

## CARO, 2016

### (Issued by MCA dated 29<sup>th</sup> March, 2016)

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. The requirements of the Order are supplemental to the existing provisions of section 143 of the Act regarding the auditor's report.

#### Applicability of the Order

The Order applies to all companies including foreign companies as defined under Companies Act, 2013.

CARO is **NOT APPLICABLE** to the following:

- (i) a banking company as defined under 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 Companies Act, 2013;
- (iv) a One person Company as defined under section 2(62) of the Companies Act, 2013;
- (v) a Small Company as defined under 2(85) of the Companies Act 2013; and
- (v) a private limited company, not being a subsidiary or holding company of a public company, having
  - (a) a paidup capital and reserves and surplus **not more than rupees one crore** as on the balance sheet date and
  - (b) which does not have total borrowings **exceeding rupees one crore** from any bank or financial institution at any point of time during the financial year and
  - (c) which does **not have a total revenue exceeding rupees ten crores** during the financial year as per the financial statements.

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, a private limited company's auditor has to report on the matters specified in the Order.

The applicability of the Order would be based on the status of the company as at the balance sheet date for the financial year under audit.

#### Consolidated Financial Statements

The Order specifically provides that it shall not apply to the auditor's report on consolidated financial statements.

#### Branches

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 contains a statement on all the matters specified in the Order, as applicable to the company.

## **Matters to be included in the Auditor's Report**

### (1) 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;
- (c) whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof;

### (2) Inventory

- (a) 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;

### (3) Loans given by the company (Secured and Unsecured)

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,

- (a) whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;
- (b) whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;
- (c) 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;

### (4) Compliance of Sec 185 and Sec 186 of Companies Act 2013

- (a) 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.

### (5) Acceptance of Deposits

- (a) 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 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?

### (6) Cost Records

- (a) Whether 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.

(7) Statutory Dues

- (a) Undisputed Statutory Dues : 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 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;
- (b) Disputed Statutory Dues : 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 be treated as a dispute).

(8) Default in repayment of Loans or Borrowings

- (a) 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.

(9) Public Offer and money raised by debt and Term Loans

- (a) 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.

(10) Fraud

- (a) 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.

(11) Managerial Remuneration

- (a) 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?  
If not, state the amount involved and steps taken by the company for securing refund of the same.

(12) Nidhi Company

- (a) 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
- (b) Whether the Nidhi Company is maintaining ten per cent unencumbered term deposit as specified in the Nidhi Rules, 2014 to meet out the liability.

**(13) Related Parties**

- (a) 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(AS-18).

**(14) Allotment**

- (a) If the company has made any
- preferential allotment or
  - private placement of shares or
  - fully or partly convertible debentures
- during the year under review then 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. (b) If not, provide the details in respect of the amount involved and nature of non compliance;

**(15) Non Cash Transaction**

- (a) 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.

**(16) Registration under Reserve Bank of India Act ,1934**

- (a) 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.

**Reasons to be stated for unfavourable or qualified answers**

- (1) Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavourable or qualified, the auditor's report shall also state the basis for such unfavourable or qualified answer, as the case may be.
- (2) 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.

