



# CARO 2020

CA VIVEK NEWATIA  
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# OVERVIEW

MCA issued Companies (Auditor's Report) Order, 2020 (CARO 2020) applicable for each report issued by auditors of specified class of companies under Section 143 of CA 2013 for FY commencing on or after 1 April 2021

No change in applicability requirements as compared to CARO 2016 other than requirements of reporting on Consolidated Financial Statements (CFS).

In case there are any qualifications or adverse remarks by the auditors of companies included in CFS, then principal auditor is required to include reference to such remarks in CARO to CFS.

CARO 2020 includes several new clauses and has revised certain existing clauses of CARO 2016. The new CARO has increased the reporting requirements for auditors and put greater onus on companies to share information with the auditors and users of the financial statements.

The Institute of Chartered Accountants of India (ICAI) issued Guidance Note on CARO 2020 on 1 July 2020 to provide guidance relating to reporting requirements under CARO 2020.

# EXEMPTION UNDER CARO

- Auditors of following class of companies are exempted to comment on matters prescribed under the CARO 2020:
  - Banking company as defined under Section 5(c) of the Banking Regulation Act, 1949
  - Insurance company as defined under the Insurance Act, 1938
  - Companies incorporated with charitable objects, etc. i.e. companies licensed to operate under Section 8 of the 2013 Act
  - One person company as defined under Section 2(62) of the 2013 Act
  - Small company as defined under Section 2(85) of the 2013 Act
  - Private company, not being a subsidiary or holding company of a public company having:
    - Paid-up capital and reserves and surplus not more than INR 1 crore as on the balance sheet date
    - Total borrowings not more than INR 1 crore from any bank or financial institution at any point of time during the financial year, and
    - Total revenue (including revenue from discontinuing operations) upto INR 10 crore during the financial year as per the financial statements (revenue as disclosed in Schedule III to the 2013 Act).

## SIGNIFICANT POINTS FOR APPLICABILITY

- The order would be applicable to private unlimited Company irrespective of the size of their paid up capital and reserves, turnover, borrowings.
- For the purpose of calculation of paid up share capital –
  - bonus shares allotted to be considered
  - amount originally forfeited shares to be added
  - amount of calls unpaid should be deducted
  - share application money received pending allotment should not be considered
- Where company enjoys a cash credit facility whose balance is fluctuating in nature, the Order would apply to the company if the amount outstanding in the cash credit facility along with other borrowings exceeds Rupees One crore on any day during the financial year concerned. **The outstanding balance in the CC facility as per books of account should be taken and not the balance as per bank statement**



# CARO 2020 REPORTING REQUIREMENTS



# SUMMARY OF CHANGES

New Clauses	Modified Clauses	Retained Clauses	Deleted Clauses
Transactions not recorded in the books	Fixed Assets	Acceptance of deposits	Managerial Remuneration
Ability of co. to meet its liabilities	Inventory	Maintenance of cost records	-
CSR – Transfer of unspent amount to fund	Repayment of loan granted by company	Compliance of Section 185 & 186	-
Stat.Auditor resignation	Default in repayment of dues	Application of funds raised	-
CFS: reference to negative remarks in subsi CARO	Reporting of frauds	RPT	-
Internal Audit (Reintroduced from CARO 2003)	Nidhi Co.	Non-cash transactions	-
Cash Loss (Reintroduced from CARO 2003)	Regn.With RBI	Payment of stat dues	-

# PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

- Clause 3(i)(a)
  - Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment (PPE)
  - Whether the company is maintaining proper records showing full particulars of Intangible assets.
- Clause 3(i)(b)
  - Whether these PPE 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.
- Key considerations
  - The clause changes the terminology from fixed assets to PPE – to align with IndAS and AS
  - The clause incorporates details regarding intangible assets.
  - This clause requires a company to maintain and require periodic verification of PPE and intangible assets register to ensure proper documentation of PPE and intangible assets. Asset register to include:
    - Details of items self-financed or assets on lease
    - Details of PPE that have been fully depreciated or have been retired from active use and held for disposal
    - Details of PPE that have been fully impaired during the period
    - Bifurcation between self-generated intangible assets and acquired intangible assets
    - Details of investment property and assets held for sale.

# PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

## ■ Clause 3(i)(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:-

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 (also indicate if in dispute)
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## ■ Key considerations

- This clause requires disclosure of all immovable properties that are not held in the name of the company (in specified format).
- A reconciliation of title deeds with PPE register is required.
- The clause also requires disclosure when any immovable property is held in the name of a promoter, director, their relative or employee.



# PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

- **Clause 3(i)(d)**

- Whether the company has revalued its PPE (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 per cent or more in the aggregate of the net carrying value of each class of PPE or intangible assets.

- **Key considerations**

- Consider requirements of AS 10 and Ind AS 16 - that if a single item of PPE is revalued, then the entire class of PPE to which that item belongs should be revalued
- The clause requires disclosure if change due to revaluation is 10 per cent or more in the aggregate of the net carrying value of each class of PPE or intangible asset.

# PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

- **Clause 3(i)(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.

- **Key considerations**

- The clause requires appropriate disclosure in the financial statements when any proceeding is initiated or is pending regarding benami property
- The reporting would include:
  - Nature of property
  - Carrying value of the property in the books of account
  - Status of proceedings before the relevant authority
  - Consequential impact on the financial statements and/or the liability that may arise in case the proceedings are decided against the company.
- In case proceeding are initiated post balance sheet date but before the signing of the auditor's report, the auditor would be required to report in case such proceeding relates to a property owned by the company as on the balance sheet date.

# INVENTORY AND WORKING CAPITAL FACILITIES

- **Clause 3(ii) (e)**

- 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 per cent 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.
- Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of INR5 crores, 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

- **Key considerations**

- Discrepancy to be evaluated on the basis of total value of inventory and not quantity.
- 10 per cent threshold for reporting to be applied on net basis after adjusting excesses and shortages within the class of an inventory and based on value for each class of inventory.
- For determining qualifying threshold of INR5 crore, companies to consider
  - Sanctioned limit of loan and not utilisation of loan
  - Balance outstanding for any day during the year and not at year end
  - Limits of all banks and financial institutions in aggregate (limits sanctioned without security of current assets excluded)
  - Credit facilities reckoned should be both fund-based and non-fund based.
- Comparison of books of account with quarterly returns and statements.

# INVESTMENTS, GUARANTEES, SECURITIES, LOANS AND ADVANCES

- **Clause 3(iii) (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:
  - 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;
  - 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.

- **Key considerations**

- Loans include long-term and short-term loans, whether given in cash or in kind to any party(ies), and includes loans squared up during the year
- Whether an advance is in the nature of loan would depend upon the circumstances of each case.
- Information to be reported in respect of all parties and all kinds of loans
- Companies would be required to maintain a register for loans or advances in the nature of loans, or guarantee, or security to all the parties to facilitate reporting under this clause.
- Subsidiary/associate/joint venture should be identified as per the definition under the Companies Act, 2013.

# INVESTMENTS, GUARANTEES, SECURITIES, LOANS AND ADVANCES

- **Clause 3(iii) (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.

- **Clause 3(iii) (d)**

- The amount is overdue, state the total amount overdue for more than 90 days, and whether reasonable steps have been taken by the company for recovery of the principal and interest

- **Key considerations**

- The clause includes all loans and advances in nature of loans granted during the year to any party and also all loans and advances in nature of loans having opening balances
- The term 'regular' means that the principal and interest should normally be received whenever they fall due, respectively.
- Whether reasonable steps have been taken by the company for recovery of principal and interest would depend on facts and circumstances of each case, including the amounts involved. For example, issue of reminders, an advocate's/solicitor's notice, obtaining enhanced security, etc.
- Management of a company would need to provide the steps taken to recover the principal and interest in writing

# INVESTMENTS, GUARANTEES, SECURITIES, LOANS AND ADVANCES

- **Clause 3(iii) (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]

- **Key considerations**

- The clause requires identification of instances of 'ever-greening'\*.
- The clause is not restricted to 'overdue' loans but also extends to situations where fresh loans are given close to settlement date
- The clause also includes loans falling due on balance sheet date and that are renewed/extended/settled post balance sheet date but before date of audit report.

*\*ICAI Guidance Note refers ever-greening as an attempt to mask loan default by giving new loans to help delinquent borrowers repay principal or pay interest on old loans.*

# INVESTMENTS, GUARANTEES, SECURITIES, LOANS AND ADVANCES

- **Clause 3(iii) (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 Section 2(76) of the 2013 Act.

- **Key considerations**

- This is a big change considering that the previous CARO required only such reporting for related parties or entities having common directors whereas CARO 2020 has increased the scope and included every person. This means that even loans and advances granted to employees, vendors and other persons or entities shall also be covered under and reported this clause.
- Report the gross amount of loans or advances in the nature of loans that are granted to promoters or related parties which:
  - Are repayable on demand, or
  - Without specifying any terms or period of repayment

## SECTION 185 & 186

### ■ **Clause 3(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.

### ■ **Key considerations**

- Section 185 – the Auditor should report the nature of non-compliance, the maximum amount outstanding during the year and the amount outstanding as at the balance sheet date in respect of
  - The Directors; and
  - The persons in whom directors are interested (Specify the relationship with the Directors concerned)



## SECTION 186

The auditor should:

- I. Obtain the details of, loans given to any person or other body corporate, guarantee given or security provided in connection with a loan,
- II. The details at (i) above should pertain to investments etc. made during the year as well as the outstanding balances as at the beginning of the year;  
Examine whether, at any point of time during the year in case of aforesaid transactions, the company has exceeded the prescribed limit of 60% or 100%;
- IV. Examine whether the company is in default in the repayment of any deposits accepted or in payment of interest thereon
- V. Check whether the company has made investments through more than two layers of investment companies;
- VI. Check whether the company has passed the board resolution as prescribed and obtain the prior approval, whenever required, from the public financial institution.

# PUBLIC DEPOSITS AND DEEMED DEPOSITS

- **Clause 3(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.

- **Key considerations**

- This clause requires the auditor to:
  - report on compliance with the provisions of section 73 to 76 of the Act; and
  - report on compliance with the order, if any, passed by the company Law Board or National company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal.
- Manner of reporting: If not complied with then auditor should state this and report the nature of contraventions. In respect of non-banking financial companies and housing finance companies (to which the provisions of section 73 to 76 of the Companies Act, 2013 and the rules issued thereunder are not applicable), i.e. where such companies are registered with the Reserve Bank of India (RBI) or National Housing Bank (NHB), as deposit taking companies and have accepted or have been holding public deposits during the year - such companies shall be governed by the acceptance of public deposit norms, issued by the respective regulatory bodies. The auditor should specify that sections 73 to 76 of the companies Act, 2013 and rules issued thereunder are not applicable to such company.

# MAINTENANCE OF COST RECORDS

- **Clause 3(vi)**

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

- **Key considerations**

- Has the Central Government prescribed cost records under section 148(1) (i.e., through notification of Rules) for any of the products produced or manufactured by the company or services rendered by the company?
- If so, whether such accounts and records have been made and maintained in accordance with the Companies (Cost Records and Audit) Rules, 2014?

# PAYMENT/ NON-PAYMENT OF STATUTORY DUES

- **Clause 3(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; Clause 3(vii)(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)

- **Key considerations**

- TDS/Advance Tax/Electricity Charges/Bonus Payable etc. –whether statutory dues.
- Regularity of depositing statutory dues irrespective of the fact whether or not there are any arrears on the balance sheet date and subsequent clearance thereof.
- Undisputed statutory dues.
- Penalty and/or interest levied under the respective laws.
- Each instance of delay-whether required to be reported.
- Department's intimations to the assessee for payment of advance tax.
- Lump-sum deposits of estimated amounts of PF/ESI

# TAX EVASION

- **Clause 3(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

- **Key considerations**

- CARO 2020 aims to highlight the companies which have not been disclosing/ offering income properly. Accounting and income tax provisions differ in terms of the timing and amount of recording of income. CARO 2020 wants auditors to specifically consider that in case a Company has offered or disclosed income during income tax assessments then whether such income was properly treated as per accounting provisions.

# DEFAULT IN REPAYMENT OF LOANS

## ■ Clause 3(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:

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

## ■ Key considerations

- Default in relation to this clause means non-payment of dues to lenders on the last dates specified in loan documents or debentures trust deed, as the case may be.
- New format includes reporting requirement relating to debt securities and information to be provided lender-wise.
- The clause covers defaults in payment of loans or other borrowings (including principal and interest) to any lender.
- The clause also covers rescheduled/restructured loans, disputed loans and loans and borrowings on demand.
- Period upto the audit report for reporting delay in number of days and amount that remains unpaid is to be considered.
- Undisputed Statutory Dues.
- Each instance of delay – whether required to be reported.

# REPORTING OF WILFUL DEFAULTER

- **Clause 3(ix) (b)**

- Whether the company is a declared wilful defaulter by any bank or financial institution or other lender.

- **Key considerations**

- Whether a company has been declared as a wilful defaulter or has been issued a show-cause notice by any lender, bank, financial institution or government as per the procedure specified by RBI (including such bank, financial institution or other lender which has not lent to the company)
- Information on willful defaulters can be obtained from 'credit information companies' and website of RBI and of lender banks/financial institutions and information available in public domain.
- The guidance note limits the scope of 'other lender' to government/government authorities
- Information at the balance sheet date and on the date of the audit report would be considered.
- Company declared wilful defaulter after the balance sheet date.

# DIVERSION OF LOANS

- **Clause 3(ix) (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.

- **Key considerations**

- Term loans obtained from entities or persons other than banks and financial institutions would be considered for this clause.
- Diversion would be examined as per the instances defined in the RBI circular and whether the company has granted loans to other parties, including related parties or invested in other companies.
- In case a term loan has not been utilised for the purpose for which it is raised, then an auditor would report the amount of loan diverted and the purpose for which it is used.
- Establishing a one-to-one relationship with the amount of term loan and its utilisation is not necessary. Company may have a common account for different projects from which subsequent utilisation is made.
- General purpose term loans would also be evaluated from the perspective of diversion of funds.



# SHORT-TERM FUNDS USED FOR LONG-TERM PURPOSES

- **Clause 3(ix) (d)**
  - Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated.
- **Key considerations**
  - Clause requires a statement regarding the nature of application of funds if the company has financed long-term assets out of short-term funds.
  - Comparison would be required for long-term sources and long-term application of funds.
  - Movement of funds should be supported by relevant documentation.
  - Review would be required of balance sheet, cash flow statement and current ratio.

# FUNDS BORROWED TO MEET OBLIGATIONS OF SUBSIDIARIES, ETC.

- **Clause 3(ix) (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.

- **Key considerations**

- The term 'entity' in this clause would include banks, financial institutions, company, limited liability partnership, trust, government, or others irrespective of the legal form.
- Auditor needs to consider new loans or advances given during the year, meeting the obligations of subsidiaries, etc. during the year and new investments (equity or debt) made during the year.
- Obligation would mean the amounts that subsidiaries, associates, or joint ventures were required to pay themselves to their vendors, lenders, employees or statutory authorities.
- The clause covers both long term and short term funds taken:
  - During the year even if these have been repaid before the year end
  - In earlier years and were repaid during the year or are outstanding as at the year end. Review would be required of balance sheet, cash flow statement and current ratio.

# LOANS RAISED ON THE PLEDGE OF SECURITIES

## ■ **Clause 3(ix) (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.

## ■ **Key considerations**

- Securities held in its subsidiaries, joint ventures or associate companies” means the investment of the company in such subsidiary, joint venture or associate company.
- Default includes both repayment of principal and payment of interest.
- This clause covers all loans taken during the year even if these have been repaid during the year.

# PUBLIC OFFER-IPO & FURTHER PUBLIC OFFER

- **Clause 3(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.

- **Key considerations**

- SEBI Regulations about disclosure of end use of public proceeds.
- One to One relation not necessary.
- Temporary investment of surplus fund.

# PUBLIC OFFER-IPO & FURTHER PUBLIC OFFER

- **Clause 3(x) (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 noncompliance;

- **Key considerations**

- One to one relationship not necessary.
- Temporary Investment.
- Funds raised during the year might not have been applied for the stated purpose during the year

# FRAUD REPORTING

- **Clause 3(xi)**

- 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;
- 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;
- Whether the auditor has considered whistle-blower complaints, if any, received during the year by the Company

- **Key considerations**

- The responsibilities of the auditor have been widened by removing the words “officers or employees”.
- Only factual reporting of finding or any details to be provided.
- CARO 2020 requires an auditor to report whether it has considered whistle-blower complaints received against the Company.
- This is one of the key steps for marching towards corporate whistleblowers. At present, the Whistleblower Protection Act, 2014 is not applicable on corporates and the disclosure is aimed to expose alleged wrongdoings in government bodies, projects and offices.

# NIDHI COMPANIES

- **Clause 3(xii)**

- Whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability;
- Whether the Nidhi Company is maintaining ten per cent. unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;
- Whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof.

- **Key considerations**

- The auditor should ask the management to provide the computation of the deposit liability and net owned funds on the basis of the requirements mentioned above to enable him to verify that the ratio of deposit liability to net owned funds is in accordance with the requirements prescribed in this regard; verify the ratio using the figures of net owned funds and deposit liability computed in accordance with what is stated above. The comments of the auditor should be based upon such a statement provided by the management and verification of the same by the auditor; obtain the schedule of payments of interest and repayments of deposits. The schedule should indicate the amount and the due dates of the payment of interest examine the documents containing the terms and conditions of the deposits to enable him in verifying the amount and due dates of the payments mentioned in the documents; verify whether the repayments as well interest as per books of accounts are in accordance with the terms and conditions of the relevant documents; report the following incorporating the following as at the balance sheet date

# NIDHI COMPANIES

- **Clause 3(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.

- **Key considerations**

- Obtain written representations from management and, where appropriate, those charged with governance that:
  - They have disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and
  - They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.

Obtain a list of companies, firms or other parties, the particulars of which are required to be entered in the register maintained under section 189 of the Act. Verify the entries in the register maintained under section 189 of the Act from the declarations made by the directors in Form MBP-1 i.e., general notice received from a director under Rule 9(1) of the Companies (Meetings of Board and Power) Rules, 2014.



# REPORTING ON INTERNAL AUDIT

- **Clause 3(xiv)**

- 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.

- **Key considerations**

- Clause was removed when CARO, 2016 was notified and now again added in CARO 2020.
- Further, it is required to specifically report whether report of internal audit has been considered by the Statutory Auditors.

# NON-CASH TRANSACTIONS

- **Clause 3(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.

- **Key considerations**

- Audit procedures: The auditors should
  - Verify from the minutes book of the general meetings of the company whether company has accorded prior approval for non-cash transaction with director or connected person
  - Verify whether notice for approval of the resolution by the company or holding company in general meeting includes the particulars of the arrangement along with the value of the assets involved in such arrangement duly calculated by a registered valuer u/s 247 of the Companies Act, 2013.

# REPORTING OF NBFC NORMS

## ■ **Clause 3(xvi)**

- 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.
- 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.
- 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 fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria.
- 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

## ■ **Key considerations**

- Earlier there was reporting whether company is required to get itself registered under section 45-IA of Reserve Bank of India Act 1934. Now along with this three more requirements need to be analyzed and report.
- CARO 2020 requires an auditor to check whether an entity which is carrying on non-banking financial business, housing finance activities or is a Core Investment Company (CIC) and has obtained a valid registration certificate from the Reserve Bank of India as per Reserve Bank India Act, 1934.
- Further in case of CIC, auditor also needs to check whether any Company which is exempted or unregistered continues to fulfill the required criteria as mentioned by RBI from time to time. If there are a group of CICs, then the auditor need to provide no. of CIC companies under that group.
- Core investment companies are NBFCs holding at least 90% of their net assets in the form of investment in equity shares, preference shares or debt or loans, debentures, bonds in group companies. The main rationale behind this reporting requirement in CARO 2020 is because in recent times big CIC companies (such as IL&FS) have defaulted.

# CASH LOSSES

- **Clause 3(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.

- **Key considerations**

- Similar Clause in CARO, 2003.
- Cash losses incurred by company in current and previous financial years needs to be reported.

# REPORTING ON RESIGNATION OF THE AUDITORS

- **Clause 3(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.

- **Key considerations**

- Resignation of auditors often casts a doubt on the management and CARO 2020 aims to highlight this. The new CARO requires reporting in case a statutory auditor has resigned. Further, it also requires the new auditor to take into consideration the reason why previous auditor resigned, and issues raised by the previous auditor.
- Presently, section 139 of the Companies Act, 2013 prescribes various compliances in respect to an auditor resignation. ICAI, on the other hand, has a code of ethics for its members. Even as a matter of professional courtesy and professional obligation, it is necessary for incoming auditor to communicate with outgoing auditor. Practically, this requirement is fulfilled by sending a courtesy letter by the new auditor to previous auditor regarding their appointment seeking any objection or issue the previous auditor wants to highlight..
- There can be several reasons for resignation of auditor on his part but if the reasons behind the resignation is something like hiding of material information by management, code of ethics requirement as slated by ICAI is being violated or involvement of entity in accounting scandals then in such cases, it becomes important to communicate with outgoing auditor to consider the facts before deciding whether or not one should ace

# REPORTING ON UNCERTAINTY IN REPAYMENT OF LIABILITIES

- **Clause 3(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.

- **Key considerations**

- CARO 2020 requires a specific certification that no material uncertainty exists in a Company to pay its liabilities within a period of one year from the due date. This new clause has increased the auditor's responsibility to determine and disclose the financial health of an entity to meet its liabilities existing in the balance sheet.
- To assess this, an auditor may consider:
  - Financial Ratios
  - Ageing and expected dates of realisation of financial assets and Payment of financial liabilities
  - Other information accompanying financial statements
  - Auditor's knowledge of the Board of Directors and management plans The reporting required in this clause would enable the auditor to determine whether an entity is financially stable. This clause is more about assessing the validity of fundamental accounting assumption of going concern. Auditor may plan to assess the going concern assumption in accordance with Standards on Auditing (Revised) 570 Going Concern and then respond to the CARO clause

# REPORTING ON UNSPENT CSR

## ■ **Clause 3(xx)**

- whether, in respect of other than ongoing 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;
- 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;

## ■ **Key considerations**

- The present provisions already require that any amount remaining unspent on CSR activities (except due to some ongoing project) shall be transferred by the Company within a period of thirty days from the end of the financial year to a special account to be opened by the Company in that behalf for that financial year in any scheduled bank to be called the Unspent Corporate Social Responsibility Account, and such amount shall be spent by the Company in pursuance of its obligation towards the Corporate Social Responsibility Policy within a period of three financial years from the date of such transfer, failing which, the Company shall transfer the same to a Fund specified in Schedule VII of the Companies Act, 2013, within a period of thirty days from the date of completion of the third financial year. In case the Company contravene such provision then there are penal provisions in the Act.

# CARO FOR CONSOLIDATED FINANCIAL STATEMENTS

- **Clause 3(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.

- **Key considerations**

- Any qualification or adverse remark reported in the CARO of any company included in the audit report on consolidated financial statements, needs to be reported.
- CARO 2020 recognises the fact that there can be few matters which should be addressed via CARO report for consolidated financial statements. The previous CARO was not applicable to auditor's report on consolidated financial statements but CARO 2020 provides an exception.
- In case of multiple subsidiaries, joint ventures and associates, it is possible that one audit firm may take all the audits of group entities or various audit firms may be involved for the audit of entire group. CARO 2020 requires that in case respective auditors have made any qualifications or adverse remarks then following reportings should be made:
  - (a) Details of such companies [Name and relationship - Subsidiaries, Joint venture and Associates]
  - (b) Clause no. of respective CARO report of such companies containing such qualifications and adverse remarks.



# CARO FOR **MANAGERIAL REMUNERATION**

- The reporting clause Managerial remuneration [Clause 3(xi)] has been deleted from CARO, 2016.
- **Key considerations**
  - Section 197(16) of the Companies Act, 2013 requires as under:
    - “The auditor of the Company shall, in his report under section 143, make a statement as to whether the remuneration paid by the Company to its directors is in accordance with the provisions of this section, whether remuneration paid to any director is in excess of the limit laid down under this section and give such other details as may be prescribed”
  - ICAI Advisory dated 9th September, 2019 as under:-
    - *The aforesaid reporting requirement for auditors of public companies needs to be covered in auditor’s report under the Section “Report on Other Legal and Regulatory Requirements”. Accordingly, auditors of public companies are advised to comply with the aforesaid reporting requirements in their auditor’s reports.*



# QUESTIONS

VIVEK NEWATIA, S JAYKISHAN

[VNEWATIA@SJAYKISHAN.COM](mailto:VNEWATIA@SJAYKISHAN.COM)

+91 9831088818