

Salient Features of CARO, 2020

(Companies (Auditor's Report) Order, 2020)

MINISTRY OF CORPORATE AFFAIRS vide notification dated 25th February 2020, has published **Companies (Auditor's Report) Order, 2020** in exercise of the powers conferred by:

- Section 143(11) of the Companies Act, 2013 (18 of 2013) and
- in supersession of the Companies (Auditor's Report) Order, 2016, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (ii), vide number S.O. 1228 (E), dated the 29th March, 2016, except as respects things done or omitted to be done before such supersession,
- consultation with the National Financial Reporting Authority constituted under section 132 of the Companies Act, 2013

➤ **Applicability:**

It shall come into force on the date of its publication in the Official Gazette.

➤ **Companies covered under this Rule:**

It shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013 (18 of 2013) [hereinafter referred to as the Companies Act], except–

- i) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
- ii) an insurance company as defined under the Insurance Act, 1938 (4 of 1938);
- iii) a company licensed to operate under section 8 of the Companies Act;
- iv) a One Person Company as defined in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act; and
- v) a private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one crore rupees from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) exceeding ten crore rupees during the financial year as per the financial statements.

Link: of the MCA notification on CARO, 2020

http://www.mca.gov.in/Ministry/pdf/Orders_25022020.pdf

CARO 2020 would necessitate enhanced due diligence and disclosures on the part of auditors of eligible companies and has been designed to bring in greater transparency in the financial state of affairs of such companies.

➤ **THE SALIENT FEATURES OF THE CARO, 2020 ARE AS UNDER:**

- i. The CARO, 2020 includes certain additional clauses, as compared to CARO, 2016, and the existing clauses of CARO, 2016 have been re-drafted to elicit detailed comments from the auditors.
- ii. A specific format has been provided for reporting the details of such immovable properties whose title deeds are not held in the name of the company but are disclosed in the financial statements.
- iii. Disclosure of details of proceedings against the company for holding Benami Property and whether the company has disclosed the details in its financial statements.
- iv. Discrepancies of 10% or more in the aggregate of each class of inventory noticed during physical verification of inventory would have to be reported.
- v. The auditor is to provide specific details as to whether during any point of time of the year, the Company has been sanctioned working capital limits in excess of Rs. 5 crores, in aggregate, from banks or financial institutions on the basis of security of current assets and whether the quarterly returns/statements filed by the Company with such banks or financial institutions are in agreement with the books of account of the Company.
- vi. In clause 3(iii) of CARO, 2020, the auditor is to report in detail on the investments made by the company in, any guarantee or security provided or any loans or advances in the nature of loans granted, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties during the year, that they are not prejudicial to the interests of the company.
- vii. A specific format has been prescribed to report the period and the amount of default by the company in repayment of loans or other borrowings or in the payment of interest thereon to any lender.
- viii. The auditor is required to render his opinion on the basis of the financial ratios, ageing and expected dates of realization 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, 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.
- ix. The amount of cash losses incurred in the financial year and in the immediately preceding financial year have to be reported.
- x. The auditor has to take into consideration the issues, objections or concerns raised by the outgoing auditors before forming his opinion.
- xi. The auditor is required to report about the company if it is a declared wilful defaulter by any bank/ financial institution/ other lender.

- xii. The auditor would have to report as to 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 would have to be reported.
- xiii. The auditor is required to report as 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.
- xiv. The auditor is to consider whistle-blower complaints received during the year by the Company in his audit.
- xv. The auditor is to report if 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 RBI Act.
- xvi. The auditor is now required to indicate the details of the subsidiary companies and the sub-clauses' number containing qualifications/adverse remarks by the respective auditors in the CARO reports of the companies included in the consolidated financial statements.

Source of the information:

<https://pib.gov.in/PressReleseDetail.aspx?PRID=1604405>

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