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**Companies Auditor's
Report Order, 2020
(CARO 2020)**



With you today



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Why **CARO 2020** ?

Why change in CARO



Spike in instances of frauds noted & reported in FY19 audits. Frauds detected include fund diversion, un-accounted cash, siphoning of funds misappropriation of inventories, etc.

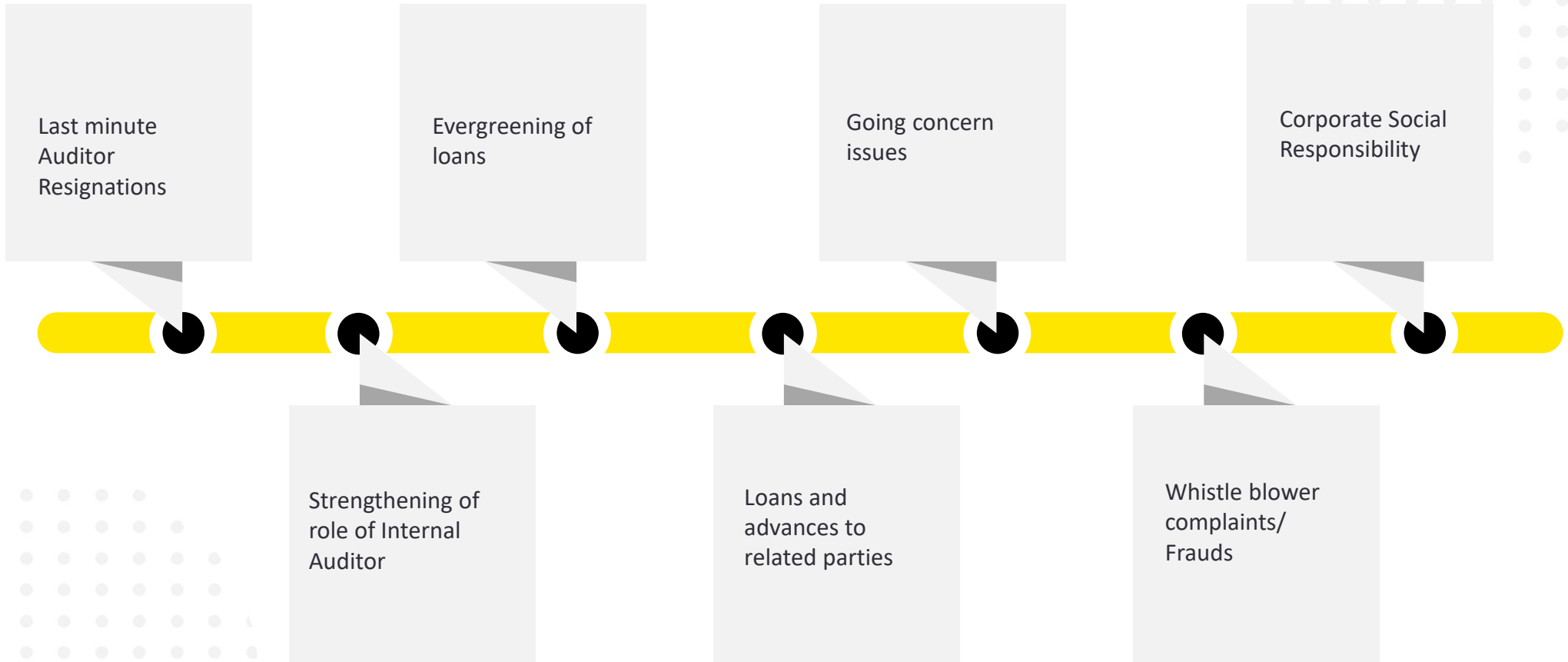
Enhanced expectations of Regulators – ICAI, SEBI, RBI, NFRA, SFIO in light of scams

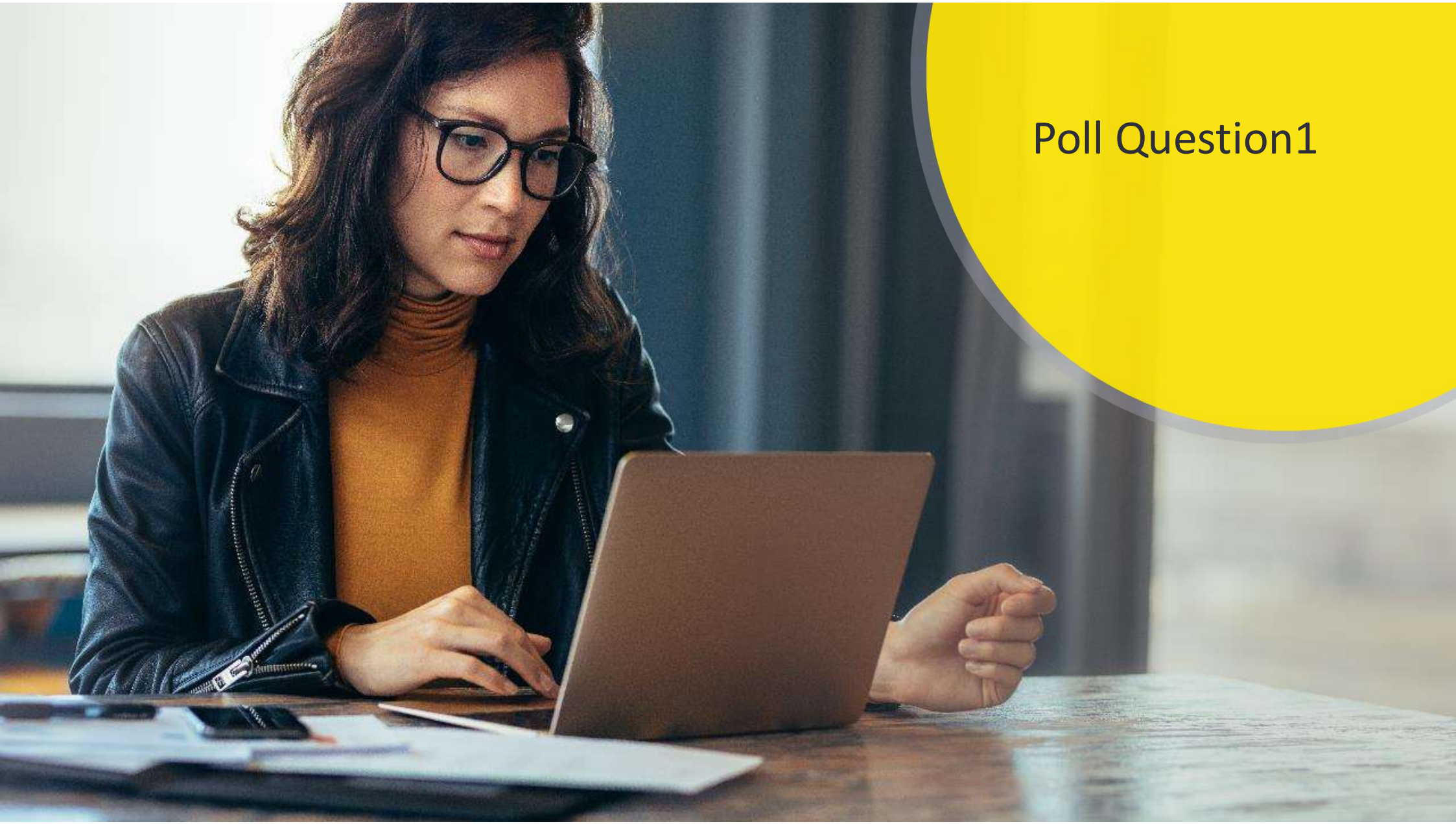
Accountability, responsibility and reporting by the Statutory Auditor enhanced in CARO 2020

Increased activism/pressure on regulators to demonstrate action against deemed guilty- BoD, senior management, auditors, etc.

Detailed reporting requirements in the Auditor's report to give ready information to Regulators

Why change in CARO





Poll Question1

CARO 2020 - Overview



- ▶ CARO 2020 shall not apply to the auditor's report on the consolidated financial statements except one specific clause as given under:
 - ▶ Qualification/Adverse remarks in CARO in the audit report of components which are consolidated in the CFS will be required to be reported.
- ▶ The new/revised clauses (including sub-clauses) have been bifurcated into the following :-

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



Poll Question2



New reporting
requirements

Property Plant and Equipment and Intangibles



Property Plant & Equipment including Intangibles reporting Requirement

New reporting requirement on revaluation of PPE (including ROU asset) and/or intangible assets

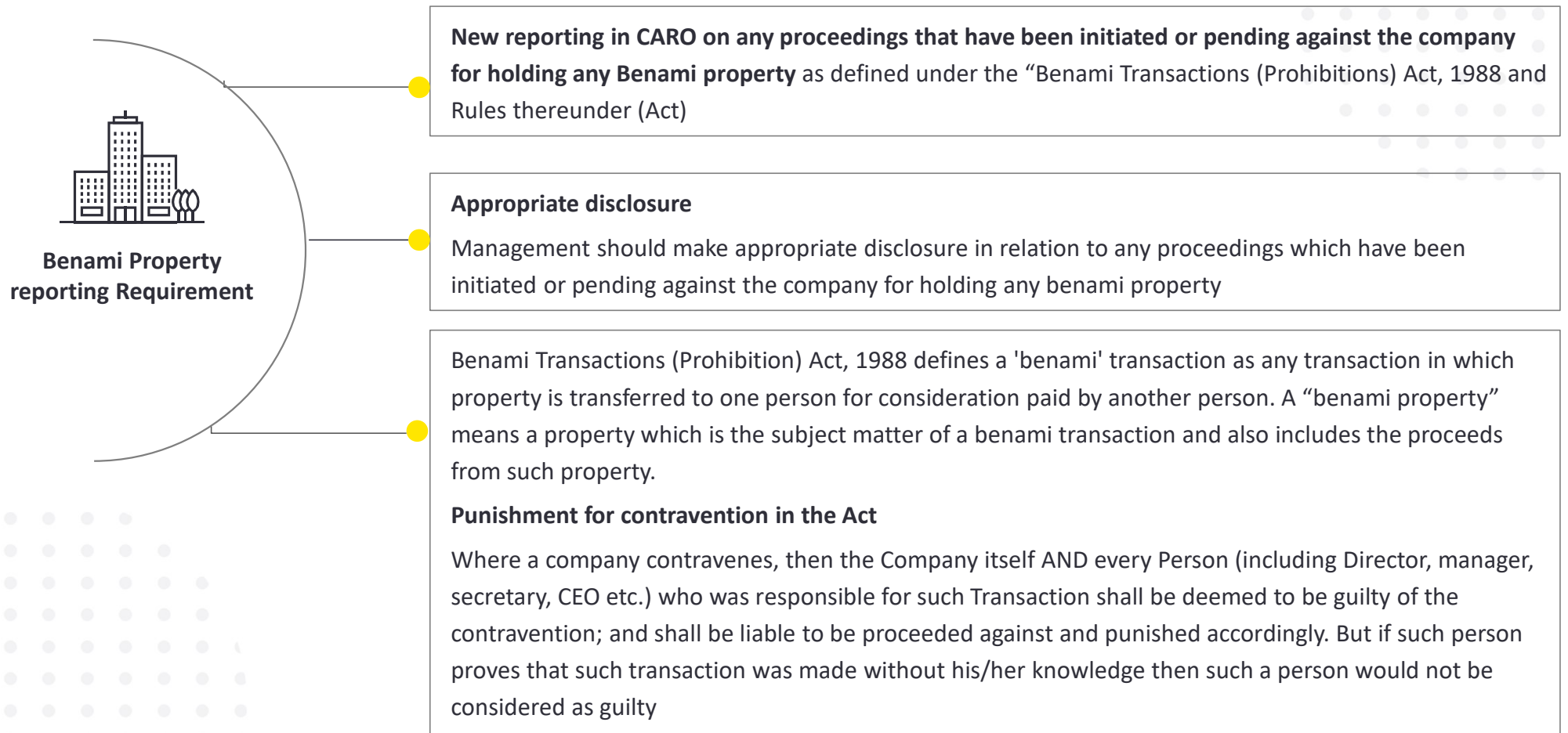
- Whether revaluation based on valuation by a Registered Valuer
- Specify amount of **change if $\geq 10\%$ in the aggregate of net carrying value** of each class of PPE or intangibles assets

Appropriate disclosures

To be made in **the notes to the financial statements** of the Company

Companies to ensure compliance with Section 247 of the Companies Act, 2013 while appointing valuer for revaluation of PPE and intangible assets

Proceedings initiated/pending against company for holding Benami Property



Intangible Assets



PP&E Clauses

Reporting requirement

- Whether the company is maintaining proper records showing full particulars of **Intangible assets**.

Key considerations

- See if all details of intangible asset maintained in the fixed asset register of the Company
- Consider the relevant documentation requirements of the relevant acts (Copyright Act, 1957, Patents Act, 1970, Trade Marks Act, 1999 , Designs Act, 2000, IT Act 2000 and so on) depending on the intangible asset involved.

Audit considerations

- Reasonable and sufficient description of the asset to facilitate identification should be available for inspection (eg. purchase agreements / letters granting patent, registration references, software title version, serial number)
 - Location (eg. division/users of the intangible);
 - Agreement books / Registers; Quantity (eg. software licences; Original cost; Date available for use; Subsequent expenditure details; Register of amortisation/impairment; retirement; registration; License Register; BCP / DRP Register; Records / Registers of Litigations involving intangible assets



Poll Question 3

Inventory and Working capital limits



Working capital limits Requirement

New reporting requirement on

- ▶ Sanctioned working capital limits > **INR 5 crores in aggregate** from banks or financial institutions (FIs) taken on the basis of security of current assets during **any point of time of the year**

- ▶ **Quarterly returns /statements submitted** to banks or FIs for availing such limits are in agreement with the books of account of the company.

- ▶ Requirement to report **in case of discrepancies** between the books of account and the quarterly statements/returns submitted to the banks or Financial institutions.



Inventory verification

Additional reporting required on the appropriateness of the coverage & procedure for inventory physical verification

Whether discrepancies of 10% or more in aggregate for each class of inventory were noticed and if yes, whether they have been properly dealt with in the books of account

Investments, guarantees, loans and advances



Requirement

New reporting under CARO 2020 –

- ▶ Reporting to also include **investments in, guarantees or security provided** in addition to loans or advances in the nature of loans to companies, firms, LLPs or any other parties (as against those parties covered under Section 189 of the Act in the erstwhile clause)
- ▶ Additional reporting required for loans or advances in the nature of **loans granted, guarantees provided or security given** to any other entity (**Applicable to all companies other than those who are in the principal business of giving loans**); **if so,**
 - ▶ Reporting required for 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**
 - ▶ Reporting required for 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**
- ▶ Whether **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

Investments, guarantees, loans and advances



Requirement

New reporting under CARO 2020 –

- ▶ Reporting on **repayment of principal and interest is regular; state overdue amounts >90 days and steps taken by the company to recover such dues.**
- ▶ **Renewal/extension of loans which has fallen due during the year or fresh loans granted to settle overdues of existing loans given to same parties;** reporting required for
 - ▶ aggregate amount of such dues renewed/extended or settled by fresh loans and
 - ▶ Percentage of 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]
- ▶ Reporting on **loans and advances granted without stipulating any terms or period of repayment or repayable on demand;** reporting required for
 - ▶ aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in 2 (76) of the Act is required to be made

Default in repayment of loans/borrowings or payment of interest



1 New reporting requirements in CARO, Auditor to additionally report on-

- ▶ If the company has been declared a **wilful defaulter** by any bank/ FI/ other lender
- ▶ If **terms loans were applied** for the purpose for which the loans were obtained by the company; if not, amount of loan so diverted & purpose for which it is used to be reported
- ▶ If **short term funds were utilised for long term purposes**, the nature and amount to be indicated
- ▶ If the Company has **taken any funds** from any entity/person on account of or **to meet the obligations of its subsidiaries, associates or joint ventures**, the details thereof 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, the details and also report where the company has defaulted in repayments of such loans



2 **Enhanced reporting requirements – Additional reporting on defaults in repayment of loans or other borrowings** or has defaulted in the payment of interest thereon to **any lender** and, the period and the amount of default to be reported in the specified format

3 A **wilful** defaulter is a company/ individual that has an ability to repay the loan but has failed to do so (refer RBI guidelines for definition)

Fraud and Whistle Blower Complaints



Requirement



Revised reporting –

Any fraud **by the company or any fraud on the company** noticed or reporting during the year; fraud committed by third parties outside the company like vendors, agents etc. also included for reporting under this clause. Nature and amount involved to be reported



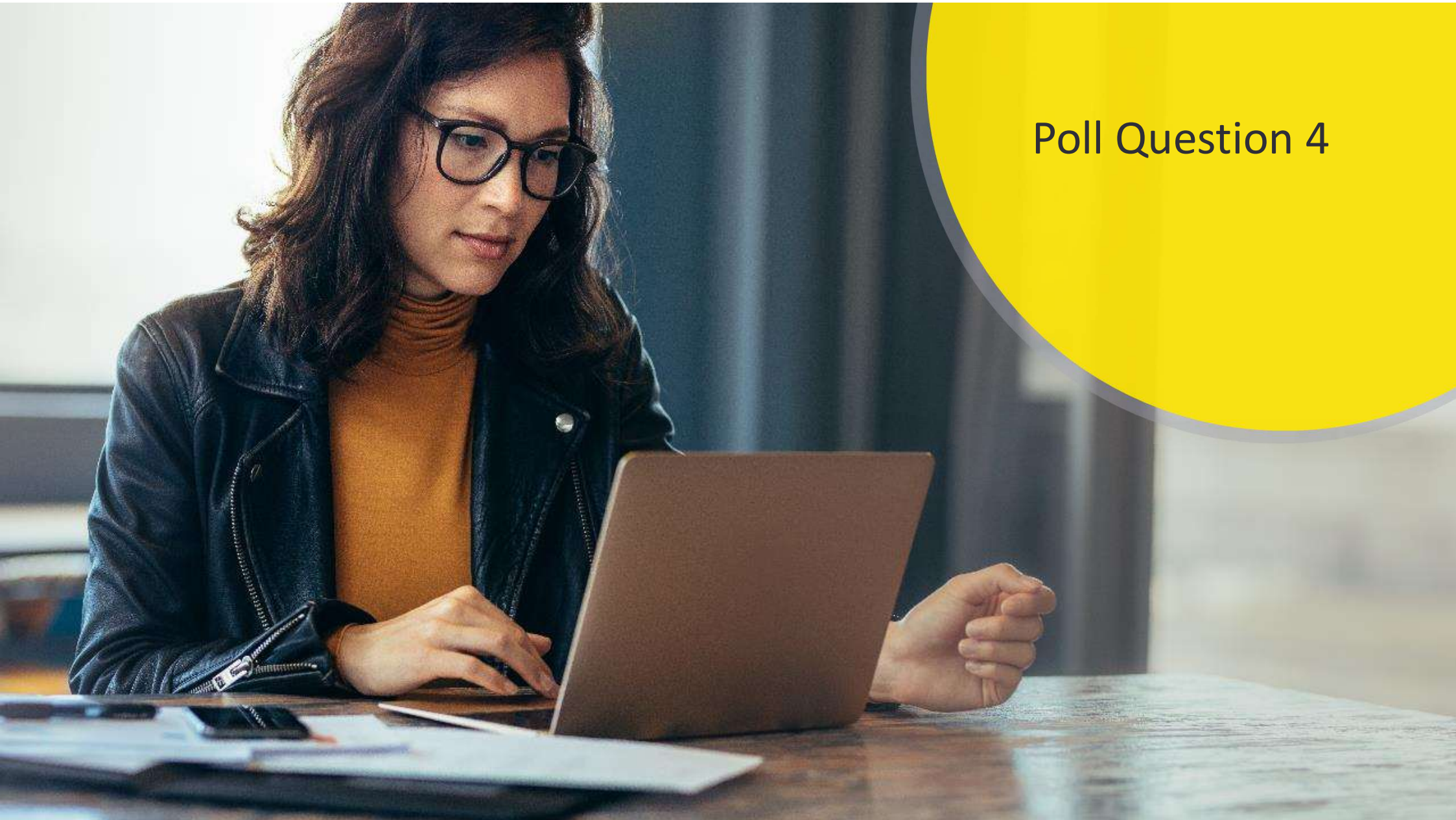
New reporting –

Whether auditor has filed **any report under Section 143(12) in Form ADT-4** with the Central Government?



New Reporting –

Auditor required to **consider whistle-blower complaints, if any**, received during the year by the Company



Poll Question 4

Whistle Blower reporting procedures



Requirement

Whistle Blower reporting applicable to

- Listed companies / companies who have accepted public deposits
- Companies who have borrowed funds from banks /FI's in excess of 50 Crs

Audit procedures:

- Obtain list of matters reported under the whistle-blower mechanism
- Discuss with the management the cases reported any evaluate if any financial implication such as possible misrepresentations / misstatements in the numbers reported in the FS
- Evaluate additional audit procedures required to be performed to get satisfied that numbers reported in the FS are true and fair



New Reporting requirement

- *Whether the company has an internal audit system commensurate with the size and nature of its business?*
- *Whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor?*

Key considerations

Applicability of the clause

- Listed
- Private companies (Revenue>200 Crs / Borrowings > 100 Crs)
- Unlisted public (Capital> 50 Crs/ Revenue>200 Crs / Borrowings> 100 Crs / Deposits>25 Crs)
- Nature/ timing/ extent of work performed by internal auditor and communication with TCWG
- Procedures to be performed by statutory auditor with respect to work performed by internal auditor-
Review of scope / findings
- Basis the finding reported in the internal audit report, we should consider its effects on the ICFR reporting

Going concern assessment



Reporting requirement

- Auditor to consider financial ratios, ageing and expected dates of realisation of financial assets/payment of financial liabilities, other information and his knowledge of Board of Directors and management plans
- **Opine as to whether no material uncertainty exists as on the date of audit report** that company is capable of meeting its liabilities existing at balance sheet date as and when they fall due within a period of one year from the balance sheet date.

Key considerations

- SA 570 Vs CARO 2020.
- Review of past trends and management assessment regarding realisation of financial assets within one year.
- Review of documentary evidence/ correspondence wherein management plans to pay off liabilities by raising financing.
- Increased focus on review of management budgets and cash flow forecast.
- Greater emphasis on review of ratio's.
- Subsequent event procedures.



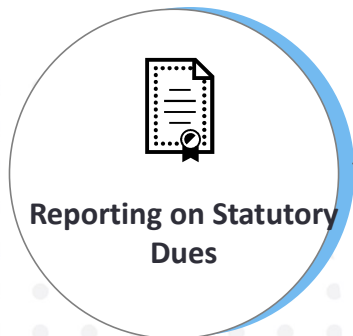
Poll Question5

Other new CARO clauses



Reporting by NBFC's

- ▶ New reporting requirement –
 - ▶ **Auditor to report** if a Non-banking Financial company (NBFC) has conducted any Non-Banking Financial or Housing Finance activities before obtaining the **Certificate of Registration (CoR)** from the RBI
 - ▶ **Requirement to disclose** if the company is a **Core Investment Company (CIC)** as defined in the RBI regulations and if it continues to fulfil the criteria of a CIC; in case company is an exempted/unregistered CIC, whether it continues to fulfil such criteria
 - ▶ **Requirement to report** if the Group has more than one CIC and the number of CICs which are part of a Group



Reporting on Statutory Dues

- ▶ Enhanced reporting requirement –
 - ▶ **Additional reporting** for amounts which have not been deposited due to dispute with respect to **P.F. , E.S.I or any other statutory dues**. Aligned to disclosure requirements in contingent liabilities in the financial statements.
 - ▶ Wider ambit of reporting on disputed statutory dues.

Other new CARO clauses



Reporting on Cash losses

New reporting requirement under CARO, 2020

- ▶ Auditor to report if the company has **incurred any cash losses in the current and the immediately preceding financial year** and if yes, amount of cash losses



Corporate Social Responsibility

- ▶ Auditor to report if the company is required to spend amount under CSR under section 135 of the Act
- ▶ **Whether unspent amount in respect of other than ongoing projects transferred to a Fund specified in Schedule VII within a period of 6 months of the expiry of the financial year**
- ▶ **Whether unspent amount pursuant to any ongoing project transferred to special account u/s 135(6) of the Act**



Consolidated Financial statements

- ▶ Auditor to report if there have been any **qualifications/adverse remarks** by the respective auditors in the CARO reports of the companies included **in the consolidated financial statements** and auditor to indicate the details of the companies and the paragraphs' number of CARO containing qualifications / adverse remarks

Other new CARO clauses



Surrender/ disclosure of income

- ▶ Auditor to report if transactions not recorded in the books of account have been **surrendered/disclosed as income during the year in the tax assessments** under IT Act, 1961;
- ▶ If yes, whether previously unrecorded income properly recorded in books of account during the year

Points to consider

- ✓ Obtain details of income tax assessments / open litigations against the Company by the tax authorities
- ✓ See if any tax adjustments proposed by the AO in any of the years
- ✓ Also disclose such details in the FS and see impact of prior period items (Ind AS - 8 / AS – 5)



Resignation of auditors

New Reporting requirement

- ✓ Any resignation of the statutory auditors
- ✓ issues, objections or concerns raised by the outgoing auditors taken into consideration



Reporting
requirements carried
forward from CARO,
2016



Carry forward Clauses

- ▶ **Reporting under section 185 and 186** - 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.
- ▶ **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, 2013 and whether such accounts and records have been so made and maintained.
- ▶ **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;



Carry forward Clauses

- ▶ **Related Party Transactions** - 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;
- ▶ **Non – cash transactions** - 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;
- ▶ **Registration under section 45-IA of RBI Act** - Whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.



Minor updates to
existing Clauses

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

▶ **Loans and Advances**

- ▶ Ambit of reporting enhanced to include advances also. In respect of loans and advances in the nature of loans, reporting on whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular

▶ **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

▶ **Deposits**

- ▶ Slight modification has been made to the existing clause to include “Deemed Deposits”.

▶ **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



Reporting
requirements not
carried forward from
CARO, 2016



Deleted Clause

Reporting on the following is no longer required :-

- ▶ **Managerial Remuneration** - 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, the amount involved and steps taken by the company for securing refund of the same (Clause (xi))
- ▶ Subsequent to the amendment of section 143 of the Companies Act, 2013 in September 2018, the above clause was required to be reported **under “Other Legal and Regulatory Requirements” section** of the audit report along with **Companies (Auditor’s Report) Order, 2016**, thereby leading to duplicity.
- ▶ **Companies (Auditor’s Report) Order, 2020** has removed the duplicity of the reporting requirement. However, this reporting is **still required** to be made under **section 143 of the Companies Act**.

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**Panel
discussion**



Thank you

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