
THE COMPANIES (AUDITOR'S REPORT) ORDER, 2020 **wef 01 April 2021**

In order to bring more transparency & faith in the Financial Statements of the Company, the Ministry of Corporate Affairs has notified the Companies (Auditor's Report) Order, 2020 (CARO, 2020) which shall be applicable for the eligible companies for the financial year commencing on **or after 1st April, 2021.**

MCA also amended Schedule III to the Companies Act, 2013 with effect from 1st April, 2021. The changes are broadly mentioned below:

1. Shareholding of Promoters
2. Trade Payable with ageing schedule with details of payable to MSME and disputed or not
3. Trade Receivables with ageing schedule with details of good or doubtful and disputed or undisputed
4. Intangible assets under development ageing schedule
5. Use of money borrowed from the Bank and financial institution
6. Title Deeds of immovable properties are held in the name of the company or not
7. Loans or advances granted to promoters, directors, KMPs and related parties
8. Details of Benami Property held
9. Whether the company is declared as a willful defaulter by any Bank or Financial institution or other lender.
10. Whether the company has any relationship with struck off companies
11. If any charges creation or satisfaction is overdue and not registered with reason thereof
12. Downstream investment by the company
13. Various ratios
14. Effect of scheme of arrangement, if any
15. Borrowing or lending or giving guarantee to and on behalf of the Ultimate Beneficiaries
16. Compliance of FEMA,1999 and no violation of PMLA,2002
17. Grant or donation received by section 8 company
18. Undisclosed Income
19. More details on Corporate Social Responsibility
20. Whether the company has traded or invested in Crypto Currency or Virtual Currency

The link for the aforesaid Scheme is as below:

http://www.mca.gov.in/Ministry/pdf/ScheduleIIIAmendmentNotification_24032021.pdf

Off: 1005, Solaris Hubtown, Prof N S Phadke Marg, Andheri East, Mumbai-400 069

Tel : 91 22 26845919/20/21 Cell 09820177691

Website:www.amitadesai.com E-mail: info@amitadesai.com

In contrast with CARO 2016, now the Auditors have to Report more disclosures on core aspects of financials statement such as loan defaults, cash losses, Immovable properties etc. CARO, 2020 is far more detailed including **21 broad items, out of which at least 10 are new items** or new details in existing items.

Following is the summary of new insertion, modification and deletion in the CARO, 2020.

- **APPLICABILITY:** Every company including Foreign Company **except-**
 - Banking company
 - Insurance company
 - Section 8 company
 - One person company
 - Small company
 - Private company having a paid up share capital and reserve not more than Rs. 1 Crores and total borrowings not exceeding Rs.1 Crore and a total revenue exceeding Rs.10 crore during the financial year as per the financial statements.

- **THERE ARE IN TOTAL 21 CLAUSES AS COMPARED TO 16 CLAUSES IN CARO 2016. 7 NEW CLAUSES ARE INSERTED, 1 CLAUSE IS MERGED AND 1 CLAUSE IS DELETED.**

- **CLAUSES OF CARO, 2020 ARE AS BELOW:**

I.Non-Current Assets(Modified)

- Verification of the title deeds of the immovable properties and its disclosure in financial assets.
- The Details of the fixed asset and intangible assets been maintained by the company.(In specified form)
- In case of revaluation of Property, Plant and Equipment or intangible assets, whether the revaluation is based on the valuation by a Registered Valuer, specify the amount of change, if the change is 10% or more of the net carrying value.
- Reporting on Disclosure of any Proceedings of Benami Property under Benami Transactions (Prohibition) Act, 1988.

II. Inventory and Other Current Assets (Modified)

- Reporting on Physical verification of Inventory, its coverage and procedure, its disclosure if discrepancy is 10% or more in aggregate for each class of inventory.
- In case of Working Capital based on current assets in excess of Rs. 5 crore is sanctioned from Banks or financial institutions (FI) on the basis of security of current assets, the quarterly returns or statements filed by the company with such bank/FI are in agreement with the books of accounts, if not, give details.

III. Investments, Loans or Advances by Company (Modified)

- In case of any Investments, granted any Loans or Advances in the nature of loans, secured or unsecured or provided guarantee or security,
 - (a) indicate the aggregate amount during the year and balance outstanding at the balance sheet date to subsidiaries, joint ventures and associate.
 - (b) indicate the aggregate amount during the year and balance outstanding at the balance sheet date to parties other than subsidiaries, joint ventures and associate.
- The terms and conditions of loan given or security provided or guarantee given are not prejudicial to the interest of the company
- The repayments of principle amount and interest are regular
- Amount overdue for more than 90 days and steps taken by the company for recovery
- If any loan or advances granted by the company has fallen due are renewed or extended or any fresh loan is granted to settle the overdue of existing loans given to the same party, if so specify the aggregate amount of such due renewed , extended or settled and % to total loan granted during the year .
- In case of provision of loans or advances in the nature of loans repayable on demand, without any terms or period of payment, then specify the amount of such loans or advances given to the promoters, related parties in the Financial Statement.

IV. Loan to Directors and Investment by the Company

- In this case provision related to Section 185 and 186 of the Companies Act,2013 needs to be verified and provide details thereof, if the same is not complied with.

V. Deposits accepted by the company

- If any Deposits accepted by the company or amounts which are deemed to be considered as 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 and the rules made thereunder have been complied by company, if not, record the same.
- If any order has been passed by the Tribunal or RBI or any court the same has been complied with or not.

VI. Maintenance of Cost Record

- Check whether maintenance of cost records has been specified by the Central Government under section 148 (1) of the Companies Act, 2013 and whether such accounts and records have been so made and maintained or not.

VII. Statutory Dues

- Verify whether the company is regular in depositing undisputed statutory dues with 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 6 months from the date they become payable.
- If statutory amount have not been deposited due to any dispute then the amounts involved and the forum where dispute is pending shall be mentioned in the report.

VIII. Disclosure of undisclosed transactions (**Inserted**)

- In case of any transactions not recorded in the books of account but have been surrendered or disclosed as income during the year in the tax assessments, if so, then check whether the previously unrecorded income has been properly recorded in the books of accounts during the year.

IX. Loans and other Borrowings (**Modified**)

- Check the details of the default in repayment of loans or other borrowings, if any, then report the period and amount of default (in specified form).
- Check whether the company is declared willful defaulter by any bank or FI or other lender.
- 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.

- If funds raised on short term basis have been utilised for long term purposes, the nature and amount to be indicated.
- If 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, details of the same with nature of such transactions and the amount in each case.
- If the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, provide details and also report if the company has defaulted in repayment of such loans raised.

X. Money raised through IPOs and FPOs (Modified)

- Check whether moneys raised by way of initial public offer or further public offer were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, be reported.
- Verify whether the company has made any preferential allotment or private placement of shares or convertible debentures 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

XI. Frauds (Modified)

- If any fraud by the company or any fraud on the company has been noticed or reported during the year, the nature and the amount involved is to be indicated in the report;
- Any report in Form ADT-4 in relation to fraud is filed by auditor to the central government u/s 143(12) and any complaints from whistle-blowers is considered by the auditor while submitting such report.

XII. Nidhi Company

- Verify whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability;
- Check whether the Nidhi Company is maintaining 10 % unencumbered term deposits and any default in payment of interest on deposits or repayment thereof for any period and if so, then same needs to mention in report .

XIII. Related Party Transaction

- Verify that all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act and the details of the same been disclosed in the financial statements along with AS-18.

XIV. Internal Audit System (**Modified**)

- Check whether the company has an internal audit system commensurate with the size and nature of its business.
- The reports of the Internal Auditors for the period under audit were considered by the statutory auditor.

XV. Non-cash Transactions

- 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 have been complied or not.

XVI. RBI Registration

- The company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934.
- Any non-banking financial or housing finance activity without a valid certificate of registration from RBI has been made.
- The Company is a Core Investment Company (CIC), if yes, whether it fulfills the criteria of CIC.
- The groups have more than 1 CIC as part of the group, if yes, and then indicate the numbers of CIC's.

XVII. Cash losses (**Inserted**)

- State amount of cash losses, in case of cash losses in the financial year and in the immediately preceding financial year.

XVIII. Consideration of outgoing auditor. (**Inserted**)

- In case of any resignation of the statutory auditors during the year, if so, whether the newly appointed auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors.

XIX. Material uncertainty in relation to realization of financial assets and payment of financial liabilities. (Inserted)

- To verify 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 then it need to be reported after considering financial ratios, ageing and expected dates of realization of financial assets and payment of financial liabilities.

XX. Compliance of CSR. (Inserted)

- Check whether company has transferred unspent amount in respect of other than Ongoing Projects and amount for Ongoing projects to a specified funds/accounts as per Sec 135 (5) and (6) respectively within a period of 6 months.
- Verify whether any amount remaining unspent has been transferred to special account or not.

XXI. Qualifications or adverse remarks in the consolidated financial statements (Inserted)

- In case of any qualifications or adverse remarks by the auditors in the CARO reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the clauses of the CARO report containing the qualifications or adverse remarks.

➤ **REASONS TO BE STATED FOR UNFAVORABLE OR QUALIFIED ANSWERS**

- Where, in the auditor's report, the answer to any of the questions is unfavorable or qualified, the auditor's report shall also state the basis for such unfavorable or qualified answer, as the case may be.
- When the auditor is unable to express any opinion in his report, shall indicate such facts together with the reasons that why it is not possible for him to give any opinion.

❖ **Clause related to Managerial Remuneration in CARO 2016 is omitted.**
