

Introduction to CARO 2020

CARO 2020 is a new concept for issue of audit reports in case of statutory audits of companies under Companies Act, 2013. CARO 2020 has included additional reporting requirements after consultations with the National Financial Reporting Authority (NFRA).

NFRA is an independent regulatory body for regulating the audit and accounting profession in India. The aim of CARO 2020 is to enhance the overall quality of reporting by the company auditors.

Applicability of CARO 2020:-

CARO 2020 is applicable for all statutory audits commencing on or after 1 April 2020 corresponding to the financial year 2019-20. The order is applicable to all companies which were covered by CARO 2016. Accordingly, the order applies to all the companies except the following companies specifically excluded from its purview:

One person company.

Small companies (Companies with paid up capital less than/equal to Rs 50 lakh and with a last reported turnover which is less than/equal to Rs 2 crore).

Banking companies.

Companies registered for charitable purposes.

Insurance companies.

The following private companies are also exempt from the requirements of CARO, 2020: –

Whose gross receipts or revenue (including revenue from discontinuing operations) is less than or equal to Rs 10 crore in the financial year.

Whose paid up share capital plus reserves is less than or equal to Rs 1 crore as on the balance sheet date (i.e. usually at the end of the FY).

Not a holding or subsidiary of a Public company.

Whose borrowings is less than or equal to Rs 1 crore at any time during the FY.

Reporting Requirements Under CARO 2020

The auditor's report (CARO 2020) shall include a statement on the following matters, namely:-

Details of tangible and intangible assets.

Details of inventory and working capital.

Details of investments, any guarantee or security or advances or loans given.

Compliance in respect of a loan to directors.

Compliance in respect of deposits accepted.

Maintenance of costing records.

Deposit of statutory liabilities.

Unrecorded income.

Default in repayment of borrowings.

Funds raised and utilisation.

Fraud and whistle-blower complaints.

Compliance by a Nidhi.

Compliance on transactions with related parties.

Internal audit system.

Non-cash dealings with directors.

Registration under section 45-IA of RBI Act, 1934.

Cash losses.

Resignation of statutory auditors.

Material uncertainty on meeting liabilities.

Transfer to fund specified under Schedule VII of Companies Act, 2013.

Qualifications or adverse auditor remarks in other group companies.

In a case where the auditor's answer to any of the requirements mentioned above is unfavourable or negative, then the auditor's report shall also state the basis for such unfavourable or qualified answer.

Also, in a case where the auditor is unable to express any opinion on any specific matter, the report shall indicate such fact along with the reasons as to why it is not possible for the auditor to give an opinion on the same.

Detailed Reporting Under Each Clause:-

1. Details of tangible and intangible assets:- Whether the records maintained by the company display the complete particulars on the details, quantity and situation of tangible and intangible assets.

Whether the management has carried out physical verification of the assets at different intervals reasonable with the size of the company.

Whether the material discrepancies, if any, noticed on physical verification have been accounted for in the books of accounts.

Whether the title deeds pertaining to the immovable properties (except properties which are leased by the company with duly executed lease agreements in the company's favour) disclosed in the financial statements are held in the name of the company.

If the title deeds are not held in the name of the company, the below details should be provided:-

Description of a property:- Gross carrying value

Held in the name of Whether promoter, director or their relative or employee

Period held: indicate a range, where appropriate Reason for not being held in the name of company also indicate if in dispute, Whether a revaluation has been done by the company of its property, plant and equipment (including the 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.

In case of a change in values upon revaluation, specify the amount of change, if the change is 10% or more in the aggregate of the net carrying value of each class of property, plant and equipment or intangible assets.

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 yes, whether the company has appropriately disclosed the details in its financial statements.

2. Details of inventory and working capital:- Whether the management has carried out physical verification of inventory at reasonable intervals.

If 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 accounts.

Has the company, during any point of time of the year, 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.

Are the quarterly returns or statements filed by the company with financial institutions or banks in agreement with the books of account of the Company. In case of non-agreement, to provide details of such non-agreement.

3. Details of investments, any guarantee or security or advances or loans given:- If the company has during the year made any investments in, given any guarantee or security or granted any loans or advances which are characterised as loans, unsecured or secured, to LLPs, firms or companies or any other person.

If the company has provided advances or provided loans which are characterised as loans, or given guarantee, or given security to any other entity (other than a company carrying on a business of providing loans), the below information should be furnished:-

The total amount given during the year, and the balances due as at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates.

The total amount during the year, and the balance due on the balance sheet date of such loans or advances and guarantees or security to persons other than associates, subsidiaries and joint ventures.

In the case of investments made, guarantee or security provided, loans or advances granted (as mentioned above), the report should indicate:-

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.

– 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.

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.

In case any loan or advance in the nature of a loan is given which was due for repayment during the year and has been renewed or extended or fresh loans granted to settle the overdue of existing loans given to the same parties.

If yes, specify the total amount of such dues renewed or extended or settled by fresh loans and the percentage (proportion) of the total to the total loans or advances granted during the year (other than companies whose principal business is to grant loans).

In case the company has given any loans or advances in the nature of loans either repayable on demand or without specification of any terms or period of repayment. If so, to specify the total amount, percentage thereof to the total loans granted, the total amount of loans granted to promoters, related parties as defined section 2(76) of the Companies Act, 2013.

4. Compliance in respect of a loan to directors:- If the company has given any loans to directors or any other person in whom the director is interested, or made any investments, whether the company has made compliance with the provisions governing such loans, investments and guarantees.

5. Compliance in respect of deposits accepted:- In case the company has accepted deposits or deemed deposits, whether the company has followed the directives of the RBI as under: – Compliance with the provisions prescribed for accepting deposits under section 73 to 76 of the Companies Act, 2013. – The nature of contraventions, if the above provisions are not followed. – Compliance with any order passed by any court or tribunal. – Reporting of any non-compliance with the provisions of Companies Act, 2013.

6. Maintenance of costing records:- In case the company is required to maintain cost records, whether the records have been maintained during the year and non-compliance if any.

7. Deposit of statutory liabilities:- Whether the company has Regularly deposited statutory dues.

– Are any statutory dues pending for a period more than 6 months as on the balance sheet date.

– In case of any disputed statutory dues, the amount of such dues, the forum before whom the dues are litigated.

8. Unrecorded income:- Whether any transactions which are not recorded in the accounts have been disclosed or surrendered before the tax authorities as income during the year. The details of such income tax assessments should be disclosed. – Whether such undisclosed income has been recorded in the accounts during the year.

9. Default in repayment of borrowings:-In case the company has made any default in the repayment of loans to banks, government, debenture-holders, etc. then the amount and period of default.

Description of borrowing includes debt securities:-

Name of lender

Amount unpaid on the due date

Whether interest or principal

Number of days of delay or unpaid

Auditor's remarks

Details, lender-wise should be provided in case of defaults to financial institutions, banks, or Government

Has the company been declared a wilful defaulter by any bank or financial institution or any other lender.

Have term loans been used for the object for which they were obtained; in case they have not been, the loan funds diverted and disclosure of the end use of such loans.
Has the company used funds raised for a short term basis for long term purposes.

10- The nature and the amount of such funds:- Has the company raised any money from any person or entity for the account of or to pay the obligations of its associates, subsidiaries or joint ventures. The details of the money raised with the description of the transactions and the amounts in each case.

Has the company raised any loans during the year by pledging securities held in their subsidiaries, joint ventures or associate companies. The details of such loans and also the default in the repayment of the loans.

Funds raised and utilisation:- If the company has raised any funds from a public offer (equity or debt capital), details of the funds applied for the purposes. Also, the details of default or delays and rectification measures taken.

Has the company made any private placement or preferential allotment of shares or convertible debentures (fully, partially or optionally convertible) during the year, whether the same is in accordance with section 42 and section 62 of the Companies Act, 2013. Whether the funds raised, have been used for the purposes they were raised and the non-compliance, if any.

11. Fraud and whistle-blower complaints:- Has there been any fraud by the company or any fraud done on the company. If any such fraud has been noticed or reported any time of the year.

If yes, nature and amount involved have to be reported. – Whether the auditors of the company have filed a report in Form ADT-4 with the Central Government as prescribed under the Companies (Audit and Auditors) Rules, 2014. – In case of receipt of whistle-blower complaints, whether the complaints have been considered by the auditor.

12. Compliance by a Nidhi Compliance with provisions applicable to a Nidhi company: – Maintaining of net owned funds to deposit ratio of 1:20 for meeting liabilities. – Maintaining 10% term deposits (which are unencumbered) for meeting liabilities. – Details of any default in payment of interest on deposits or repayment of for any period.

13. Compliance on transactions with related parties:- Whether the company has complied with the provisions of section 188 of the Companies Act, 2013 in respect of transactions with related parties. Also, whether appropriate disclosures are made in the financial statements.

14. Internal audit system:- Does the company have an internal audit system in accordance with its size and business activities. – Have the reports of the internal auditors been considered by the statutory auditor.

15. Non-cash transactions:- In case the company has undertaken non-cash transactions with their directors or other persons connected to the directors, whether the restrictions imposed are complied with.

16. Registration under Section 45-IA of RBI Act, 1934:- Is the company required to be registered under the RBI Act and whether the company has obtained registration.

Whether the company has carried on any Non-Banking Financial or Housing Finance activities (NBFC or HFC) without having a valid registration certificate from RBI. Is the company a Core Investment Company (CIC) under the RBI regulations and does it continue to fulfil the criteria of a CIC. In case the company is an exempted or unregistered CIC, does the company continue to fulfil the criteria for exemption. Does the group to which the company belongs have more than one CIC as part of it, then indicate the number of CICs which are in the group.

17. Cash losses:-Has the company incurred any cash losses in the financial year and the immediately preceding financial year, the amount of cash losses incurred.

18. Resignation of statutory auditors:- Whether during the year, has there been any resignation of statutory auditors, if yes, has the auditor considered the objections, issues or concerns raised by the outgoing auditors.

19. Material uncertainty:-Existence of any material uncertainty on the date of the audit report on an evaluation of:-The ageing report, financial ratios and expected dates of realisation of financial assets and payment of financial liabilities, any other

information accompanying the financial statements, the auditor's knowledge of the Board of Directors and management plans. – Opinion whether the company can meet its the liabilities which exist as at the balance sheet date when such liabilities are due in the future.

20. Transfer to fund specified under Schedule VII of Companies Act, 2013:- With respect to obligations under Corporate Social Responsibility, whether the company has transferred the unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of 6 months from the expiry of the financial year. – Whether any amount which remains unspent has been transferred to a special account in accordance with provisions of section 135 of the Companies Act, 2013.

21. Qualifications or adverse auditor remarks in other group companies:- In case there have been any qualifications or adverse remarks in the audit reports issued by the respective auditors in case of companies included in the consolidated financial statements, to indicate the details of the companies and the paragraph numbers of the respective CARO reports containing the qualifications or adverse remarks.

All the above-stated clauses are mandatory to be reported on. Also, the disclosures are to be given appropriately.