask questions, and take the necessary steps to complete the work is a skill which many lack.

Giving Feedback: You clearly don't want to be a manager who assigns a task and then give up on personal responsibilities. It is here that the skill of feedback is needed. You need to understand that once the task is completed by the doer, it is important to let him know how he has performed. If you wish to reduce on the time to make changes to the task performed by the subordinate next

time, you need to ensure that you share your views and ways on how you want it.

Delegation Matrix: The delegation matrix work is an analogous way to the time management matrix. To explain it in a simpler format, you may consider the below quadrant before deciding whether to delegate the task or do it yourself:

You are good at and enjoy the task KEEP THE TASK TO YOURSELF	You aren't good at, but enjoy the task DELEGATE SOME PIECE OF THE TASK
You are good at but do not enjoy the task DELEGATE MOST OF THE TASK	You aren't good at, neither enjoy the task DELEGATE THE ENTIRE TASK

The Importance of Full Acceptance

When you receive the delegated task, setting aside enough time to review it thoroughly is of utmost importance. The clear communication post reviewing the work is like a two way deal. If you aren't satisfied with the work, communicate your team member on where they went wrong to make them learn better. On the other hand, when an exceptional task is returned back to you, make sure to both recognize and reward the effort. As a leader, you should get in the practice of complimenting members of your team every time you are impressed by what they have done.

Concludingly, one may say that at first place, delegation can feel like more hassle than it's worth. However, an effective delegation can expand the amount of work you can deliver manifold times. To delegate effectively, identify the right resource, choose the right task and an appropriate way to delegate.



1. Introduction

The Companies Act, 2013 requires auditors of specified class of companies to include a statement in their reports on specific matters as prescribed in the Companies (Auditor's Report) Order, 2016 ("CARO, 2016") which has been revised and issued as CARO, 2020.

CARO, 2020 was initially made applicable for audits of financial year beginning on or after 1st April 2019. However, it has been deferred by two years and is now applicable for audits of financial year beginning on or after 1st April 2021.

2. Need for change in CARO

- Spike in instances of frauds noted & reported in the audits of FY 2018-19. Frauds detected include fund diversion, unaccounted cash, siphoning of funds, misappropriation of inventories, etc.
- Enhanced expectations of Accounting bodies and Regulators – ICAI, SEBI, RBI, NFRA, SFIO in light of scams.
- Detailed reporting requirements of Regulators in the Auditor's report for getting the ready information.

Clause- (i)

Maintaining records of Property, Plant, Equipment and intangible assets

In CARO 2020, Fixed Assts word is replaced by Property, Plant & equipment. Reporting of **Intangible Asset** is specifically mentioned. Previously in CARO 2016 only fixed assets were included.

Additional requirements are: -

Title Deeds of immovable property disclosed in the financial statement are held in the name of company or not. **Assets on lease are specifically excluded**. If the same is not in the name of company, then auditor is required to provide details in specified **format given in CARO 2020**.

In case of **revaluation of Property, Plant and Equipment** (including Right of Use assets) or intangible assets, whether the revaluation is based on the valuation by a Registered Valuer, and specify the change, if the change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets.

In case of any proceedings have been initiated or are pending against the company for holding any **Benami property** under the Benami Transactions Act and rules made there under if so, whether the company has appropriately disclosed the details in its financial statements

<p>Clause- (ii)</p> <p>Physical Verification of Inventories</p>	<p>In CARO 2016, a report was required to be given whether management has physically verified the inventory or not and any material discrepancies were required to be reported.</p> <p>Under CARO 2020, auditor is required to opine on coverage and procedure of physical verification of inventory.</p> <p>Whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;</p> <p>In case of working capital Loan based on current assets in excess of INR 5 crore rupees is sanctioned from the banks or financial institutions, whether the quarterly returns or statements filed by the company are in agreement with the books of accounts, if not, details shall be given.</p>
<p>Clause- (iii)</p> <p>Repayment of investments, guarantee, security and loans granted by the Company</p>	<p>CARO 2016 covered only secured or unsecured loans & the clause was covering parties registered under Section 189 only.</p> <p>This clause under CARO 2020 has been fully amended and now it covers any investments, guarantee or security or any loans or advances in the nature of loans, secured or unsecured, made by the company.</p> <p>Further, If the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity, indicate the aggregate amount during the year, and balance outstanding at the balance sheet date</p> <p>to subsidiaries, joint ventures and associates</p> <p>to parties other than subsidiaries, joint ventures and associates</p> <p>Another subclause added to state whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year.</p> <p>Under this clause, auditor is also required to report whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013</p>
<p>Clause- (iv)</p> <p>Compliance of Section 185 & 186</p>	<p>Same reporting as was under CARO 2016</p> <p>Sec 185: Loan to directors.</p> <p>Sec 186: Loan and investment by company.</p>
<p>Clause- (v)</p> <p>Acceptance of deposits</p>	<p>Same reporting as was under CARO 2016</p> <p>Sec 73 to Sec 76 or any relevant provision of Companies Act, 2013 – Acceptance of deposit by company.</p>
<p>Clause- (vi)</p> <p>Cost Records</p>	<p>Same reporting as was under CARO 2016</p>

<p>Clause- (vii)</p> <p>Statutory Dues</p>	<p>Under CARO 2020, “Goods and Services Tax” is also specifically stated. Further reporting of depositing of undisputed statutory dues is same as was under CARO 2016.</p> <p>For disputed statutory dues, CARO 2016 covered only selected statutory dues, however under CARO 2020 reporting of all and any statutory dues not deposited on account of dispute is required.</p>
<p>Clause- (viii)</p> <p>Disclosure of transactions not recorded in the books</p>	<p>New Insertion of clause in CARO 2020</p> <p>Auditor is required to report, whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year.</p>
<p>Clause- (ix)</p> <p>Default in repayment of loans or other borrowings</p>	<p>In CARO 2020, Reporting of default in repayment of loan or any borrowing or payment of interest towards any lender is required under the specified format (CARO 2016 covered default towards banks, Financial Institution, government or debenture holders only).</p> <p>Reporting is required if the company has been declared as a wilful defaulter, has diverted the amount of term loans, has utilized the funds raised for short term basis for long term purposes, has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint venture, has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate company.</p>
<p>Clause- (x)</p> <p>Moneys raised by IPO, FPO & preferential allotment/ private placement of shares or convertible debenture</p>	<p>Checking application of term loans for the purposes for which they are raised has been included in point (ix) (c) of CARO, 2020.</p>
<p>Clause- (xi)</p> <p>Fraud reporting</p>	<p>Under CARO 2020, two new sub clauses have been inserted –</p> <p>Whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government</p> <p>Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;</p>
<p>Clause- (xii)</p> <p>Compliances by Nidhi Company</p>	<p>Increase in the scope of reporting related to Nidhi Companies. Report on default in payment of interest on deposit or repayment is also included.</p>
<p>Clause- (xiii)</p> <p>Compliance with section 177 and 188</p>	<p>Same reporting as was under CARO 2016</p> <p>Sec 177 and 188 of Companies act, 2013 Related party transaction.</p>
<p>Clause- (xiv)</p> <p>Internal Audit</p>	<p>New Insertion of clause in CARO 2020</p> <p>Reporting on whether the company has an internal audit system commensurate with the size and nature of its business; whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor.</p>

Clause- (xv) Non-Cash Transaction with Directors	Same reporting as was under CARO 2016- Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with.
Clause- (xvi)	Increase in the scope of Clause (xvi) in CARO 2020- Auditor should report if company has conducted any non-banking financial or housing finance activities without a valid certificate of registration from the RBI.
Registration with Reserve Bank of India	Reporting if company is a core investment company & the company continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria or if any group has more than one core investment company then number of core investment company to be reported.
Clause- (xvii) Cash Losses	New Insertion of clause in CARO 2020- Whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses.
Clause- (xviii) Resignation of the statutory auditors during the year	New Insertion of clause in CARO 2020- Whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors.
Clause- (xix) Capability of company of meeting its liabilities existing at the date of balance sheet	New Insertion of clause in CARO 2020 Auditor is required to give his opinion that no material uncertainty exists as on the date of the audit report that company is capable of meeting its liabilities existing at the date of balance sheet as and when they fall due within a period of one year from the balance sheet date on the basis of financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements.

<p>Clause-(xx)</p> <p>Transfer of amount remaining unspent under sub-section (5) of section 135 to Fund specified in Schedule VII</p>	<p>New Insertion of clause in CARO 2020</p> <p>Auditor is required to report whether, in respect of other than on-going projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act</p> <p>Whether any amount remaining unspent under sub-section (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of subsection (6) of section 135 of the said Act.</p>
<p>Clause-(xxi)</p> <p>Consolidated Financial Statement</p>	<p>New Insertion of clause in CARO 2020</p> <p>Whether there have been any qualifications or adverse remarks by the respective auditors in the CARO reports of the companies included in the consolidated financial statements, if yes, auditor has to indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.</p>

Concluding Remarks

It is a very decisive and concerted effort to bring in more accountability, corporate trusteeship, and transparency and to use the auditors as a via media to ensure corporate governance. A different feature of CARO, 2020 is the enhanced due diligence responsibility on the auditors. The auditors have to state more details under CARO, 2020 in order to strengthen the accountability of the management through the mouth of the auditor.

Further, there have been substantial changes in the reporting requirement by the auditors, but no such corresponding amendments were made in Schedule III for the preparation of the financial statements. Thus, to align the company's financial statements in accordance with the auditor's reporting requirements, the MCA issued notification dated 24th March, 2021 to amend Schedule III to the Companies Act, 2013 to enhance the disclosures required to be made by the Company in its Financial Statement. **Majority of the amendments to Schedule III to the Companies Act, 2013 have been undertaken in response to the amendments covered in the newly issued Companies (Auditors and Report) Order, 2020** and the Companies (Indian Accounting Standards) Amendment Rules, 2020.



Friday 2nd April 2021

Group Discussion on NPA Norms in Bank Audits

Speaker: CA. Abhinav Aggarwal

Saturday, 3rd April 2021

Virtual CPE Meeting Renewal of Trust Regn u/s 12A, 80G, 10(23C), New Return for Donation and related Issue

Speaker: CA. Raghuveer Poonia

Saturday, 10th April 2021

Seminar on Company Act

Chief Guest: CA. Atul Kumar Gupta, Past President, ICAI

Speakers: CA. Arun Saxena, CS Pavan Kumar Vijay, Past President, ICSI & CS Divesh Goyal

Friday, 16th April, 2021

COVID VACCINATION DRIVE

Chief Guest: Dr. Virender Yadav, CMO, Gurugram

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