

Companies Auditor's Report Order, 2020



Mayur Agrawal

mayur@alpassociates.com

ALP & Associates

+91 99033 49773

<https://www.linkedin.com/in/mayuricai/>

FCA, CS, LLB, B.Com (Hons), Registered Valuer (IBBI), DISA (ICAI),
Certified Concurrent Auditor (ICAI)



Issues to be Discussed

- ✚ CARO 2015 V/s CARO 2016 V/s CARO 2020
- ✚ Objective
- ✚ Applicability of the Order
- ✚ Matters to be included in the Audit Report
- ✚ Form of Reporting

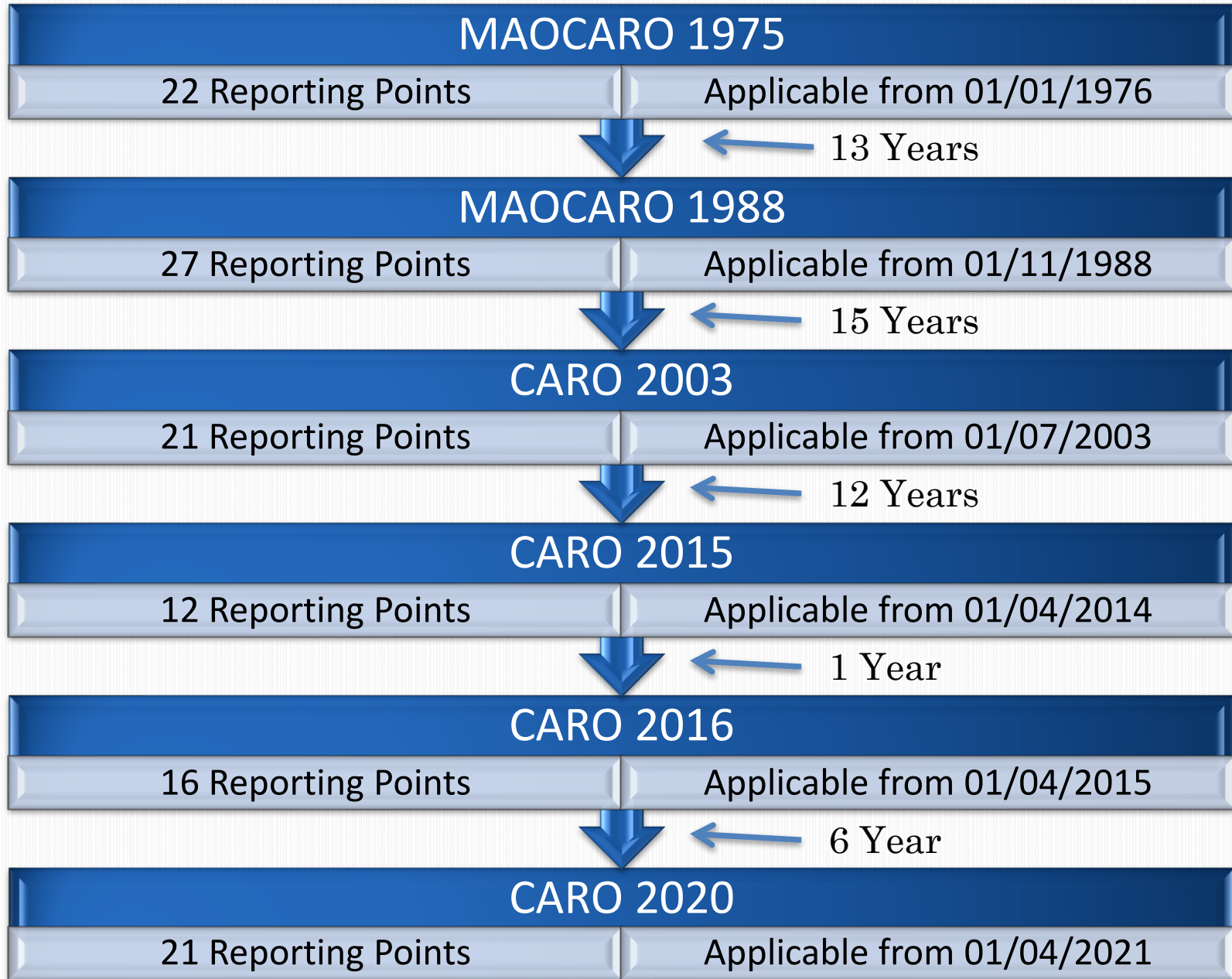
✚ CARO-2020 was notified on 25-02-2020

✚ Guidance Note issued by ICAI in June' 20

✚ Effective from FY commencing on or after 1st April' 21



History of CARO



CARO 2015 V/s CARO 2016

CARO 2015	CARO 2016	CARO 2020
Fixed Assets	Retained With some Changes	Property Plant & Equipment
Inventory	Retained With some Changes	Retained With Additional Details
Loan to Related Parties (Sec 189)	Retained With some Changes	Loan Given by Companies
Adequate Internal Control	Deleted	-
-	Loan Guarantee Security Investment	Retained
Deposits	Retained	Retained With some Changes
Cost Records	Retained	Retained
Statutory Dues	Retained With some Changes	Retained With some Changes
-	-	Transactions not recorded in the books
Accumulated Losses	Deleted	-
Repayment of Loans	Retained With some Changes	Retained With Additional Details
Guarantee	Deleted	-
Term Loan	Retained With inclusion of IPO & FPO	IPO, FPO, Private Placement
Fraud	Retained With some Changes	Retained With Additional Details
-	Managerial Remuneration	Deleted
-	Nidhi Company	Retained With Additional Details
-	Related Party Transactions	Retained
-	Private Placement	Included in Clause (x)
-	-	Internal Audit System
-	Non Cash Transactions	Retained
-	NBFC	Retained With Additional Details
-	-	Cash Losses
-	-	Resignation of the statutory auditors
-	-	Capability of meeting its liabilities
-	-	CSR Reporting
-	-	Qualifications in CFS

Applicability of the Order

- + Applicable to every company including a foreign company
- + Applicable to Audits of Branches of a Company
- + Not applicable to the auditor's report on CFS except Clause (xxi)

Exemption from Applicability

- + Banking Company
- + Insurance Company
- + Section 8 Company
- + One Person Company
- + Small Company u/s 2(85) of CA 2013
- + Select class of Private Company

Applicability of the Order

Select class of Private Company

- + Not a subsidiary company of a public company
- + Not a holding company of a public company
- + Paid up capital + Reserves & Surplus not exceeding ₹ 1 Crore **as on balance sheet date**
- + Total borrowings not exceeding ₹ 1 Crore from any Bank or FI **at any point of time during the FY**
- + Total revenue not exceeding ₹ 10 Crores **as disclosed in Schedule III** (including revenue from discontinuing operations) during the FY as per Financial Statement

For exemption a Pvt Ltd Co. must satisfy all the conditions mentioned above collectively



Matters to be included in the Audit Report

✚ Auditor's Report to Contain Matters Specified in Paragraphs 3 and 4 of the Order.



Property, Plant and Equipments



Inventory



Loans given by Company



Loans Investment Guarantees Security



Deposits



Cost Records



Statutory Dues



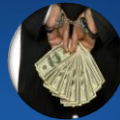
Transactions not recorded



Repayment of Loans



IPO, FPO



Fraud



Nidhi Cos.



Related Party Transaction



Internal Audit System



Non Cash Transactions



NBFC



Cash Losses



Auditors Resignation



Liability Payment Capacity



CSR Reporting



Qualifications in CFS

Matters to be included in the Audit Report

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

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

(i)(b) whether these **fixed—assets 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;



Matters to be included in the Audit Report

(i)(c) whether the title deeds of **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



PPE

Matters to be included in the Audit Report

(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;



Matters to be included in the Audit Report

(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 the same have~~ 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;



Inventory

Matters to be included in the Audit Report

(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, ~~covered in the register maintained under section 189 of the Companies Act, 2013~~ 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-



Matters to be included in the Audit Report

- (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 such loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;



Loans given by
Company

Matters to be included in the Audit Report

(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];



Matters to be included in the Audit Report

(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;



Loans given by
Company

Matters to be included in the Audit Report

(iv) In respect of loans, investments, guarantees, and security, whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof;



Loan Investment
Guarantee Security



Matters to be included in the Audit Report

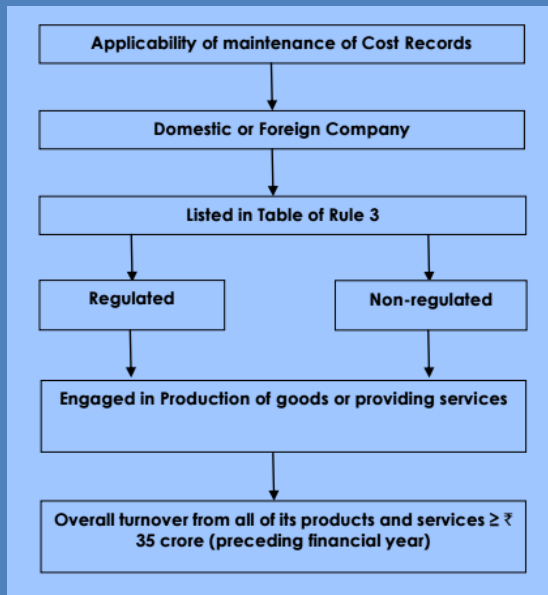
(v) ~~In case, the company has accepted deposits,~~ in respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed there under, 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;



Deposits

Matters to be included in the Audit Report

(vi) Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained



Cost Records

Matters to be included in the Audit Report

(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). where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax~~ 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).



Statutory Dues

Matters to be included in the Audit Report

(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;



Transactions not
recorded

Matters to be included in the Audit Report

(ix) (a) Whether the company has **defaulted** in repayment of loans or **other borrowing or in the payment of interest thereon to any lender to a financial institution, or bank, government or dues to debenture holders**, 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.



Repayment of
Loans



Matters to be included in the Audit Report

- (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;
- (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;



Repayment of
Loans



Matters to be included in the Audit Report

(x) (a) Whether moneys raised by way of initial public offer or further public offer (including debt instruments) **during the year and term loans** were applied for the purposes for which those are raised; If not, the details together with delays or defaults and subsequent rectification, if any, as may be applicable, to 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;



IPO, FPO

Matters to be included in the Audit Report

(xi) (a) Whether any fraud by the company or any fraud on the company ~~by its officers or employees~~ has been noticed or reported during the year; if yes, the 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



Frauds

Matters to be included in the Audit Report

- (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 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;



Nidhi Cos.



Matters to be included in the Audit Report

(xiii) Whether all transactions with the related parties are in compliance with sections 177 and [188](#) of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards;



Matters to be included in the Audit Report

(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;



Matters to be included in the Audit Report

(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, 2013 have been complied with;



Non Cash
Transactions

Matters to be included in the Audit Report

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



Matters to be included in the Audit Report

(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;



Cash Losses

Matters to be included in the Audit Report

(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;



Auditors'
Resignation



Matters to be included in the Audit Report

(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 ;



Liability Payment
Capacity



Matters to be included in the Audit Report

(xx) (a) 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;

(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 sub-section (6) of section 135 of the said Act;



CSR Reporting



Matters to be included in the Audit Report

(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.



Form of Reporting

- ✚ Where an auditor is unable to express any opinion, he should indicate such fact
- ✚ The auditor is also required to give reasons for any unfavourable or qualified answer
- ✚ It is necessary for the auditor to include in his report the management's explanation for any matter on which he makes an unfavourable comment
- ✚ Where the auditor is unable to express an opinion on any such matter which is applicable to the company, he is also required to indicate in his report such fact together with the reasons as to why he is unable to express any opinion



"Share your knowledge. It's a way to achieve immortality." - Dalai Lama



Foreign Company

- As per section 2(42) of the Act a “foreign company” means:
“Any company or body corporate incorporated outside India which -
- (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
 - (b) conducts any business activity in India in any other manner.”

Paid-up, Reserves, Borrowings, Revenue

- + Share application money not to be considered
- + Both capital and revenue reserves to be considered
- + Revaluation reserve to be considered
- + P&L Debit balance must be deducted from reserve & surplus
- + All borrowings must be considered whether long term, short term, secured or unsecured
- + Non fund based limits not to be considered as borrowings
- + Borrowings must include guarantee if it has been invoked and encashed
- + Interest accrued and due to be considered, Interest accrued but not due not be considered as borrowings

Fixed Assets - Proper Records

- + Sufficient description of the asset
- + Correct classification of head
- + Place where asset is situated
- + Number of units
- + Year of Purchase
- + Useful Life
- + Residual Life
- + **Component Accounting breakup**
- + Rates & Basis of depreciation
- + Revaluation details
- + Current & Accumulated depreciation
- + details of sale of assets
- + details of Impairment of assets


Sec 188

- ✚ The transactions which are covered by section 188 are & requires BR:
- (i) sale, purchase or supply of any goods or materials; **(25% of Annual Turnover)**
 - (ii) selling or otherwise disposing of, or buying, property of any kind; **(exceeding 10% of the net worth)**
 - (iii) leasing of property of any kind; **(exceeding 10% of the net worth or 10% of turnover)**
 - (iv) availing or rendering of any services; **(exceeding 10% of the net worth)**
 - (v) appointment of any agent for purchase or sale of goods, materials, services or property; **(exceeding 10% of the net worth or 25% of turnover)**
 - (vi) related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
 - (vii) Underwriting the subscription of any securities or derivatives thereof, of the company.
- ✚ **Paid-up Capital > 10 Crores requires SR for RPT**

Requirement of Registration and Net Owned Fund

(1) Notwithstanding anything contained in this Chapter or in any other law for the time being in force, no nonbanking financial company shall commence or carry on the business of a non-banking financial institution without—

- (a) obtaining a certificate of registration issued under this Chapter; and
- (b) having the net owned fund of twenty-five lakh rupees or such other amount, not exceeding two hundred lakh rupees, (Rs. 200 Lakhs since April 1999) as the Bank may, by notification in the Official Gazette, specify.

 What does conducting financial activity as “principal business” mean? “Financial activity as principal business is when a company’s financial assets constitute more than 50 per cent of the total assets and income from financial assets constitute more than 50 per cent of the gross income.

24 Notice and attachment of property involved in benami transaction

(1) Where the Initiating Officer, on the basis of material in his possession, has reason to believe that any person is a benamidar in respect of a property, he may, after recording reasons in writing, issue a notice to the person to show cause within such time as may be specified in the notice why the property should not be treated as benami Property

SA 580 – Written Representation

7. In certain instances such as where knowledge of the facts is confined to management or where the matter is principally one of intention, a representation by management may be the only audit evidence which can reasonably be expected to be available; for example, intention of management to hold a specific investment for long-term appreciation.

Classification of Inventory

AS – 2 (Valuation of Inventories)

27 Common classifications of inventories are:

- (a) Raw materials and components
- (b) Work-in-progress
- (c) Finished goods
- (d) Stock-in-trade (in respect of goods acquired for trading)
- (e) Stores and spares
- (f) Loose tools
- (g) Others (specify nature)

Internal Audit

Such class and classes of companies is prescribed sub-rule (1) of Rule 13 of the Companies (Accounts) Rules, 2014. As per the rule, “The following class of companies shall be required to appoint an internal auditor [which may be either an individual or a partnership firm or a body corporate], namely:-

- (a) **every listed company**;
- (b) every **unlisted public company** having-
 - (i) **paid up share capital of fifty crore rupees** or more during the preceding financial year; or
 - (ii) **turnover of two hundred crore rupees** or more during the preceding financial year; or
 - (iii) **outstanding loans** or borrowings from banks or public financial institutions exceeding **one hundred crore rupees** or more at any point of time during the preceding financial year; or
 - (iv) **outstanding deposits of twenty five crore** rupees or more at any point of time during the preceding financial year; and
- (c) every private company having-
 - (i) **turnover of two hundred crore** rupees or more during the preceding financial year; or
 - (ii) **outstanding loans** or borrowings from banks or public financial institutions exceeding **one hundred crore rupees** or more at any point of time during the preceding financial year:

Inquire to be made

143 (1) ...amongst other matters inquire into the following matters, namely:—

- a) whether **loans and advances** made by the company on the basis of security have been **properly secured** and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
- b) whether transactions of the company which are represented merely by **book entries** are prejudicial to the interests of the company;
- c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of **shares, debentures and other securities** have been **sold at a price less than that at which they were purchased** by the company;
- d) whether **loans and advances** made by the company have been shown as **deposits**;
- e) whether **personal expenses** have been charged to revenue account;
- f) where it is stated in the books and documents of the company that any **shares have been allotted for cash**, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading:

Undisclosed Income

"undisclosed income" includes any money, bullion, jewellery or other valuable article or thing or any income based on any entry in the books of account or other documents or transactions, where such money, bullion, jewellery, valuable article, thing, entry in the books of account or other document or transaction represents wholly or partly income or property which has not been or would not have been disclosed for the purposes of this Act, or any expense, deduction or allowance claimed under this Act which is found to be false.

Wilful Default

Wilful Defaulters (“RBI Circular”) as updated from time to time has defined that a "wilful default" would be deemed to have occurred if any of the following events is noted:-

- (i) The unit has defaulted in meeting its payment / repayment obligations to the lender **even when it has the capacity to honour** the said obligations.
- (ii) The unit has defaulted in meeting its payment / repayment obligations to the lender and has **not utilised** the finance from the lender for the **specific purposes** for which finance was availed of but has diverted the funds for other purposes.
- (iii) The unit has defaulted in meeting its payment / repayment obligations to the lender and has **siphoned off the funds** so that the funds have not been utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
- (iv) The unit has defaulted in meeting its payment / repayment obligations to the lender and has also **disposed off or removed the** movable or immovable **property** given by him or it for the purpose of securing a term loan without the knowledge of the bank/lender.

Inquire to be made

	Guarantees	Security	Loans	Advances in nature of loans
Aggregate amount granted/ provided during the year				
- Subsidiaries - Joint Ventures - Associates - Others				
Balance outstanding as at balance sheet date in respect of above cases - Subsidiaries - Joint Ventures - Associates - Others				



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