

The Companies (Auditor's Report) Order, 2020 – A walkthrough

**By CA Animesh Mukhopadhyay, and,
CS Nupur Choudhuri**

Origin

The Companies (Auditor's Report) Order or **CARO 2020** was issued on 25th February 2020. This Order was issued in suppression to the Companies (Auditors' Report) Order 2016.

Section 143(11) empowers the Central Government in consultation with NFRA, to specify vide an order, certain matters to be included in the Auditor's Report. Accordingly, the Companies (Auditor's Report) Order (CARO) has been issued. The CARO reporting origin dates back to 1975 and its scope was expanded in 1988 when the Central Government introduced Manufacturing and Other Companies (Auditors Report) Order, 1988 ('MAOCARO 1988') which was superseded by CARO 2003, CARO 2015, CARO 2016 and the current Companies (Auditor's Report) Order, 2020.

Reports issued by the auditors under Sec 143 of Companies Act 2013 shall, in addition, contain the matters specified in paragraph 3 and 4 of the Order, as may be applicable. It is pertinent to mention here, the Order has specified the words "as may be applicable" and hence, reporting on the matters as specified in para 3 and 4 of the Order are to be made only on those matters which are applicable to the Company.

This order states that every report of the auditor under Section 143 of Companies Act, 2013 must contain the matters stated in 21 clauses in the instant Order as specified under paragraphs 3 and accord reasons for unfavourable or qualified answer as stated in paragraph 4 of CARO 2020.

Applicability

In exercise of the powers under Sec 143(11) of the Co Act, 2013, the Central Government has made Companies (Auditor's Report) Second Amendment Order, 2020 vide S.O. 4588(E) dated 17th December 2020, to amend the Companies (Auditor's Report) Order, 2020 (CARO, 2020), and determine the applicability date of CARO, 2020 and now the same stands as from the Financial Year 2021-22.

This Order is applicable to all companies that were covered by CARO 2016 except:

- OPC, Insurance Companies
- Banking Co, Small Co (Companies with a paid-up capital of less than or equal to Rs 2 crore and last reported turnover of less than or equal to Rs 20 crore are eligible).
- Sec 8 Companies

Exemptions

- a. A private limited company, not being a subsidiary/ holding company of a public company, whose gross receipts or revenue (including revenue from discontinued operations) in the financial year is less than or equal to Rs 10 crore; and
- b. Whose paid-up share capital plus reserves as of the balance sheet date is less than or equal to Rs 1 crore and
- c. At any point of time, during the financial year, borrowings were less than or equal to Rs 1 crore.

More coverage

The Order applies to foreign companies also. Foreign company as defined under Sec 2(42) of the Act states : “Any company or body corporate incorporated outside India which - (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and (b) conducts any business activity in India in any other manner.”

In case, if a company converts into a limited liability partnership or a partnership or to any other constitution (which is not governed by the Act) or converts to any constitution which is exempted from application of the Order, in that situation, the instant Order would not be applicable.

The Order is applicable to the audits of branch(es) of a company since Sec 143(8) with Rule 12 of the Co (Audit and Auditors) Rules, 2014 clearly specifies that a branch auditor has the same duties in respect of audit as the company’s auditor. It is, therefore, necessary that the report submitted by the branch auditor (including auditor of a foreign branch) contains a statement on all the matters specified in the Order, as applicable to the company.

Repositioning of CARO 2020 with wider responsibilities

Clause wise representation of CARO 2020 and the comparison of the Order with CARO 2016 have been stated hereunder for a ready recapitulation:

The matters to be included in the auditor's report are specified in paragraph 3 of CARO 2020. Paragraph 3 has 21 clauses in it instead of 16 clauses that we considered during CARO 2016. In the present Order, 10 new clauses are added, 7 clauses of CARO 2016 are modified and 4 clauses are retained in the present CARO 2020.

Clause wise representations are stated hereunder:

Clause 3 (i) (a) CARO 2020

(A) Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment;

(B) whether the company is maintaining proper records showing full particulars of Intangible assets.;

Clause 3(i) (a) CARO 2016

(a) Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.

In regard to intangible assets, no specific mentioning was there in CARO 2016 and this is an addition now.

Clause 3 (i) (b) CARO 2020

Whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;

Clause3 (i) (b) CARO 2016

Whether these fixed have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;

Clause 3(i) (c) CARO 2020

Whether the title deeds of all the immovable properties (other than properties where the Company is the lessee and the lease agreements are duly executed in favour of the lessee) disclosed in the financial statements are held in the name of the company. If not, provide the details thereof in the format below;

Description of property	Gross carrying value	Held in the name of	Whether promote r, director or their relative or	Period held -indicate range, where appropriate	Reason for notbeing held i n the name of the company*
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			employee	ate	
					*also indicate if in dispute

Clause 3 (i) (c) CARO 2016

Whether the title deeds of i m m o v a b l e properties are held in the name of the company. If not, provide the details thereof;

Clause 3 (i) (d) CARO 2020

Whether the Company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets;

Clause 3(i) (d) CARO 2016

No such clause existed.

Clause 3(i) (e) CARO 2020

Whether any proceedings have been initiated or are pending against the company for holding any Benami property under the “Benami Transactions(Prohibition) Act, 1988 and Rules made thereunder; if so, whether the Company has appropriately disclosed the details in its financial statements;

Clause 3(i) (e) CARO 2016

No such clause existed .

Clause 3(ii) (a) CARO 2020

(a) Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;

Clause 3 (ii) (b) CARO 2020

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; 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

Clause 3 (ii) CARO 2016

Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account;

Clause 3(iii) (a) CARO 2020

(iii) Whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured to companies, firms, Limited Liability Partnerships or any other parties. If so,

(a) Whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate-

(A) The aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates.

(B) The aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates.

Clause 3 (iii) (a) CARO 2016

Whether the company has granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013. If so,

(a) Whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;

Clause 3 (iii) (b) CARO 2020

(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;

Clause 3 (iii) (b) CARO 2016

(b) Whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

Clause 3 (iii) (c) CARO 2020

(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;

Clause 3 (iii) (c) CARO 2016

(c) 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;

Clause 3 (iii) (d) CARO 2020

(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;

Clause 3 (iii) (d) CARO 2016

No such clause existed.

Clause 3 (iii) (e) CARO 2020

(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];

Clause 3 (iii) (e) CARO 2016

No such clause existed.

Clause 3 (iii) (f) CARO 2020

(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;

Clause 3 (iii) (f) CARO 2016

No such clause existed.

Clause 3 (iv) CARO 2020

In respect of loans, investments, guarantees, and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof.

Clause 3 (iv) CARO 2016

In respect of loans, investments, guarantees, and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof.

Clause 3 (v) CARO 2020

In respect of deposits accepted by the Company or amounts which are deemed to be 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, 2013 and the rules framed 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?

Clause 3 (v) CARO 2016

In case, the company has accepted 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, 2013 and the rules framed 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?

Clause 3 (vi) CARO 2020

Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained.

Clause 3 (vi) CARO 2016

Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.

Clause 3 (vii) (a) CARO 2020

(a) Whether the company is regular in depositing undisputed statutory dues including Goods and Service Tax, provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the 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 six months from the date they became payable, shall be indicated;

Clause 3 (vii) (a) CARO 2016

(a) Whether the company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the 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 six months from the date they became payable, shall be indicated;

Clause 3 (vii) (b) CARO 2020

(b) Where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not be treated as a dispute).

Clause 3 (vii) (b) CARO 2016

(b) Where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not be treated as a dispute).

Clause 3 (viii) CARO 2020

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; if so, whether the previously unrecorded income has been properly recorded in the books of account during the year;

Clause 3 (viii) CARO 2016

Whether the company has defaulted in repayment of loans or borrowing to a financial institution, bank, government or dues to debenture holders? If yes, the period and the amount of default to be reported (in case of defaults to banks, financial institutions, and government, lender wise details to be provided).

Clause 3 (ix) (a) CARO 2020

(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 below:

Nature of borrowing including debt	Name of lender*	Amount not paid on due date	Whether principal or Interest	No. of days delay or unpaid	Remarks, if any
	*lender wise details to be provided in Case of defaults to banks, financial institutions and Government.				

Clause 3 (ix) CARO 2016

Whether moneys raised by way of initial public offer or further public offer (including debt instruments) and term loans were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;

Clause 3 (ix) (b) CARO 2020

Whether the company is a declared willful defaulter by any bank or financial institution or other lender;

Clause 3 (ix) (b) CARO 2016

No such clause existed.

Clause 3 (ix) (c) CARO 2020

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 may be reported.

Clause 3 (ix) (c) CARO 2016

No such clause existed.

Clause 3 (ix) (d) CARO 2020

Whether funds raised on short term basis have been utilised for long term purposes? If yes, the nature and amount to be indicated.

Clause 3 (ix) (d) CARO 2016

No such clause existed.

Clause 3 (ix) (e) CARO 2020

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.

Clause 3 (ix) (e) CARO 2016

No such clause existed.

Clause 3 (ix) (f) CARO 2020

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.

Clause 3 (ix) (f) CARO 2016

No such clause existed.

Clause 3 (x) (a) CARO 2020

Whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;

Clause 3 (x) CARO 2016

(a) Whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;

Clause 3 (x) (b) CARO 2020

Whether the Company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year 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;

Clause 3 (x) (b) CARO 2016

No such clause existed.

Clause 3 (xi) (a) CARO 2020

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;

Clause 3 (xi) CARO 2016

Whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act? If not, state the amount involved and steps taken by the company for securing refund of the same;

Clause 3 (xi) (b) CARO 2020

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;

Clause 3 (xi) (b) CARO 2016

No such clause existed.

Clause 3 (xi) (c) CARO 2020

Whether the auditor has considered whistle-blower complaints, if any, received during the year by the Company;

Clause 3(xi) (c) CARO 2016

No such clause existed.

Clause 3 (xii) (a) CARO 2020

Whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability

Clause 3 (xii) CARO 2016

Whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability and whether the Nidhi Company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;

Clause 3 (xii) (b) CARO 2020

Whether the Nidhi Company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;

Clause 3 (xii) (b) CARO 2016

No such clause existed.

Clause 3 (xii) (c) CARO 2020

Whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof.

Clause 3 (xii) (c) CARO 2016

No such clause existed.

Clause 3 (xiii) CARO 2020

Whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards;

Clause 3 (xiii) CARO 2016

Whether all transactions with the related parties are in compliance with section 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards;

Clause 3 (xiv) CARO 2020

(a) Whether the company has an internal audit system commensurate with the size and nature of its business?

(b) Whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;

Clause 3 (xiv) CARO 2016

Whether the company has made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and if so, as to whether the requirement of section 42 of the Companies Act, 2013 have been complied with and the amount raised have been used for the purposes for which the funds were raised. If not, provide the details in respect of the amount involved and nature of non-compliance;

Clause 3 (xv) CARO 2020

Whether 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 with;

Clause 3 (xv) CARO 2016

Whether 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, 2013 have been complied with;

Clause 3 (xvi) (a) CARO 2020

Whether the company is required to be registered under section 45-1A of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.

Clause 3 (xvi) CARO 2016

Whether the company is required to be registered under section 45-1A of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.

Clause 3 (xvi) (b) CARO 2020

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

Clause (xvi) (b) CARO 2016

No such clause existed.

Clause 3 (xvi) (c) CARO 2020

Whether the Company is a Core Investment Company (CIC) as defined under the Regulations 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.

Clause 3 (xvi) (c) CARO 2016

No such clause existed.

Clause 3 (xvi) (d) CARO 2020

(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 3 (xvi) (d) CARO 2016

No such clause existed.

Clause 3 (xvii) CARO 2020

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

Clause 3 (xvii) CARO 2016

No such clause existed.

Clause 3 (xviii) CARO 2020

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;

Clause 3 (xviii) CARO 2016

No such clause existed.

Clause 3 (xix) CARO 2020

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.

Clause 3 (xix) CARO 2016

No such clause existed.

Clause 3 (xx) (a) CARO 2020

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.

Clause (xx) (a) CARO 2016

No such clause existed.

Clause 3 (xx) (b) CARO 2020

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.

Clause 3 (xx) (b) CARO 2016

No such clause existed.

Clause 3 (xxi) CARO 2020

As whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements? If yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks

Clause 3 (xxi) CARO 2016

No such clause existed

Wrapping up notes

CARO 2020 brings more reporting disclosures for a better and in-depth insight of the business with a focused emphasis on the foreshadow of corporate failures before it finally crumbles down. Onus of the disclosures squarely goes to the shoulders of the auditor and the auditee. As we know, auditing refers to an investigative, attestation and reporting process that pertains to wrongdoing by the management of the company, hence the importance of audit lies not only to enhance the economic viability of the Company but also to play a pivotal role in the public interest and trust factor of the existence of the company. CARO 2020 is actually a baton to carry over in our drive to perform this onerous responsibility.
