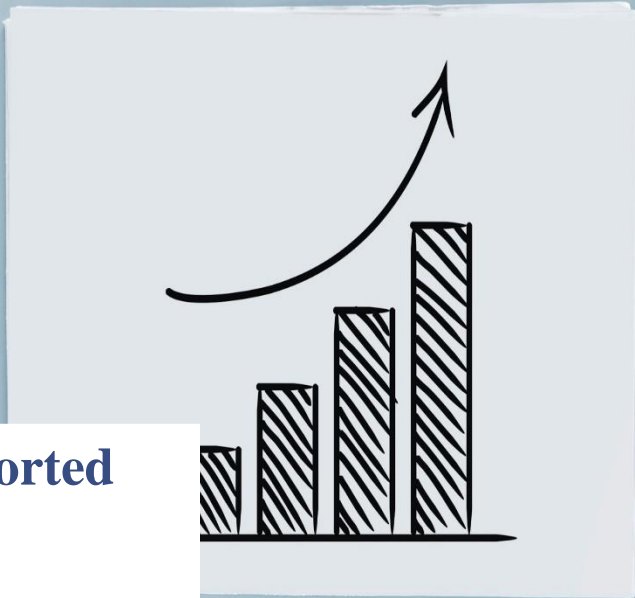


# Spotted & Reported

## CARO 2020

March 2020

Volume 2 | Issue 4



Business Company **VOICE**

123 consectetur ipsum vel,  
Fringilla nunc. Tacos 00239  
Tel: 123-456-7890  
Fax: 123-456-7891

Date: XXXXXX  
Invoice No: 0000001  
Customer ID: 223

Bill to: Curabitur suscipit, LTD  
456 Fellesque, Aliquat  
21W st - S.U.O. 9999  
987-654-321

No.	Description	Quantity	Amount
1234	Id rutrum	2	246.53
2567	Sed interdum odio	5	851.75
0034	Pellentesque	8	534.67
0460	Maecenas molestia	3	492.74
4729	Integer varius nisi	4	356.40
4930	Quisque luctus turpis	7	400.00
4893	Quisque luctus turpis	3	456.00

Comment	Subtotal	4530.46
Sed interdum odio vel mollis suscipit	Tax Rate	6.78%
Nonummy lobortis nulla nisi lorem luctus venen	Tax	302.67
Donec auctor libero ac mollis efficitur	Other	-
<b>TOTAL Due</b>		<b>5241.12</b>

CRAS ANTI VIVAMUS OCTOBNILLA UT ERAN DISAPIEN

SURESH & CO.  
#43/61, Surveyor's Street,  
Basavangudi,  
Bengaluru - 560004  
P - 080-26623610/11  
E - info@sureshandco.com  
W - www.sureshandco.com

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## FOREWORD

With an objective of highlighting certain matters which are vital for understanding the financial statements, MCA has brought in CARO 2020. The auditor of such prescribed entities is required to report on the points mentioned under this order after performing procedures for verification of the same.

It would necessitate enhanced due diligence and disclosures on the part of auditors of eligible companies and has been designed to bring in greater transparency in the financial state of affairs of such companies.

CARO applies to most large companies in India other than financial and charitable institutions. The last revision of these rules added the requirement that managerial remunerations and related party transactions be included in the auditor's report.

MCA has released CARO 2020 order dated 25<sup>th</sup> February 2020. **However, it shall come into force on the date of its publication in the Official Gazette.**

### Journey of CARO:

MAO CARO



CARO 2003



CARO 2016



CARO 2020

## EXECUTIVE SUMMARY

With an intention of Corporate governance and to bridge the expectation gap, MCA has brought in additional requirements from auditors.

1. Applicable from FY 19-20.
2. Additional responsibilities on companies with working capital loans above Rs. 5cr towards maintaining reconciliation between quarterly returns filed with banks and Books of accounts.
3. Additional investment towards accounts and reporting requirements including enhanced internal control system.
4. Fund utilisation reports to check and monitor the end use of funds.
5. Additional focus on Internal audit, mechanisms for implementation of Internal audit suggestions
6. Additional responsibilities on auditors to comment on Company's ability to repay debts within next 12 months

## CARO 2020 – Key changes/highlights:

CARO 16 - 16 Clauses  
CARO 20 - 20 Clauses

Unlike CARO 2016, which required reporting on all Tangible fixed assets, new reporting requirements pay attention to Property, Plant, Equipment, and intangible assets. They require a reporting on revaluation of PPE as well.

Reporting on:

1. Proceedings under the Benami Transactions (Prohibition) Act, 1988.
2. Transactions not recorded in the books of accounts but surrendered or disclosed as income in the income tax proceedings.

Reporting on:

1. Investments or providing of any guarantee or security or granting any loans or advances to companies, firms, Limited Liability Partnerships or any other parties.
2. For default in the repayment of loans / other / interest payments and other borrowings.

Reporting on:

1. Whistle-blower complaints received by the company
2. Qualifications or adverse remarks included in the consolidated financial statements.
3. Resignation of the statutory auditors

Reporting on other compliances:

1. Transfer of unspent CSR amount to Fund specified in Schedule VII
2. With RBI directives and the provisions of the Companies Act with respect to deemed deposits

Reporting on:

1. Uncertainty of company capable of meeting its liabilities
2. Cash losses.

## SUMMARY

Sl.No	Particulars	Number
1	Number of clauses added	7
2	Number of clauses modified	7
3	Number of clauses deleted	1

***NOTE:** Clause xi of CARO 2016 stated that 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, to state the amount involved and steps taken by the company for securing refund of the same.*

***However,** in order to remove duplication, **reporting on compliance of provisions related to managerial remuneration** has been **removed** as the same is already covered under the paragraph “Report on Other Legal and Regulatory Requirements”.*

## List of additions of Clauses and Sub-Clauses in CARO 2020:

Sl. No	Particulars	Description
1	i(a)(B): New Sub Clause added	Whether the company is maintaining proper records showing full particulars of intangible assets.
<p><b>NOTE:</b> The records should contain particulars in respect of all items of fixed assets, whether tangible or intangible, self-financed or acquired through finance lease. 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. Tests for the existence of intangible assets are usually conducted through the examination of documentation.</p>		
2	i(d): New Sub Clause added	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;
<p><b>NOTE:</b> Compliance with Accounting Standard for Revaluation.</p>		
3	i(e): New Sub Clause added	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;
4	ii(b): New Sub Clause added	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 accounts of the Company, if not, give details;
<b>NOTE:</b> A detailed fund flow analysis needs to be undertaken.		
5	iii(a): New Sub Clause added	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;
<b>NOTE:</b> This paragraph is a major change in CARO 2020, earlier the reporting was only of loan given to parties covered in Section 189 of Companies Act, 2013, but the clause under CARO 2020 covers all loans granted by the company and separate disclosures are required as per the below clauses;		
	(A): New Sub Clause added	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;
	(B): New Sub Clause added	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 <b>other than</b> subsidiaries, joint ventures and associates.
6	iii(f): New Sub Clause added	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
7	viii: New Clause added	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, if so, whether the previously unrecorded income has been properly recorded in the books of account during the year;

8	ix(b): New Sub Clause added	Whether the company is a declared wilful defaulter by any bank or financial institution or other lender;
9	ix(c): Term Loan removed from Old Clause ix and added here in form of Sub clause	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.
<p><b>NOTE:</b> The auditor should examine the terms and conditions subject to which the company has obtained the term loans. The auditor should ascertain the purpose for which term loans were sanctioned and compare the purpose for which term loans were sanctioned with the actual utilisation of the loans. The auditor should obtain sufficient appropriate audit evidence regarding the utilisation of the amounts raised. If the auditor finds that the funds have not been utilized for the purpose for which they were obtained, the auditor's report should state the fact. In cases where the term loan disbursed by the bank is deposited in the common account of the company from which subsequently the utilisation is made, it should not be construed that the amount has not been utilised for the purpose it was raised.</p>		
10	ix(d): New Sub Clause added	Whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated.
11	ix(e): New Sub Clause added	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.
12	ix(f): New Sub Clause added	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.
<p><b>NOTE:</b> With respect to pledge of securities, reference can be drawn from Demat account and other related documentation.</p>		
13	xi(b): New Sub Clause added	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;



<b>NOTE: ADT-4; Report to Central Government by the auditors in case the auditor has the reason to believe that an offence involving fraud is being or has been committed against the company by the officers or employees of the company within 60 days from his knowledge</b>		
14	xi(c): New Sub Clause added	Whether the auditor has considered whistleblower complaints, if any, received during the year by the company.
<b>NOTE: Compliance with Sec 177 of Companies Act, 2013. However, Sec 177 is not applicable for Private Limited Companies.</b>		
15	xii(c): New Sub Clause added	Whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof.
16	xiv(a): New Clause added	Whether the company has an internal audit system commensurate with the size and nature of its business.
<b>NOTE: This has been re-introduced from CARO 2003</b>		
17	xiv(b): New Clause added	Whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor.
18	xvi(b): New Sub Clause added	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.
19	xvi(c): New Sub Clause added	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;
20	xvi(d): New Sub Clause added	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;
21	xvii: New Clause added	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;

<b>NOTE: This has been re-introduced from CARO 2003</b>		
22	xviii: New Clause added	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;
23	xix: New Clause added	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;
24	xx(a): New Clause added	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;
25	xx(b): New Clause added	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 sub-section (6) of section 135 of the said Act;
<b>NOTE: The responsibility of the auditors requires that any transaction that is under spent, over spent or non-spent requires auditor's reporting.</b>		

## List of changes in Clauses:

Sl. No	Particulars	Description
1	Clause i(c): Clarification given for Non-Disclosure of Properties taken on Lease by the Lessee	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.
2	Clause ii(a): Inventory- Auditor has to specifically comment on coverage and procedure adopted. Also, materiality has been defined as 10% or more in each class of inventory	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; 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;
3	Clause iii(b)- Investment, Guarantee & Security given has been covered now	Whether the 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.
4	Clause v: Reporting on Deemed Deposits covered now	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;

5	Clause ix(a): Word “any lender” has been substituted in place of financial institution, bank, Government or dues to debenture holders	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 in the format given.
<p><b>NOTE:</b> This is again a detailed reporting required in CARO 2020. In CARO 2016, it was limited to default in repayment of loans and borrowing to a financial institution, banks, government or dues to debenture holders but in CARO 2020 the reporting is about default in payment of loan or interest to “any lender” and the reporting has to be done lender wise in the specified format.</p>		
6	Clause x(a): Term Loan removed from here and covered in Para ix (c)	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.
7	Clause x(b): Shifted from Clause xiv of CARO 2016 to Clause x(b) of CARO 2020	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 non-compliance;
8	Clause xi(a): Word “by its officers or employees” has been removed	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;

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**CONTACT US****SURESH & CO.**

**Chartered Accountants,  
#43/61, Surveyors Street,  
Basavanagudi,  
Bangalore-560004  
P-080 -26623610, 26623611**

**info@sureshandco.com  
www.sureshandco.com**



**Authored By: Sanmathi and Vishnu V N  
Led By: Udupi Vikram**

**D S Vivek****Managing Partner**[vivek@sureshandco.com](mailto:vivek@sureshandco.com)

+91 98453 78991

**Udupi Vikram****Partner**[vikram.u@sureshandco.com](mailto:vikram.u@sureshandco.com)

+91 97387 79117

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