

Companies (Auditor's Report) Order, 2020

1. Introduction to CARO, 2020

- **Purpose:** CARO, 2020 was introduced to enhance the quality of audit reporting by ensuring that auditors provide detailed information on various aspects of a company's financial and operational health.
 - **Applicability:** It applies to **all companies**, including foreign companies, except for certain exempted categories (discussed below).
 - **Effective Date:** CARO, 2020 applies to audit reports for financial years commencing on or after **1st April 2019**.
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- The auditor must report on **all 21 clauses** if they are applicable to the company.
 - If the answer to any clause is **unfavorable or qualified**, the auditor must provide the **basis for such an answer**.
 - If the auditor is **unable to express an opinion** on any matter, the reasons must be stated.
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2. Companies Exempt from CARO, 2020

CARO, 2020 does not apply to the following:

1. **Banking Companies:** As defined under the Banking Regulation Act, 1949.
2. **Insurance Companies:** As defined under the Insurance Act, 1938.
3. **Section 8 Companies:** Companies licensed to operate under Section 8 of the Companies Act, 2013 (non-profit companies).
4. **One Person Companies (OPCs) and Small Companies:** As defined under the Companies Act, 2013.
5. **Private Limited Companies:**
 - Not a subsidiary or holding company of a public company.
 - Paid-up capital and reserves \leq ₹1 crore.
 - Total borrowings \leq ₹1 crore from banks/financial institutions at any time during the financial year.
 - Total revenue \leq ₹10 crore (including revenue from discontinuing operations).

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The **Companies (Auditor's Report) Order, 2020 (CARO 2020)** contains **21 clauses** under **Paragraph 3**, which auditors are required to report on in their audit reports. Below is a detailed breakdown of all **21 clauses** for your reference:

Clause-wise Breakdown of CARO 2020

1. Fixed Assets (Property, Plant, and Equipment)

- **(a)** Whether the company maintains proper records showing full particulars, including quantitative details and situation of fixed assets.
- **(b)** Whether physical verification of fixed assets has been conducted at reasonable intervals.
- **(c)** Whether title deeds of immovable properties are held in the company's name.
- **(d)** Whether any revaluation of fixed assets or intangible assets has been done during the year.
- **(e)** Whether any proceedings have been initiated or are pending against the company for holding benami property under the Benami Transactions (Prohibition) Act, 1988.

2. Inventory

- **(a)** Whether physical verification of inventory has been conducted at reasonable intervals.
- **(b)** Whether discrepancies of 10% or more in aggregate for each class of inventory were noticed and properly dealt with.

3. Loans, Advances, and Guarantees

- **(a)** Whether the company has provided loans, guarantees, or security to other entities.
- **(b)** Whether the terms and conditions of such loans are prejudicial to the company's interest.
- **(c)** Whether repayments of principal and interest are regular.
- **(d)** Whether any loan or advance has been renewed or extended during the year.
- **(e)** Whether the company has granted loans or advances repayable on demand or without specifying any terms.

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4. Compliance with Sections 185 and 186 of the Companies Act

- Whether the company has complied with the provisions of Sections 185 (loans to directors) and 186 (loans and investments by the company).

5. Deposits

- Whether the company has complied with the directives issued by the Reserve Bank of India (RBI) and the provisions of Sections 73 to 76 of the Companies Act regarding deposits.

6. Cost Records

- Whether the company is required to maintain cost records under Section 148(1) of the Companies Act and whether such records have been maintained.

7. Statutory Dues

- (a) Whether the company is regular in depositing undisputed statutory dues (e.g., GST, income tax, provident fund, etc.).
- (b) If there are disputed dues, the amounts involved and the forum where the dispute is pending should be mentioned.

8. Unrecorded Income

- Whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in tax assessments.

9. Default in Repayment of Loans

- (a) Whether the company has defaulted in repayment of loans or interest to banks or financial institutions.
- (b) Whether the company is a declared willful defaulter.
- (c) Whether term loans were applied for the purpose for which they were obtained.
- (d) Whether funds raised on a short-term basis have been used for long-term purposes.
- (e) Whether the company has taken funds from any entity to meet the obligations of its subsidiaries, associates, or joint ventures.
- (f) Whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures, or associate companies.

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10. Public Offers and Preferential Allotments

- (a) Whether money raised by way of initial public offer (IPO) or further public offer (FPO) was applied for the purposes for which it was raised.
- (b) Whether the company has made any preferential allotment or private placement of shares during the year and whether the requirements of Sections 42 and 62 of the Companies Act have been complied with.

11. Fraud Reporting

- (a) Whether any fraud by the company or on the company has been noticed or reported during the year.
- (b) Whether the auditor has filed a report under Section 143(12) of the Companies Act in Form ADT-4.
- (c) Whether the auditor has considered whistle-blower complaints, if any, received during the year.

12. Nidhi Companies

- (a) Whether the Nidhi Company has complied with the Net Owned Funds to Deposits ratio of 1:20.
- (b) Whether the Nidhi Company is maintaining 10% unencumbered term deposits as specified in the Nidhi Rules, 2014.
- (c) Whether there has been any default in payment of interest on deposits or repayment thereof.

13. Related Party Transactions

- Whether all transactions with related parties are in compliance with Sections 177 and 188 of the Companies Act.

14. Internal Audit System

- (a) Whether the company has an internal audit system commensurate with its size and nature of business.
- (b) Whether the reports of the internal auditors were considered by the statutory auditor.

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15. Non-Cash Transactions with Directors

- Whether the company has entered into any non-cash transactions with directors or persons connected with them.

16. Registration under RBI Act

- (a) Whether the company is required to be registered under Section 45-IA of the RBI Act, 1934, and whether it has obtained the necessary registration.
- (b) Whether the company has conducted any Non-Banking Financial or Housing Finance activities without a valid Certificate of Registration (CoR) from the RBI.
- (c) Whether the company is a Core Investment Company (CIC) as defined in the RBI regulations.

17. Cash Losses

- Whether the company has incurred cash losses in the current and immediately preceding financial year.

18. Resignation of Auditors

- Whether there has been any resignation of the statutory auditors during the year and whether the auditor has considered the issues raised by the outgoing auditors.

19. Material Uncertainty

- Whether, based on financial ratios and other information, the auditor is of the opinion that no material uncertainty exists regarding the company's ability to meet its liabilities.

20. CSR Spending

- (a) Whether the company has transferred unspent CSR amounts to a fund specified in Schedule VII of the Companies Act.
- (b) Whether any amount remaining unspent under Section 135(5) of the Companies Act has been transferred to a special account.

21. Qualifications in CARO Reports of Subsidiaries

- Whether there are any qualifications or adverse remarks in the CARO reports of companies included in the consolidated financial statements.