

MCA notifies revamped Companies (Auditor's Report) Order, 2020

In pursuance of its objective of strengthening the corporate governance framework under the Companies Act, 2013 to attain the national objective of becoming a US\$ 5 trillion economy, powers conferred under sub-section (11) of section 143 of the Companies Act, 2013 and in supersession of the Companies (Auditor's Report) Order, 2016, the Central Government (Ministry of Corporate Affairs- MCA) has notified the Companies (Auditor's Report) Order, 2020 (CARO, 2020).

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

- i. 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.
- ii. 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.
- iii. Disclosure of details of proceedings against the company for holding Benami Property and whether the company has disclosed the details in its financial statements.
- iv. Discrepancies of 10% or more in the aggregate of each class of inventory noticed during physical verification of inventory would have to be reported.
- v. 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..
- vi. 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.
- vii. 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; among others.

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.

The detailed Notification of Ministry of Corporate Ministry (MCA) on Companies (Auditor's Report) Order, 2020 has been enclosed for your kind reference.

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