

**COMPANIES (AUDITOR'S  
REPORT)ORDER 2016**

**CARO 2016**

**MANDEEP SINGH TALWAR**

# Content

**Applicability of  
CARO2016**

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under the CARO2016 &  
CARO 2015**

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prescribed in the CARO 2016**

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2015**

**Reporting requirements of the CARO 2015 not  
carried forward**

# Applicability

- Every report made by the auditor under Section 143 OF 2013 Act for FY commencing on or after 1 April 2015 would include CARO 2016. It would be applicable to every company (except companies that are excluded, see below), including a foreign company as defined under Section 2(42) of the 2013 Act.
- The CARO - 2016 would not be applicable to the auditor's report on consolidated financial statements.

## Companies not covered under CARO 2016

■ Banking company as defined under Section 5(c) of the Banking Regulation Act, 1949

■ Insurance company as defined under the Insurance Act, 1938

■ Companies incorporated with charitable objects, etc. i.e. companies licensed to operate under Section 8 of 2013 Act

■ One person company as defined under section 2(62) of the 2013

## Companies not covered under CARO 2015

■ Banking company as defined under Section 5(c) of the Banking Regulation Act, 1949

■ Insurance company as defined under the Insurance Act, 1938

■ Companies incorporated with charitable objects, etc. i.e. companies licensed to operate under Section 8 of 2013 Act

■ One person company as defined under section 2(62) of the 2013

Companies not covered under CARO 2016	Companies not covered under CARO 2015
<ul style="list-style-type: none"> <li>■ Small company as defined under Section 2(85) of the 2013 Act</li> </ul>	<ul style="list-style-type: none"> <li>■ Small company as defined under Section 2(85) of the 2013 Act</li> </ul>
<ul style="list-style-type: none"> <li>■ Private company , <b>not being a subsidiary or holding of a public company</b> <ol style="list-style-type: none"> <li>a.with a paid up-capital and reserves and surplus not more than <b>Rs.1 crore</b></li> <li>b. does not have total borrowing exceeding <b>Rs.1 crore</b> from any bank or financial institution at any point of time during the FY</li> <li>c. does not have <b>total revenue as defined in Schedule III to the Companies Act 2013(Including revenue from discontinuing operations) exceeding Rs.10 crore</b> during the FY as per the financial statements</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>■ Private company           <ol style="list-style-type: none"> <li>a.with a paid up-capital and reserves not more than <b>Rs.50 lakhs</b></li> <li>b. does not have outstanding loan exceeding <b>Rs.25 lakhs</b> from any bank or financial institution and</li> <li>c. does not have turnover exceeding <b>Rs.5 crores</b> at any point of time during the FY .</li> </ol> </li> </ul>

## MATTER TO BE INCLUDED IN CARO 2016-

As compared to CARO 2016, the reporting requirements under CARO 2016 have increased . These requirements are divided in three sections .

- New Requirements.
- Requirements that have been carried forward with certain modifications
- Requirements that have been deleted as compared to CARO 2015

## **I .NEW REQUIREMENTS -**

### **➤ FIXED ASSETS**

Whether title deeds of immovable properties are held in the name of the company. If not, provide details thereof.

### **➤ Loans and investments**

In respect of loans, investments, guarantees and securities whether provisions of Section 185 and 186 of the 2013 Act have been complied with. If not, provide details thereof.

### **➤ Managerial remuneration**

Whether managerial remuneration has been paid/provided in accordance with the requisite approvals mandated by the provisions of Section 197 read with Schedule V of the 2013 Act? If not, state the amount involved and steps taken by the company for securing refund of the same.

➤ **Nidhi company**

Whether the Nidhi company has complied with the net owned fund to deposit in the ratio of 1:20 to meet the liability and whether the Nidhi company is maintaining 10 per cent unencumbered term deposits as specified in the Nidhi Rules 2014 to meet out the liability.

➤ **Related party transactions**

Whether all transactions with related parties are in compliance with Section 188 and 177 of the 2013 Act where applicable and the details have been disclosed in the financial statements, etc. as required by the accounting standards .

➤ **Registration under RBI**

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.



➤ **Preferential allotment/private placement**

Whether the company has made any preferential allotment/ 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 2013 Act have been complied with and the amount raised has 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**

Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether provisions of Section 192 of the 2013 Act have been complied with.

## II. REQUIREMENTS THAT HAVE BEEN CARRIED FORWARD WITH CERTAIN MODIFICATIONS :

### ➤ INVENTORY:

Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, how they have been dealt with in the books of account.

#### **Deleted requirement**

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. The auditor need not report on records maintained by the company for inventories.

➤ **Granting of loans to certain parties:**

Whether the company has granted any loans, secured or unsecured to companies, firms, LLP or other parties covered in the register maintained under sec 189 Companies Act 2013. If so,

1. Whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest
2. Whether schedule of repayment of the principal amount and interest has been stipulated and whether the repayment or receipt are regular.
3. If the amount is overdue .state the total amount overdue for more than 90 days, whether reasonable steps have been taken by the company for recovery of the principal and interest

**New requirement**

It provides for overdue payment for more than 90 days instead outstanding of amount above the threshold limit  
Rs. 1 lakh

## ➤ Default in repayment of dues

Whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holder?

If yes, the period and amount of default to be reported (in case of banks and financial institutions, lender wise details to be provided).

### **New requirement**

It relates to lender-wise details of period and amount of default

## ➤ Application of term loans/public issue/follow-on-offer

Whether moneys raised by way of public issue/follow-on offer (including debt instruments) and term loans were applied for the purposes for which those are raised.

If not, the details together with delays/default and subsequent rectification, if any, as may be applicable, be reported.

### **New requirement**

It increases the scope to public issue and follow-on offer (including debt instruments). Earlier it was restricted to term loans only.

## ➤ Fraud reporting

Whether any fraud by the company or any fraud on the company by its officers/employees has been noticed or reported during the year? If yes, the nature and the amount involved should be indicated.

### **New requirement**

It is restricted to officers and employees of the company.

### III. Requirements that have been deleted as compared to CARO 2015

#### ➤ Internal control system

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 weakness in internal control system.

#### ➤ Deposit of statutory dues

Whether the amount required to be transferred to Investor Education and Protection Fund (IEPF) in accordance with relevant provisions of the Companies Act, 1956 (1 of 1956) and rules made thereunder has been transferred to such fund within time.

➤ **Accumulated losses and incurrence of cash losses**

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 50 per cent of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year.

➤ **Guarantee for loans taken by others from banks or financial institutions**

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.





## Comparative analysis of CARO 2015 VS 2016

### CARO 2015

- (i) (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 book of account;

### CARO 2016

- (i) (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;

## Comparative analysis of CARO 2015 VS 2016

### CARO 2015

- (ii)(a) whether physical verification of inventory has been conducted at reasonable intervals by the management;
- (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;
- (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;

### CARO 2016

- (ii) 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;

## Comparative analysis of CARO 2015 VS 2016

### CARO 2015

- (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. If so,
  - (a) whether receipt of the principal amount and interest are also regular;  
and
  - (b) 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;

### CARO 2016

- (iii) 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;

## Comparative analysis of CARO 2015 VS 2016

### CARO 2015

- (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.

### CARO 2016

- (iv) 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.

## Comparative analysis of CARO 2015 VS 2016

### CARO 2015

(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 and the rules framed there under, 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?

### CARO 2016

(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 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?

## Comparative analysis of CARO 2015 VS 2016

### CARO 2015

(vi) where maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, whether such accounts and records have been made and maintained;

### CARO 2016

(vi) 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.

## CARO 2015

- (vii)(a) 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.
- (b) in case dues of income tax or sales tax or **wealth tax** or service tax or duty of customs or duty of excise or value added tax or 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).
- (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 there under has been transferred to such fund within time.**

## CARO 2016

- (vii) (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, 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) 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).



## Comparative analysis of CARO 2015 VS 2016

### CARO 2015

(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;

### CARO 2016

## Comparative analysis of CARO 2015 VS 2016

### CARO 2015

(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;

### CARO 2016

(viii) 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**

## Comparative analysis of CARO 2015 VS 2016

### CARO 2015

(x)whether the company has 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;

### CARO 2016

## Comparative analysis of CARO 2015 VS 2016

### CARO 2015

(xi) whether term loans were applied for the purpose for which the loans were obtained;

### CARO 2016

(ix) 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;

## Comparative analysis of CARO 2015 VS 2016

### CARO 2015

- (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.

### CARO 2016

- (x) 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;

## Comparative analysis of CARO 2015 VS 2016

CARO 2015

CARO 2016

- (xi) 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;

## Comparative analysis of CARO 2015 VS 2016

CARO 2015

CARO 2016

- (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 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;

## Comparative analysis of CARO 2015 VS 2016

CARO 2015

CARO 2016

(xiii) 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;



## Comparative analysis of CARO 2015 VS 2016

CARO 2015

CARO 2016

(xiv) 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;

## Comparative analysis of CARO 2015 VS 2016

CARO 2015

CARO 2016

(xvi) 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;

## Comparative analysis of CARO 2015 VS 2016

CARO 2015

CARO 2016

(xvi) 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.

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