Companies (Auditor's Report) Order, 2020

March 10, 2020
Source: *PIB*

In pursuance of its objective of strengthening the corporate governance framework under the Companies Act, 2013 **to attain the national objective of becoming a $ 5 Trillion economy,** powers conferred section 143 of the Companies Act, 2013 and in supersession of the Companies (Auditor's Report) Order, 2016, **Central Government has notified the Companies (Auditor's Report) Order, 2020 (CARO, 2020)**

Key highlights

Applicability: The CARO, 2020 is applicable for the audit of financial statements of eligible companies for the financial years commencing on or after the 1st April 2019.

Criteria of eligibility: The criteria of eligibility of companies on which the CARO, 2020 shall be applicable has not been changed and hence it shall be applicable to all those companies on which CARO, 2016 was applicable.

Why the audit?

CARO 2020 **would necessitate enhanced due diligence and disclosures on the part of auditors** of eligible companies and has been designed to **bring in greater transparency in the financial state of affairs of such companies.**

The salient features of the CARO, 2020:

- The CARO, 2020 includes certain additional clauses, as compared to CARO, 2016, and the existing clauses of CARO, 2016 have been re-drafted to elicit detailed comments from the auditors.

- Under this, a specific format has been provided for reporting the details of such immovable properties whose title deeds are not held in the name of the company but are disclosed in the financial statements.
- **Disclosure of details of proceedings against the company for holding Benami Property** and whether the company has disclosed the details in its financial statements.
- **Reporting the discrepancies: Discrepancies of 10% or more** in the aggregate of each class of inventory noticed during physical verification of inventory would **have to be reported**.
- **Special details:** The auditor is to provide specific details as to whether during any point of time of the year, the Company has been sanctioned working capital limits i**n excess of Rs. 5 crores,** in aggregate, from banks or financial institutions on the basis of security of current assets and whether the quarterly returns/statements filed by the Company with such banks or financial institutions are in agreement with the books of account of the Company.
- **Reporting detail of investment:** Under the CARO, 2020, the auditor is to report in detail on the investments made by the company in, any guarantee or security provided or any loans or advances in the nature of loans granted, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties during the year, that they are not prejudicial to the interests of the company.
- Under CARO 20200 **the auditor is required to report about the company if it is a declared wilful defaulter by any bank**/ financial institution/other lenders.
- The auditor would have to report as to 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 would have to be reported.
- The auditor is required to report as to whether **any**

fraud by the company or any fraud on the Company has been noticed or reported during the year; If yes, nature and the amount involved is to be indicated.

- **The auditor is to consider whistle-blower complaints** received during the year by the Company in his audit.
- **The auditor is to report if 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 RBI Act.
- The auditor is now required to **indicate the details of the subsidiary companies** and the sub-clauses' number containing qualifications/adverse remarks by the respective auditors in the CARO reports of the companies included in the consolidated financial statements.

Significance

The CARO, 2020 is **expected to significantly improve the overall quality of reporting by the Auditors on the financial statements of the Companies and thereby lead to greater transparency and faith in the financial affairs of the companies.** This is automatically expected to greater inflow of investment by and in Indian companies.