

10 Major Changes in CARO, 2020 vs CARO, 2016 in Fastrack Summary Mode

By CA Ankit Gulgulia (Jain)

As you would be aware, Companies (Auditor's Report) Order 2020 or CARO 2020 has been notified by MCA, applicable with effect from **25th February, 2020**. Note that earlier **it was 16 Clauses and now there are 21 Clauses**. **5 New Clauses have been added**.

Below are the **10 Major changes vis-à-vis the earlier CARO, 2016** for Quick Summarisation.

1) Fixed Asset Rejig

- a. Earlier Words Fixed Assets → Now Replaced with Property, Plant, Equipment and Intangible Assets (PPEIA).
- b. If Title Deed not in the name of company (except in case of Lease) then report all such instances in the tabular format with reasoning.
- c. Any Revaluation in PPEIA to be reported.
- d. Any Benami Proceedings initiated to be reported.

2) Inventory Physical Verification & Bank Limit Rejig

- a. Inventory verification coverage and procedure to be disclosed.
- b. Any Discrepancy beyond 10% to be disclosed
- c. Any Working capital limit above 5 Cr on collateral of Current Assets to be disclosed and returns filed with Bank in consonance with Books.

3) Loans & Advances Rejig

- a. Earlier dues settled by extension, renew or fresh loans to be now reported
- b. Any Loans receivable on demand basis to be separately disclosed.

4) Default in Loan Repayment Rejig (Most Changed Clause 9 of CARO, 2020)

- a. Specified Table for reporting default
- b. Disclosure if declared willful defaulter by Financial Institutions.

- c. Terms loans applied for right purpose or not
- d. Short term loans whether applied for long term purpose.
- e. Funds obtained to service obligation of Subsy, JV or Associate Companies
- f. Funds obtained on pledging of shares of Subsy, JV or Associate Companies.

5) Fraud Reporting Rejig

- a. ADT-4 Filed by Auditor's if any to be reported.
- b. Any whistle blower complaint referred to during audit

6) Managerial Remuneration Clause Deletion

- a. Payment of Managerial Remuneration in accordance with Sch V has been deleted

7) Five New Clauses (Clause 17 to 21)

- a. 17 – Cash Losses – Cash Losses to be reported for a FY if any
- b. 18 – Resignation of Auditor – The Issues raised by him whether considered or not if any.
- c. 19 – Company's ability to meet its current liabilities in auditor's opinion based on ratios, realizations and ageing.
- d. 20 – CSR Compliance – Ongoing project whether unspent amount transferred to fund within 6 months / Special account
- e. 21 – Companies in Consolidation – All negative CARO remarks whether of any subsy, JV or Associate company as consolidated has to be reported in the Holding Company Clause 21 CARO.

8) NBFC Companies Compliance Reporting Rejig

- a. Whether NBFC has valid certificate from RBI
- b. Whether it is CIC, whether group has more than 1 CIC and compliance.

9) Internal Audit Rejig

- a. Whether Internal Audit System exists or not as per company's size?
- b. Whether any Internal audit report has been considered by the auditors

10) Income Tax Transactions not in Books

- a. Whether any transactions offered in income tax but not recorded in Books.

Conclusion :- Welcome Changes, these will improve the reporting specially after ILFS, DHFL Fiasco.