

Guidance Note on the  
Companies (Auditor's Report)  
Order, 2020



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

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First Edition : April, 2016

Second Edition : June, 2020

Committee : Auditing and Assurance Standards Board

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Website : [www.icai.org](http://www.icai.org)

Price : ₹ 400/-

ISBN : 978-81-8441-827-9

Published by : The Publication Department on behalf of the Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002.

Printed by : Sahitya Bhawan Publications, Hospital Road, Agra 282 003.  
June /2020/P2689(Revised)

## Foreword

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The Ministry of Corporate Affairs (MCA) has issued the Companies (Auditor's Report) Order, 2020 (CARO 2020) on 25<sup>th</sup> February 2020, which was initially applicable for statutory audits of financial statements for periods beginning on or after April 1, 2019. Subsequently, vide notification dated 24<sup>th</sup> March 2020, applicability of CARO 2020 was deferred by one year. Accordingly, CARO 2020 would be applicable for statutory audits of financial statements for periods beginning on or after April 1, 2020. CARO 2020 contains several changes including many additional reporting requirements *vis-à-vis* CARO 2016 to further enhance overall quality of reporting by the auditors. These changes necessitated the revision of the Guidance Note on CARO 2016 earlier issued by ICAI.

I am happy to note that the Auditing and Assurance Standards Board (AASB) of ICAI has brought out this Guidance Note on the Companies (Auditor's Report) Order, 2020 for providing appropriate guidance to the members so that the requirements of the Order can be fulfilled in letter and spirit by them. The Guidance Note is developed to provide detailed guidance on various clauses of CARO 2020 and various issues involved therein in an easy to understand language. This Guidance Note is quite comprehensive and self-contained reference document to assist the members in discharging their duties efficiently.

I compliment CA. G. Sekar, Chairman, CA. (Dr.) Debashis Mitra, Vice-Chairman and all members of the Auditing and Assurance Standards Board of ICAI for their efforts in bringing out this Guidance Note for the benefit of the members and other stakeholders at large.

I am confident that the members would find this Guidance Note highly useful in their professional assignments.

June 13, 2020  
New Delhi

**CA. Atul Kumar Gupta**  
President, ICAI



## Preface

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The Ministry of Corporate Affairs issued the Companies (Auditor's Report) Order, 2020 (CARO 2020) on 25<sup>th</sup> February 2020. The Order was initially applicable for audits of financial year 2019-20 and onwards but subsequently its applicability was deferred by one year vide notification dated 24<sup>th</sup> March 2020. Now, the Order would be applicable for audits of financial year 2020-21 and onwards. The Order contains several significant changes and several new reporting requirements *vis-à-vis* earlier Order i.e. CARO 2016. The Auditing and Assurance Standards Board of ICAI undertook the revision of the Guidance Note on CARO 2016 to provide appropriate guidance to the members on CARO 2020.

We feel immense pleasure in placing in hands of the members this Guidance Note on the Companies (Auditor's Report) Order, 2020 issued by the Board under the authority of the Council of ICAI. The Guidance Note was initially developed by six study groups constituted by the Board for this purpose and thereafter it was finalised with the contribution of the Board members and the Central Council members. The Guidance Note has been written in easy to understand language and contains detailed guidance on all clauses of CARO 2020. The Guidance Note will supersede the Guidance Note on CARO 2016 for audits of financial statements for periods beginning on or after April 1, 2020.

At this juncture, we wish to place on record our sincere gratitude to convenors of all study groups and their team for revising the Guidance Note *viz.* CA. M. P. Vijay Kumar (Central Council Member and Convenor of Chennai study group), CA. Shrinivas Y. Joshi (Central Council Member and Convenor of Mumbai study group), CA. Chandrashekhar V Chitale, (Central Council Member and Convenor of Pune study group), CA. Sanjeev Kumar Singhal, (Central Council Member and Convenor of Delhi 1 study group), CA. Pramod Jain (Central Council Member and Convenor of Delhi 2 study group).

We express our sincere thanks to CA. Atul Kumar Gupta, Honourable President, ICAI and CA. Nihar Niranjan Jambusaria, Honourable Vice-President, ICAI for their guidance and support to the activities of the Board.

We also express our sincere thanks to all the Board members and all the Central Council members for their suggestions, support and guidance in finalising this Guidance Note. We appreciate the efforts made by CA. Megha Saxena, Secretary, AASB, CA. Rajnish Aggarwal, Assistant Director and other staff of AASB in finalizing this Guidance Note.

We are confident that the members would find this Guidance Note immensely useful.

**CA. (Dr.) Debashis Mitra**  
Vice Chairman, AASB

**CA. G. Sekar**  
Chairman, AASB

# Acknowledgement

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The Board acknowledges the contribution made by the following members of the study groups constituted for the purpose of developing the Guidance Note on the Companies (Auditor's Report) Order, 2020 and we place on record our gratitude for their contribution in enrichment of knowledge of the members:

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## Introduction

1. The Central Government, in exercise of the powers conferred, under sub-section (11) of section 143 of the Companies Act, 2013 (hereinafter referred to as “the Act”), issued the Companies (Auditor’s Report) Order, 2020, (CARO 2020/ “the Order”) *vide* Order number S.O. 849(E) dated 25<sup>th</sup> February 2020. CARO 2020 was initially applicable for audits of financial year 2019-20 and onwards. Subsequently, *vide* notification dated 24<sup>th</sup> March 2020, its applicability has been deferred by one year. Accordingly, CARO 2020 is applicable for audits of financial year 2020-21 and onwards. CARO 2020 contains certain matters on which the auditors of companies (except auditors of those categories of companies which are specifically exempted under the Order) have to make a statement in their audit reports. The text of the CARO 2020 is given in **Appendix I** to this Guidance Note.

2. This Order is in supersession of the earlier Order issued in 2016, *viz.*, the Companies (Auditor’s Report) Order, 2016 (CARO 2016). **Appendix II** to this Guidance Note contains a clause-by-clause comparison of the reporting requirements of the Order and the CARO 2016.

3. The purpose of this Guidance Note is to enable the auditors to comply with the reporting requirements of the Order. It should, however, be noted that the guidance contained in this Guidance Note is not intended to be exhaustive and the auditors should exercise their professional judgement and experience on various matters on which they are required to report under the Order.

**Appendix III** to this Guidance Note contains the definitions of important terms used in this Guidance Note. **Appendix IV** to this Guidance Note contains list of important sections/ rules/ regulations/ statutes referred to in this Guidance Note.

**General Provisions Regarding Auditor's Report**

4. The requirements of the Order are supplemental to the existing provisions of section 143 of the Act regarding the auditor's report. In this regard, the following points may be noted:

- (i) the provisions of sub-sections (1), (2), & (3) of section 143 are applicable to all companies (other than clause (i) of sub-section (3)) while the Order exempts certain categories of companies from its application; and
- (ii) the provisions of sub-section (1) of section 143 require the auditor to make certain specific inquiries during the course of his audit. The auditor is, however, not required to report on any of the matters specified in that sub-section unless he has any special comments to make on the said matters. In other words, if the auditor is satisfied with the results of his inquiries, he has no further duty to report that he is so satisfied. The Order, on the other hand, requires a statement on each of the matters specified therein, as applicable to the company.

5. Another question that arises is about the status of the Order *vis-a-vis* the directions given by the Comptroller and Auditor General of India under section 143(5) of the Act. In this regard, it may be noted that the Order is supplemental to the directions given by the Comptroller and Auditor General of India under section 143(5) of the Act in respect of government companies. These directions continue to be in force. Therefore, in respect of government companies, the matters specified in the Order will form part of the auditor's report submitted to the members and the replies to the aforesaid questionnaire issued by the Comptroller and Auditor General of India will be governed by the requirements of section 143(5) of the Act.

6. The Order is not intended to limit the duties and responsibilities of auditors but only requires a statement to be included in the audit report in respect of the matters specified therein.

## **Applicability of the Order**

### **Companies Covered by the Order**

7. The Order applies to all companies except certain categories of companies specifically exempted from the application of the Order.

8. The Order also applies to foreign companies as defined in clause (42) of section 2 of the Act. According to the aforesaid section, a “foreign company” means:

“Any company or body corporate incorporated outside India which -

- (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
- (b) conducts any business activity in India in any other manner.”

9. In the case of a foreign company, wherever under any of the provisions of the Act, an audit of financial statements under Chapter X of the Act is required to be carried out, the Order would be applicable.

10. The Order is also applicable to the audits of branch(es) of a company since sub-section 8 of section 143 of the Act read with Rule 12 of the Companies (Audit and Auditors) Rules, 2014 clearly specifies that a branch auditor has the same duties in respect of audit as the company’s auditor. It is, therefore, necessary that the report submitted by the branch auditor (including auditor of a foreign branch) contains a statement on all the matters specified in the Order, as applicable to the company, except where the company is exempt from the applicability of the Order, to enable the company’s auditor to consider the same while complying with the provisions of the Order.

The Order is also applicable to the audits of project office / liaison office established by a company outside India, to whom the Order applies. In case the company has appointed separate auditors for the project office / liaison office, the auditor of the company should

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seek a report from the said auditors which contains a statement on all the matters specified in the Order, as applicable to the company, except where the company is exempt from the applicability of the Order.

### **Companies Not Covered by the Order**

11. The Order provides that it shall not apply to:
  - (i) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949;
  - (ii) an insurance company as defined under the Insurance Act, 1938;
  - (iii) a company licensed to operate under section 8 of the Act;
  - (iv) a one person company as defined under clause (62) of section 2 of the Act and a small company as defined under clause (85) of section 2 of the Act; and
  - (v) 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 one crore rupees as on the balance sheet date and which does not have total borrowings exceeding one crore rupees 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 Schedule III to the Act, (including revenue from discontinuing operations) exceeding ten crores rupees during the financial year as per the financial statements.
12. The Order specifically exempts banking companies, insurance companies and companies which have been licensed to operate under section 8 of the Act. The Order also exempts one person company and a small company from its application. The applicability of the Order would be based on the status of the company as at the balance sheet date. It may also be noted that in case a company is covered under the definition of small company, it will remain exempted from the applicability of the Order even if it falls under any of the criteria specified for private company.

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13. The specific exemption under the Order is given to companies licensed to operate under section 8 of the Act. However, it would appear that in view of the provisions of section 465 of the Act, the exemption would also extend to companies licensed to operate under section 25 of the Companies Act, 1956.

14. A private limited company, in order to be exempt from the applicability of the Order, must satisfy all the conditions mentioned above collectively. In other words, even if one of the conditions is not satisfied, the Order would be applicable to the company.

15. In case a company converts into limited liability partnership or partnership or to any other constitution (which is not governed by the Act) or converts to any constitution which is exempted from application of the Order, in that situation, the Order would not be applicable.

16. The Order will not be applicable to Infrastructure Investment Trusts and Real Estate Investment Trusts since they are trusts which are governed by Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014 and Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014, respectively. However, the Order will be applicable to the companies in which these trusts have investment if such companies satisfy the applicability criteria prescribed in the Order. Accordingly, the Order is not applicable to the consolidated trust financial statements even though there are companies forming part of the consolidated trust financial statements which individually may have the Order applicable to them.

### ***Private Limited Company***

17. The term “private limited company”, as used in the Order, should be construed to mean a company registered as a “private company” [as defined in clause (68) of section 2 of the Act].

### ***Paid-up Capital and Reserves and Surplus***

18. Clause (64) of section 2 of the Act defines the term “paid-up share capital” as such aggregate amount of money credited as