

CARO 2020: Applicability, Exemptions and the 21 Clauses of the Companies (Auditor's Report) Order

Description

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Quick summary

- CARO 2020 is an Order under section 143(11) of the Companies Act, 2013 that adds 21 matters to the statutory auditor's report, for financial years starting on or after 01/04/2019. It replaced CARO 2016.
- It does not apply to banking and insurance companies, Section 8 companies, one person companies, small companies, and a small private company with paid-up capital and reserves up to Rs 1 crore, borrowings up to Rs 1 crore and revenue up to Rs 10 crore (that is not a subsidiary or holding company of a public company).
- For consolidated financial statements only clause (xxi) applies.
- Where an answer is unfavourable or qualified, the auditor must state the basis.

Section 143(11) of the Companies Act lets the Central Government direct that the auditor's report of specified companies include a statement on matters it lists. The Companies (Auditor's Report) Order, 2020 (CARO 2020) is that direction. It supersedes the 2016 Order and applies to auditor's reports for financial years commencing on or after 01/04/2019.

Who is covered

CARO 2020 applies to **every company including a foreign company**, except:

1. a banking company;
2. an insurance company;
3. a company licensed under section 8 of the Companies Act (Section 8 company);
4. a One Person Company and a small company; and
5. a **private limited company**, not being a subsidiary or holding company of a public company, which has all of these: paid-up capital and reserves and surplus of not more than Rs 1 crore at the balance sheet date; no borrowings above Rs 1 crore from any bank or financial institution at any time in the year; and total revenue (as disclosed in Schedule III, including discontinued operations) of not more than Rs 10

crore in the year.

The Order does **not apply to the auditor's report on consolidated financial statements, except clause (xxi)**.

What the auditor must report: the 21 clauses of paragraph 3

Clause	Subject
(i)	Property, plant and equipment and intangibles: proper records, physical verification, title deeds of immovable property held in the company's name, revaluation by a registered valuer (change of 10% or more), benami proceedings
(ii)	Inventory: physical verification and discrepancies of 10% or more per class; for working capital limits above Rs 5 crore on security of current assets, whether quarterly returns agree with the books
(iii)	Investments, guarantees, security and loans: amounts, terms not prejudicial, repayment schedule, overdues above 90 days, renewals to settle overdues, loans repayable on demand or without terms and loans to promoters and related parties
(iv)	Compliance with sections 185 and 186 on loans, investments, guarantees and security
(v)	Deposits: compliance with RBI directions and sections 73 to 76 and orders of tribunals or courts
(vi)	Cost records under section 148, where specified
(vii)	Statutory dues (GST, PF, ESI, income-tax and others): regularity of deposit, arrears over six months, and disputed dues with the forum
(viii)	Unrecorded transactions surrendered or disclosed as income in tax assessments
(ix)	Borrowings: defaults to lenders (in the prescribed format), wilful defaulter status, end use of term loans, short term funds used for long term, funds taken for obligations of subsidiaries, associates or joint ventures, and loans raised on pledge of their securities
(x)	Public issues and preferential allotments or private placements: use of funds and compliance with sections 42 and 62
(xi)	Fraud: any fraud by or on the company, whether Form ADT-4 report under section 143(12) was filed, and whistle-blower complaints considered
(xii)	Nidhi companies: net owned funds to deposits ratio of 1:20, ten per cent unencumbered term deposits, defaults on deposits

Clause	Subject
(xiii)	Related party transactions: compliance with sections 177 and 188 and disclosure in the financial statements
(xiv)	Internal audit system commensurate with the size and nature of business, and whether the internal auditors' reports were considered
(xv)	Non-cash transactions with directors or connected persons and section 192
(xvi)	NBFC and housing finance activity: registration under section 45-IA of the RBI Act, activity without a certificate of registration, status as a Core Investment Company and number of CICs in the group
(xvii)	Cash losses in the year and the preceding year
(xviii)	Resignation of statutory auditors during the year and whether the issues raised by the outgoing auditor were considered
(xix)	Whether the auditor believes no material uncertainty exists about the company meeting its liabilities as they fall due within one year of the balance sheet date
(xx)	CSR: transfer of unspent amount to a Schedule VII fund within six months, and to a special account for an ongoing project (section 135(5) and (6))
(xxi)	Consolidated statements: qualifications or adverse remarks in the CARO reports of the companies included, with details of each company and paragraph

Unfavourable or qualified answers

Where the answer to any matter in paragraph 3 is unfavourable or qualified, the report must also state the **basis** for that answer (paragraph 4).

Practical points for companies

- Keep documents ready for the clauses that need evidence: title deeds, stock count records, quarterly returns filed with banks, loan registers, statutory dues ageing, the list of related party transactions, the internal audit reports, and CSR bank account records.
- The auditor will ask about any ADT-4 filing, resignation of the previous auditor, whistle-blower complaints and defaults to lenders, because these have their own clauses.
- A company that is out of the Order because of the small private company exemption should test the three limits at each balance sheet date, because crossing any of them brings it under the Order for that year.
- The clause numbers above follow the text of the Order. The ICAI has issued guidance notes and later clarifications on how to report; use the current ICAI guidance for the working papers.

Points to check

- This post follows the text of the Order as published by the Ministry of Corporate Affairs. Amendments after that text, if any, were not reviewed.
- The Order sits alongside section 143(3) reporting and Rule 11 of the Audit and Auditors Rules, which add their own items (such as the audit trail statement).

Frequently asked questions

What is CARO 2020?

The Companies (Auditor's Report) Order, 2020, made by the Central Government under section 143(11) of the Companies Act, 2013 after consulting the NFRA. It requires the auditor's report to include a statement on the matters in paragraph 3 of the Order.

From when does it apply?

To the auditor's report for financial years commencing on or after 01/04/2019. It superseded the Companies (Auditor's Report) Order, 2016.

Which companies are exempt?

Banking companies, insurance companies, Section 8 companies, one person companies, small companies, and a private company that is not a subsidiary or holding company of a public company and has paid-up capital and reserves of not more than Rs 1 crore, borrowings from banks and financial institutions of not more than Rs 1 crore at any time in the year, and total revenue of not more than Rs 10 crore.

Does CARO 2020 apply to consolidated financial statements?

Only clause (xxi), which asks for qualifications or adverse remarks in the CARO reports of the companies included in the consolidation.

What if the answer to a clause is unfavourable?

The auditor must state the basis for the unfavourable or qualified answer.

Does the Order cover a foreign company?

Yes. It applies to every company including a foreign company, except those listed in the exemptions.

Official sources

- Ministry of Corporate Affairs: Companies (Auditor's Report) Order, 2020
- India Code: The Companies Act, 2013 (section 143(11))

Related reading

- CARO 2020: Applicability, Exemptions and the 21 Clauses of the Companies (Auditor’s Report) Order

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