



### **With the Companies (Auditor's Report) Order 2020, Ministry of Corporate Affairs revises framework for enhancing disclosures in Auditor Report of the companies.**

The Ministry of Corporate Affairs in place of existing Companies (Auditor's Report) Order, 2016, has notified **Companies (Auditor's Report) Order, 2020** after consultation with the National Financial Reporting Authority constituted under section 132 of the Companies Act, 2013.

Every report made by the auditor under section 143 of the Companies Act on the accounts of every company audited by him, to which this Order applies, for the **financial years commencing on or after the 1st April, 2019**, shall contain report on matters specified in paragraphs 3 and 4 of the CARO 2020.

Provided this Order shall not apply to the auditor's report on consolidated financial statements except clause (xxi) of paragraph 3.

### **Applicability:**

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.

### **CARO 2020 – Key changes/highlights:**

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 are as under:

- CARO 2020 has replaced the terminology of fixed assets with **Property, Plant, Equipment**. It has also brought additional reporting responsibility for Intangible assets.
- Reporting on **revaluation of Property, Plant and Equipment's** by company with specification of changes in revaluation if

more than 10% OR more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets.

- 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.
- Discrepancies of 10% or more in the aggregate of each class of inventory noticed during physical verification of inventory would have to be reported.
- 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 in 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.
- In clause 3(iii) of 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.

- A specific format has been prescribed to report the period and the amount of default by the company in repayment of loans or other borrowings or in the payment of interest thereon to any lender.
- The auditor is required to render his opinion on the basis of the financial ratios, ageing and expected dates of realization 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, 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.
- The amount of cash losses incurred in the financial year and in the immediately preceding financial year has to be reported.
- The auditor has to take into consideration the issues, **objections or concerns raised by the outgoing auditors** before forming his opinion.

- The auditor is required to report about the company if it is a **declared willful defaulter** by any bank/ financial institution/ other lender
- 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 whether any **fraud by the company or any fraud on the Company** has been noticed or reported during the year; if yes, the 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.
- The Auditor have to ensure that 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 sub-section (6) of section 135 of the said Act.

- Auditor have to indicate the **nature of fund** was raised for short term basis have been utilized in long term purposes.
- Reporting of amount which are deemed to be deposit as per companies act, 2013.

#### **Reasons to be stated for unfavorable or qualified answers:**

The auditor shall also state the basis where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavorable or qualified, as the case may be.

Further, Where the Auditor is unable to express any opinion on any specific matter, his report shall also indicate such fact together with the as to why it is not possible for him to give the opinion on the same.

[Detailed notification of MCA can be found at the following link.](#)

*Sources: MCA notification dated 25.02.2020*

CONTACT DETAILS:

Head Office

75/7 Rajpur Road, Dehradun

T +91.135.2743283, 2747084, 2742026

F +91.135.2740186

E [info@vkalra.com](mailto:info@vkalra.com)

W [www.vkalra.com](http://www.vkalra.com)

Branch **Office**

80/28 Malviya Nagar, New Delhi

E [info@vkalra.com](mailto:info@vkalra.com)

W [www.vkalra.com](http://www.vkalra.com)

For any further assistance contact our team at

[kmt@vkalra.com](mailto:kmt@vkalra.com)

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