Companies Auditor Report Order (CARO) Rules, 2020 - Analysis

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The MCA has issued the Companies (Auditor's Report) Order, 2020 (CARO 2020), on 25th February 2020. This order has been issued in supersession of the Companies (Auditor's Report) Order, 2016, and is applicable for reporting on financial statements of companies whose financial year commences on or after 1st April 2019. CARO 2016 was issued by MCA in the supersession of CARO 2015.

Now, the MCA has kept the applicability of CARO 2020 to companies the same as CARO 2016. The CARO 2020 will not apply to the auditor's report on consolidated financial statements except for clause (xxi) of Clause 3 in regard to any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included
in the consolidated financial statements. If there is any such remark, then the auditor of CFS, has to indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks. The exemption to small companies has been removed and instead CARO 2020 has defined small company itself.

The total number of clauses in the new CARO is 21. CARO 2020 has enhanced the auditor's reporting requirements in certain areas, such as Loans given, application of Short Term fund, Long term Funds etc.

**The provisions of the CARO 2020 are furnished below:**

CARO 2020 is applicable from FY 2019-20 and the matters specified therein shall be included in each report made by the auditor under Section 143 of the Companies Act, 2013 on the account of every company to which CARO 2020 applies.

Section 143 (11) of the Act stipulates that the Central Government may order for the inclusion of statement on specified matter in the auditor's report for specified class or description of companies. Accordingly, CARO 2020 is issued in pursuance of Section 143 (11) of Companies Act 2013 for inclusion of the matters specified therein in auditors' report. Hence, CARO 2020 should be complied by the statutory auditor of every company on which it applies.

CARO 2020 has been issued after consultation with the National Financial Reporting Authority constituted under section 132 of the Companies Act, 2013.

**Applicability of CARO 2020:**
CARO 2020 is applicable to every company including a foreign company as defined in clause (42) of Section 2 of the Companies Act 2013, except

i. a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);

ii. an insurance company as defined under the Insurance Act, 1938 (4 of 1938);

iii. a company licensed to operate under section 8 of the Companies Act;

iv. a One Person Company as defined in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act; and

v. a private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than one crore rupees as on the balance sheet date and which does not have
total borrowings exceeding one crore rupees from any bank or financial
institution at any point of time during the financial year and which does not
have a total revenue as disclosed in Scheduled III to the Companies Act
(including revenue from discontinuing operations) exceeding ten crore rupees
during the financial year as per the financial statements.

**Auditor's report to contain matters specified in paragraphs 3 and 4.**

Every report made by the auditor under section 143 of the Companies Act on
the accounts of every company audited by him, to which this Order applies, for
the financial years commencing on or after the 1st April, 2019, shall in addition,
contain the matters specified in paragraphs 3 and 4, as may be applicable:

Provided this Order shall not apply to the auditor's report on consolidated
financial statements except clause (xxi) of paragraph 3.

1. Matters to be included in auditor's report. - The auditor's report on the
accounts of a company to which this Order applies shall include a statement on
the following matters, namely:-

**Property, Plant and Equipment [clause 3 (i)]**

i. (a) (A) whether the company is maintaining proper records showing full
particulars, including quantitative details and situation of Property, Plant and
Equipment;

(B) whether the company is maintaining proper records showing full particulars
of intangible assets;

(b) whether these Property, Plant and Equipment have been physically verified
by the management at reasonable intervals; whether any material
discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;

(c) whether the title deeds of all the immovable properties (other than properties where the company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the format below:-

<table>
<thead>
<tr>
<th>Description of property</th>
<th>Gross carrying value</th>
<th>Held in name of</th>
<th>Whether promoter, director or their relative or employee</th>
<th>Period held - <em>indicate range, where appropriate</em></th>
<th>Reason for not being held in name of company*</th>
</tr>
</thead>
<tbody>
<tr>
<td>-</td>
<td>--</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>*also indicate if in dispute</td>
</tr>
</tbody>
</table>

(d) whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;
(e) whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements;

**Comments**

The auditor have to comment on Intangible assets also under this clause. It was not required in CARO 2020

The auditor has to disclose, if there has been any revaluation, whether the revaluation has been done by registered valuer and if the change in net value of the asset is more than 10%, then the amount of change has to be informed here.

A new reporting on benami cases has also been added.

**Inventory [Clause 3 (ii)]**

ii. (a) whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; 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;

(b) whether during any point of time of the year, the company has been sanctioned working capital limits in excess of five crore rupees, in aggregate, from banks or financial institutions on the basis of security of current assets; whether the quarterly returns or statements filed by the company with such
banks or financial institutions are in agreement with the books of account of the Company, if not, give details;

Comments

CARO 2016 used to ask reporting for material discrepancies, but CARO 2020 has defined materiality to be 10% for each class of inventory.

Secondly a new reporting of compliance with working capital is required for company having sanctioned limit in excess of Rs five crore form banks or financial institutions. The auditor is required to report about the quarterly disclosure made by company to bank. This adds to extra reporting by auditors who can be held liable if there is a gap.

Loan given by Company [Clause 3 (iii)]

iii. whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so,-

(a) whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate-

(A) the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;
(B) the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates;

(b) whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;

(c) in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

(d) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;

(e) 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 [not applicable to companies whose principal business is to give loans];

(f) 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;
This paragraph is a major change in CARO 2020, earlier the reporting was only of loan given to parties covered in Section 189 of Companies Act, 2013, but the clause under CARO 2020 covers all loan granted by the company.

If the loan has been granted, the aggregate amount during the year has to be reported along with balances at balance sheet date, moreover, the loan given to Subsidiary, Associates and joint ventures has to be reported separately and to other separately.

The auditor is also required to report that if any new loan has been given to settle old loan or there has been an extension in existing loan, the amount and % age of such loan to total loan has to be reported. This clause will be an issue to many corporates and detailed reporting will be seen in upcoming audit reports.

If there any is any loan repayable on demand or without any terms and condition, then same should be disclosed separately with aggregate amount.

**Loan to director and investment by the company [Clause 3 (iv)]**

iv. in respect of loans, investments, guarantees, and security, whether provisions of sections 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof;

**Comments**

This clause is same as CARO 2016

**Deposits [Clause 3 (v)]**
v. in respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been complied with, if not, the nature of such contraventions be stated; if an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not;

Comments

This clause is same as CARO 2016

Cost Records [Clause 3 (vi)]

vi. whether maintenance of cost records has been specified by the Central Government under sub-section(1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained;

Comments

This clause is same as CARO 2016

Statutory Dues [Clause 3 (vii)]

vii. (a) whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the
financial year concerned for a period of more than six months from the date they became payable, shall be indicated;

(b) where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute);

Comments

This clause is same as CARO 2016 except the goods and services tax has been added.

Disclosure under Income Tax [Clause 3 (viii)]

viii. 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;

Comments

This is a new clause for reporting in various scheme like the Voluntary Disclosure Scheme, Viwad Se Viswas etc. The accounting of disclosures made has to be reported.

Repayment of Loan [Clause 3 (ix)]

ix. (a) whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the
period and the amount of default to be reported as per the format below:

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

(b) whether the company is a declared willful defaulter by any bank or financial institution or other lender;

(c) whether term loans were applied for the purpose for which the loans were obtained; if not, the amount of loan so diverted and the purpose for which it is used may be reported;
(d) whether funds raised on short term basis have been utilized for long term purposes, if yes, the nature and amount to be indicated;

(e) whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case;

(f) whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised;

Comments

This is again detailed reporting required in CARO 2020. In CARO 2016 it was limited to default in repayment of loans and borrowing to a financial institution, banks, government or dues to debenture holders but in CARO 2020 the reporting is about default in payment of loan or interest to any lenders and the reporting has to be done lender wise in given format.

The Auditor have to Report whether all loans has been used for the purpose for which it was taken, term loan and Short-Term Loan, it brings back earlier CARO paragraphs

The Auditor also has to make additional reporting of loan taken to meet obligation of subsidiaries, associates and joint ventures, as well as loan taken by pledge of shares of Subsidiary, associates or joint venture.
Utilisation of IPO and further public offer [Clause 3 (x)]

x. (a) whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;

(b) whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of non-compliance;

Comments

This clause is same as CARO 2016 and the preferential allotment clause (xiv) of CARO 2016 has been added here.

Reporting of Fraud [Clause 3 (xi)]

xi. (a) whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, nature and the amount involved is to be indicated;

(b) 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;
(c) whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;

Comments

This clause is same as CARO 2016 only para b and c are additional, these are for compliance of Sec 143 and additional responsibility of whistleblower complaints

Nidhi Company [Clause 3 (xii)]

xii. (a) whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability;

(b) whether the Nidhi Company is maintaining ten percent.unencumbered term deposits as specified in the Nidhi Rules,2014 to meet out the liability;

(c) whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;

Comments

This clause is same as CARO 2016 only para C is additional

Related Party Transaction [Clause 3 (xiii)]

xiii. whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards;

Comments
This clause is same as CARO 2016

**Internal Audit [Clause 3 (xiv)]**

xiv. (a) whether the company has an internal audit system commensurate with the size and nature of its business;

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

**Comments**

This clause has made a comeback, it was not there in CARO 2016. The para b of the clause is new, it derives itself from Standards on Auditing where using the work of Internal Auditors is discussed.

**Non Cash Transaction [Clause 3 (xv)]**

xv. 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;

**Comments**

This clause is same as CARO 2016 only para C is additional

**Register under RBI Act 1934 [Clause 3 (xvi)]**

xvi. (a) whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained;
(b) whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934;

(c) whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfill the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfill such criteria;

(d) whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group;

Comments

The para of this clause is same as CARO 2016. The para b to d are new. The auditor is required to report on activities carried by the company of NBFC, HFC without valid certificates. The Company is a CIC or the number of CIC in group. This has been asked to be reported after recent issues in NBFC,

Cash Losses [Clause 3 (xvii)]

xvii. 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;

Comments

This is new reporting requirements of CARO 2020, calculation of cash losses to be done. This is visible from Cash Flow but now separate reporting is also required.

Resignation of Auditors [Clause 3 (xviii)]
xviii. 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;

Comments

CARO 2020 takes auditor resignation more seriously and after recent increase in numbers of resignation and their timings it's a welcome move, how the auditor has taken care of issues of earlier auditor.

Capable to Meet Liabilities [Clause 3 (xix)]

xix. on the basis of the financial ratios, ageing and expected dates of realisation of financial assets and payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans, whether the auditor is of the 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;

Comments

CARO 2020 brings additional clause on capability of the company to meet its liability, its again in line with going concern reporting which was made stringent by SA 570 lately, the above clause give more clarity of cash flows and will give some tension to new companies and its fund management. The auditors should take detail justification for above and do a walkthrough.
xx. (a) whether, in respect of other than ongoing projects, the company has transferred the 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;

(b) 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;

Comments

The Reporting about CSR was missing and now it's brought in by CARO 2020. This clause is again an issue as some companies were not taking CSR in true sense and added responsibility has been given to auditor.

Justification [Clause 3 (xviii)]

xxi. whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks.

Comments

The auditor has to give proper reasoning for qualification or adverse remarks in the audit report. A new paragraph introduced by CARO 2020.

Reasons to be stated for unfavorable or qualified response.-
(1) Where, in the auditor's report, the response to any of the matters referred to in paragraph 3 is unfavorable or qualified, the auditor's report shall also state the basis for such unfavorable or qualified response, as the case may be.

(2) Where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with reasons as to why it is not possible for him to give his opinion on the same.

Comments

The above two paras again increase the responsibility of the auditor with respect to cases where the auditor is not able to express any opinion on any matter or has to give a detailed reason for unfavorable or qualified comments on any of the para stated above.

Tags: mca

Recommended Read

- Responsibilities of CFO/CEO under companies act, 2013 & SEBI(LODR) regulations, 2015
- Commencement of business and its provisions as per companies act, 2013
Statements (CFSs) & Audit Report on CFSs

Revival of Companies u/s 252 of Companies Act, 2013

Tax Audit Applicability u/s. 44AB of Income Tax Act, 1961 - Earlier & Post Budget 2020