

# Companies (Auditor's Report)

Order, 2016



# Applicability

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CARO 2016 shall apply to,

Every company **including a foreign company** as defined in clause (42) of section 2 of the Companies Act, 2013 ('Act'), except:–

- ▶ A banking company;
- ▶ An insurance company;
- ▶ A company licensed to operate under section 8 of the Companies Act;
- ▶ A One Person Company and a small company; and
- ▶ A private limited company, not being a subsidiary or holding of a public company, having
  - Paid up capital and reserves and surplus of not more than **Rs. 1 crore** as on the **balance sheet date**; and [CARO 2015 – Rs. 50 lakhs]
  - 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 [CARO 2015 – Rs.25 lakhs]
  - Which does not have a **total revenue as defined in Scheduled III to the Companies Act, 2013 (including revenue from discontinuing operations)** exceeding Rs. **10 crores** during the financial year as per the financial statements. [CARO 2015 – Rs.5 crore]

▶ The exemption limits as specified above is not applicable for a **private company which is a subsidiary or holding company of a public company.**

▶ CARO shall not apply to the **auditor's report on consolidated financial statements.**

# CARO 2015 Vs. CARO 2016

Provisions	CARO 2015	CARO 2016	Remarks
<b>Clause (i) of CARO 2015/2016</b> - Fixed Assets	(a) Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;  (b) 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;	(a) Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;  (b) 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;  (c) Whether the title deeds of immovable properties are held in the name of the company. If not provide the details thereof:	<i>Clause (c) newly inserted.</i>

# CARO 2015 Vs. CARO 2016

Provisions	CARO 2015	CARO 2016	Remarks
<b>Clause (ii) of CARO 2015/2016-Inventory</b>	<p>(a) Whether physical verification of inventory has been conducted at reasonable intervals by the management;</p> <p>(b) are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business. If not, the inadequacies in such procedures should be reported;</p> <p>(c) whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on physical verification and if so, whether the same have been properly dealt with in the books of account;</p>	<p>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.</p>	<p>► <i>Clauses (a) and (c) has been merged, except for maintaining of proper records of inventory which is removed.</i></p> <p>► <i>Clause (b) is removed.</i></p>

# CARO 2015 Vs. CARO 2016

Provisions	CARO 2015	CARO 2016	Remarks
<b>Clause (iii) of CARO 2015/2016 - Loans Given</b>	<p>Whether the company has granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 189 of the Companies Act. If so,</p> <p>(a) whether receipt of the principal amount and interest are also regular; and</p> <p>(b) if overdue amount is more than Rs.1 lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest;</p>	<p>Whether the company has granted any loans, secured or unsecured to companies, firms, <b>Limited Liability Partnerships</b> or other parties covered in the register maintained under section 189 of the Companies Act, 2013. If so,</p> <p>(a) Whether <b>the terms and conditions of the grant of such loans are not prejudicial to the company's interest;</b></p> <p>(b) Whether the <b>schedule of repayment of principal and payment of interest has been stipulated</b> and whether the repayments or receipts are regular;</p> <p>(c) If the amount is overdue, state the <b>total amount overdue for more than 90 days</b>, and whether reasonable steps have been taken by the company for recovery of the principal and interest;</p>	<ul style="list-style-type: none"> <li>▶ <b>Clause (a) is newly added.</b></li> <li>▶ <b>Clause (b) additionally requires reporting on whether schedule of repayment of principal and interest has been stipulated.</b></li> <li>▶ <b>Clause (c) additionally requires reporting on disclosure of overdue amount more than 90 days instead of more than Rs.1 lakh.</b></li> </ul>

# CARO 2015 Vs. CARO 2016

Provisions	CARO 2015	CARO 2016	Remarks
<b>Clause (v) of CARO 2015/2016 - Deposits</b>	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 <b>nature of contraventions should be stated</b> ; If an order has been passed by CLB or NCLT 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 thereunder, where applicable, have been complied with? If not, the <b>nature of such contraventions be stated</b> ; 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?	<b>No major change</b>
<b>Clause (vi) of CARO 2015/2016 - Cost records</b>	Where maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the <b>Companies Act</b> , whether such accounts and records <b>have been made and maintained</b> ;	Whether maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the <b>Companies Act, 2013</b> and whether such accounts and records <b>have been so made and maintained</b> .	<b>No major change</b>

# CARO 2015 Vs. CARO 2016

Provisions	CARO 2015	CARO 2016	Remarks
<p><b>Clause(vii) of CARO 2015/2016 - Statutory Dues</b></p>	<p>(a) is the company regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, <b>wealth tax</b>, service tax, duty of customs, duty of excise, value added tax, <b>cess</b> 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 by the auditor.</p> <p>(b) in case dues of income tax or sales tax or <b>wealth tax</b> or service tax or duty of customs or duty of excise or value added tax or <b>cess</b> 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).</p>	<p>(a) 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, <b>cess</b> 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;</p> <p>(b) 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 treated as a dispute).</p>	<p><i>In clause (vii)(a) &amp; (b) disclosure with respect to "Wealth Tax" has been excluded.</i></p> <p><i>However "cess" has been excluded only in (vii)(b).</i></p>

# CARO 2015 Vs. CARO 2016

Provisions	CARO 2015	CARO 2016	Remarks
<b>Clause(vii) of CARO 2015/2016</b> - Statutory Dues	(c) whether the amount required to be transferred to investor education and protection fund in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and rules made thereunder has been transferred to such fund within time.		Clause (vii)(c) has been removed.
Dues to Financial Institution	<b>Clause (ix):</b> whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders. If yes, the period and amount of default to be reported.	<b>Clause (viii):</b> 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 amount of default to be reported (in case of defaults to banks, financial institutions and Government, lender wise details to be provided).	Additionally covers dues to Government.  Further, in case of defaults to banks, financial institutions and Government, lender wise details to be provided.



# CARO 2015 Vs. CARO 2016

Provisions	CARO 2015	CARO 2016	Remarks
Money Raised	<b>Clause (xi):</b> whether term loans were applied for the purpose for which the loans were obtained.	<b>Clause (ix):</b> Whether moneys raised by way of <b>initial public offer or further public offer (including debt instruments)</b> and terms loans were applied for the purposes for which those are raised. <b>If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported.</b>	<i>Increases the scope of reporting to cover Initial public offer or further public offer (including debt instruments).</i>  <i>Also requires disclosure of details of delays or default and subsequent rectification.</i>
Fraud Reporting	<b>Clause (xii):</b> whether any fraud on or by the company has been noticed or reported during the year. If yes, the nature and the amount involved is to be indicated.	<b>Clause (x):</b> Whether any fraud by the company or any fraud on the Company by its <b>officers or employees</b> has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.	<i>Reporting is restricted to fraud by officers or employees of the company.</i>

# CARO 2015 Vs. CARO 2016

Provisions	Clauses Removed from CARO 2015
Internal control system	<b>Clause (iv) of CARO 2015:</b> Is there an adequate <b>internal control system commensurate with the size of the company and the nature of its business</b> , for the purchase of inventory and fixed assets and for the sale of goods and services. Whether there is a continuing failure to correct major weaknesses in internal control system.
Accumulated Losses	<b>Clause (viii) of CARO 2015:</b> whether in case of a company which has been registered for a period <b>not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth</b> and whether it has incurred cash losses in such financial year and in the immediately preceding financial year.
Guarantee	<b>Clause (x) of CARO 2015:</b> whether the company has <b>given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company</b>

Provisions	New Clauses Added by CARO, 2016
Loans and Investment	<b>Clause (iv) of CARO 2016:</b> In respect of loans, investments, guarantees, and security whether <b>provisions of Section 185 and 186 of the Companies Act, 2013 have been complied with</b> . If not, provide the details thereof.
Managerial Remuneration	<b>Clause (xi) of CARO 2016:</b> Whether managerial remuneration has been paid or provided in accordance with the <b>requisite approvals mandated by the provisions of section 197 read with schedule V to the Companies Act?</b> If not, state the amount involved and steps taken by the company for securing refund of the same.

# CARO 2015 Vs. CARO 2016

Provisions	New Clauses Added by CARO, 2016
Nidhi Company	<b>Clause (xii) of CARO 2016:</b> Whether the Nidhi Company has complied with the <b>Net Owned Funds to Deposits in the ratio of 1: 20</b> to meet out the liability and whether the Nidhi Company is maintaining 10% unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability.
Related Party Transactions	<b>Clause (xiii) of CARO 2016:</b> Whether all transactions with the <b>related parties are in compliance with Section 177 and 188 of Companies Act, 2013</b> where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards.
Preferential Allotment/Private Placement	<b>Clause (xiv) of CARO 2016:</b> Whether the company has made any <b>preferential allotment or private placement of shares or fully or partly convertible debentures during the year under review</b> 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 details in respect of the amount involved and nature of non-compliance.
Non-Cash Transactions	<b>Clause (xv) of CARO 2016:</b> Whether the company has entered into any <b>non-cash transactions with directors or persons connected with him</b> and if so, whether the provisions of Section 192 of Companies Act, 2013 have been complied with.
Registration with RBI	<b>Clause (xvi) of CARO 2016:</b> Whether the company is required to be <b>registered under section 45-IA of the Reserve Bank of India Act, 1934</b> and if so, whether the registration has been obtained.

**Thank you**

