Companies (Auditor's Report) Order, 2020

C.A. Puneet Jethliya

CARO, 2020 – Fixed Assets

❑Property, Plant and Equipment (PPE)

- Full particulars of PPE including quantitative details & situation,
- Physical Verification Status – disclosure on material discrepancies and its accounting treatment

❑Intangible Assets

- Maintenance of proper records

❑Immovable Properties

- Disclosure: "Title deeds are held in the name of the Company"
- If not, following details required to be disclosed **in the Audit report**:
  - ✓ 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)

CARO, 2020 – Fixed Assets

- Revaluation of PPE, Right of Use, Intangibles
  - Is it valued by Registered Valuer?
  - **Disclosure in Audit Report**: Amount of change if 10% / more of WDV in aggregate for each class
- Disclosure on details of Proceeding on Benami Property under the Benami Transactions (Prohibition) Act.

CARO, 2020 – Inventory and Working Capital

- Inventory
  - Physical Verification
  - *Auditor's Comment on Coverage and Procedure of verification*
  - *Accounting treatment of discrepancies if 10% or more*

- Working Capital Limits
  - Sanctioned working capital more than 5 crores on security of Current assets.
  - Financials figures / details filed in returns / statements with banks / FI should be in line with books.

CARO, 2020 – Investments, Loans / Advances

- Investments, Guarantee / Security / Loans / Advances in the nature of loans to companies, firms, LLP or **any other parties**

  - Audit Report specifically requires to disclose the amount of :

    - ✓ Transactions during the period and outstanding balances
    - ✓ Overdue of more than 90 days

  - Auditors Comment on below:

    - ✓ T&C of the grant should not be prejudicial to the company's interest;
    - ✓ Repayment schedule should be stipulated
    - ✓ Repayments or receipts are regular
    - ✓ Reasonability of steps taken by the company for recovery of overdue.

CARO, 2020 – Investments, Loans / Advances

- Amount & its percentage of renewed or extended or fresh loans / advances granted to settle the overdues

- Amount of loan / advances and its percentage which are repayable on demand or without specifying any terms or period of repayment

- Amount of loans granted to Promoters, Related parties.

- Compliance of Section 185 and 186 of the Act.

CARO, 2020 – Loans / Borrowings

- Reporting on default of a repayment **to any lender as below:**
  - ✓ Nature of borrowing including debt securities
  - ✓ Name of lender
  - ✓ Amount not paid on due date
  - ✓ No. of days delay or unpaid
  - ✓ Any other Remarks

- Auditor may ask specifically with Banks / Financial Institutions or other lender on "declared wilful defaulter".

- Utilization of Term loans / Short term funds and its diversion if any
- Funds raised to meet the obligations of its subsidiaries, associates or joint ventures

- Details of loans / default in repayment of such loans raised on the pledge of securities held in its subsidiaries, JVs or associate companies.

CARO, 2020 – IPO / FPO / Debt. Instrument

- Utilization should be for the purpose for which money raised

- details required to be reported on delays or default and subsequent rectification

- Compliance of Section 42 and 62 of the Act

CARO, 2020 - CSR Reporting

- Unspent amount **of an ongoing project** has to be transferred to special account *(yet to be notified)*

- Transfer of Unspent amount to a Fund specified in Schedule VII to the Act within a period of six months of the expiry of the financial year *(yet to be notified)*

CARO, 2020 – Unrecorded Transactions

❑Section 43 of Income Tax Act, 1961

- **Previously Unrecorded Transactions** have been surrendered or disclosed as income ***during the year in the tax assessments***

- Auditors comment on Proper recording of **previously unrecorded income** in the books of account during the year.

CARO, 2020 – Others (newly inserted)

- Nature and amount noticed / reported FRAUD
  - by the company OR
  - on the company

- FRAUD by Officers / Employees
  - Filing of Form ADT-4 by the auditor
  - Consideration to whistle blower complaints

- Compliance of Section 192: Non-cash transactions with directors or connected persons with him.

- Amount of cash loss of CFY / PFY incurred to be reported in audit report.

CARO, 2020 – Others (newly inserted)

- Consideration of the issues of the previous auditor

- Auditor's Opinion on Company's capability on meeting its liabilities fall due within a period of one year from Balance Sheet date

  (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 etc.)

CARO, 2020 – RPT and Internal Audits

- ❑Report on compliance of sections 177 and 188 of the Act i.e disclosure of Related party transactions (RPT) in the financial statements.
- ❑Report on Internal Audit System
- ❑Report on consideration of Internal Audit reports for the period under audit

CARO, 2020 – Others

❑Deposits accepted / deemed deposits

- Compliance of directives issued by the RBI
- Compliance of Sec. 73 to 76 or any other provisions of the Act
- Compliance of any order passed by NCLT / Tribunal / RBI / Court
- Non compliance disclosure

❑Comment on Cost Records **Made and Maintained** as per the Act.

❑Deposit of Statutory dues

- Undisputed: Amount Outstanding for a period of six months as on the last day of financial year
- Disputed: Amount and forum where the matter is pending

❑Compliance, in case entity is a Nidhi Company

CARO, 2020 – Non-banking Financial Institution

- the non-banking finance or housing finance activities are should only be conducted only after taking **certificate of registration** from RBI
- fulfilment of classification criteria laid down by RBI for Core Investment Company (CIC)
- Number of CICs in the Group to which company belongs

- Consolidated Financial Statements (CFS)
  - Auditor has to report on all qualifications or adverse remarks reported in CARO reports of the companies included in the CFS

Thank You