

CHAPTER - 18

COMPANIES (AUDITOR'S REPORT) ORDER, 2020

Applicability:

It shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013 except-

- a. a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
- b. an insurance company as defined under the Insurance Act, 1938 (4 of 1938);
- c. a company licensed to operate under section 8 of the Companies Act;
- d. a One Person Company as defined under clause (62) of section 2 of the Companies Act and a small company as defined under clause (85) of section 2 of the Companies Act; and
- e. a private limited company, not being a subsidiary or holding company of a public company, having a paid up capital and reserves and surplus not more than Rs. 1 crore as on the balance sheet date and which does not have total borrowings exceeding Rs. 1 crore from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Scheduled III to the Companies Act, 2013 (including revenue from discontinuing operations) exceeding Rs. 10 crore during the financial year as per the financial statements.

Clarifications while computing limits w.r.t. private limited company:

- 1) Loans from banks or financial institutions are normally in the form of term loans, demand loans, working capital limits, cash credits, over draft facilities, bills purchased or discounted.
- 2) Outstanding balances of such loans should be considered as loan outstanding for the purpose of computing the limit of rupees one crore.
- 3) It is clarified that since the words used by the order are 'any bank or financial institution', the limit of exceeding one crore rupees applies in aggregate to all loans:
- 4) As per schedule III of Companies Act 2013 "Reserves & Surplus" consists of:-
 - Capital Reserves;
 - Capital Redemption Reserve;
 - Securities Premium Reserve;
 - Debenture Redemption Reserve;
 - Revaluation Reserve;
 - Share Options Outstanding Account;
 - Other Reserves-(specify the nature and purpose of each reserve and the amount in respect thereof);

	<ul style="list-style-type: none"> • Surplus i.e., balance in Statement of Profit and Loss (Debit balance of Statement of Profit and Loss shall be shown as a negative figure under the head “Surplus”.) <p>5) For determining the applicability of the Order to a private limited company, both capital as well as revenue reserves should be taken into consideration while computing the limit of Rs. 1 crore; prescribed for paid-up capital and reserves & surplus.</p> <p>Revaluation reserve, if any, should, also be taken into consideration while determining the figure of reserves for the limited purpose of determining the applicability of the Order. In case of debit balance of profit and loss, the same shall be netted for computing reserves & surplus. To summarise, total of reserves and surplus as disclosed in the financial statements should be considered in evaluating the threshold.</p> <p>6) Revenue</p> <p>The term, “revenue”, has been defined by the Order as total revenue disclosed in Schedule III of the Act.</p> <p>Accordingly, the total revenue would include other income as per Schedule III. Here revenue will also include revenue from discontinuing operations as specified in the Order.</p> <p>[Note: than public company) whose paid up capital does not Rs. exceed 50 lakhs & turnover as per last P&L A/c does not exceed 2 crores. But following shall not be termed as small companies: (a) Holding or subsidiary co. (b) U/s 8 company (c) Company/Body corporate under any special Act</p>
<p>Auditor's report to contain matters specified in paragraphs 3 and 4</p>	<p>Every report made by the auditor under section 143 of the Companies Act, 2013 on the accounts of every company audited by him, to which this Order applies, for the financial years commencing on or after 1st April, 2015. shall in addition, contain the matters specified in paragraphs 3 and 4, as may be applicable.</p>

Clause No.	CARO 2020	CARO 2016
(i) (a)	<p>(A) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of Property, Plant and Equipment;</p> <p>(B) whether the company is maintaining proper records showing full particulars of intangible assets;</p>	<p>whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;</p>
(i) (b)	<p>whether these Property, Plant and Equipment have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;</p>	<p>whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account;</p>
(i) (c)	<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</p>	<p>whether the title deeds of immovable properties are held in the name of the company. If not, provide the details</p>

	lessee) disclosed in the financial statements are held in the name of the company, if not, provide the details thereof as follows:- 1. Description of property 2. Gross Carrying Value 3. Held in the name of 4. Whether promoter, director or their relative or employee 5. Period held—indicate range, where appropriate 6. Reason for not being held in name of company	thereof;
(i) (d)	whether the company has revalued its Property, Plant and Equipment (including Right of Use assets) or intangible assets or both during the year and, 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 Property, Plant and Equipment or intangible assets;	N.A.
(i) (e)	whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made thereunder, if so, whether the company has appropriately disclosed the details in its financial statements;	N.A.

Key Changes

- 1) Separate Reporting for PPE and Intangible Assets instead of Fixed Assets
- 2) No Reporting on title deeds, where Company is lessee and lease agreement is executed in favour of the Company
- 3) Specific details are required to be given in case title deeds are not in name of the Company
- 4) New sub-clause (d) has been inserted which requires specific reporting on revaluation of PPE
- 5) New sub-clause (e) has been inserted which requires specific reporting on any proceedings initiated or pending against the Company under Benami Transactions (Prohibition) Act, 1988 for holding Benami Property.

(ii) (a) / (ii)	whether physical verification of inventory has been conducted at reasonable intervals by the management and whether, in the opinion of the auditor, the coverage and procedure of such verification by the management is appropriate; whether any discrepancies of 10% or more in the aggregate for each class of inventory were noticed and if so, whether they have been properly dealt with in the books of account;	whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account;
(ii) (b)	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	N.A.

	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 agreement with the books of account of the Company, if not, give details;	
Key Changes		
1) Auditor to report whether the coverage and procedure of physical verification by the management is appropriate or not		
2) Discrepancies to report for each class of inventory only if it is 10% or more		
3) New sub-clause (b) has been inserted which requires auditors to report whether the quarterly returns or statements filed by the company with banks or financial institutions are in agreement with the books of account		
(iii)	whether during the year the company has made investments in, provided any guarantee or security or granted any loans or advances in the nature of loans, secured or unsecured, to companies, firms, Limited Liability Partnerships or any other parties, if so ,-	whether the company has granted any loans, secured or unsecured to companies, firms , Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013. If so,
(iii) (a)	whether during the year the company has provided loans or provided advances in the nature of loans, or stood guarantee, or provided security to any other entity [not applicable to companies whose principal business is to give loans], if so, indicate- (A) the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to subsidiaries, joint ventures and associates; (B) the aggregate amount during the year, and balance outstanding at the balance sheet date with respect to such loans or advances and guarantees or security to parties other than subsidiaries, joint ventures and associates;	whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;
(iii) (b)	whether the investments made, guarantees provided, security given and the terms and conditions of the grant of all loans and advances in the nature of loans and guarantees provided are not prejudicial to the company's interest;	whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;
(iii) (c)	in respect of loans and advances in the nature of loans, whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;	if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;
(iii) (d)	if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and interest;	N.A.
(iii) (e)	whether any loan or advance in the nature of loan granted which has fallen due during the	N.A.

	year, has been renewed or extended or fresh loans granted to settle the overdues of existing loans given to the same parties, if so, specify the aggregate amount of such dues renewed or extended or settled by fresh loans and the percentage of the aggregate to the total loans or advances in the nature of loans granted during the year [not applicable to companies whose principal business is to give loans];	
(iii) (f)	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 clause (76) of section 2 of the Companies Act, 2013;	N.A.

Key Changes

- 1) Coverage of reporting has been extended to reporting of Loans given to any party as against parties covered under section 189
- 2) New sub-clause (b) and (c) inserted which requires reporting on adequacy of terms and conditions regarding Investments made, securities given, guarantees provided and advances given in nature of loan.
- 3) Additional reporting in terms of Amount of loans or advance in nature of loan granted / guarantees and securities provided to group entities and to others and its balance outstanding as at balance sheet date
- 4) Additional reporting for any loan or advance in the nature of loan renewed or extended or fresh loans granted to settle the overdues of existing loans
- 5) Additional reporting for any loan or advance in the nature of loan granted either repayable on demand or without specifying any terms or period of repayment

(iv)	in respect of loans, investments, guarantees, and security, whether provisions of sections 185 and 186 of the Companies Act have been complied with, if not, provide the details thereof;	in respect of loans, investments, guarantees, and security whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide the details thereof.
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Key Changes

No Change

(v)	in respect of deposits accepted by the company or amounts which are deemed to be deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act and the rules made thereunder, where applicable, have been complied with, if not, the nature of such contraventions be stated; if an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not;	in case the company has accepted deposits, whether the directives issued by the Reserve Bank of India and the provisions of sections 73 to 76 or any other relevant provisions of the Companies Act, 2013 and the rules framed there under, where applicable, have been complied with? If not, the nature of such contraventions be stated; If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal, whether the same has been complied with or not?
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Key Changes

No Change

(vi)	whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act and whether such accounts and records have been so made and maintained;	where maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.
Key Changes		
No Change		
(vii) (a)	whether the company is regular in depositing undisputed statutory dues including Goods and Services Tax, provident fund, employees' state insurance, income tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues to the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as on the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;	whether the company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues with the appropriate authorities and if not, the extent of the arrears of outstanding statutory dues as at the last day of the financial year concerned for a period of more than six months from the date they became payable, shall be indicated;
(vii) (b)	where statutory dues referred to in sub-clause (a) have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned (a mere representation to the concerned Department shall not be treated as a dispute);	where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not constitute a dispute).
Key Changes		
No Change		
(viii)	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 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year;	whether the company has defaulted in repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders? If yes, the period and the amount of default to be reported (in case of defaults to banks, financial institutions, and Government, lender wise details to be provided).
Key Changes		
Clause (viii) has been newly inserted in CARO 2020.		
(ix) (a) / (ix)	whether the company has defaulted in repayment of loans or other borrowings or in the payment of interest thereon to any lender, if yes, the period and the amount of default to be reported as follows:- 1. Nature of borrowing 2. Name of Lender 3. Amount not paid on due date 4. Whether Principal or interest 5. No. of days delay or unpaid	whether moneys raised by way of initial public offer or further public offer (including debt instruments) and term loans were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;

(ix) (b)	whether the company is a declared wilful defaulter by any bank or financial institution or other lender;	N.A.
(ix) (c)	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;	N.A.
(ix) (d)	whether funds raised on short term basis have been utilised for long term purposes, if yes, the nature and amount to be indicated;	N.A.
(ix) (e)	whether the company has taken any funds from any entity or person on account of or to meet the obligations of its subsidiaries, associates or joint ventures, if so, details thereof with nature of such transactions and the amount in each case;	N.A.
(ix) (f)	whether the company has raised loans during the year on the pledge of securities held in its subsidiaries, joint ventures or associate companies, if so, give details thereof and also report if the company has defaulted in repayment of such loans raised;	N.A.

Key Changes [Compare with Clause (viii) of CARO 2016]

- 1) Default of Interest payment is also covered
- 2) New sub-clauses (b), (c), (d), (e) and (f) are inserted which requires additional reporting on:
 - Usage of long term and short term funds,
 - Details of Funds borrowed by holding company for the purpose of discharging obligations of group entities (components),
 - Details of Funds borrowed by pledging the securities held in its group entities (components) and defaults in its repayment
 - whether the company is a declared willful defaulter by any lender

(x) (a) / (x)	whether moneys raised by way of initial public offer or further public offer (including debt instruments) during the year were applied for the purposes for which those are raised, if not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;	whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated;
(x) (b)	whether the company has made any preferential allotment or private placement of shares or convertible debentures (fully, partially or optionally convertible) during the year and if so, whether the requirements of section 42 and section 62 of the Companies Act, 2013 have been complied with and the funds raised have been used for the purposes for which the funds were raised, if not, provide details in respect of amount involved and nature of noncompliance;	N.A.

Key Changes [Compare with Clause (ix) and (xiv) of CARO 2016]

- 1) Reporting under two different clauses of CARO 2016 are combined under single clause
- 2) In case of preferential allotment or private placement of shares or convertible debentures, auditor is

also required to verify and report compliance of Section 62.

(xi) (a) / (xi)	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;	whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with Schedule V to the Companies Act, 2013? If not, state the amount involved and steps taken by the company for securing refund of the same;
(xi) (b)	whether any report under sub-section (12) of section 143 of the Companies Act has been filed by the auditors in Form ADT-4 as prescribed under rule 13 of Companies (Audit and Auditors) Rules, 2014 with the Central Government;	N.A.
(xi) (c)	whether the auditor has considered whistle-blower complaints, if any, received during the year by the company;	N.A.

Key Changes [Compare with Clause (x) of CARO 2016]

- 1) Reporting of all the frauds on the company is required (whether or not it is done by its employees or officers)
- 2) New sub-clauses (b) and (c) are inserted which requires reporting on
 - any reporting made by auditor to central government u/s 143(12)
 - consideration of whistle-blower complaints received by the Company

(xii) (a) / (xii)	whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability;	whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1:20 to meet out the liability and whether the Nidhi Company is maintaining ten per cent unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;
(xii) (b)	whether the Nidhi Company is maintaining ten per cent. unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;	N.A.
(xii) (c)	whether there has been any default in payment of interest on deposits or repayment thereof for any period and if so, the details thereof;	N.A.

Key Changes

A New sub-clause (c) has been inserted which requires reporting on default in payment of deposits and interest thereon by Nidhi Company

(xiii)	whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act where applicable and the details have been disclosed in the financial statements, etc., as required by the applicable accounting standards;	whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards;
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Key Changes

No Change

(xiv) (a) / (xiv)	whether the company has an internal audit system commensurate with the size and nature of its business;	whether the company has made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review and if so, as to whether the requirement of section 42 of the Companies Act, 2013 have been complied with and the amount raised have been used for the purposes for which the funds were raised. If not, provide the details in respect of the amount involved and nature of non-compliance;
(xiv) (b)	whether the reports of the Internal Auditors for the period under audit were considered by the statutory auditor;	N.A.

Key Changes

Clause (xiv) has been newly inserted in CARO 2020.

(xv)	whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act have been complied with;	whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether the provisions of section 192 of Companies Act, 2013 have been complied with;
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Key Changes**No Change**

(xvi) (a) / (xvi)	whether the company is required to be registered under section 45-IA of the Reserve Bank of India Act, 1934 (2 of 1934) and if so, whether the registration has been obtained;	whether the company is required to be registered under section 45 -IA of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.
(xvi) (b)	whether 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 Reserve Bank of India Act, 1934;	N.A.
(xvi) (c)	whether the company is a Core Investment Company (CIC) as defined in the regulations made by the Reserve Bank of India, if so, whether it continues to fulfil the criteria of a CIC, and in case the company is an exempted or unregistered CIC, whether it continues to fulfil such criteria;	N.A.
(xvi) (d)	whether the Group has more than one CIC as part of the Group, if yes, indicate the number of CICs which are part of the Group;	N.A.

Key Changes

New sub-clauses (b),(c),(d) and (e) are inserted which requires reporting on

- whether the non-banking finance or housing finance activities are done after taking certificate of registration from RBI
- fulfilment of classification criteria laid down by RBI for Core Investment Company

- Number of CICs in the Group to which company belongs

(xvii)	whether the company has incurred cash losses in the financial year and in the immediately preceding financial year, if so, state the amount of cash losses;	N.A.
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Key Changes

Clause (xvii) has been newly inserted in CARO 2020.

(xviii)	whether there has been any resignation of the statutory auditors during the year, if so, whether the auditor has taken into consideration the issues, objections or concerns raised by the outgoing auditors;	N.A.
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Key Changes

Clause (xviii) has been newly inserted in CARO 2020.

(xix)	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;	N.A.
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Key Changes

Clause (xix) has been newly inserted in CARO 2020.

(xx) (a)	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 within a period of six months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act;	N.A.
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(xx) (b)	whether any amount remaining unspent under subsection (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;	N.A.
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Key Changes

Clause (xx) has been newly inserted in CARO 2020.

(xxi)	whether there have been any qualifications or adverse remarks by the respective auditors in the Companies (Auditor's Report) Order (CARO) reports of the companies included in the consolidated financial statements, if yes, indicate the details of the companies and the paragraph numbers of the CARO report	N.A.
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containing the qualifications or adverse remarks.

Key Changes

Clause (xxi) has been newly inserted in CARO 2020.

Reasons to be stated for unfavourable or qualified answers

- Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 as above is \ unfavourable or qualified, the auditor's report shall also state the basis for such unfavourable or qualified answer, as the case may be.
- Where the auditor is unable to express any opinion on any specified matter, his report shall indicate such fact together with the reasons as to why it is not possible for him to give his opinion on the same.



Student Notes:-