



CARO 2020



CA. PRAMOD JAIN

FCA, FCS, FCMA, LL.B, MIMA, DISA, IP

Shared at

Chandigarh Branch of NIRC of ICAI

4th March 2020

CARO 2020

- **Companies (Auditor's) Report Order 2020 notified on 25th February 2020.**
- **Effective for Financial Years Commencing on or after 1.4.2019.**
- **Past few CAROs**
 - **CARO 2016 – FY 2015-16 & onwards**
 - **CARO 2015 – FY 2014-15 & onwards**
 - **CARO 2013 – July 2013**

CARO 2020

- CARO 2016 – 16 Clauses
- CARO 2020 – 21 Clauses (47 sub-clauses)
- No Change – 5 clauses
- Amended / rearranged clauses – 9
- Reintroduced – 2 with change
- New – 5 clauses
- Deleted -1 clause

SUB-CLAUSES

Clause No.	No. of Sub-Clauses	Clause No.	No. of Sub-Clauses
(i)	5	(xii)	3
(ii)	2	(xiii)	1
(iii)	6	(xiv)	2
(iv)	1	(xv)	1
(v)	1	(xvi)	4
(vi)	1	(xvii)	1
(vii)	2	(xviii)	1
(viii)	1	(xix)	1
(ix)	6	(xx)	2
(x)	2	(xxi)	1
(xi)	3		

CARO APPLICABILITY

- No major change as compared to CARO 2016
- Applicable to all including Foreign Co. for a/cing period after 1.4.19 except:
 - Banking Co. / Insurance Co.
 - Section 8 Co.
 - OPC
 - Small Co.
 - Not applicable to CFS except clause 21
 - Branch auditor also covered, if applicable to co.

CARO APPLICABILITY

- Pvt. Co not being sub. or holding of Pub. Co. whose:
 - Paid up Capital & Reserves < 1 Cr as at B/s date; and
 - Bonus, Pref. shares to be included
 - Share Application money !!
 - All reserves to be included including revaluation reserve

CARO APPLICABILITY

- Pvt. Co not being sub. or holding of Pub. Co. whose:
 - Outstanding Loans - Bank or FIs < 1 Cr during FY; and
 - All borrowings included – non fund based – to extent devolved, invoked guarantees & devolved LCs
 - TL – interest accrued & due only to be considered
 - CC – balance on any day as per books
 - OD against FD included
 - Outstanding due of Credit card also included
 - Foreign banks covered - FIs include NBFC

CARO APPLICABILITY

- Pvt. Co not being sub. or holding of Pub. Co. whose:
 - Total Revenue (including from discontinuing operations) < 10 crores as per Financial Statements as per Schedule III
 - Other income included

APPLICABILITY???

➔ A Pvt. Ltd. Co whose details are as under:

- ➔ Paid up Capital – Rs. 25 Lacs
- ➔ Reserves & Surplus – Rs 80 Lacs
- ➔ Turnover Rs. 180 Lacs
- ➔ Other Income Rs. 25 Lacs
- ➔ Is CARO Applicable??

➔ No

UNFAVOURABLE/QUALIFIED ANSWERS

- ➔ If answer to any of questions is unfavourable or qualified, auditor's report shall also **state the basis** for such unfavourable or qualified answer, as the case may be.
- ➔ If auditor is unable to express any opinion on any specified matter – **indicate such fact together with reason as to why it is not possible** for him to give his opinion on same.

CARO – NO CHANGE

- ➔ 4 – S. 185 /186 Compliance
- ➔ 6 – Cost Records
- ➔ 7 – Statutory dues
- ➔ 13 – Related party Transactions
- ➔ 15 – Non cash transactions with directors or persons covered connected with him – S. 192 complied or not

CARO – NO CHANGE

➔ 7 – Statutory dues

- ➔ Statutory due arises out of a statute, rather than on an independent contractual or legal relationship
- ➔ Advance tax, TDS, Custom duty... if intt – irregular.
- ➔ Instalments granted by authority, penalty/intt covered
- ➔ Irregularity vs. due more than 6 months
- ➔ Mere show cause – not disputed, S. 154 – disputed
- ➔ If no appeal filed – undisputed dues
- ➔ Disclose disputed amounts even if provision made or amount deposited under protest

DELETED / REINTRODUCED

- Old 11 – managerial remuneration deleted – was inserted by CARO 2016
- 14 - Internal audit old CARO 2003 4(vii). Clause (b) is new
 - (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;

14 – INTERNAL AUDIT

- Listed Co.
- Unlisted Public Co if:
 - Capital > 50 Cr. in preceding FY; or
 - Turnover > 200 Cr. in preceding FY; or
 - Outstanding loans from banks or PFIs > 100 Cr. At any point of time in preceding FY; or
 - Outstanding deposits > 25 Cr. at any point of time in preceding FY;
- Private Co if:
 - Turnover > 200 Cr. in preceding FY; or
 - Outstanding loans from banks or PFIs > 100 Cr. at any point of time in preceding FY
- Internal auditors being CAs covered by NFRA

CARO - AMENDED

- 1 – FA – intangible included plus detail if not held in name + revaluation + Benami
- 2 – Inventory – discrepancy 10%, Working capital limit 5 Cr – quarterly statements to banks agreement with books or not
- 3 – Loans & Investments
- 5 – Deposits – deemed deposits covered
- 9 – default in repayment of loans - old 8 + part of old 9 (Term Loan) + 4(xvii) of CARO 2003
- 10 – IPO / FPO- old 9 minus term loan + 42/62 (old 14)
- 11 – Fraud amended old 10 + 143(12) reporting, whistle blower
- 12 – Nidhi amended old 12
- 16 - NBFC amended

AMENDED – CL. 1

- 1 – FA – Earlier 3 sub-clauses – Now 5(6).
- (a) (A) whether company is maintaining proper records showing full particulars, including quantitative details & situation of PPE;
 - FAR in electronic form if 2 conditions satisfied:
 - Controls & security measures in Co. are such that once finalised, FAR cannot be altered without proper authorization & audit trail.
 - FAR can be retrieved in a legible form.
 - In case above conditions not satisfied, to obtain duly authenticated print-out of FAR. In case auditor decides to rely on electronically FAR - to maintain adequate documentation evidencing evaluation of controls that seek to ensure completeness, accuracy & security of register.

AMENDED – CL. 1

- ➔ (B) Whether the company is maintaining proper records showing full particulars of intangible assets;
- ➔ (b) Whether these PPE have been physically verified by management at reasonable intervals; - material discrepancies were noticed - properly dealt with in books of a/c

AMENDED – CL. 1

- (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 FS are held in name of company, if not, provide details thereof in format below

Description of property	Gross carrying value	Held in name of	Whether promoter, director or their relative or employee	Period held – indicate range, where appropriate	Reason for not being held in name of company* Dispute if any
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AMENDED – CL. 1

- (d) Whether company has revalued its PPE (including Right of Use assets) or intangible assets or both during the year & if so:
 - Whether revaluation is based on valuation by a Registered Valuer;
 - Specify amt of change, if change is $\leq 10\%$ in aggregate of net carrying value of each class of PPE or intangible assets;
- (e) Whether any proceedings have been initiated or are pending against co. for holding any benami property under Benami Laws, if so, whether co. has appropriately disclosed details in its FS.

AMENDED – CL. 2

- (a) Whether physical verification of inventory has been conducted at reasonable intervals by the management
 - 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;

AMENDED – CL. 2

- ➔ (b) Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of Rs. 5 Crs., in aggregate, from banks or FIs on 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

AMENDED – CL. 3

- ➔ Whether during the year 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, LLPs or any other parties, **(earlier only u/s 189 covered – MBP-4)** if so,-
 - ➔ (a) whether during year 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-

AMENDED – CL. 3

- A. aggregate amount during year, and balance outstanding at the b/s date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates;
- B. aggregate amount during year, and balance outstanding at the b/s with respect to such loans or advances and guarantees or security to parties other than subsidiaries, JV and associates;
- In both cases... only granted during yr

AMENDED – CL. 3

- ➔ (b) Whether investments made, guarantees provided, security given and terms & conditions of grant of all loans & advances in nature of loans & guarantees provided are not prejudicial to company's interest
 - ➔ CY, Terms s.186(7) (Loans), ability to lend, borrower standing
- ➔ (c) In respect of loans & advances in nature of loans, whether schedule of repayment of principal and payment of interest has been stipulated & whether the repayments or receipts are regular;
 - ➔ Opening + CY, squared up loans covered – no. of cases

AMENDED – CL. 3

- ➔ (d) if amt is overdue, state total amt overdue for more than 90 days, & whether reasonable steps have been taken by co. for recovery of principal and interest;
 - ➔ CY + opening, no. of cases, principal amt overdue, intt overdue, steps taken
- ➔ (e) whether any loan/advance in nature of loan granted which has fallen due during year, has been renewed/extended or fresh loans granted to settle overdues of existing loans given to same parties, if so specify agg. amt of such dues renewed/extended or settled by fresh loans & % of aggregate to total loans or advances in nature of loans granted during yr [not applicable if principal business is to give loans]

AMENDED – CL. 3

- ➔ (f) whether co. has granted any loans or advances in nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify aggregate amount, % thereof to total loans granted, aggregate amt of loans granted to Promoters, related parties as defined in s. 2(76)

AMENDED – CL. 5

- In respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the RBI and 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 CLB or NCLT or RBI or any court or any other tribunal, whether the same has been complied with or not

AMENDED – CL. 9

- ➔ (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:

Nature of borrowing, including debt securities	Name of lender* Lender-wise if from bank, FI & Govt.	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any
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- ➔ Default – non payment of dues, FIs include NBFCs
- ➔ All defaults existing **on B/S date??** – even earlier years
- ➔ Govt. does not include – Foreign govt., Govt. Co, PSU, Boards, Corporations

AMENDED – CL. 9

- ➔ (b) Whether the company is a **declared wilful 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 utilised for long term purposes, if yes, the nature and amount to be indicated;

AMENDED – CL. 9

- ➔ (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;

AMENDED – CL. 10

- ➔ (a) whether moneys raised by way of IPO or FPO (including debt instruments) during year were applied for 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;
 - ➔ Default - amount involved , nature of default, delay in utilization
 - ➔ Co. to disclose end use of IPO/FPO in notes & auditor to verify – see SEBI (Listing Obl. & Dis. Req.) Reg.
 - ➔ Temporary investment (FDR) to be reported
 - ➔ Term Loans from Private Parties
 - ➔ If against property, FDR, etc – no specific purpose

AMENDED – CL. 10

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

AMENDED – CL. 11

- ➔ (a) Whether any fraud by the company or any fraud on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;
 - ➔ Only to report 'noticed or reported' frauds. 143(12) frauds to CG. Reported frauds u/s 143(12) to be reported not suspected frauds
 - ➔ Management fraud vs. Employee fraud
 - ➔ Fraudulent Financial Reporting vs. Misappropriation of assets
- ➔ (b) Whether any report u/s 143 (12) has been filed by the auditors in Form ADT-4 with CG
- ➔ (c) Whether auditor has considered whistle-blower complaints, if any, received during the year by the company;

AMENDED – CL. 12

- ➔ (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 per cent. 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

AMENDED – CL. 16

- ➔ (a) Whether co. is required to be registered u/s 45-IA of RBI Act, 1934 & if so, whether registration has been obtained;
 - ➔ Understanding business, if principal business is Financing activity
 - ➔ 50-50 Test - Financial Assets > 50% of total assets and income from Financial assets > 50% of Gross Income
 - ➔ If required and registration not obtained reasons to be stated

AMENDED – CL. 16

- ➔ (b) Whether co. has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Reg. (CoR) from RBI
- ➔ (c) Whether the company is a Core Investment Company (CIC) as defined in regulations made by the RBI, if so, whether it continues to fulfil criteria of a CIC, and in case co. is an exempted or unregistered CIC, whether it continues to fulfil such criteria;
- ➔ (d) Whether Group has more than 1 CIC as part of Group, if yes, indicate no. of CICs which are part of Group;

NEW – CL. 8

- 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
- If so, whether previously unrecorded income has been properly recorded in the books of account during the year.
 - Search / Survey

NEW – CL. 17

- Taken from Clause 4(x) of CARO 2003 with some changes
- Whether the company has incurred **cash losses** in financial year and in the immediately preceding financial year, if so, state the amount of cash losses.
 - Earlier only if company existed for more than 5 years
 - Accumulated losses more than 50%

NEW – CL. 18

- ▶ 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 outgoing auditors.
 - ▶ Reasons mentioned for Resignation – ADT-3
 - ▶ Last Audit Reports
 - ▶ Communications / discussions / communications with TCWG, etc before accepting engagement.
 - ▶ Include in MRL- all material concerns / objections discussed by outgoing auditor has been shared
 - ▶ Documentation of Communication with Outgoing Auditor / Engagement Acceptance

NEW – CL. 19

➤ On basis of:

- **Financial ratios- Current/debt-equity/debt service**
- **Ageing**
- **Expected dates of realisation of financial assets and payment of financial liabilities,**
- **Other information accompanying FS, auditor's knowledge of BoD and management plans,**
- **whether auditor is of opinion that no material uncertainty exists as on date of audit report that company is capable of meeting its liabilities existing at date of b/s as and when they fall due within a period of 1 year from the b/s date**

NEW – CL. 20

- (a) Whether, in respect of other than ongoing projects, company has transferred unspent amount to a Fund specified in Schedule VII within a period of 6 months of expiry of FY in compliance with second proviso to s. 135(5)
- (b) Whether any amount remaining unspent u/s 135(5) of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with s. 135(6)
 - Within 30 days of FY end in Unspent CSR A/c -such amt shall be spent by co. in pursuance of its obligation towards CSR Policy within 3 FYs from date of such transfer, failing which, company shall transfer the same to a Fund specified in Schedule VII, within a period of 30 days from date of completion of 3rd FY

NEW – CL. 21

- 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

CARO 2020

- 1-3,5, amended
- 4,6,7,13,15 no change
- 8 New – surrendered income
- 9 amended from old 8 + part of old 9 (Term Loan) + 4(xvii) of CARO 2003
- 10 old 9 minus term loan + 42/62 (old 14)
- 11 amended of old 10
- 12 amended old 12
- Old 11 – managerial remuneration deleted
- 14 Internal audit (new) old CARO 2003 4(vii). (b) is new
- 16 NBFC amended
- 17 new – cash losses – changes from old 4(x) of CARO 2003
- 18 New – resignation of statutory auditors
- 19 New – Ratios
- 20 New – CSR
- 21 New – Qualifications in CARO in companies which are to be consolidated in CFS

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THANKS



CA. Pramod Jain

pramodjain@lunawat.com

+91 9811073867



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