

Major exemptions and CARO 2020 for small company:

1. As per the new definition and threshold limits, companies with a paid-up capital of INR 2 crore or less, and turnover of INR 20 crore or less come are defined as small companies. The earlier threshold was INR 50 lacs or less in paid-up capital and INR 2 crore or less in turnover.

2. In pursuant to amended Sec 2(85) of the Companies Act, 2013 ('Act') read with Rule 2 of Companies (Specification of Definitions Details) Rules, 2014, a small company means a company, other than a public company,

(a) The paid-up share capital of which does not exceed two crore rupees, or such higher amount as may be prescribed which shall not be more than ten crore rupees: and

(b) The turnover of which as per profit and loss account for the immediately preceding financial year does not exceed twenty crore rupees or such higher amount as may be prescribed which shall not be more than one hundred crore rupees.

Provided that nothing in this clause shall apply to—

(A) a holding company or a subsidiary company;

(B) a company registered under section 8; or

(C) a company or body corporate governed by any special Act;

3. In case a company is covered under the definition of small company, it will remain exempted from the applicability of the CARO 2020 even if it falls under any of the criteria specified for private company.

4. Major exemptions available to Small Company under Companies Act 2013

(a) Board meeting (Section 173) - Small company shall be deemed to have complied with the provisions of section 173, if at least one meeting of the Board of Directors has been conducted in each half of a calendar year and the gap between the two meetings is not less than ninety days.

(b) Cash flow statement (Section 92. As per section 2(40), the Financial Statements include cash flow statement but for Small Company, it has been specifically excluded

(c) Signing of Financial Statements - The signing of Annual Return can be done by a single director, in case if there is no Company Secretary.

(d) Disclosures in Annual Report - Provisions regarding disclosures of details of remuneration drawn by Directors are not required for Small Company. Only aggregate amount of remuneration drawn by Directors can be mentioned instead of providing all the details.

(e) Rotation of Auditors - It is not necessary for small companies to follow the condition laid in Section 139(2) of the Companies Act, 2013, which mandates the rotation of auditors every five years (individual auditors) and every 10 years (firm of auditors).

(f) Exemptions in Auditors Report - Auditors do not have to report on adequacy of Internal Controls and their operational effectiveness in the Auditor's Report.