



Companies (Auditor's Report) Order, 2020

Why change in CARO





Particulars	Count
New reporting requirements under CARO 2020	28
Reporting requirements modified	16
Reporting requirements carried forward with no modifications	7
Reporting requirement of CARO 2016 deleted	(1)
Total	50

- CARO 2020 shall not apply to the auditor's report on the consolidated financial statements except that Qualification/Adverse remarks in CARO in the audit report of components which are consolidated in the CFS will be required to be reported.

Accuracy of returns filed with banks and FIs



Clause no	Clause Description	Comments
(ii) (b)	Whether during any point of time of the year, the company has been 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; whether the quarterly returns or statements filed by the company with such banks or financial institutions are in agreement with the books of account of the Company , if not, give details;	<ul style="list-style-type: none">• The clause does not require reporting where such limits are unsecured or sanctioned on the basis of assets other than current assets.• Reporting that quarterly returns submitted to banks or FIs are in accordance with books of account. Since the quarterly books of accounts are likely to be unaudited, this fact should be brought out in the reporting.

Investing activities



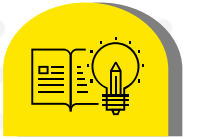
Clause no	Clause Description	Comments
(iii)	Whether during the year the company has made investments in, provided any guarantee or security or granted any loans <u>or advances in the nature of loans</u> , secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so,-	Whether an advance is in the nature of a loan would depend upon the circumstances of each case. An advance which exceeds the operating cycle would normally be an advance in nature of loan unless there is evidence to the contrary.
(iii) (a)	Whether during the year the company has provided loans or advances in the nature of loans or guarantees, or security to any other entity [not applicable to companies whose principal business is to give loans] , if so, indicate the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such transactions with	
	(A) subsidiaries, joint ventures and associates;	The expression subsidiaries, joint ventures, associates would be interpreted in accordance with provisions of the Companies Act, 2013.
	(B) Other parties	
(iii) (b)	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;	Will apply to NBFC
(iii) (c)	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;	Will apply to NBFC

Investing activities



Clause no	Clause Description	Comments
(iii) (d)	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;	Will apply to NBFC
(iii) (e)	Whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans] ;	Addresses the issue of evergreening of loans
(iii) (f)	Whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in clause (76) of section 2 of the Companies Act, 2013;	<ul style="list-style-type: none">➤ Tries to address structuring issues➤ Applies to NBFC

Deemed deposits



Clause no	Clause Description	Comments
(v)	In respect of deposits accepted by the company or <u>amounts which are deemed to be deposits</u> , 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, where applicable, have been complied with, if not, the nature of such contraventions be stated; if an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not;	

Unrecorded income



Clause no	Clause Description	Comments
(viii)	Whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year;	<ul style="list-style-type: none">➤ Emphasis on surrendered or disclosed➤ Retracted statement made in course of search and seizure may not be considered➤ Disputed additions not to be considered

Financing activities



Clause no	Clause Description	Comments
(ix) (a)	Whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender , if yes, the period and the amount of default to be reported as per the format provided	<ul style="list-style-type: none"> ▪ Lenderwise details in the format are required only for banks, financial institutions and government ▪ the auditor should report the amount of all defaults committed during the year
(ix) (b)	Whether the company is a declared wilful defaulter by any bank or financial institution or other lender;	<ul style="list-style-type: none"> • RBI has prescribed a transparent mechanism for identification of wilful defaulters • Other lenders ?
(ix) (d)	Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;	if long-term funds are significantly less than long-term application of funds, it is an indication that short-term funds have been used to finance the long-term assets
(ix) (e)	Whether 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 , if so, details thereof with nature of such transactions and the amount in each case;	
(ix) (f)	Whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised;	

Fraud



Clause no	Clause Description	Comments
(xi) (a)	Whether any fraud by the company or on the company has been noticed or reported during the year, if yes, the nature and the amount involved is to be indicated;	The responsibilities of the auditor have been widened by removing the words “officers or employees”.
(xi) (b)	Whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;	Only factual reporting of filing or any details to be provided ?
(xi) (c)	Whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;	<p>Consideration by the auditor in accordance with the requirements of SA 240 and as part of this clause.</p> <p>This requirement does not mandate companies to have a whistle-blower mechanism</p>

Internal Audit



Clause no	Clause Description	Comments
(xiv) (a)	Whether the company has an internal audit system commensurate with the size and nature of its business;	Irrespective of statutory requirement under section 138 of the Companies Act, 2013
(xiv) (b)	Whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;	<ul style="list-style-type: none">➤ Financial impact➤ Internal control over financial reporting➤ extent of audit procedures

Registration with RBI

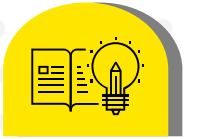


Clause no	Clause Description	Comments
(xvi) (a)	Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained;	
(xvi) (b)	Whether the company has conducted any Non-Banking Financial or Housing Finance Activities without a valid Certificate of Registration (CoR) from the Reserve Bank of India as per the Reserve Bank of India Act, 1934;	
(xvi) (c)	Whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria;	
(xvi)(d)	Whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group;	



Clause no	Clause Description	Comments
(xix)	On the basis of the financial ratios, ageing and expected dates of realisation 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, whether the auditor is of the opinion 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;	<ul style="list-style-type: none"> ➤ Different level of assessment as required to be made under SA 570 (Revised), Going Concern. The emphasis is only company's ability to meet its liabilities and not on going concern. ➤ Will need projections for realisation of assets and due dates for payment of liabilities ➤ May need to make disclosures of key assumptions such as expected refinancing or capital raise

Other clauses



- ▶ Whether the company is maintaining proper records showing full particulars of Intangible assets.
- ▶ Whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses;
- ▶ Whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors;
- ▶ Whether, in respect of other than ongoing projects, the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act;
- ▶ Whether any amount remaining unspent under sub-section (5) of section 135 of the Companies Act, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of sub-section (6) of section 135 of the said Act;

Minor/clarificatory updates to existing clauses



▶ Property Plant & Equipment

- ▶ Aligned to the terminology used in Ind AS 16 & AS 10 on “Property Plant and Equipment” (PP&E) instead of “Fixed Assets”

▶ Inventory

- ▶ Additional reporting on the coverage and procedure of physical verification of inventory along with whether discrepancies of 10% or more was noticed for each class of inventory and whether such discrepancies have been properly dealt in the books

▶ Statutory Dues

- ▶ Clarification on payment of undisputed Goods and service tax on account of introduction of Goods and Service Tax in India.
- ▶ Increase in reporting requirement with respect to all statutory dues which are disputed. Earlier the reporting with respect to disputed income tax, sales tax or service tax or customs duty, excise duty or Value added tax

▶ Preferential Allotment or private placement of shares or debentures

- ▶ Slight modification has been made to the existing clause to provide more clarity. Previously, only specific reference to section 42 of the Act for private placement of shares or debentures and no reference made to section 62 of the Act which discusses preferential allotment

THANK YOU