



Announcement

**Auditing and Assurance Standards Board
The Institute of Chartered Accountants of India**

April 2, 2022

Guidance Note on the Companies (Auditor's Report) Order, 2020

The Ministry of Corporate Affairs (MCA) issued the Companies (Auditor's Report) Order, 2020 (CARO 2020) in February 2020. CARO 2020 contains many new reporting requirements for auditors such as revaluation of property, plant and equipment (including right of use assets) or intangible assets, benami property, working capital limits on basis of security of current assets, granting loans or advances in the nature of loans which are either repayable on demand or without specifying any terms or period of repayment, undisclosed income, company declared as wilful defaulter, material uncertainty in meeting liabilities, CSR activities. The Auditing and Assurance Standards Board (AASB) of the ICAI has issued the "Guidance Note on the Companies (Auditor's Report) Order, 2020" (Guidance Note on CARO 2020) in July 2020 to provide detailed guidance on various clauses of CARO 2020 and reporting requirements for auditors.

To ensure that the management of companies provide various disclosures which pertain to clauses of CARO 2020 especially the aforesaid new reporting requirements, the MCA has brought out corresponding amendments in Schedule III (Division I, Division II and Division III) to the Companies Act, 2013 vide its notification dated 24th March 2021 for preparation of the financial statements. In addition to the said amendments, various other disclosure requirements have also been added in Schedule III to the Companies Act, 2013.

The members may note that in light of the said amendments, a comprehensive revision of the Guidance Note on CARO 2020 is being initiated by AASB. In the interregnum, the members should read CARO 2020 in conjunction with the corresponding amendments made in Schedule III to the Companies Act, 2013 for presentation and disclosure requirements stated therein and perform the audit procedures accordingly.

Annexure to this Announcement summarises interplay of some of the clauses in CARO 2020 and consequential amendments to Schedule III to the Companies Act, 2013.



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Sr. No	Summary of reporting requirements under CARO 2020	Summary of disclosures requirements under Schedule III to the Companies Act, 2013	Remarks
1	<p>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 prescribed details [Clause 3(i)(c)]</p>	<ul style="list-style-type: none"> ▶ Disclosure of details of title deeds of immovable properties (excluding leased properties) not held in the name of the company in the prescribed format. ▶ Disclose company's share - if jointly held 	
2	<ul style="list-style-type: none"> ▶ Whether the company has revalued its property, plant and equipment (PPE) (including right of use assets) or intangible assets or both during the year, ▶ 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 PPE or intangible assets [Clause 3(i)(d)] 	<p>Disclosure regarding revaluation of PPE/ intangible assets:</p> <ul style="list-style-type: none"> ▶ Amount of change due to revaluation (if change is 10% or more in the aggregate of the net carrying value of each class of PPE/ intangible assets) ▶ Whether revaluation is based on valuation by a registered valuer defined under the Companies Act, 2013 	



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3	<ul style="list-style-type: none"> ▶ Whether any proceedings have been initiated/ pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 and rules made thereunder, ▶ If so, whether the company has appropriately disclosed the details in its financial statements. [Clause 3(i)(e)] 	<p>Disclosure prescribed for proceeding initiated/ pending for holding any benami property e.g.:</p> <ul style="list-style-type: none"> ▶ Details of such property and amount thereof ▶ Details of beneficiaries ▶ If property is in the books, then reference to item in balance sheet ▶ If property is not in the books, then the fact with reasons ▶ Details of proceedings ▶ Nature of proceedings, status of same and Company's view 	
4	<p>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>	<p>In case of borrowings from banks or financial institutions on the basis of security of current assets, disclose whether quarterly returns/ statements of current assets filed with banks or financial institutions agree with books of accounts, If not, adequately disclose</p>	<p>CARO 2020 prescribes reporting relating to sanctioned working capital limits in excess of five crore rupees, in aggregate. However, disclosure requirements</p>



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	agreement with the books of account of the Company, if not, give details; [Clause 3(ii)(b)]	summary of reconciliation and reasons of material discrepancies	under Schedule III to the Companies Act, 2013 are not limited to working capital but cover all borrowings. Further, no monetary threshold has been prescribed under Schedule III to the Companies Act, 2013 while making this disclosure.
5	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 section 2(76) of the Companies Act, 2013 [Clause 3(iii)(f)]	Disclosure to be provided in prescribed format where loans/ advances in the nature of loans are granted to promoters, directors, key managerial personnel and related parties, either severally or jointly with any other person, that are: <ul style="list-style-type: none"> ▶ Repayable on demand or ▶ Without specifying any terms or repayment period 	CARO 2020 additionally requires percentage of loan granted. Further, in Schedule III to the Companies Act, 2013, loans and advances given to promoters, directors, KMP and other related parties are considered, whereas in CARO 2020, if loans and advances are given to other than related parties,



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			these are also to be included. So, reporting requirements in CARO 2020 are wider as compared to Schedule III to the Companies Act, 2013.
6	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 [Clause 3(viii)]	<ul style="list-style-type: none"> ▶ Details of transaction not recorded in the books of accounts that has been surrendered/ disclosed as income during the year in the tax assessments (e.g. search), unless there is immunity for disclosure under the scheme ▶ Disclose whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year 	
7	Whether the company is a declared wilful defaulter by any	Disclose following if the company is a declared	



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	bank or financial institution or other lender [Clause 3(ix)(b)]	wilful defaulter by any bank/ financial institution / other lender: <ul style="list-style-type: none"> ▶ Date of declaration as wilful defaulter ▶ Details of defaults (amount and nature of defaults) 	
8	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 [Clause 3(ix)(c)]	Where borrowings from banks and financial institutions not used for the specific purpose for which it was taken at the balance sheet date – company to disclose details of where they have been used	CARO 2020 prescribes reporting on term loans from any party. However, disclosures under Schedule III to the Companies Act, 2013 are not limited to term loans but cover all borrowings. Further, disclosures under Schedule III to the Companies Act, 2013 have been prescribed only for borrowings from banks and financial institutions.



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9	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 [Clause 3(xix)]	Disclosure of certain ratios including current ratio, debt-equity ratio, debt service coverage ratio, ¹ capital to risk-weighted assets ratio ▶ ² Explain items included in numerator and denominator ▶ ³ Explain any change in the ratio by more than 25% as compared to previous year	CARO 2020 requires the auditor to comment on material uncertainty in payment of liabilities on basis of the financial ratios and other prescribed matters. However, Schedule III to the Companies Act, 2013 requires disclosure of certain ratios.
10	▶ 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, 2013 within a period of six months	Details of CSR activities including amount required to be spent, amount of expenditure incurred, shortfall, total of previous years shortfall, reason for shortfall, nature of CSR	CARO 2020 requires reporting of unspent CSR amount. However, disclosures prescribed under Schedule III to the

¹ As prescribed under Division III to Schedule III to the Companies Act, 2013.

² Not prescribed under Division III to Schedule III to the Companies Act, 2013.

³ Not prescribed under Division III to Schedule III to the Companies Act, 2013.



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	<p>of the expiry of the financial year in compliance with second proviso to section 135(5) of the Companies Act, 2013 [Clause 3(xx)(a)]</p> <p>► Whether any amount remaining unspent under section 135(5) of the Companies Act, 2013, pursuant to any ongoing project, has been transferred to special account in compliance with the provision of section 135(6) of the Companies Act, 2013 [Clause 3(xx)(b)]</p>	<p>activities, details of related party transactions, movements in provision made with respect to liability incurred by entering into a contractual obligation</p>	<p>Companies Act, 2013 are wider as compared to reporting requirements under CARO 2020.</p>

Vice Chairman
Auditing and Assurance Standards Board

Chairman
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