

CARO 2020: Cartload of Details in Auditors' Report

In its endeavor to combat several corporate scams in the recent past, MCA, in consultation with the NFRA and by virtue of Section 143(11) of Companies Act, 2013 ("Companies Act"), has issued Companies (Auditor's Report) Order, 2020¹ ("**CARO, 2020**") on 25th February, 2020 which supersedes Companies (Auditor's Report) Order, 2016² ("**CARO, 2016**") for inclusion of the matters specified therein in Auditor's report for the financial years commencing on or after the 1st April, 2019.

The revised *avatar* of CARO is a far more detailed including as many as 21 broad items, out of which atleast 10 are either new items or new details in existing items. The new reporting regime, as it appears from the text of the Order, seems to make the auditor certify on several details, which he was, so far, not required to report / certify. Also, considering that CARO, 2020 will be applicable on retrospective basis, i.e for reports for financial statements belonging to FY starting from April 1, 2019, the auditors, for FY 2019-20, will have to get into the investigation mode and dig into the heaps of information / documents, at this eleventh hour.

In this write up, we are trying to compare and analyse the difference between CARO, 2020 and CARO, 2016. For the purpose of easy reference, kindly note that the new insertions has been kept in bold font.

Sl. No.	PARAMETER	PROVISIONS OF CARO, 2020	PROVISIONS OF CARO, 2016	COMPARISON	REMARKS
1.	Financial Year	This Order shall be applicable for the financial years commencing on or after 1 st April, 2019	This Order was applicable for the financial years commencing on or after 1 st April, 2015	Auditor's report for FY ending 31 st March, 2020 shall include matters specified in CARO, 2020.	

¹ http://www.mca.gov.in/Ministry/pdf/Orders_25022020.pdf

² https://www.mca.gov.in/Ministry/pdf/CoOrder_30032016.pdf

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2.	Applicability	It shall apply to every company including a foreign company as defined u/s 2(42) ³ of Act, 2013.		<i>Same Provision</i>	
3.	Exceptions	(i) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;		<i>Same Provision</i>	
		(ii) an insurance company as defined under the Insurance Act, 1938;			
		(iii) a company licensed to operate under section 8 of the Companies Act;			
		(iv) a One Person Company as defined in clause (62) of section 2 of the Companies Act and a small company as defined in clause (85) of section 2 of the Companies Act; and			
		(v) a private limited company : <ul style="list-style-type: none"> • not being a subsidiary or holding company of a public company; • having a paid-up capital and reserves and surplus not more than 1 crore rupees as on the balance sheet date; and • not having total borrowings exceeding 1 crore rupees from any bank or financial institution at any point of time during the financial year; and • not having a total revenue as disclosed in Scheduled III to the Companies Act (including revenue from discontinuing operations) exceeding 10 crore rupees during the financial year as per the financial statements. 			
4.	Non-applicability	It shall not apply to the Auditor's report on consolidated financial statements except clause (xxi) of paragraph 3 i.e. " <i>whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included</i>	It shall not apply to the Auditor's report on consolidated financial statements.	The Auditor's report of holding company shall also be an indicative of the companies included in the consolidated financial statements	

³"foreign company" means any company or body corporate incorporated outside India which— (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and (b) conducts any business activity in India in any other manner

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		<i>in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report containing the qualifications or adverse remarks”.</i>		whose CARO reports contain any qualifications/ adverse remarks.	
5.	Matters to be included in the Auditor’s Report				
(i)	Maintaining records of Property, Plant, Equipment and intangible assets	<p>(a) (A) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment;</p> <p>(B) whether the company is maintaining proper records showing full particulars of intangible assets;</p> <p>(b) whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;</p> <p>(c) 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</p>	<p>(a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;</p> <p>(b) whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account</p>	<p>Additional details introduced:</p> <p>(a) Declaration that all the immovable property⁴ disclosed in the financial statement are held in the name of the company;</p> <p>(b) details of immovable properties which are disclosed in the financial statement but not held in name of the company;</p>	<p>For clause a(A): There is effectively no change here. The terminology “property, plant and equipment” has been used instead of “fixed asset” to bringing it in consonance with the terminology used in IFRS.</p> <p>For clause (d), in our view, this refers to revaluation which are sporadic in nature and should not include fair valuation or changes due to impairment</p>

⁴ Except leasehold properties

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		<p>in favour of the lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof in the prescribed format which includes:</p> <ul style="list-style-type: none"> • Description of property • Gross carrying value • Held in name of • Whether promoter, director or their relative or employee • Period held – indicate range, where appropriate • Reason for not being held in name of company (also indicate if in dispute) <p>(d) 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>		<p>(c) declaration regarding revaluation of Property, Plant, Equipment⁵ and intangible assets including right to use;</p> <p>(d)</p> <p>(e) specifying the amount of change, where change is 10% or more in the net carrying value of each class of asset;</p> <p>(f) Disclosure in the financial statement of proceedings initiated or pending against the company for holding benami properties and</p>	

⁵ Including right to use

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		(e) 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;		declaration thereof	
(ii)	Physical Verification of Inventories	<p>(a) 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;</p> <p>(b) 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</p>	whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account.	<p>The term ‘material discrepancy’ in the inventory is quantified to mean 10% or more discrepancy in aggregate for each class of inventory. Auditor’s role has been enhanced to include:</p> <ul style="list-style-type: none"> • providing its opinion on appropriateness of coverage and procedure of physical verification of the inventory the by management. 	<p>For (a) the auditor, is required to give qualitative comment on the methodology of physical verification of inventory.</p> <p>Also, considering that “class of inventory” will differ from company to company, this itself may be a matter of discussion.</p> <p>Clause (b) is one of the important inclusions. The auditor is required to certify if there is</p>

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		agreement with the books of account of the company, if not, give details;		<ul style="list-style-type: none"> Checking of quarterly statements filed by the company with banks/ FIs w.r.t. working capital loans are in agreement with the books of accounts of the company 	<p>sanction of working capital limits in excess of 5 cr, on any point of time, on the basis of security of current assets is to be reported.</p> <p>The auditor needs to certify that the quarterly returns and statements filed by the company is in consonance with the financial statements. Considering that this is applicable on retrospective basis, accordingly, while the auditors may check the reports / statements to be submitted on prospective basis, however, companies will be at a tough task explaining any departure in the reports / statements which have already</p>

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					been filed with the banks / FIs.
(iii)	Repayment of investments, guarantee, security and loans granted by the Company	<p>whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so,-</p> <p>(a) 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 <i>[not applicable to companies whose principal business is to give loans]</i>, if so, indicate-</p> <p>(A) 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;</p> <p>(B) the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances</p>	<p>whether the company has granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013. If so,</p> <p>(a) whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;</p> <p>(b) whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;</p> <p>(c) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the</p>	<p>The scope of financial transactions in Auditor's report has become wide so as to include any transaction u/s 186 to any party vis-à-vis only loans granted to parties covered u/s 189 of Companies Act, 2013 (as was required in CARO, 2016)</p> <ul style="list-style-type: none"> • investments, guarantee and security along with loans or advances granted by the Company. • renewal or extension or 	<p>There is a significant widening of the scope of this clause where it is now required to report all financial transaction with any other entities besides related parties and promoters.</p> <p>Regarding (a) and (e), it should be noted that it is exempted only to an NFBCs primarily engaged in in lending activities and therefore not all NBFCs.</p> <p>Regarding clause (b) – it inter alia requires the auditor to certify/</p>

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		<p>and guarantees or security to parties other than subsidiaries, joint ventures and associates;</p> <p>(b) 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;</p> <p>(c) in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;</p> <p>(d) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;</p>	<p>company for recovery of the principal and interest;</p>	<p>granting of fresh loans to settle the overdues of existing loans</p> <ul style="list-style-type: none"> loans or advances in the nature of loans (either repayable on demand or without specified terms or period of repayment) granted to Related Parties. 	<p>comment on “whether the investment made by the company is not prejudicial to the company's interest” – Practically speaking, any company has its own portfolio of investments, out of which certain investments, at times, may be redundant and may have lost its value. To comment on investment of any company, whether it is prejudicial to company's interest, seems to be a very subjective matter.</p> <p>Regarding clause (d) – it requires details of amount overdue for more than 90 days, here, it may be noted that for an NBFC,</p>

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		<p>(e) whether any loan or advance in the nature of loan granted which has fallen due during the year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans];</p> <p>(f) 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;</p>			<p>considering the current NPA levels, this might be a heap of details. Here once again, one is left to wonder whether such details is at all required in the auditor's report. Also, it is to be understood that there is a difference between management report and an auditor's report. The auditor's report is expected to be a concrete, yet concise report where the findings of the auditor is not lost in too many details.</p> <p>It is to be noted that clause (e) refers to ever-greening of loans, which practically is a practice amongst</p>

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					<p>NBFCs and accordingly, from regulatory view, should have been made applicable to NBFCs.</p> <p>Clause (f) talks about certain details of loans granted to promoters and related parties.</p>
(iv)	Compliance of Section 185 & 186	in respect of loans, investments, guarantees, and security, whether provisions of sections 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof;		<i>Same Provision</i>	
(v)	Acceptance of deposits	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	in case, the company has accepted 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, 2013 and the rules framed thereunder, where applicable, have been complied with? If not, the nature of such contraventions be stated; If an order	Deemed Deposits shall also fall under the ambit of Auditor's report.	<p>This is again a very important insertion.</p> <p>Deposits which are not such by virtue of definition but substantively having the character of deposits are also now required to be</p>

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		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;	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?		reported by the auditors for eg certain financial accommodations made by the company which otherwise does not fall within the technical definition of deposit, but are <i>de facto</i> deposit.
(vi)	Cost Records	Where maintenance of cost records has been specified by central Government under sub-section (1) of section 148 of the Companies Act, whether such accounts and records have been made and maintained.		<i>Same Provision</i>	
(vii)	Statutory dues	(a) whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax , provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;	(a) whether the company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;	Auditor shall check regular deposit of Goods and Services Tax also. Non-deposit of all the statutory dues referred in CARO, 2020 shall be mentioned alongwith amounts involved and the forum where dispute is pending.	

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		(b) where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute);	(b) where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not be treated as a dispute).		
(viii)	Disclosure of transactions not recorded in the books	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 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year;	<i>No such provision</i>	<i>New Provision</i>	
(ix)	Default in repayment of loans or other borrowings	(a) 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 as per the prescribed format which includes: <ul style="list-style-type: none"> • Nature of borrowing, including debt securities • Name of lender (lender wise details to be provided in case of defaults to) 	whether the company has defaulted in repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders? If yes, the period and the amount of default to be reported (in case of defaults to banks, financial institutions, and Government, lender wise details to be provided).	Reporting of default in repayment of loans or other borrowings to any lender instead of the ones specified in CARO, 2016 shall be made in the format prescribed in CARO, 2020.	Regarding clause (e) and (f), it is to be noted that it is very natural and organic for the holding company to assist its subsidiaries in meeting its financial obligations. Accordingly, there

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		<ul style="list-style-type: none"> • Amount not paid on due date • Whether principal or interest • No. of days delay or unpaid • Remarks, if any <p>(b) whether the company is a declared wilful defaulter by any bank or financial institution or other lender;</p> <p>(c) 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> <p>(d) whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;</p> <p>(e) 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;</p> <p>(f) whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or</p>		<p>Following additional check points have been included:</p> <ul style="list-style-type: none"> • company declared as wilful defaulter • diversion of loans • utilization of short-term funds for long-term purposes • funds obtained to meet obligations of its subsidiaries, associates or joint ventures • funds obtained on the pledge of securities held in its subsidiaries, joint ventures or associate companies 	<p>does not seem much justification as to why the auditor also required to include details of funds raised for subsidiary and related acts.</p>

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		associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised;			
(x)	Moneys raised by IPO, FPO & preferential allotment/ private placement of shares or convertible debentures	<p>(a) 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;</p> <p>(b) 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;</p>	<p>(a) whether moneys raised by way of initial public offer or further public offer (including debt instruments) and term loans 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;</p> <p>(b) whether the company has made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and if so, as to whether the requirement of section 42 of the Companies Act, 2013 have been complied with and the amount raised have been used for the purposes for which the funds were raised. If not, provide the details in respect of the amount involved and nature of non-compliance;</p>	Checking application of term loans for the purposes for which they are raised has been included in point (ix) (c) of CARO, 2020.	In clause (b), though the section 62 has been refereed, but looking at the heading and the context for which it is used, it is amply clear that the reference is made to section 62(1)(c) of Companies Act, 2013.
(xi)	Fraud reporting	(a) whether any fraud by the company or any fraud on the company has been noticed or	whether any fraud by the company or any fraud on the Company by its officers or employees has been	Consideration of filing of report under section 143(12) and	Regarding clause (c), it is to be noted that whistle blower (WB)

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		<p>reported during the year, if yes, the nature and the amount involved is to be indicated;</p> <p>(b) 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;</p> <p>(c) whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;</p>	<p>noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;</p>	<p>whistle-blower complaints is inserted</p>	<p>is a confidential procedure headed by the chairman of the audit committee. There is no role of auditors in the entire process. Also, the same is not only for fraud reporting, but also for reporting unethical behavior or other wrong doings in the company. There may also be frivolous complaint reported via WB mechanism. Does this mean that the auditor will now be looking into all such WB complaints received by the company?</p>
(xii)	Compliances by Nidhi Company	(a) whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability;	whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability and whether the Nidhi Company is maintaining	Addition of 2 new parameters is made to check compliance of Companies (Nidhis) Rules, 2014	

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		<p>(b) whether the Nidhi Company is maintaining 10 % unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;</p> <p>(c) whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;</p>	ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;		
(xiii)	Compliance with section 177 and 188	whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards;		<i>Same Provision</i>	
(xiv)	Internal Audit System	(a) whether the company has an internal audit system commensurate with the size and nature of its business;	<i>No such provision</i>	<i>New Provision</i>	As per section 138 of the Companies Act, 2013, internal audit is applicable on listed companies, unlisted public companies (with PUSC of INR 50 cr or turnover of INR 200 cr or outstanding borrowings exceeding INR 100 cr), or private companies (with turnover of INR 200 cr or outstanding borrowings

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		<p>(b) whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;</p>			<p>exceeding INR 100 cr). While, this point has been rightly included, however, it should also be noted that the limits for internal audit are far higher compared to companies covered under the CARO provisions. Accordingly, there can be many private companies on which this particular point of disclosure may not be applicable.</p> <p>While this is again an important cross referencing of the report of another auditor in CARO, however, in cases where the statutory and the internal auditors form part of the same network/group, then the</p>

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					significance / benefit of this clause will not be available.
(xv)	Non-cash transactions with directors	whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with;		<i>Same Provision</i>	
(xvi)	Registration with Reserve Bank of India	(a) whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained; (b) 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;	whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained;	New insertions have been made	Effectively, the points under clause (a) and (b) are the same since any company which is supposed to obtain the CoR under section 45-IA of the RBI Act is the one who carries on the non-banking financial or housing finance activities.

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		<p>(c) 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;</p> <p>(d) 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;</p>			<p>The definition of companies in the 'Group' would draw its meaning from the Master Directions issued by RBI on Core Investment Companies.</p>
(xvii)	Cash losses	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;	<i>No such provision</i>	<i>New Provision</i>	This would mean reporting of a negative PBT wherein depreciation and amortization are added back.
(xviii)	Resignation of the statutory auditors	whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into	<i>No such provision</i>	<i>New Provision</i> Earlier, SEBI has also issued Circular	Though this point has been brought in to reflect the resignation cases, if

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	during the year	consideration the issues, objections or concerns raised by the outgoing auditors;		on Resignation of statutory auditors from listed entities and their material subsidiaries on October 18, 2019 to regulate resignation of the auditors	any, of the auditors, however, the requirement of considering the issues, objections, or concerns of the outgoing auditor is not something new. The same is a normal practice considering the provisions of SA 210 issued by ICAI.
(xix)	Capability of company of meeting its liabilities existing at the date of balance sheet	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;	<i>No such provision</i>	<i>New Provision</i>	The insertion emphasizes on qualitative remarks, writing on sustenance, stability on the basis of financial ratios and probability on default on year by year basis is similar to "crystal ball gazing" by the auditor. While some of the criteria listed in this item matches with those under the

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					revised SA 570, issued by ICAI, it is to be noted that SA 570 relies on management assertion. The responsibility of the auditor is restricted to obtaining sufficient appropriate audit evidence as to the management's going concern assumption. However, CARO is an expression of the auditors' opinion which makes it all the more serious.
(xx)	Transfer of amount unspent under sub-section (5) of section 135 to Fund specified in Schedule VII	(a) 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;	<i>No such provision</i>	New Provision has been inserted to check compliance of the provisions of section 135(6) inserted by way of amendment through Companies (Amendment) Act,	In case the provisions are not enforced prior to 31 st March, 2020, the auditors may accordingly mention the same in their report.

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		(b) 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 subsection (6) of section 135 of the said Act;		2019 which is yet to be notified.	<p>However, if the provisions are notified before the end of the FY 2019-2020, the compliance w.r.t. the amended CSR provisions will be checked and reported both by the statutory as well as the secretarial auditors.</p> <p>There is a strange reference to compliance with sec. 135 (5) and 135 (6) of the Act. These two sections pertain to transferring of unspent CSR money to PM National Relief Fund. This both surprising and alarming. Surprising part is that the provisions are not yet effective. However, alarming part is that</p>

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					who knows, the plans may be to implement these provisions, and with effect from the running financial year only. Therefore, all companies covered by CSR – do no wait to complete your spending budgets, unless you want the money to flow for PM National Relief Fund
(xxi)	Managerial remuneration	<i>No such provision</i>	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, state the amount involved and steps taken by the company for securing refund of the same;	Provision related to managerial remuneration has been removed considering the same falls under the purview of Secretarial Auditor.	The compliances w.r.t. the payment of managerial remuneration within the limits need not be checked by the statutory auditor. In any event the said point is checked by the secretarial auditors of the company.
6.	Reasons to be stated for unfavourable	Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavorable or qualified, the auditor's report shall also state the reasons for such unfavorable or qualified answer, as the case may be.		<i>Same Provision</i>	

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	or qualified answers	Where the auditor is unable to express any opinion in answer to a particular question, his report shall indicate such fact together with the reasons why it is not possible for him to give his opinion on the same.			

Concluding remarks

While the intent of the government seems to put a strict check on several crucial transactions entered into by the company which has a close nexus with the solvency/ financial risks existing in the company, however, this will end up in the auditor presenting a report running into several pages. Such unusually lengthy report will have high probability to dilute the significance of the relevant contents of the said report.

Further, considering the same has been introduced only weeks before the end of the current FY, the companies and the auditors will be in a situation of tough tug-of-war of seeking information and giving explanations.

Our videos on CARO, 2020 can be accessed through the following link:

Part 1: <https://youtu.be/Jz6EGCnhwAM>

Part 2: <https://www.youtube.com/watch?v=4znFxRpXwTw&feature=youtu.be>