

CARO'2020: While disclosures are stringent for auditors, they are stringent for CFOs as well

To enhance the scope of the audit, the Ministry of Corporate Affairs (MCA) released the companies (Auditor's Report) Order (CARO) 2020, applicable with effect from 25th February 2020. It lists out the subject matters on which an auditor is required to report. While the disclosures are stringent for auditors, they are stringent for CFOs as well. CFO's role would require a further increased focus on compliances with certain laws and regulations, ensure sanity of financial information furnished to banks and ensure proper systems and processes to detect non-compliances or adverse financial position and to take corrective measures.

The CARO, 2020 is applicable for audit of financial statements of eligible companies for the financial years commencing on or after the 1st April, 2019. There are no changes in the applicability of CARO, 2020.

Changes in the CARO 2020 -

1. There are in total 21 clauses as compared to 16 clauses in CARO 2016, 7 clauses inserted, 1 clause merged with other and 1 clause deleted.
2. Clause by clause changes CARO 2020 vis a vis Previous CARO 2016 are given below for reference.

Clause	Changes in CARO, 2020
I. Non –current assets	Modified <ul style="list-style-type: none"> • Verification of the title deeds of the immovable properties and it's disclosure in financial statements. • Specific format for maintaining the details of the fixed asset. • In case of revaluation of Property, Plant and Equipment or intangible assets, whether the revaluation is based on the valuation made by a Registered Valuer, if the change is 10% or more of the net carrying value.
II. Inventory and other current assets	Modified In case of working capital Loan based on current assets in excess of 5 crore rupees is sanctioned from the financial institutions, the quarterly returns or statements filed by the company are in agreement with the books of accounts, if not, give details
III. Investments, loans or advances by company	Modified <ul style="list-style-type: none"> • In case of any investments, provision of loans or advances in the nature of loans, or stood guarantee, or provided security, indicate the aggregate amount during the year, and balance outstanding at the balance sheet date <ol style="list-style-type: none"> 1. to subsidiaries, joint ventures and associates 2. to parties other than subsidiaries, joint ventures and associates • In case of provision of loans or advances in the nature of loans repayable on demand, without the any terms or period of payment, then specify the amount of such loans or advances given to the promoters, related parties
VIII. Disclosure of undisclosed transactions	Inserted In case of any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments, whether the previously unrecorded income has been properly recorded in the books of account
IX. Loans or other borrowings	Modified <ul style="list-style-type: none"> • Specific format for reporting the details of the default in repayment of loans or other borrowings (lender wise). • Various reporting clauses of sec 143 is inserted as a part of this clause in respect of term loans, short term loans, funds raised to meet the obligations of subsidiaries.

X. Money raised by IPOs, FPOs	Modified Merged clause (xiv) of CARO 2016 – compliance in relation to preferential allotment or private placement of shares
XI. Fraud	Modified Any report in ADT-4 in relation to fraud is filed by auditor to the central government u/s 143(12) and any complaints from whistle-blowers is considered by the auditor while submitting such report
XIV. Internal Audit System	Inserted <ul style="list-style-type: none"> • 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;
XVII. Cash losses	Inserted State the amount of cash losses, in case of cash losses incurred in the financial year and in the immediately preceding financial year.
XVIII. Consideration of outgoing auditor	Inserted In case of 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;
XIX. Material uncertainty in relation to realisation of financial assets and payment of financial liabilities	Inserted 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;
XX. Compliance of CSR	Inserted The company has transferred unspent amount in respect of other than ongoing projects and ongoing projects to specified funds/accounts as per sec 135(5) and (6) respectively New concept: 135(5): if the unspent amount does not relate to an ongoing CSR project, such unspent amount should be directly transferred to the fund mentioned in Schedule VII of the Act, within 6 (six) months from the end of the relevant financial year 135(6): any unspent amount from the total allocated amount for CSR remains, pursuant to any ongoing CSR project in accordance with its CSR policy, the company is then required to transfer such unspent amount to a special account called Unspent Corporate Social Responsibility Account within a period of thirty (30) days from the end of the financial year. The amount that has been carry forwarded to the Unspent CSR Account must be spent in consonance with the CSR policy within the stipulated time period of three (3) financial years from the date of such transfer. On failure to do the same, the company should transfer this unspent amount to a fund specified under Schedule VII of the Act
XXI. Qualifications or adverse remarks in the consolidated financial statements	Inserted In case of any qualifications or adverse remarks by the auditors in the CARO reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the clauses of the CARO report containing the qualifications or adverse remarks

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