

COMPANIES AUDITORS REPORT ORDER 2016

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SYNOPSIS

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INTRODUCTION – CARO 2016

- ❖ Section 143 v/s Section 227
- ❖ Issued u/s 143(11)
- ❖ In supersession of earlier order of 2015
- ❖ Distinction of Section 143(1), (2) and (3) with Section 143(11)
- ❖ Not intended to limit the Duties and Responsibilities of Auditors
- ❖ Multiplicity of Reporting

APPLICABILITY – CARO 2016

- ❖ Financial Year commencing on or after 1.4.2015
- ❖ Foreign Companies [Sec. 2(42)]
- ❖ Branch Audits [Sec.143(8) and Rule 12 of The Companies (Audit & Auditors) Rules 2014]
- ❖ Exemption to Banking /Insurance /Section 8 Companies / One Person Company [Sec.2(62)/ Small Companies(Sec.2(85))]
- ❖ Sec.25 Companies under 1956 Act not mentioned

Exemption to private limited company – CARO 2016

- ❖ Paid up Capital and Reserve <= Rs.1 Cr.
- ❖ Borrowings from Bank or Financial Institutions at any point of time during the year <= Rs.1 Cr.
- ❖ Revenue as disclosed in Schedule III (including Revenue from Discontinuing Operations) <= Rs.10 Cr.
- ❖ Status as at Balance Sheet Date

Definitions

- ❖ Paid up Capital = Equity + Preference + Bonus Shares + Forfeited Shares – Unpaid Calls
- ❖ Reserves – Schedule III
- ❖ Borrowings – Only from Any Banks and Financial Institutions
- ❖ Current Maturities of Long Term Borrowings
- ❖ Credit Cards
- ❖ Financial Institutions Sec.2(39)
- ❖ Revenue = Disclosure in Schedule III

CARO 2015 V/S CARO 2016

- ❖ Turnover Definition and Limit
- ❖ Private Company being subsidiary/holding of Public Company
- ❖ Surplus
- ❖ Applicability to CFS
- ❖ Omissions
- ❖ Additions/Modifications

GENERAL APPROACH – CARO 2016

- ❖ Maintenance of proper records
- ❖ Audit v/s Investigation
- ❖ Not a separate Audit Engagement
- ❖ Compliance with Auditing Standards
- ❖ Interaction with Management
- ❖ Exercise of Judgement

REPORTING – CARO 2016

- ❖ Selective Reporting
- ❖ Reasons in report for unfavourable / qualified / unable to express opinion
- ❖ Inclusion of Management's Explanation
- ❖ Adverse comment having bearing on true and fair view
- ❖ Unfavourable comment not resulting in qualification
- ❖ Use of Professional judgement
- ❖ Board's Report

Paragraph 3(i)(a) – CARO 2016

Whether the Company is maintaining proper records showing full particulars, including quantitative details and situation of Fixed Assets

Paragraph 3(i)(a) – CARO 2016

- ❖ Proper Records –
 - The matter of Professional Judgments
 - Reconciliation with Books of Account
 - Completeness, accuracy and security of Register
 - Record of Movement and Numbering
 - Grouping of Small Individual Value Items
 - Grouping of Assets of Same Useful Life
 - Adjustment to Balance to be properly documented

Paragraph 3(i)(b)] – CARO 2016

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;

Paragraph 3(i)(b)] – CARO 2016

❖ Physical Verification –

- Adequate Evidence
- Observation
- Reasonableness of Method
- Reasonable Intervals
- Materiality of Discrepancy

Paragraph 3(i)(c)] (New Clause) CARO 2016

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

Paragraph 3(i)(c)] (New Clause) CARO 2016

❖ Title Deeds of Immovable Properties -

- Legal Deed or Document constituting evidence of right
- Confirmation from Banks/Financial Institutions
- Lost Title Deeds
- Legal determination of validity of Title Deeds
- Disputes/Pending Court Cases
- Not held in the name of the Company
- Reconciliation

Paragraph 3(ii)] - CARO 2016

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;

Paragraph 3(ii)] - caro 2016

- ❖ Physical Verification of Inventory –
 - Verification of all material items
 - Periodicity
 - Reasonable Interval
 - Material discrepancy

Paragraph 3(iii) – CARO 2016

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;

Paragraph 3(iii)(a) – CARO 2016

- ❖ Section 189 of Companies Act, 2013
- ❖ Granting of Loans to Related Parties –
 - Granted/given during the year
 - Renewed during the year
 - Given and repaid/squared off during the year
 - Reporting irrespective of Period
 - Examination of Terms & Conditions
 - Interest Rate
 - Sec.143(1)

Paragraph 3(iii) – CARO 2016

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,

- b) Whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;

Paragraph 3(iii)(b) – CARO 2016

❖ **Repayment of Loan -**

- Scope of enquiry restricted to related parties
- No agreement/arrangement for re-payment of Loan or interest
- Meaning of Regular
- Number of cases to be reported with remarks.

Paragraph 3(iii) – CARO 2016

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,

- c) If the amount is overdue, state the total amount overdue for more than 90 days, and whether reasonable steps have been taken by the company for recovery of the principal and interest.

Paragraph 3(iii)(c) – CARO 2016

❖ **Recovery of Overdue –**

- Payment not received on due dates
- Reasonable steps for recovery
- Reporting of only aggregate number of cases and overdue amount with steps taken for recovery
- Remarks

Paragraph 3(iv) (New Clause) – CARO 2016

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.

Paragraph 3(iv) (New Clause) – CARO 2016

❖ **Sec.185 - Loan to Directors, etc. –**

- Applicable to Directors or any other person in whom he is interested
- No direct loan or advance or book debt in the nature of loan or provision of guarantee or security
- Loans not covered
- Form MBP-1 and Register u/s 189
- Report nature of non-compliance, maximum amount outstanding and outstanding on balance sheet date

Paragraph 3(iv) (New Clause) – CARO 2016

❖ **Sec.186 - Loan and Investment by Company –**

- No investment through more than two layers of Investment Companies
- No direct or indirect loan or guarantee or security or subscription exceeding limits
- Prior Approval by special Resolution for loan etc.
- No investment or loan etc. unless consented by all directors present in the meeting
- Prior approval of Public Financial Institution
- Interest Rate
- Purpose of loan given and its utilisation

Paragraph 3(v)– CARO 2016

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; 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?

Paragraph 3(v)– CARO 2016

❖ Acceptance of Deposits – Sec. 73 to 76 –

- Exempted Deposits
- Companies (Acceptance of Deposit) Rules, 2014
- Public Companies with Net worth of 100 Crores and Turnover of 500 Crores can accept deposits from persons other than members.
- System of acceptance of deposits
- Efficacy of Internal Control System
- Limits of acceptance of Deposits
- Order passed by any authority in case of contravention

Paragraph 3(vi)– CARO 2016

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?

Paragraph 3(vi)– CARO 2016

❖ Cost Records –

- Sec.148 – Classes of Companies to whom cost records maintenance is compulsory
- Turnover/Net-worth criteria

- Companies (Cost Records and Audit) Rules, 2014
- Sec.2(13)(iv) – Books of Accounts – includes cost records.
- Made and Maintained
- No detailed examination of records

Paragraph 3(vii)(a)– CARO 2016

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;

Paragraph 3(vii)(a)– CARO 2016

- ❖ Undisputed Statutory Dues –
 - Any other Statutory Dues
 - Emphasis on regularity
 - Contractual or Legal relationship not covered
 - Dues recoverable as arrears of Land Revenue
 - Non payment of Advance Tax
 - Dispute relating to part of the demand

Paragraph 3(vii)(a)– CARO 2016

- ❖ Undisputed Statutory Dues –
 - Sustainability or otherwise of claim by department
 - Due date of payment
 - Penalty and Interest
 - Lump-sum deposits of PF/ESIC
 - Reporting of delays

Paragraph 3(vii)(b)– CARO 2016

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.}

Paragraph 3(vii)(b)– CARO 2016

❖ Disputed Dues –

- Amount involved and forum of dispute
- Show cause
- Tax Demand set aside
- Referral for re-assessment
- Appeal decided in favour of company
- Expiry of Time limit for filing appeal
- More than one dispute for same statutory dues in different period
- Treatment of disputed dues in accounts
- Deposit under protest

Paragraph 3(viii)– CARO 2016

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).

Paragraph 3(viii)– CARO 2016

❖ Default in Repayment of Loan or Borrowings –

- Default existing /not existing on balance sheet date
- Schedule of repayment
- Agreements and Trust Deeds
- Confirmation of over dues
- Application for restructuring /re-schedulement
- Dispute with Lender

Paragraph 3(ix)– CARO 2016

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;

Paragraph 3(ix)– CARO 2016

❖ Public offer -

- Emphasis on disclosure of end-use of money
- Sec.23 to 41 (Public Offer), Sec.2(81) (Securities)
- Disclosure as per Schedule III
- Sec.2(4) of Securities Contracts (Regulation) Act, 1956 and SEBI (Issue and Listing of Debt Securities), Regulations 2008
- Actual end-use
- Report of Monitoring Agency
- Offer for sale of securities

Paragraph 3(ix)– CARO 2016

❖ Term Loans -

- Pre determined maturity period
- All Term Loans included
- Terms & Conditions and actual utilisation
- No one-to-one relationship of receipts with payments
- Loan disbursed at end of the year
- No purpose specified of end-use
- Temporary investment of funds

Paragraph 3(x)– CARO 2016

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.

Paragraph 3(x)– CARO 2016

❖ Fraud –

- Noticed or reported
- Sec.142(12)
- SA 240
- Guidance Note on Reporting on Frauds
- Intentional mis-statement
- Mis-appropriation of Assets
- Perceived opportunity for circumvention of internal control

Paragraph 3(xi)(New Clause)– CARO 2016

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.

Paragraph 3(xi)(New Clause)– CARO 2016

❖ Managerial Remuneration –

- Sec.197, Rule 4 & 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 and Schedule V
- Sec.197 not applicable to Private Limited Company
- Remuneration – Sec.2(78)
- Inadequate Profit
- Excess Remuneration paid
- Reporting of Default

Paragraph 3(xii)(New Clause)– CARO 2016

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;

Paragraph 3(xii)(New Clause)– CARO 2016

❖ Nidhi Company Compliances –

- Sec.406
- Nidhi Rules, 2014
- Rule 5(1)
- Rule 14 – Investment of unencumbered deposits
- Rule 3(d) – New owned funds
- Report of short-fall

Paragraph 3(xiii)(New Clause)– CARO 2016

Whether all transactions with the related parties are in compliance with section 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;

Paragraph 3(xiii)(New Clause)– CARO 2016

❖ Related Party Transactions –

- Applicable to all companies
- Approval of Board and Shareholders
- List of transactions covered is comprehensive
- Transactions with WOS, at Arms Length and in ordinary course of business not covered
- Approval of Audit Committee u/s 177
- SA 550
- Register u/s 189 and Form MBP-4
- Review of auditor's working papers of prior years

Paragraph 3(xiv)– CARO 2016

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;

Paragraph 3(xiv)– CARO 2016

❖ Preferential Allotment or Private Placement –

- Sec.42 and Rule 14 of The Companies (Prospectus and Allotment of Securities), Rules 2014
- Forms PAS-3, PAS-4 and PAS-5
- Any violation would convert offer into public offer
- No fresh offer until conditions satisfied
- Subscription only by cheque or DD or Banking channel and not by cash
- Allotment within 60 days or interest @ 12%

Paragraph 3(xiv)– CARO 2016

❖ Preferential Allotment or Private Placement –

- Separate Bank Account
- Money cannot be used in business till allotment
- Offer only to previously identified person and list to be filed with ROC within 30 days of circulation
- No public advertisement
- Return of Allotment
- Application of Funds received to be checked for utilisation

Paragraph 3(xv)(New Clause)– CARO 2016

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.

Paragraph 3(xv)(New Clause)– CARO 2016

❖ Non Cash Transactions with Director & persons connected with him

- Sec.192
- Arrangement by which director of Company/ Holding Company/ Subsidiary/ Associate Company/ person connected to acquire or is to acquire assets from company for consideration other than cash prohibited
- Arrangement where company to acquire or is to acquire assets for consideration other than cash from Director or connected person prohibited

Paragraph 3(xv)(New Clause)– CARO 2016

❖ Non Cash Transactions with Director & persons connected with him

- Prior Resolution in General Meeting of the company and Resolution by Holding Company
- Entry of acquisition settled in next year is not a non-cash transaction
- Valuation by Registered Valuer
- Sec.185(1), Sec.2(77) and Rule 4 of The Companies (Specification of Definition details) Rules 2014
- MBP-1, MBP-2, MBP-4, FA Register, Minutes Books, Reports of AGM, subsequent period information

Paragraph 3(xvi)– CARO 2016

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.

Paragraph 3(xvi)– CARO 2016

❖ Registration u/s 45-IA of RBI Act, 1934

- Financing activity as the principal business
- Business of NBFC requires registration
- Financial activity define by RBI
- Net owned Funds requirement
