

CARO - COMPANIES (AUDITOR'S REPORT) ORDER, 2020

Section 143(11)

The Central Government may,

- in consultation with the National Financial Reporting Authority,
- by general or special order,
- direct, in respect of
 - such class or description of companies,
 - as may be specified in the order,
 - that the
 - auditor's report shall also include a statement on
 - such matters as may be specified therein

Applicability

It shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013 except

- A banking company;
- An insurance company;
- A company licensed to operate u/s 8 of the Companies Act;
- A One person company as defined in sec. 2(62) of the Companies Act and a small Company as defined in Sec. 2(85) of the Companies Act; and
- A private limited company, not being a subsidiary or holding of a public company,
 - Having a paid up capital & Reserves & surplus not more than Rs 1 Cr. as on the balance sheet date, and
 - Which does not have total borrowings exceeding Rs 1 Cr. 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 Schedule III to the Companies Act, 2013 (Including revenue from discontinuing operations) exceeding Rs. 10 Crore during the financial year as per the financial statements.

This Order shall NOT apply to the auditor's report on Consolidated FS except clause (xxi) of paragraph 3.

Paid up Share capital

- Paid up capital includes equity as well as preference.
- Amount originally paid up on forfeited shares should be added to the figure of paid up capital.

- Share Application money pending allotment - NO.
- Securities Premium - YES
- General Reserve - YES
- Reserves include Capital reserves, revenue reserves as well as Revaluation Reserves.
- Credit Balance of Profit and Loss Account will form part of the reserve.
- In case of debit balance of profit or loss, the same shall be netted for computing reserves & surplus.

Borrowings

- Loans from banks and financial institutions are to be considered in aggregate.
- Financial Institutions include NBFC.
- Loans may be in any form like term loan, demand loans, cash credit overdraft, export credit, bill purchased/discounted.
- Long term loans as well as short term loans, secured as well as unsecured will be considered .
- Outstanding dues, in respect of credit cards will also be considered.
- Interest accrued and also due will form part of loans and borrowings. If interest is only accrued it will not form part of loan
- Fund based facilities are counted in borrowings whereas non fund based facilities are not counted.
- Security amount is not to be adjusted
- Loans from other than banking and financial institutions shall not be considered
- Limit or actual Amount? -

Total Revenue

- Revenue from operations and other Income.
- Here revenue will also include revenue from discontinuing operations as specified in the Order.
- Other income shall consist of the following;
 - ❖ Interest Income (other than a finance company);
 - ❖ Dividend Income;
 - ❖ Net gain/loss on sale of investments;
 - ❖ Other non-operating income (net of expenses directly attributable to such income).
- GST, Excise etc will not form part of revenue

Other Notes

Discussion on Small Company

A company is covered under the definition of small company; it will remain exempted from the applicability of the Order even if it falls under any of the criteria specified for private company.

Definition of Small Company

Sec 2(85) of the Companies Act, 2013 defines a small company. As present, is a private company which satisfies both the following conditions

- Paid Up Share Capital \leq 2 crores **AND**
- Turnover \leq 20 crores.

The following 3 categories of Companies shall NOT be regarded as SMALL Companies:

1. A HOLDING company or a SUBSIDIARY company.
2. A company registered under SECTION 8. or
3. A company or body corporate governed by any SPECIAL ACT.

Para 2 - Auditor's report to contain matters specified in paragraphs 3 and 4.

Every report made by the auditor under section 143 of the Companies Act on the accounts of every company audited by him, to which this Order applies, contain the matters specified in paragraphs 3 and 4, as may be applicable

Provided this Order shall not apply to the auditor's report on consolidated financial statements except clause (xxi) of paragraph 3.

Para 4 - Reasons to be stated for unfavourable or qualified answers.

- Where,
- in the auditor's report,
- the answer to any of the questions referred to in paragraph 3 is unfavourable or qualified,
- the auditor's report shall also state the basis for such unfavourable or qualified answer

- Where the auditor is unable to express any opinion on any specific matter,
- his report shall
 - indicate such fact
 - with the reasons as to why it is not possible for him to give his opinion On the same.

Para 3- Matters to be included in the auditor's report under CARO, 2020

The auditor's report on the accounts of a company to which this Order applies shall include a statement on the following matters, namely:-

Para 3(i)- Property, Plant and Equipment -

Proper Records

Whether the company is maintaining proper records

- showing full particulars,
- including **quantitative** details and
- **situation** of Property, Plant and Equipment;

Proper records - Intangible assets

Whether the company is maintaining proper records showing full particulars of intangible assets;

Physical Verification

Whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals;

Material discrepancies

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.

Title Deeds

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 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

Revaluation of PPE / ITA

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;

Proceedings for benami property

- Whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so,

- whether the company has appropriately disclosed the details in its financial statements;

Para 3(ii) - Inventory

Physical Verification, Coverage and Procedure.

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;

Discrepancies of 10% or more

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;

Working capital limits

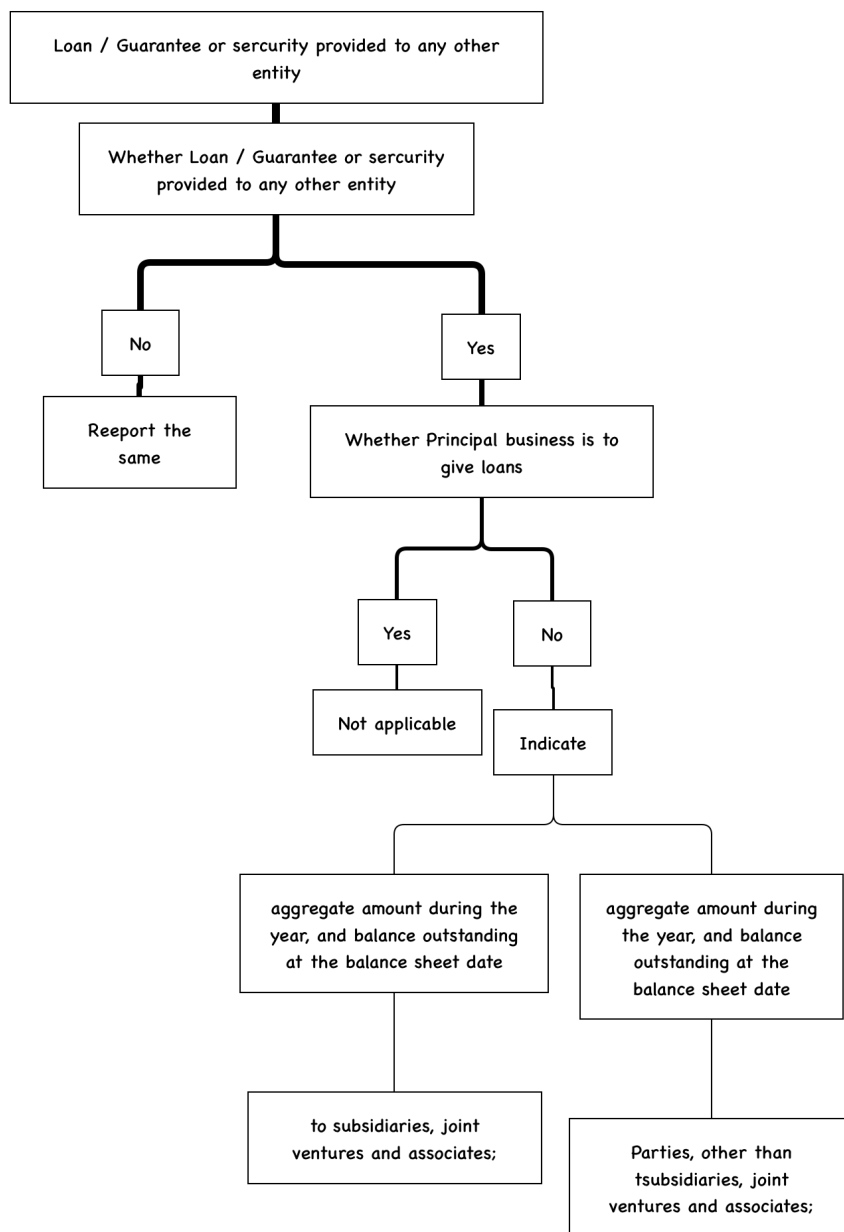
Whether

- 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;

Para 3(iii) - Investment / Guarantee / Security / Loans and Advances

- a. whether during the year the company has provided loans or provided advances in the nature of loans, or furnished guarantee, or provided security to any other entity **[not applicable to companies whose principal business is to give loans]**, if so, indicate-
 - o 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;**
 - o 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;**
- b. whether the
 - o investments made,
 - o guarantees provided,
 - o security given and
 - o 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**;
- 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**;
- 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;
- 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**]
- 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;



3(iv) - Sections 185 and 186

In respect of loans, investments, guarantees, and security, whether provisions of **sections 185 and 186** of the Companies Act have been complied with, if not, provide the details thereof;

3(v) - Deposit Accepted

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 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;

3(vi) Cost Records

- **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**.

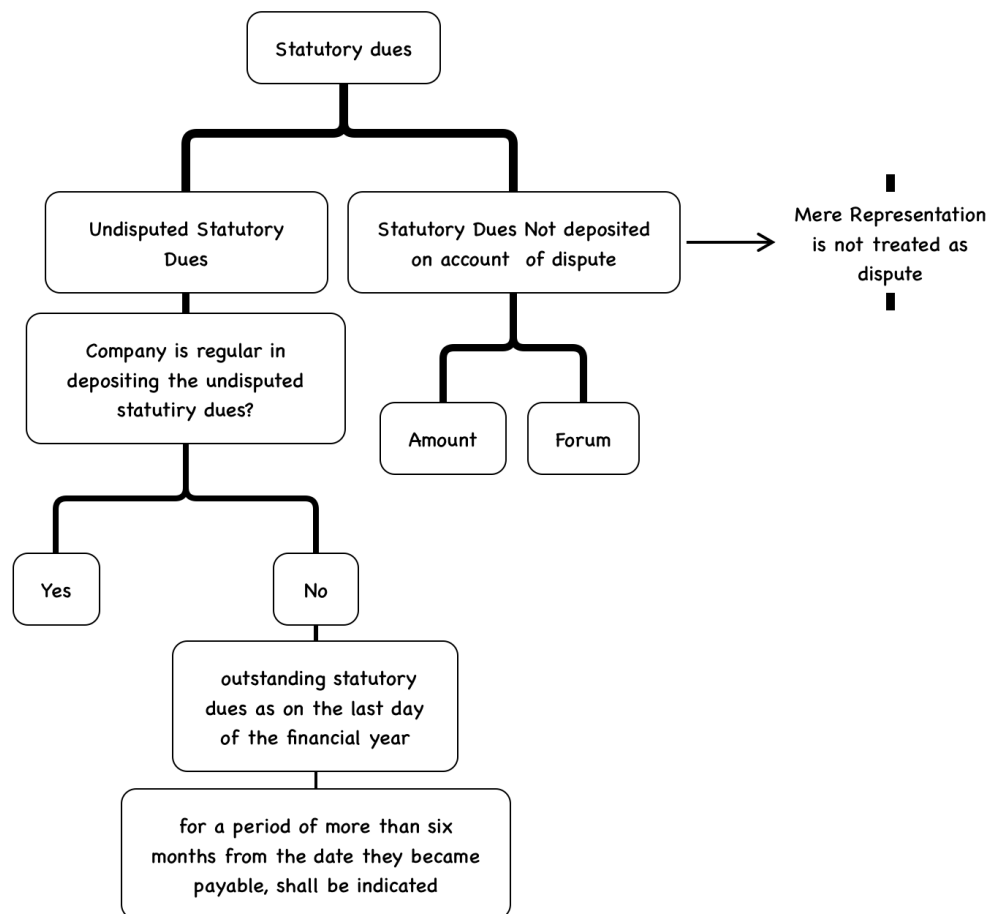
3 (vii) Statutory Dues

Undisputed statutory dues

- a. whether the company is **regular** in depositing undisputed statutory dues
 - o including Goods and Services Tax, provident fund, employees' state insurance, income tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and
 - o any other statutory dues to the appropriate authorities and
 - o 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;

Disputed statutory dues

- 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);



3(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

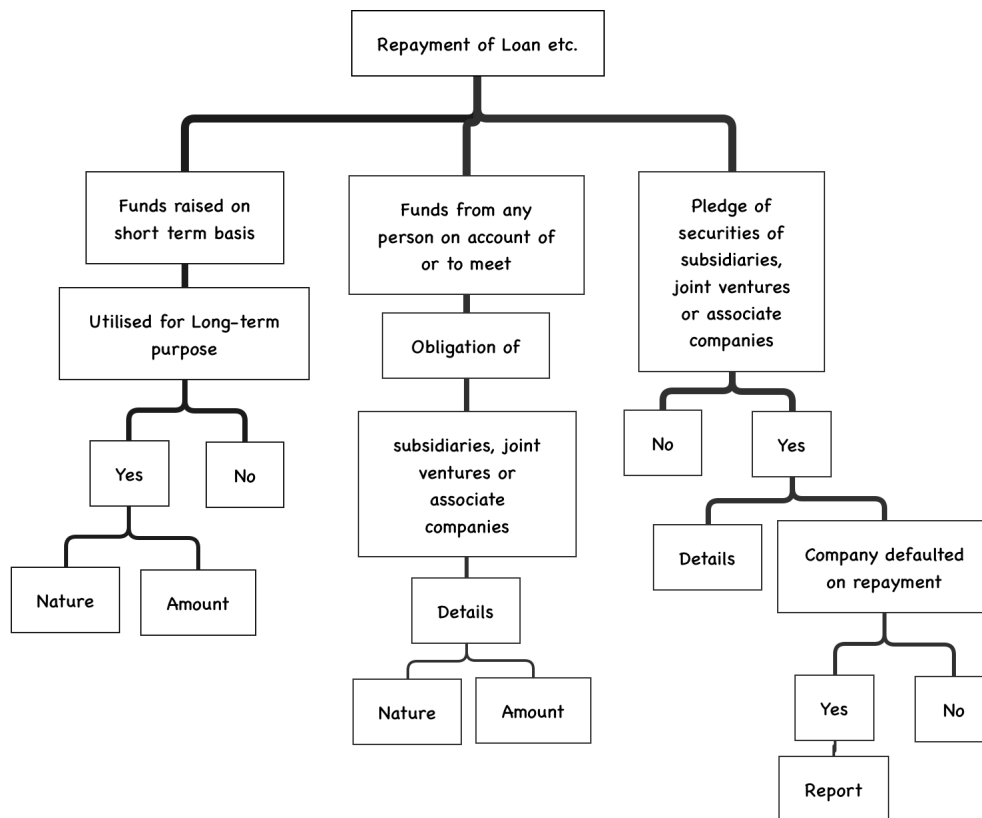
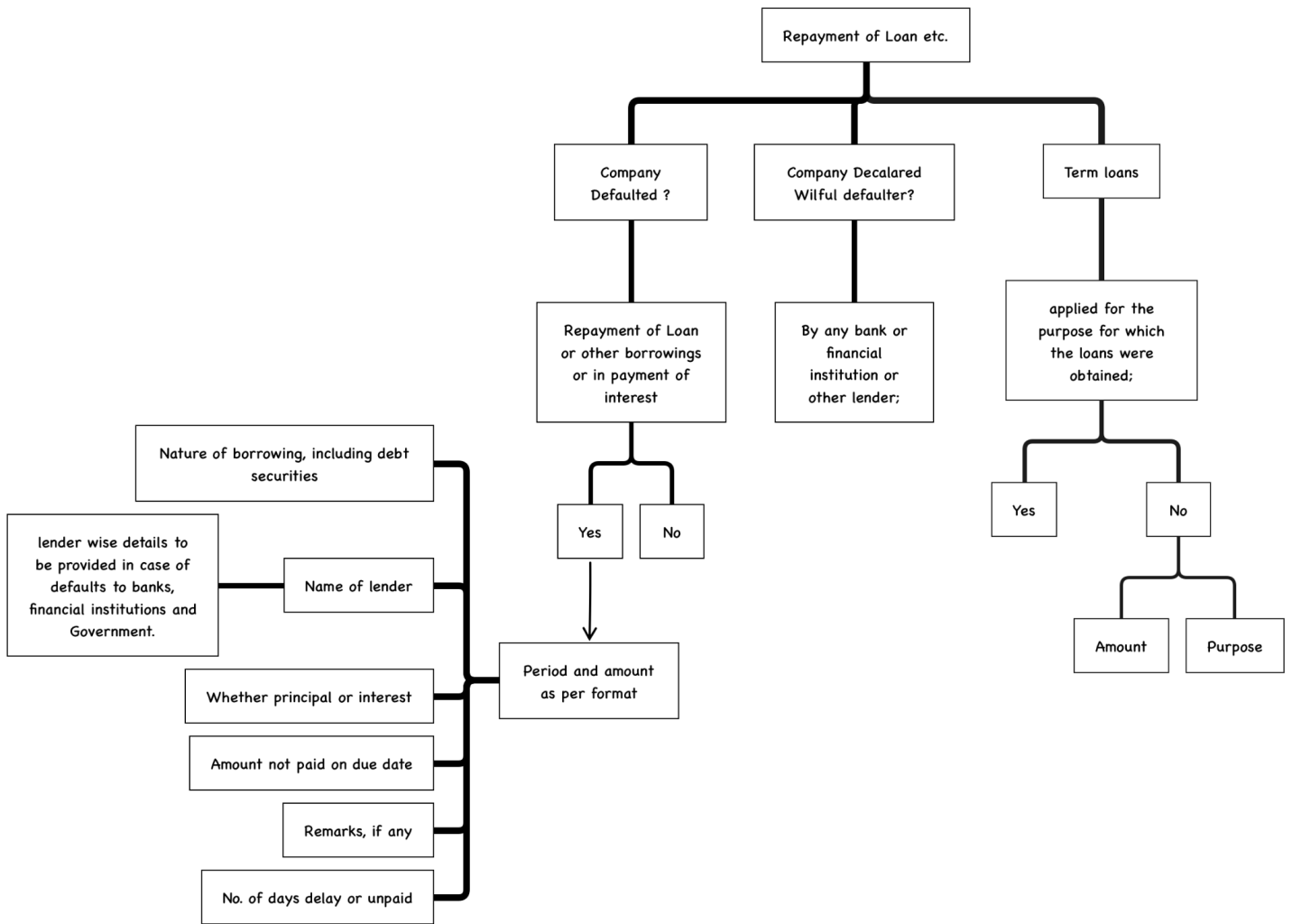
- the previously unrecorded income has been properly recorded in the books of account during the year;

3(ix) Repayment of Loan Etc

- 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

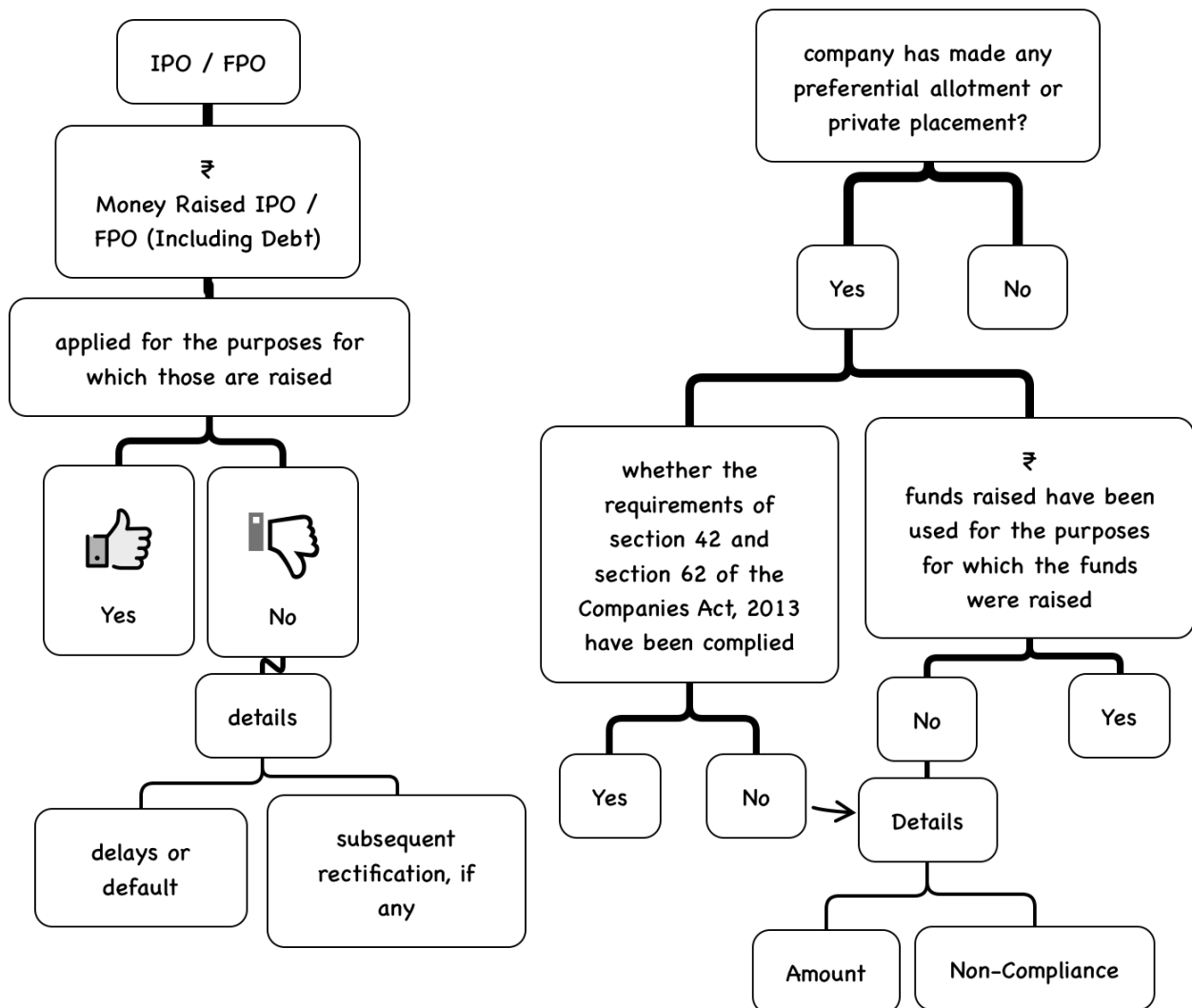
Nature of borrowing, including debt securities	Name of lender	Amount not paid on due date	Whether principal or interest	No. of days delay or unpaid	Remarks, if any
	lender wise details to be provided in case of defaults to banks, financial institutions and Government.				

- b. whether the company is a declared **wilful defaulter** by any bank or financial institution or other lender;
- c. 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;
- d. whether funds raised on **short term** basis have been utilised for long term purposes,
- if yes, the nature and
 - amount to be indicated;
- 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;
- 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;



3(x) - IPO FPO etc

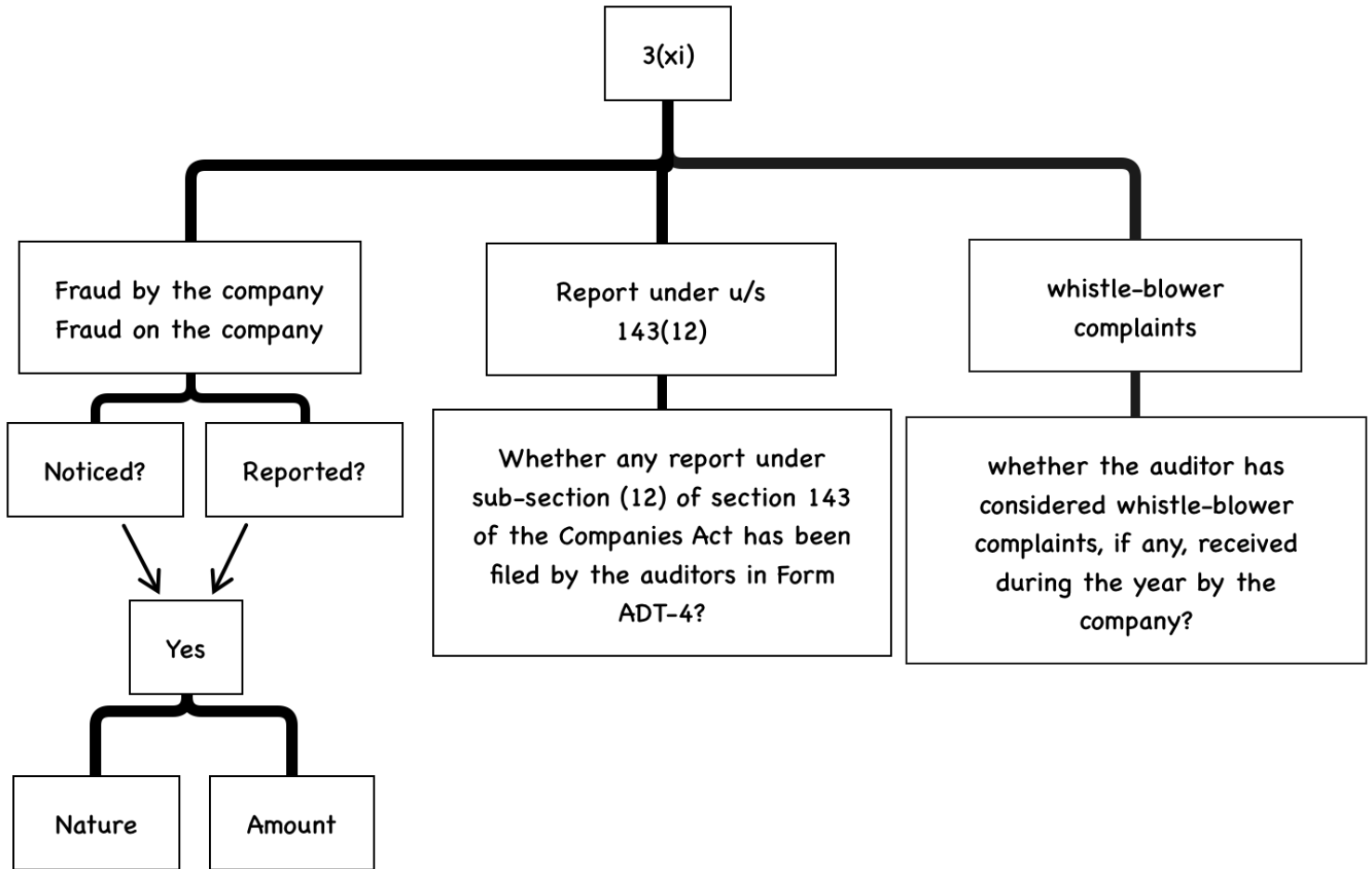
- a. Whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;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



3 (xi)

- a. 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;

- 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;
- c. whether the auditor has considered **whistle-blower complaints**, if any, received during the year by the company.



3(xii)

- a. Whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability;
- b. whether the Nidhi Company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;
- c. whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof.

3 (xiii)

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

3 (xiv)

- 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.

3 (xv)

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

3(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**;
- 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;
- 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;
- 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;

3(xvii) - Cash losses

- 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

3 (xviii)

- 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.

3 (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.

3(xx)

- a. whether,
 - o in respect of other than ongoing projects,
 - o the company has transferred unspent amount to a Fund specified in Schedule VII to the Companies Act
 - o within a period of six months of the expiry of the financial year
 - o in compliance with second proviso to sub-section (5) of section 135 of the said Act;
- b. whether
 - o any amount remaining unspent under subsection (5) of section 135 of the Companies Act, pursuant to any ongoing project,
 - o has been transferred to special account in compliance with the provision of subsection (6) of section 135 of the said Act.

3(xxi)

- 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.