

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 10th April 2015 and it is applicable from FY 2014-15 onwards.

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 is 50 lakhs or less
 - &
 - Outstanding Loan from banks and financial institution is 25 lakhs or less
 - &
 - Turnover is 5 crore or less

AT ANY POINT OF TIME DURING THE FINANCIAL YEAR.

Term	Includes	Excludes (subtract, if included)
Paid up capital	Equity + Preference	Calls in arrears Share application money
Reserves (Refer Example 1)	Capital + Revenue	Debit balance of P&L Account only from credit balance of REVENUE reserves and not from paid up capital
Outstanding loans (Refer Example 2)	Only loans from banks and financial institution Bank Guarantee given by the company, if such guarantee is encashed as it now becomes a bank loan. Long term as well as short term Outstanding amounts on credit card. Any loan facility by the bank	Any other loan
Turnover	-Total sale of goods and services -commission allowed to third parties	-sales tax collected or excise duty collected should not be taken into account if they are credited separately to sales tax

	-The income received by way of rent or dividend /interest if the company is engaged in letting out property/investments at gross amount	account or excise duty account trade discounts -sales returns received during the year even if the returns are from the sales made in the earlier years -The income received by way of rent or dividend/interest if the company is not engaged in letting out property/investments
--	---	---

Example 1-

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, and 5 lakhs of Misc Expenditure.

ANS- The amount of Rs. 6 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. Misc Expenditure is not to be deducted at all.

Applicable amount for CARO= 40 + 5 + 6 + 4 – 4 (out of Rs. 7 lakhs debit balance of P&L) – 0 (MISC EXP) = 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.

Clauses of CARO ,2015

- 1) Whether the company is maintaining proper recodes showing full particulars including quantitative details and situation of fixed Assets.
- 2) **Clause i B):**
Whether the fixed assets have been physically verified by the management at reasonable intervals ; Whether any material Discrepancies were noticed on such verification & If so,
 - Whether the same have been properly Dealt with in the Books of Accounts.
- 3) **Clause is a):**
Whether physical verification of Inventory has been conducted at reasonable intervals by the Management.
- 4) **Clause is b):**
Are the procedures of physical verification of inventory followed by the management?
 - Reasonable & Adequate in relation to the size of the company & nature of its Business.
 - If not the inadequacies in such procedures should be reported.
- 5) **Clause ii c):**
Whether the company is maintaining proper records of inventory & whether any material discrepancies were noticed on physical verification & if so whether the same have been properly dealt with in the Book of Accounts.
- 6) **Clause iii):**
Whether the company has granted any Loans, Secured or unsecured to companies, firms or other parties covered in the register (u/s 189) maintained u/s189 of companies Act,2013.
- 7) **Clause iii a) :**
Whether receipt of principal amount & interest are also regular.
- 8) **Clause iii b) :**
If overdue amount is more than ₹ 1,00,000 whether reasonable steps have been taken by the company for recovery of principal & Interest.
- 9) **Clause iv):**
Is there an adequate internal Central System, Commensurate with the size of the company & nature of its business. For the purchase of inventory & Fixed Assets and for the sale of goods & Services.
Whether there is a continuing failure to correct major weakness in internal Control system.
- 10) **Clause v):**
 - In case the company has accepted public Deposits Whether:
 - The directives issued by the RBI &
 - Provisions of see 73 to 76 or &(Public deposits sections) – Not in syllabus
 - Any other relevant provision of the companies Act & the rules framed thereunder, where applicable have been complied with or not.
 - The nature of contraventions or violations should be sated.
 - If an order has been passed by the company law board or national company law tribunal or RBI or any court or any other tribunal.
 - Whether the same has been complied with
 -

11) Clause vi) :

- Where maintenance of cost Records has been specified by the Central Govt. as [per sec. 148(1) of the companies Act.
- Whether Such Accounts & records have been made & maintained.

12) Clause vii a):

Is the Co. regular in depositing undisputed statutory dues including

- Provident fund
- Employees State Insurance
- Income Tax
- Sales Tax
- Wealth Tax
- Service Tax
- Custom Duty
- Excise duty
- Value Added Tax
- Cess
- Any other statutory dues with appropriate authorities if not

The extent of the arrears of outstanding statutory dues as at the last day of financial year.

For a period of more than & months from the date they became payable shall be indicated by the auditor.

13) Clause vii b) :

In case due of :

- Income Tax
- Sales Tax
- Wealth Tax
- Service Tax
- Customs Duty
- Excise Duty
- VAT
- CESS

Have not been deposited on account of any dispute then:

The amounts involved & the forum where dispute is pending shall be mentioned.

14) Clause vii c):

Whether the amount required to be transferred to investor education & protection Fund in Accordance with relevant provisions of Companies Act, 1956 & rules made there under has been transferred to such fund within time.

15) Clause viii):

Whether in case of a company which has been registered:

- For a period not less than 5 years (≥ 5 years)
- Its accumulate losses at the end of the financial year are not less than 50% of its net worth (Acc. Loss $\geq 50\%$ of Net worth)

Whether it has incurred cash losses in such financial year & the immediately preceding financial year.

16) Clause ix):

Whether the company has defaulted in repayment of dues.

- To a financial Institution or Bank or Debentures holders?
- If yes.

The period & Amount of default to be reported.

17) Clause x):

Whether the company has given any Guarantee for

- Loans taken by others from Banks or Financial Institution
- The terms & Conditions whereof are prejudicial to the interest of the company.

18) Clause xi):

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

19) Clause xii):

Whether any fraud on or by the company has been noticed or reported during the year

If yes,

The nature & the amount involved is to be indicated.

- 1- Fixed Assets
- 2- Inventory
- 3- Loans to parties u/s 189
- 4- Internal control system
- 5- Public Deposits
- 6- Cost records
- 7- Statutory dues
- 8- Accumulated Losses
- 9- Repayment to F. I. Banks & Deb. Holders
- 10- Guarantee to banks / PF/s
- 11- Term loans
- 12- Frauds
