

12.1 APPLICABILITY OF CARO, 2020

APPLICABILITY

1. In exercise of the powers conferred by section 143(11) of the Companies Act, 2013 the Central Government hereby makes the **COMPANIES (AUDITOR'S REPORT) ORDER, 2020**.
2. **It shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013, except-**
 - (i) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;
 - (ii) an insurance company as defined under the Insurance Act, 1938;
 - (iii) a company licensed to operate u/s 8 of the Companies Act;
 - (iv) a One Person Company as defined under clause (62) of section 2 of the Companies Act & a small company as defined under clause (85) of section 2 of the Companies Act; &
 - (v) **a private limited company, not being a subsidiary or holding company of a public company,**
 - (i) having a paid-up capital & reserves & surplus not more than ₹ 1 crore as on the balance sheet date &
 - (ii) which does not have total borrowings exceeding ₹ 1 crore from any bank or financial institution at any point of time during the financial year &
 - (iii) which does not have a total revenue as disclosed in Schedule III to the Companies Act, 2013 (including revenue from discontinuing operations) exceeding ₹ 10 crore during the financial year as per the FS.
 - **Provided this Order shall not apply to the auditor's report on consolidated financial statements except clause (xxi) of paragraph 3.**
3. **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, as the case may be.
 - Where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons as to why it is not possible for him to give his opinion on the same.

PAID UP CAPITAL & RESERVES

1. Paid-up share capital would include both equity share capital as well as the preference share capital.
2. While calculating the paid-up capital, amount of calls unpaid should be deducted from & the amount originally paid-up on forfeited shares should be added to the figure of paid-up capital. Share application money received should not be considered as part of the paid-up capital.
3. As per schedule III of Companies Act 2013 "Reserves & Surplus" consists of: -
 - Capital Reserves;
 - Capital Redemption Reserve;
 - Securities Premium Reserve;
 - Debenture Redemption Reserve;
 - Revaluation Reserve;
 - Share Options Outstanding Account;
 - Other Reserves- (specify the nature & purpose of each reserve & the amount in respect thereof);

Surplus i.e., balance in Statement of Profit & Loss (Debit balance of Statement of Profit & Loss shall be shown as a negative figure under the head "Surplus".)

BORROWINGS

1. Borrowings from banks or financial institutions are normally in the form of term loans, demand loans, export credits, cash credits, overdraft facilities, bills purchased or discounted, outstanding dues in respect of credit cards.
2. There is no stipulation in the Order that the borrowing should be a long-term borrowing or a short-term borrowing or that it should be a secured borrowing or an unsecured borrowing.
3. In case of term loans, interest accrued & due is considered as a borrowing whereas interest accrued but not due is not considered as a borrowing.

4. Outstanding balances of such loans should be considered as loan outstanding for the purpose of computing the limit of ₹ 1 crore.
5. It is clarified that since the words used by the order are 'any bank or financial institution, the limit of exceeding ₹ 1 crore applies in aggregate to all loans.

REVENUE

1. The term, "revenue", has been defined by the Order as total revenue disclosed in Schedule III of the Act. Accordingly, the total revenue would include other income as per Schedule III. Here revenue will also include revenue from discontinuing operations as specified in the Order.
2. It may be noted that the "REVENUE" would include sale of goods as well as services rendered by the company. Following should be considered:
 - a) Sales tax collected or excise duties collected should be considered as they are reduced from revenue;
 - b) Trade discounts should be deducted from the figure of revenue;
 - c) Commission allowed to third parties should not be deducted from the figure of revenue; &
 - d) Sales returns should be deducted from the figure of revenue even if the returns are from the sales made in the earlier years.

12.2 MATTERS TO BE INCLUDED IN THE AUDITOR'S REPORT AS PER 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: -**

CLAUSE (I) - PROPERTY, PLANT & EQUIPMENT/ INTANGIBLE ASSETS

- (a) (i) Whether the company is maintaining proper records showing full particulars, including quantitative details & situation of Property, Plant & Equipment;
- (ii) Whether the company is maintaining proper records showing full particulars of intangible assets;
- (b) Whether these Property, Plant & Equipment have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification & if so, whether the same have been properly dealt with in the books of account;
- (c) Whether the title deeds of all the immovable properties (other than properties where the company is the lessee & 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

- (d) Whether the company has revalued its Property, Plant & Equipment (including Right of Use assets) or assets or both during the year &, 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 & Equipment or intangible assets;
- (e) 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) & rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements.

CLAUSE (II) - INVENTORY/ WORKING CAPITAL

- (a) Whether physical verification of inventory has been conducted at reasonable intervals by the management & whether, in the opinion of the auditor, the coverage & 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 & if so, whether they have been properly dealt with in the books of account;
- (b) Whether during any point of time of the year, the company has been sanctioned working capital limits in excess of ₹ 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 (III) - LOANS/ INVESTMENTS/ GUARANTEES/ SECURITIES

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, & balance outstanding at the balance sheet date with respect to such loans or advances & guarantees or security to subsidiaries, joint ventures & associates;
- (B) the aggregate amount during the year, & balance outstanding at the balance sheet date with respect to such loans or advances & guarantees or security to parties other than subsidiaries, joint ventures & associates;
- (b) Whether the investments made, guarantees provided, security given & the terms & conditions of the grant of all loans & advances in the nature of loans & guarantees provided are not prejudicial to the company's interest;
- (c) In respect of loans & advances in the nature of loans, whether the schedule of repayment of principal & payment of interest has been stipulated & whether the repayments or receipts are regular;
- (d) If the amount is overdue, state the total amount overdue for more than ninety days, & whether reasonable steps have been taken by the company for recovery of the principal & 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 & 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;

CLAUSE (IV) - LOANS/ INVESTMENTS/ GUARANTEES/ SECURITIES

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

CLAUSE (V) - DEPOSITS

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 & the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act & 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;

CLAUSE (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 & whether such accounts & records have been so made & maintained;

CLAUSE (VII) - STATUTORY DUES

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

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

CLAUSE (VIII) - UNDISCLOSED INCOME

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;

CLAUSE (IX) - REPAYMENT OF LOANS OR OTHER BORROWINGS

(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 & 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 & 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 & 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 & 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 & 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 & also report if the company has defaulted in repayment of such loans raised;

CLAUSE (X) - ISSUE PROCEEDS

- (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 & 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 & if so, whether the requirements of section 42 & section 62 of the Companies Act, 2013 have been complied with & the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved & nature of non-compliance;

CLAUSE (XI) - FRAUD

- (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 & 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 & 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;

CLAUSE (XII) - NIDHI COMPANY

- (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 & if so, the details thereof;

CLAUSE (XIII) - RELATED PARTIES

Whether all transactions with the related parties are in compliance with sections 177 & 188 of Companies

Act where applicable & the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards;

CLAUSE (XIV) - INTERNAL AUDIT

- (a) Whether the company has an internal audit system commensurate with the size & nature of its business;
- (b) Whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;

CLAUSE (XV) - NON-CASH TRANSACTIONS

Whether the company has entered into any non-cash transactions with directors or persons connected with him & if so, whether the provisions of section 192 of Companies Act have been complied with;

CLAUSE (XVI) - REGISTRATION WITH RBI

- (a) Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) & 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, & 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;

CLAUSE (XVII) - CASH LOSSES

Whether the company has incurred cash losses in the financial year & in the immediately preceding financial year, if so, state the amount of cash losses;

CLAUSE (XVIII) - RESIGNATION OF STATUTORY AUDITORS

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 (XIX) - MATERIAL UNCERTAINTY – ABILITY TO MEET LIABILITIES

On the basis of the financial ratios, ageing & expected dates of realisation of financial assets & payment of financial liabilities, other information accompanying the financial statements, the auditor's knowledge of the Board of Directors & 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 & when they fall due within a period of one year from the balance sheet date;

CLAUSE (XX) - CORPORATE SOCIAL RESPONSIBILITY

- (a) 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;
- (b) 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 subsection (6) of section 135 of the said Act;

CLAUSE (XXI) - CONSOLIDATED FINANCIAL STATEMENTS

Whether there have been any qualifications or adverse remarks by the respective auditors in the CARO reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies & the paragraph numbers of the CARO report containing the qualifications or adverse remarks.