COMPANIES AUDITOR REPORT ORDER (CARO) RULES, 2016



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The MCA has issued the Companies (Auditor's Report) Order, 2016 (CARO 2016), on 29th March 2016. This order has been issued in supersession of the Companies (Auditor's Report) Order, 2015, and is applicable for reporting on financial statements of companies whose financial year commences on or after 1st April 2015. CARO 2015 was issued by MCA in supersession of CARO 2003 which was issued earlier in pursuance with the provision of Section 227 (4A) of Companies Act 1956.

Now, the MCA has relaxed the applicability of CARO 2016 to private companies by increasing applicability thresholds. CARO 2016 will not apply to the auditor's report on consolidated financial statements. The total number of clauses in the new CARO is 16. CARO 2016 has enhanced the auditor's reporting requirements in certain areas, such as related party transaction and managerial remuneration. The provisions of the CARO 2016 are furnished below:

CARO 2016 is applicable from FY 2015-16 and the matters specified therein shall be included in each report made by the auditor under Section 143 of the Companies Act, 2013 on the account of every company to which CARO 2016 applies.

Section 143 (11) of the Act stipulates that the Central Government may order for the inclusion of statement on specified matter in the auditor's report for specified class or description of companies. Accordingly, CARO 2016 is issued in pursuance of Section 143 (11) of Companies Act 2013 for inclusion of the matters specified therein in auditors' report. Hence, CARO 2016 should be complied by the statutory auditor of every company on which it applies.

CARO 2016 applicable to every company including a foreign company as defined in clause (42) of Section 2 of the Companies Act 2013.

The following classes of companies are outside the purview of the CARO 2016.

- (a) Banking company as defined under Section 5 (c) of the Banking Regulation Act, 1949.
- (b) Insurance company as defined under the Insurance Act 1938.
- (c) Company licensed to operate under Section 8 of the Companies Act 2013 (companies registered with charitable object).
- (d) A one person company (OPC) as defined under clause (62) of Section 2 of Companies Act 2013 (OPC means a company which has only one person as a member).
- (e) A small company under Section 2 (85) of the Companies Act, 2013.
 - (1) As per sec 2(85) of Companies Act 2013 small company means a company, other than a public company:
 - a) Paid up share capital of which does not exceed ₹ 50 lacs or such higher amount as may be prescribed which shall not be more than ₹ 5 crore, and
 - b) Turnover of which as per its last profit and loss account does not exceed ₹ 2 crore or such higher amount as may be prescribed which shall not be more than ₹ 20 crore.
 - (2) The following company shall not qualify as a small company:
 - a) A holding company or a subsidiary company.
 - b) A company registered under Section 8 of the Act.
 - c) A company or body corporate governed by any special act.

- (f) The auditor of following type of Private Companies are not required to comment on the matter prescribed under CARO 2016:
 - (1) A private company which is not holding or subsidiary company of a public company, and
 - (2) A private company having a paid up capital and reserve and surplus not more than ₹ 1 crore as on the balance sheet date, and
 - (3) A private company which does not have total borrowing exceeding ₹ 1 crore from any bank and financial institution at any point of time during the financial year, and
 - (4) A private company which does not have total revenue exceeding ₹ 10 crore during the financial year.

Note: Such revenue means revenue as disclosed in scheduled III to the Companies Act, 2013 and includes revenue from discontinuing operation.

Matters included in CARO 2016 are discussed below:

Fixed Asset [clause 3 (i)]

- (a) Whether the company is maintain proper records showing full particulars including quantitative details and situation of fixed asset.
- (b) Whether these fixed asset have been physically verified by management at reasonable interval.
- (c) 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.

Inventory [Clause 3 (ii)]

- (a) Whether physical verification of inventory has been conducted at reasonable interval by the management.
- (b) Whether any material discrepancies has been noticed on such verification and if so, whether the same has been properly dealt with in the books of account

Loan given by Company [Clause 3 (iii)]

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

- (a) Whether terms and conditions of the grant of such loan 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 and receipts are regular
- (c) If the amount is overdue, state the total amount overdue, state the total amount overduefor more than 90 days and whether reasonable steps have been taken by the company for recovery of principal.

Loan to director and investment by the company [Clause 3 (iv)]

In respect of loan, investment, guarantees and security whether provision of Sections 185 and 186 of the Companies Act, 2013 has been complied with. If not, provide the details thereof.

Deposits [Clause 3 (v)]

In case, the company has accepted deposits, whether the following has been complied with:

Directives issued by the reserve bank of India

- (a) The provision of sec 73 to 76 or any other relevant provision of Companies Act, 2013 and the rules framed there under, and
- (b) If the order has been passed by company law board (CLB) or National company law tribunal (NCLT) or RBI or any court or any other tribunal.
- (c) However, if any of the above not complied with, the nature of contraventions should be stated.

Cost Records [Clause 3 (vi)]

If Central Government has specified maintenance of cost records under sec 148 (1) of Companies Act, 2013 whether such accounts and records have been made and maintained.



Statutory Dues [Clause 3 (vii)]

- (a) Whether the company is regular in depositing undisputed statutory dues with the appropriate authorities including Provident fund, Employees State Insurance fund, income tax, sales tax, service tax, duty of custom, duty of excise, value added tax, cess or any other statutory dues. If the company is not regular in depositing such statutory dues, the extent of 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 become payable, shall be indicated by the auditor.
- (b) In case dues of income tax and sales tax or service tax or duty of custom or duty of excise or value added tax have not been deposited on account of any dispute, then the amount involved and the forum where dispute is pending shall be disclosed.

Repayment of Loan [Clause 3 (viii)]

Whether the company has defaulted in repayment of loans and borrowing to a financial institution, banks, government or dues to debenture holders. If yes, the period and the amount of default to be reported.

Utilisation of IPO and further public offer [Clause 3 (ix)]

Whether money raised by way of initial public offer or further public offer and the term loans were applied for the purpose for which those are raised. If not, the details together with delays and defaults and subsequent rectification, if any, as may be applicable, be reported

Reporting of Fraud [Clause 3 (x)]

Whether any fraud by the company or any fraud on the company by its officers and employees has been noticed or reported during the year: if yes, the nature and the amount involved is to be indicated.

Approval of managerial remuneration [Clause 3 (xi)

Whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provision of Section 197 read with schedule 5 to the Companies Act, 2013. If not, state the amount involved and step taken by the company for securing refund of the same.

Nidhi Company [Clause 3 (xii)]

Whether the Nidhi company has complied with the net owned funds to deposit in the ratio of 1:20 to meet out the liability and whether the Nidhi company is maintain 10% unencumbered term deposit as specified in the Nidhi rules 2014 to meet out the liability.

Related Party Transaction [Clause 3 (xiii)]

Whether all transaction with the related party is in compliance with Section 177 and 188 of the Companies Act, 2013 where applicable and the details have been disclosed in the financial statement etc., as required by the applicable accounting standard.

Private Placement of Preferential Issues [Clause 3 (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 Companies Act, 2013 have been complied with and the amount raised has been used for the purpose for which the funds were raised. If not, provide the detail in respect of the amount involved and the nature of noncompliance.

Non Cash Transaction [Clause 3 (xv)]

Whether the company has entered into any non-cash transaction with the director or person concerned with his and if so, whether the provision of Section 192 of Companies Act, 2013 has been complied with.

Register under RBI Act 1934 [Clause 3 (xvi)]

Whether the company is required to be registered under Section 45 IA of Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained.

A comparative view between CARO 2015 and CARO 2016

CARO 2015	CARO 2016
Fixed assets	Retained with some changes
Inventory	Retained with some changes
Loans to related parties (Sec. 189)	Retained with some changes
Adequate internal control	Deleted
_	Loan Guarantee Security
Deposits	Retained
Cost records	Retained
Statutory dues	Retained with some changes
Accumulated losses	Deleted
Repayment of loan	Retained with some changes
Guarantees	Deleted
Term loans	Retained with inclusion of IPO & FPO
Fraud reporting	Retained with some changes
_	Managerial Remuneration
_	Nidhi company
_	Related party transaction
_	Private placement
_	Non cash transaction
	NBFC

ICAI's Guidance Note on CARO 2016 by MCA [24 April, 2016]

The MCA has issued the Companies (Auditor's Report) Order, 2016 (CARO, 2016) which is applicable for audits of financial statements for periods beginning on or after April 1, 2015. The CARO 2016 contains several new/modified reporting requirements vis-a-vis the CARO 2003/ CARO 2015.

The ICAI, with a view to provide appropriate guidance to it's members, has brought out Guidance Note on the Companies (Auditor's Report) Order, 2016. It is divided into:

- (a) Relevant provision which contains Requirement of all clauses.
- (b) Audit procedures and Reporting which covers Procedure to be adopted by auditor.

This Guidance Note has been written in an easy to understand language and contains detailed guidance on various Clauses of CARO 2016 and the various issues and intricacies involved therein, so that the requirements and expectations of the Order can be fulfilled in letter and spirit by the auditors. It's a comprehensive and self contained reference document for the members.