



**The Companies
(Auditor's Report)
Order, 2015**

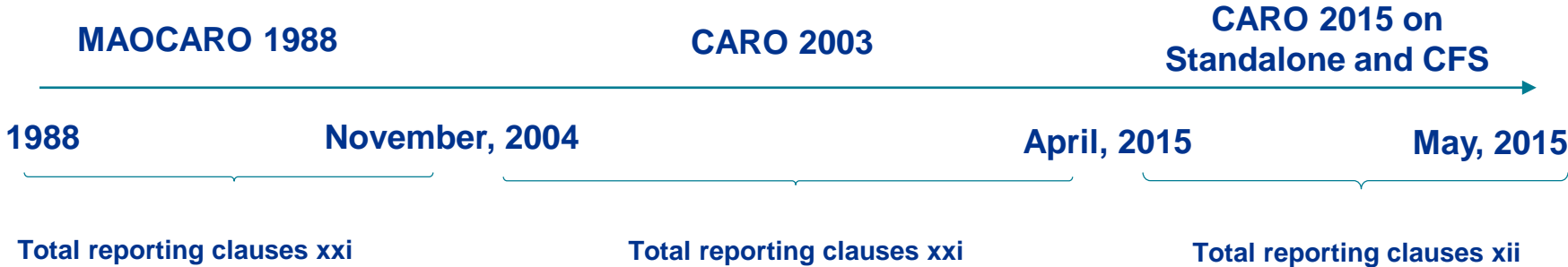
Study Circle meeting

Agenda

- **Brief background**
- **Companies covered under the CARO**
- **Reporting requirements carried forward from CARO 2003**
- **New reporting requirement**
- **Reporting requirements of the CARO – 2003 not carried forward**

- **Brief background**

Changes in the Companies (Auditor's Report) Order



Brief background

- Section 227(4A) of the Companies Act, 1956 (1956 Act) required that the auditor's report of certain class of companies should include a statement on certain prescribed matters. These reporting requirements were prescribed under the Companies (Auditor's Report) Order, 2003 (CARO, 2003) by Ministry of Corporate Affairs (MCA).
- CARO, 2003 was in force till 31st March 2014, i.e., the date upto when the Companies Act, 1956 was in force. The Companies Act, 2013 which came into force from 1st April, 2014, also contains a section, i.e., Section 143(11), similar to Section 227(4A) of the Companies Act, 1956, which empowers the Central Government to specify, additional matters that the auditors of a company may be required to report upon. In exercise of this power under Section 143(11), the Ministry of Corporate Affairs on 10th April, 2015 notified the Companies (Auditor's Report) Order, 2015 (CARO, 2015).
- Accordingly auditor will include statement as per CARO, 2015 in their auditor report for Financial Statement prepared for FY ending 31st March, 2015

- It is noted that the 12 reporting clauses given in paragraph 3 of CARO, 2015 are similar in their requirements to the corresponding clauses in paragraph 3 of the CARO, 2003.
- Further, the requirement to state reasons for unfavorable or qualified answers in paragraph 4 of the CARO, 2015 is also similar to that contained in paragraph 4 of the CARO, 2003.
- Accordingly, it is advised to continue to draw in principle guidance from the relevant paragraphs of the Statement on the Companies (Auditor's Report) Order, 2003, issued by the Institute of Chartered Accountants of India.

- **Companies covered under the CARO**

Companies covered under the CARO

CARO Applies to every company (except for the below exceptions) including a foreign company.

Companies exempt from CARO reporting (2015 and 2003):

Banking company;

Insurance company

Company incorporated with charitable objects

Private company

- With a paid up capital and reserves not more than INR 50 lakhs; and
- does not have loan outstanding exceeding INR 25 lakhs from any bank or financial institution; and
- does not have a turnover exceeding INR 5 crore at any point of time during the financial year.

Applicability of CARO to consolidated financial statements

As per Section 143(2) of the Companies Act 2013, the auditor is required to report to the members of the company on every financial statements which are required under the Act to be laid before the general meeting and shall include matters prescribed under sub-section (11).

Further As per Section 129(3), of the Companies Act 2013, where a company has one or more subsidiaries, it shall, prepare a consolidated financial statement.

ICAI, vide its announcement dated 1 May 2015, requires the auditors of CFS, while reporting under provisions of, section 143(3) and section 143(11), in their report on CFS to include in their report or draw suitable reference to, negative/adverse comments, if any, in respect of section 143(3) and section 143(11) of the Act relating to the component, as appearing in the component auditors' report.

The auditors of CFS are also advised to apply concept of materiality and professional judgment as provided in the Standards on Audit while reporting on the CFS.

Additional exclusions under CARO 2015:

One Person Company as defined under section 2 (62) of section 2 of the Act 2013 i.e. company which has only one person as a member.

Small company as defined under section 2 (85) of the Act 2013

- **Reporting requirements carried forward from CARO 2003**

Fixed assets – clause (i)

Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;

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;

Inventories – clause (ii)

Whether physical verification of inventory has been conducted at reasonable intervals by the management;

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;

Whether the company is :

- maintaining proper records of inventory,
- 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;

Granting of loans – clause (iii)

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, 2013. If so:

Whether receipt of the principal amount and interest are also regular, and

If overdue amount is more than rupees one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest;

Internal control system – clause (iv)

Is there an adequate internal control system:-

- commensurate with the size of the company, and
- the nature of its business

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;

Acceptance of deposits – clause (v)

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 contraventions should 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;

Cost records – clause (vi)

Where maintenance of cost records has been specified by central Government under sub-section (l) of section 148 of the Companies Act, 2013, whether such accounts and records have been made and maintained;

Statutory dues – clause (vii)

Is the company regular in depositing undisputed statutory dues including

- provident fund,
- Employees state insurance,
- income-tax,
- sales-tax,
- wealth 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 by the auditor;

Statutory dues (Continued)

in case dues of

- income tax
- sales tax
- wealth tax
- service tax
- duty of customs
- duty of excise
- value added tax
- cess

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.)

Losses – clause (viii)

Whether in case of a company which has been registered for a period 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 and whether it has incurred cash losses in such financial year and in the immediately preceding financial year;

Default in payment of dues – clause (ix)

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.

Guarantee for loans taken by others – clause (x)

Whether the company has given any guarantee for loans taken by others from banks or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company;

Applicability of term loans – clause (xi)

Whether term loans were applied for the purpose for which the loans were obtained;

Fraud reporting – clause (xii)

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.

- **New reporting requirement**

Investor Protection and Education Fund – clause (vii) (c)

Whether the amount required to be transferred to investor education and protection fund (IEPF) 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;

- **Reporting requirements of the CARO – 2003 not carried forward**

Fixed Assets – clause (i) (c)

If a substantial part of fixed assets have been disposed off during the year, whether it has affected the going concern assumption of the company;

Granting of loans to certain parties – clause (iii) (a) (b) (c)

Has the company ~~either~~ granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. If so,

give the number of parties and amount involved in the transactions, and

Whether the rate of interest and other terms and conditions of loans given by the company, secured or unsecured, are prima facie prejudicial to the interest of the company;

Has the company ~~either~~ taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. If so,

give the number of parties and amount involved in the transactions,

Whether the rate of interest and other terms and conditions of loans ~~given or~~ taken by the company, secured or unsecured, are prima facie prejudicial to the interest of the company, and

Whether payment of the principal amount and interest are also regular;

Transactions with entities in which director(s) are interested – clause (iii) (a) (b) (c)

Whether transactions that need to be entered into a register in pursuance of section 301 of the Companies Act, 1956 have been so entered

Whether each of these transactions have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time

(This information is required only in case of transactions exceeding the value of rupees 5 lacs in respect of any party and in any one financial year)

Internal audit – clause (vii)

In the case of

- listed companies and/or other companies having a paid-up capital and reserves exceeding fifty lakhs rupees as at the commencement of the financial year concerned, or
- having an average annual turnover exceeding five crore rupees for a period of three consecutive financial years immediately preceding the financial year concerned,

whether the company has an internal audit system commensurate with its size and nature of its business;

Records required to be maintained by the company – clause (xii)

Whether adequate documents and records are maintained in cases where the company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities;

If not, the deficiencies to be pointed out.

Compliance of special statute provisions – clause (xiii)

Whether the provisions of any special statute applicable to chit fund have been duly complied with? In respect of nidhi/ mutual benefit fund/societies;

- (a) whether the net-owned funds to deposit liability ratio is more than 1:20 as on the date of balance sheet;
- (b) whether the company has complied with the prudential norms on income recognition and provisioning against sub-standard/doubtful/loss assets;
- (c) whether the company has adequate procedures for appraisal of credit proposals/requests, assessment of credit needs and repayment capacity of the borrowers;
- (d) whether the repayment schedule of various loans granted by the nidhi is based on the repayment capacity of the borrower and would be conducive to recovery of the loan amount;

Companies dealing/ trading in securities– clause (xiv)

If the company is dealing or trading in shares, securities, debentures and other investments, whether proper records have been maintained of the transactions and contracts and whether timely entries have been made therein; also whether the shares, securities, debentures and other ~~securities~~ investments have been held by the company, in its own name except to the extent of the exemption, if any, granted under section 49 of the Companies Act, 1956;

Short term funds used for long term investment – clause (xvii)

Whether the funds raised on short-term basis have been used for long term investment and vice versa;

If yes, the nature and amount is to be indicated.

Preferential allotment of shares – clause (xviii)

Whether the company has made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Companies Act, 1956 and if so whether the price at which shares have been issued is prejudicial to the interest of the company;

Creation of security for debentures – clause (xix)

Whether securities or charge has been created in respect of debentures issued;

End use of money raised – clause (xx)

Whether the management has disclosed on the end use of money raised by public issues and the same has been verified;

Thank You

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