

COMPANIES (AUDITOR'S REPORT) ORDER (CARO) REPORT & APPLICABILITY

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WHAT IS CARO?

Companies (Auditor's Report) Order, 2020.

- The Company Auditor's Report Order (CARO) 2016 was issued by the Ministry of Corporate Affairs (MCA) superseding the earlier order of CARO 2015.
- The objective of the issue of this order, in the opinion of MCA, was that there are certain particular issues which are important to be reported with the financial statements for certain entities as a part of their audit reports.
- The auditor of such prescribed entities is required to report on the points mentioned under this order after performing procedures for verification of the same

APPLICABILITY

- Ministry of Corporate Affairs 'MCA' notifies Companies (Auditor's Report) Order, 2020 (CARO 2020)
 - Applicable for audit of financial statements of eligible companies for the financial years commencing on or after the 1st April, 2020.*
 - The auditors is required to report under this order for all class or classes of companies, except for exempted companies, on the matters specified in the CARO 2016.
- ❖ *Applicability of Companies (Auditor's Report) Order, 2020 shall be made applicable from the financial year 2020- 2021 instead of from 2019-2020 notified earlier

ELIGIBILITY

- ❖ Criteria of eligibility of companies on which the CARO, 2020 shall be applicable
- ❖ Has not been changed and ;
- ❖ Shall be applicable to all those companies on which CARO, 2016 was applicable

- Every Public Company
- Except A private limited Company , not being a subsidiary or holding of a public company, Paid up capital & Reserves & surplus not more than Rs. 1 Cr as on the balance sheet date
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.
- Foreign Company as defined in Section 2(42) of the Companies Act,2013.

EXCEPTION TO ELIGIBILITY OF CARO TO COMPANIES

- Banking company
- Insurance company
- Company licensed to operate under section 8 of the Companies Act, 2013
- One Person Company
- Small company (Companies with Paid up capital less than or equal to Rs. 50 Lakhs and Last reported turnover less than or equal to Rs. 2 Crores).
- Private limited company, not being a subsidiary or holding company of a public company.

MATTERS TO BE INCLUDED IN CARO REPORT, 2020

□ REPORTING REQUIREMENTS:

- ❖ On Property, Plant, Equipment and intangible assets only.
- ❖ Proceedings against the company on the holding of any Benami property.
- ❖ Physical verifications of inventory by the management and proper treatment of any discrepancies of 10% or more found.
- ❖ Quarterly returns or statement filed by company having working capital limit more than 5 crore rupees with such banks or financial institution
- ❖ Investments made by the company (except companies dealing in loans), security or guarantee given by the company,
- ❖ Payment pertaining to the Undisputed Statutory Dues.
- ❖ Default in making the Repayment of the loan.
- ❖ Funds raised by a company by the way of the Initial public offer (IPO).
- ❖ Any fraud done by the company, and many more.
- ❖ The Auditor's Report Order is supposed to state the reasons for unfavorable or qualified answers



CARO
2016

CARO
2020

CLAUSE BY CLAUSE COMPARISON OF THE REPORTING COMPANIES (AUDITOR'S REPORT) ORDER 2020 VIS A VIS PREVIOUS CARO 2016

<i>Clauses</i>	<i>Companies (Auditor's Report) Order, 2016</i>	<i>Companies (Auditor's Report) Order, 2020</i>
	CARO 2016 contains Total 16 reporting clauses	CARO 2020 contains Total 21 reporting clauses
(i)	CARO 2016 required to report on all fixed assets	<p><u>Reporting requirements on:</u></p> <ul style="list-style-type: none"> <input type="checkbox"/> Property, Plant, Equipment and intangible assets only. <input type="checkbox"/> Revaluation of Property, Plant, Equipment including rights of use assets or intangible assets <input type="checkbox"/> Proceedings under the Benami Transactions (Prohibition) Act, 1988 and disclosure in financial statements.

<i>Clauses</i>	<i>Companies (Auditor's Report) Order, 2016</i>	<i>Companies (Auditor's Report) Order, 2020</i>
(ii)	Reporting requirement on physical verification of inventory at reasonable interval by management and material discrepancies noticed if any	Reporting requirements on <ul style="list-style-type: none"> <input type="checkbox"/> Physical verification of inventory at reasonable interval by management and the Opinion of the auditor on the coverage and procedure of such verification <input type="checkbox"/> The material discrepancies of 10% or more noticed if any <input type="checkbox"/> Compliances if company was sanctioned working capital limits in excess of five crore rupees or more from banks or financial institutions
(iii)	Reporting requirement of granting any loans or advances to companies, firms, Limited Liability Partnerships or any other parties.	Reporting requirements of investments in or providing of any guarantee or security or granting any loans or advances to companies, firms, Limited Liability Partnerships or any other parties.
(iv)	Reporting requirement on the compliances of provisions of section 185 and 186 of the companies Act, 2013 in respect of loans, investments, guarantees and security	Reporting requirement on the compliances of provisions of section 185 and 186 of the companies Act, 2013 in respect of loans, investments, guarantees and security. (No change)

<i>Clauses</i>	<i>Companies (Auditor's Report) Order, 2016</i>	<i>Companies (Auditor's Report) Order, 2020</i>
(v)	Reporting requirements of compliances with RBI directives and the provisions the Companies Act with respect to deposits	Reporting of compliances with RBI directives and the provisions the Companies Act with respect to deposits or deemed deposits.
(vi)	Reporting requirements of Maintenance of Cost Record	Reporting requirements of Maintenance of Cost Record (No Change)
(vii)	Reporting requirement on statutory dues	Reporting requirement on statutory dues (No Change)
(viii)	Reporting requirements on default in repayment of loans or other borrowing	Reporting requirements with respect to transactions not recorded in the books of account surrendered or disclosed as income in the income tax proceedings.

<i>Clauses</i>	<i>Companies (Auditor's Report) Order, 2016</i>	<i>Companies (Auditor's Report) Order, 2020</i>
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(ix)	Reporting requirement on utilization of money raised by way of IPO or further public offer for the purposes for which money has been raised	<p>Reporting requirements on</p> <ul style="list-style-type: none"> <input type="checkbox"/> Default in repayment of loans or other borrowing or interest thereon <input type="checkbox"/> Declared as will defaulter by bank / financial institution / other lender <input type="checkbox"/> Utilization of term loan for the purposes for which term loan has been raised <input type="checkbox"/> Fund raised on short term basis have been used for loan term purposes <input type="checkbox"/> Funds taken by the company to meet obligation if its subsidiaries, associates or joint ventures <input type="checkbox"/> Loans raised on the pledge of securities held in its subsidiaries, associates, joint ventures .
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(x)	Reporting requirement on Notice of fraud by / on the company by its officers or employees	<p><u>Reporting requirement on</u></p> <ul style="list-style-type: none"> <input type="checkbox"/> Utilization of money raised by way of IPO or further public offer for the purposes for which money has been raised <input type="checkbox"/> Preferential allotment or private equity placement of shares or fully or partly convertible debentures and compliance of section 42 of Companies Act, 2013
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<i>Clauses</i>	<i>Companies (Auditor's Report) Order, 2016</i>	<i>Companies (Auditor's Report) Order, 2020</i>
(xi)	Reporting requirement on Managerial Remuneration	<u>Reporting requirement on</u> <input type="checkbox"/> Notice of fraud by / on the company <input type="checkbox"/> Report u/s 143(12) filed by the auditors in Form ADT-4 <input type="checkbox"/> Treatment by auditor of whistleblower complaints received during the year by the company
(xii)	Reporting requirements on Net Owned Funds to Deposits in the ratio of 1:20 and maintaining of 10% unencumbered terms deposits as per Nidhi Rules 2014	<u>Reporting requirements on</u> <input type="checkbox"/> Net Owned Funds to Deposits of Nidhi Company in the ratio of 1:20 and maintaining of 10% unencumbered terms deposits as per Nidhi Rules 2014 and <input type="checkbox"/> For default in the payment of interest on deposits or repayments thereof for any period .
(xiii)	Reporting requirement on transaction with related parties	Reporting requirements on transaction with related parties (No Change)

<i>Clauses</i>	<i>Companies (Auditor's Report) Order, 2016</i>	<i>Companies (Auditor's Report) Order, 2020</i>
(xiv)	Reporting requirement on non-cash transaction with director or person connected with him	Reporting requirements on non-cash transaction with director or person connected with him (No Change)
(xv)	Reporting requirement of registration u/s 45IA of the Reserve Bank of India Act, 1934	<u>Reporting requirement of</u> <input type="checkbox"/> Registration u/s 45IA of the Reserve Bank of India Act, 1934 <input type="checkbox"/> NBFC activities without valid certificate of registration <input type="checkbox"/> Fulfilling the criteria of Core Investment Company (CIC) <input type="checkbox"/> Number of CICs which are part of group
(xvi)	--	<input type="checkbox"/> Reporting on cash losses (clause added)
(xvii)	--	<input type="checkbox"/> Reporting on resignation of the statutory auditors (clause added)

<i>Clauses</i>	<i>Companies (Auditor's Report) Order, 2016</i>	<i>Companies (Auditor's Report) Order, 2020</i>
(xviii)	--	Reporting on uncertainty of company capable of meeting its liabilities (clause added)
(xx)	--	Reporting requirements on transfer of unspent CSR amount to Fund specified in Schedule VII (clause added)
(xxi)	--	Reporting requirements on qualifications or adverse remarks by the auditors in the CARO reports of companies included in the consolidated financial statements (clause added)

CONCLUSION

- CARO 2020 comes with more details and disclosures and obviously, more compliance would be called for at the end of the company.
- The **Chief Financial Officer** being an internal person in the company, has the responsibility towards presenting the financial statements truly and fairly which are subsequently audited by the statutory auditors of the Company. Obviously, the financial statements need to comply with adhering the mandated accounting standards and also ensuring the disclosure which are called for including disclosure of significant accounting policies of the company in the financial statements. Therefore the Chief Financial Officer has a greater responsibility to ensure the required increased disclosure as per **CARO 2020** along with required compliance"

THANK YOU