

## JK SHAH CLASSES- AUDIT

CARO 2015 means Companies (Auditor's Report Order) 2015

### What is CARO 2015?

It is a statement on which auditor has to comment upon all the matters asked in that statement. This statement is issued along with audit report as an annexure to the main report. It must be noted that an auditor has to comment upon all matters that are mentioned in CARO 2015. CARO is applicable to the companies fulfilling certain conditions i.e. it is not applicable to all companies. The requirement for CARO comes from Section 143 of Companies Act 2013.

### Facts about CARO 2015:-

CARO 2015 was notified by Ministry of Corporate affairs as on 10<sup>th</sup> April 2015 and it is applicable from FY 2014-15 onwards

It is to be read with Sec 143 (11) of Companies Act 2013

It replaces the old CARO 2003 which was relevant for Companies Act, 1956.

Number of Clauses- 12

Reporting- Auditor's comment required whether the answers to the matters is positive or negative.

### For which companies is CARO **NOT** APPLICABLE COMPANIES?

- 1) Banking company covered by Banking Regulation Act, 1949
- 2) Insurance company covered under Insurance Act, 1938
- 3) Company working for Charitable purposes covered under Section 8 of Companies Act, 2013
- 4) One person Company as per Companies Act, 2013
- 5) Small Company as per Companies Act, 2013
- 6) **Private Ltd company**-All the following three conditions **must** be fulfilled **to GET EXEMPTION** from requirement. If AT **ANY POINT OF TIME DURING THE FINANCIAL YEAR** even if one condition is **not fulfilled** CARO 2015 will be **applicable**. Conditions are as follows:

Paid up capital & Reserves does not exceed Rs. 50 lakhs

&

⇨ Outstanding Loan from banks and financial institution does not exceed 25 Lakhs

&

⇨ Turnover does not exceed 5 crores.

**AT ANY POINT OF TIME DURING THE FINANCIAL YEAR.**

### **Example 1-**

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For example, if the company has Rs. 40 lakhs of paid up share capital, Rs. 5 lakhs as Revaluation Reserve, Rs. 6 lakhs in Capital Reserve, Rs. 4 lakhs as Revenue Reserves and Rs. 7 lakhs as debit balance in the Profit and Loss Account.

ANS- The amount of Rs. 7 lakhs standing to the debit of Profit and Loss Account cannot be deducted from the figures of Rs. 11 lakhs, being the total of the Revaluation Reserve and the Capital Reserve i.e. it can be set off with 4 lakhs Revenue reserve only.

Applicable amount for CARO =  $40 + 5 + 6 + 4 - 4$  (out of Rs. 7 lakhs debit balance of P&L) = 51 lakhs. Hence CARO is applicable if other requirements are fulfilled.

### **Example 2**

For example, if a private limited company has three outstanding loans of rupees nine lakhs each from two banks and a financial institution, the Order would be applicable to such a private limited company.

### **Example 3**

K Ltd is a NBFC involved in lease financing. IS CARO APPLICABLE?

CARO, 2015 is applicable since it is not a banking company as per Banking Regulations Act, 1949.

### **Example 4**

CC PVT UNLIMITED, a company registered under Companies Act, 2013 with unlimited liability. For FY 2014-15, it had turnover- 3 crores, outstanding loans from banks and FI, 24 lakhs and PSC with reserves of 49.5 Lakhs. CARO, 2015 is applicable?

Yes, since it is an unlimited liability company.

## **CLAUSES**

### **1. FIXED ASSETS [3(i)]:**

**(a) Adequacy of Records:** Whether or not proper records have been maintained to show full particulars including quantitative details and details about situation of Fixed Assets.

#### **(b) Verification:**

- Whether the Management of the Company has physically verified the Fixed Assets, at reasonable intervals, and
- Whether material discrepancies observed, if any, on such verification have been suitably dealt with in the books of account.

### **2. INVENTORIES [3(ii)]:**

**(a) Verification:** Whether Management has physically verified all the inventories at suitable intervals.

**(b) Adequacy of procedures:** Whether the procedures for physical verification of inventory are reasonable and adequate, having regard to the size of the Company and the nature of its business.

#### **(c) Adequacy of Records:**

- 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.

### **3. LOANS TO DIRECTORS AND INTERESTED PARTIES [3(iii)]:**

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LOANS GIVEN: Has the Company granted any loans, secured or unsecured, to Companies, Firms or other parties covered in the Register maintained u/s 189 of the Act.

- Repayment: Whether receipt of the Principal and the interest amount are regular.
- Steps for recovery: If overdue amount is more than ` 1,00,000, whether reasonable steps have been taken by the Company for recovery of Principal and Interest.

### **4. INTERNAL CONTROL [3(iv)]:**

(a) Adequacy: Is there an adequate Internal Control procedure 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 its goods and services.

(b) Correction of Weakness: Whether there is a continuing failure to correct major weaknesses in Internal Control.

**5. DEPOSITS FROM PUBLIC [3(v)]:** If the Company has accepted Deposits from public, whether the following are complied with –

- Directives issued by the Reserve Bank of India,
- Provisions of Sec. 73 to 76 or any other relevant provision of the Companies Act, 2013 and its rules.
- Orders, if any, passed by the Company Law Board / NCLT / RBI / any Court / Tribunal.
- The nature of contraventions, if any, should be stated in the Report.

### **6. COST ACCOUNTING RECORDS [3(vi)]:**

If the Central Government had prescribed maintenance of Cost Records u/s 148(1), whether or not such accounts and records have been prepared and maintained properly.

### **7. STATUTORY DUES [3(vii)]:**

(a) Is the Company regular in depositing Undisputed Statutory Dues including Provident Fund, Employees' State Insurance, Income Tax, Wealth Tax, Service Tax, Sales Tax, Customs Duty, Excise Duty, Value Added Tax, Cess and any other Statutory dues with the appropriate authorities. If not paid regularly, 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 6 months from the date they became payable, shall be indicated in the Report.

(b) If such non-payment of dues is on account of any dispute, then the amount involved and the forum where the dispute is pending should also be mentioned.

(c) Whether the amount required to be transferred to Investor Education and Protection Fund in accordance with the provision of Companies Act, 1956 has been transferred to such fund within time.

### **8. LOSS MAKING COMPANIES [3(viii)]:**

In case of a Company which has been registered for a period not less than five years, the following should be reported :

- Whether the Accumulated Losses at the end of the relevant Financial Year exceeded 50% of the Company's Net Worth,
- Whether the Company has incurred Cash Losses in the immediately preceding Financial Year.

### **9. REPAYMENT OF DUES [3(ix)]:**

(a) Has the Company paid the Principal and Interest dues to Financial Institutions, Banks or debenture-holders without default,

(b) In case of default, the period and the amount of default shall be reported.

**10. GUARANTEES GIVEN [3(x)]:**

Where the Company has given any guarantee for loans taken by others from Bank or Financial Institutions, whether or not the terms and conditions thereof are prejudicial to the interest of the Company.

**11. END USE OF BORROWINGS [3(xi)] :**

Whether or not Term Loans are applied for the purpose for which such loans were obtained.

**12. FRAUD [3(xii)]:**

Whether any Fraud on or by the Company has been noticed or reported during the year. Where any Fraud is noticed and reported, the nature and the amount involved should be indicated.

**Other Imp Points:**

**Reasons to be stated for unfavourable or qualified answers [Para 4]**

1. Where the answer to any of the above questions is unfavourable or qualified, the Auditor's Report shall state the reasons for such unfavourable or qualified answer, as the case may be.
2. If the Auditor is unable to express any opinion in answer to any particular question, his Report shall indicate such fact, together with reasons why it is not possible for him to give an answer to such a question.

**Applicability of CARO to Foreign Companies.**

CARO also applies to Foreign Companies as defined u/s 2(42) of the Act. "Foreign Company" means any Company or body corporate incorporated outside India which –

- (a) Has a place of business in India whether by itself or through an agent, physically or through electronic mode, and
- (b) Conducts any business activity in India in any other manner.

In respect of Foreign Companies, an established place of business in India would include a Liaison Office.

**Case Study**

**CA V is appointed as the Branch Auditor of VVK Ltd. Is he required to comply with the CARO when issuing his Branch Audit Report, or is CARO applicable only with respect to the Audit Report issued by the Principal Auditor?**

1. Sec.143(8) specifies that a Branch Auditor has the same duties in respect of Audit as the Company's Auditor.
2. The Report submitted by the Branch Auditor should contain a statement on all the matters specified in CARO, to enable the Company's Auditor to consider the same. Hence, CARO is applicable for Branch Audits also.