

Companies (Auditor's report) Order 2016
CARO

By
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Applicability:

Applicable to **ALL** companies including foreign company

Except

- ❖ Banking Company;
- ❖ Insurance company;
- ❖ Licensed to operate under **Sec. 8** of the Companies Act.
- ❖ One Person Company u/s 2 (62) and a small company as u/s 2 (85)
- ❖ A Private Limited company Subject to certain conditions.

Q: Is it applicable to Branches of the company?

Q: Is it applicable to Unlimited private companies?

YES.

YES.

Irrespective of conditions.
Q: Is it for small Branches also?

Yes. Irrespective of size.

Conditions to PRIVATE LIMITED companies:

3 Conditions

Comply **THROUGH OUT** the period

(Paid up cap + R&S)

\leq
100 lakh
On BS date;

Equity + Preference
All reserves
i.e. Revenue & capital reserves;
like
Revaluation reserve,
CRR &
P&L debit balance;
Miscellaneous exp

Loan o/s from bank or other fin. Inst.

\leq
100 lakh

Total revenue
as per Sch III

\leq
10 Crore



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\leq
100 lakh on
BS Date;

Loan o/s from bank or other fin. Inst.

\leq
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Total revenue
as per Sch III

\leq
10 Crore

All kinds of loans i.e.

Long term & short term

Working cap loan; cash credit;

Bills purchased or discounted;

Public deposits;

Creditors; Debentures;

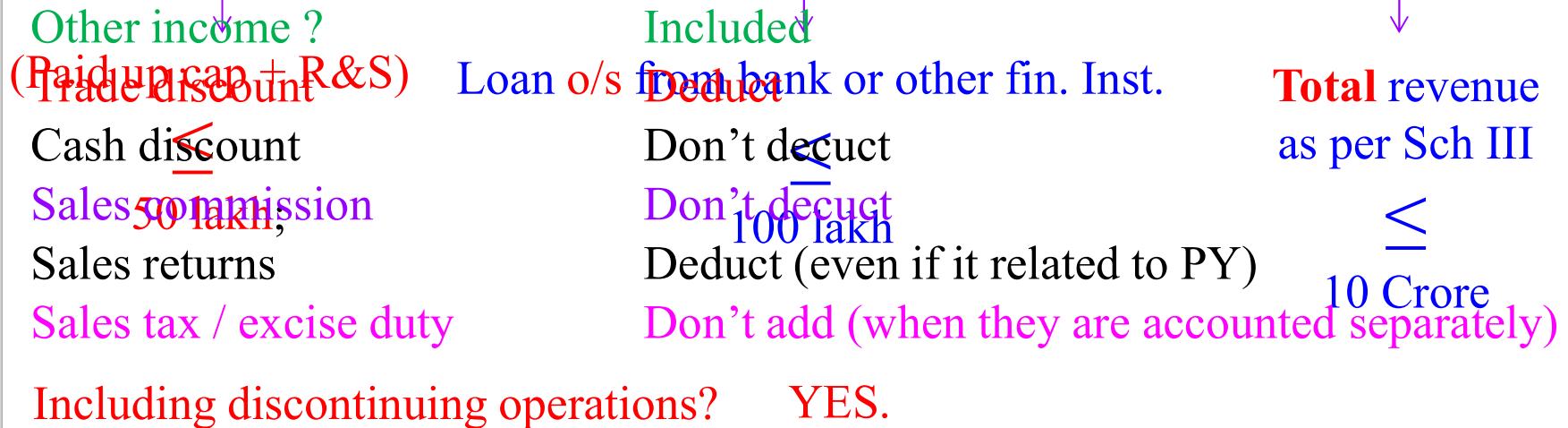


Conditions to PRIVATE LIMITED companies:

3 Conditions

Comply **THROUGH OUT** the period

It means - revenue from sale of **goods** / **services**.



Question:

A Pvt. Ltd. is incorporated on 1st July, 2016. During the year ended 31st March, 2017, it had issued shares (fully paid up) of Rs. 40 lakhs, had borrowed Rs. 7.5 lakhs each from 2 financial institutions and its turnover (Net of excise Rs. 50 lakhs which is credited to a separate account) is Rs.475 lakhs. Will Companies Auditors Report Order, 2016 (CARO) be applicable to A Pvt. Ltd.?

Answer:

- ❖ Write 3 conditions related to Pvt. Ltd. companies
- ❖ All conditions satisfied – hence CARO is NOT applicable.

Question:

T Pvt. Ltd.'s paid up Capital & Reserves are less than Rs. 100 lakhs and it has no outstanding loan exceeding Rs. 100 lakhs from any bank or financial institution. Its sales are Rs. 11 crores before deducting Trade discount Rs. 10 lakhs and Sales returns Rs. 95 lakhs. The services rendered by the company amounted to Rs. 10 lakhs. The company contends that reporting under Companies Auditor's Reports Order (CARO) is not applicable. Discuss. (Nov. 2007)

Answer:

- ❖ Write 3 conditions
- ❖ Turnover = 10.05 crore (11 – 0.1 – 0.95 +0.10)
- ❖ CARO is APPLICABLE

Question:

H Private Ltd had taken overdrafts from two banks with a limit of 50 lacs each against the security of fixed deposit it had with those banks and an unsecured overdraft from a financial institution of 9 lacs. The said loans were outstanding as at 31st March 16. The paid up capital and reserves of the company as at that date was 40 lacs and its turnover during the financial year ended on 31st March 13 was 3 crores. The management of the company is of the opinion that CARO 2016 is not applicable to it because turnover and paid up capital were within the limits prescribed and loans taken against the fixed deposits cannot be considered. The company further contended that loan limit is to be reckoned per bank or financial institution and not cumulatively. Comment. *(4 Marks) (May 2013)*

Answer:

- ❖ Write 3 conditions
- ❖ Loan against fixed deposit also considered in calculation.
- ❖ Total loan amounts to Rs. 109 lakh.
- ❖ CARO is applicable.

Question:

X Pvt. Ltd. is a subsidiary of a listed entity incorporated outside India. The mgt of the company believes that since, X Pvt. Ltd. is a Private Company and satisfies all condition under the Companies (Auditor's Report) Order, 2016, reporting under CARO is not applicable ***(Nov 2012)***

Answer:

- ❖ It is NOT a subsidiary of Indian public company.
- ❖ So it should be treated as Pvt. Ltd. company.
- ❖ Mgt intention is CORRECT. CARO is NOT applicable.

There are 16 points

Ar should comment – whether his finding are favourable or unfavourable

(1) Fixed Assets:

- (a) Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets

Fixed asset Register (FAR) should contain -

- (i) Asset description;
- (ii) Original cost;
- (iii) Year of purchase;
- (iv) Location (situation);
- (v) Classification (P&M, L&B and etc);
- (vi) Depreciation in CY;
- (vii) Accumulated dep;
- (viii) Revaluation reserve (if any);
- (ix) Impairment details (if any); .. etc

(1) Fixed Assets:

(b) Whether these fixed assets have been physically verified at reasonable intervals by the Mgt;

Whether all material discrepancies have been properly dealt with in the books;

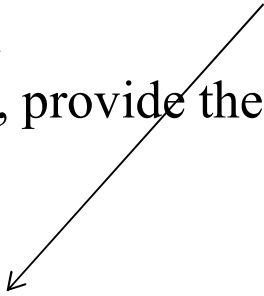
At least ONCE in 3 years

- ❖ Duty of Mgt;
- ❖ Can be performed by outside agencies;
- ❖ Ar may observe;
- ❖ Get WRL(SA 580) for confirming verification and regarding discrepancies

(1) Fixed assets

(c) Whether the title deeds of immovable properties are held in the name of the company.

If not, provide the **details** thereof;

- 
- Review & Identify immovable property;
 - Verify registered sale deed, transfer deed, etc.;
 - If it is lease hold property – lease deed;
 - If lost by company – check FIR & obtain WRL SA 580;
 - Any disputes – contact legal counsel and etc.

(2) Inventory:

whether physical verification of inventory has been conducted at reasonable intervals by the management;

Any Material discrepancy noticed?

Is it properly dealt in books of a/c?

- Mgt. Duty;
- Ar should observe u/SA 501;

➤ Once in a year

(3) Loans to Sec. 189 persons: **PROPRIETY**

Has the company **granted** any loans (*secured or unsecured*) to persons of sec.189.

(a) Are **terms and conditions** are **prejudicial** to company?

(b) whether payment of the **principal** & **interest** are also regular

➤ As and when it becomes due – as per the agreement;

- Obtain the list of loans and verify register u/s 189;
- Consider granted and returned also;
- T&C – Rate, security, period, payment terms - compare with market terms

(3) Loans to Sec. 189 persons: **PROPRIETY**

(c) if overdue amount for more than 90 days,

- State the amount in report;
- whether reasonable steps have been taken by the company for recovery;

- Obtain list of loans and verify register u/s 189;
- Payment is NOT made/ received on due date

- Need NOT to be legal steps;
- Sending reminders;
- Sending advocate's notice

(4) Compliance of Sec. 185 & 186:

- ❖ In respect of **loans, investments, guarantees, and security** whether provisions of section 185 and 186 have been complied with.

If not, provide the details thereof. [Paragraph 3(iv)]

- ❖ Compliance of **Section 185 : Loan to directors**, etc.
 - ❖ It prohibits loans to any directors and directors interested entities;
 - ❖ Few exceptions are given - if it is as part of ordinary business; approved scheme by members & along with other employees;
 - ❖ Check the records for transactions with directors;
- ❖ **Section 186: Loan or investment** by the company
 - ❖ Obtain list of loans to any body corporate, etc.
 - ❖ Check the maximum limit – crossed or not;
 - ❖ If crossed – prior special resolution in meeting;
 - ❖ Interest rate should **not be less than GOI bond Yield**;

(5) Public deposits (Section : 73, 74, 75 & 76):

Did the company accept public deposits ?

Q: Have they complied

- (i) RBI guidelines;
- (ii) Sec. **73 to 76 of the companies Act 2013** & rules;
- (iii) CLB orders on it;
- (iv) Any other rules framed for this.

If NOT -

Report nature of contravention;

- Examine the repayment ICS; &
- Observe other documents;

(6) Cost Records:

Has cost records been prescribed by the CG u/s 148 for the company?

If yes,

Such accounts and records have been made and maintained properly.

- Applicable to companies engaged in
 - Production;
 - Processing;
 - Manufacturing ; or
 - Mining activities
- Obtain WRL; &
- General review of cost records;

(7) Statutory dues: PROPRIETY

- (a) Undisputed dues;
- (b) Disputed dues;

- PF, ESI,
- Income tax, wealth tax;
- GST & Customs and etc.

(a) Is the company regular in depositing **undisputed** statutory dues?

If not - REPORT

Outstanding statutory dues (as of BS date) for more than 6 months.

- From due date to BS date

(7) Statutory dues:

(b) If amount is NOT deposited on account of any dispute, report

- (i) Amounts involved &
- (ii) Forum where dispute is pending. (high court, SC and etc.)

A mere representation to the Department shall not constitute the dispute.

(8) Defaults:

PROPRIETY

Is there any **default** in repayment of dues to FI's / bank / debenture holders/ loan to government?

If **yes**, *Report* –  **CY defaults + O/s defaults till BS date.**

- ❖ **The period ; &**
- ❖ **Amount of default;**

 **Principal + Interest**

Auditor shd examine –

Loan agreement, other documents, debenture trust deed, repayment schedule ..

(9) Term loans usage :

PROPRIETY

whether money raised

- ✓ Initial / further public offer; &
- ✓ Term loans

were applied for the **purpose** for which the loans were obtained;

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

(10) Fraud:

Whether any fraud **ON** or **BY** the company has been noticed or reported during the year;

If yes, report

Nature & the amount involved.

(11) Managerial remuneration:

Whether Managerial remuneration has been paid or provided as per **197 & Sch V of the act?**

If not, state

the amount involved &

steps taken by the Company for securing refund of the same.

- ❖ Read the relevant provisions;
- ❖ Recompute the calculations & check compliance of it;
- ❖ Check CG permission – if got or applied.

(12) Nidhi company:

Did it comply

- ❖ Ratio of **Net Owned Funds** to **Deposits** in the ratio of 1:20;
- ❖ whether the Nidhi Company is maintaining 10% unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability;

- ❖ In case of short fall - report short fall & actual ratio;
- ❖ Recompute the calculations of ratio & % as per the rules;

(13) :

Whether all transactions with the related parties are

1. in compliance with Sec. 177 & 188 of Companies Act, 2013 &
2. the details have been disclosed in the FS etc., as required by AS;

Sec. 177 deals with Audit committee –

*Approval **or** any subsequent modification of transactions of the company with related parties*

Sec. 188 - Related party transactions

prior special resolution if crossing the transactions amount cross the limit:

- Obtain WRL for this;
- Obtain list of parties & transactions in Sec. 188;
- Transactions with holding and subsidiary – NOT applicable;
- If it is in the normal course of business – NOT applicable;

(14) Preferential allotment & Private placement (Sec 42):

Any preferential allotment or private placement of shares or PCD or FCDs in CY?

Check

1. Compliance of Sec. 42 of the co. act, 2013;
2. Amount raised have been used for said purposes;

If not, provide

- ✓ amount involved; and
- ✓ nature of non-compliance;

(15) Non cash transactions with directors:

Entered into Any non-cash transactions with directors or persons connected with him ?

if so,

Complied with section 192 of Companies Act, 2013?

It talks about restriction on non cash transactions with directors and related to them –

It requires PRIOR ordinary resolution in GM.

(16) NBFC Registration

- *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.*

*Applicable to NBFCs –
Check whether it got registration from RBI;*

Question:

L Private Ltd., which has outstanding loan of Rs. 500 lakhs from Financial Institution defaulted in repayment thereof to the extent of 50%. The company holds that it being a private limited company, the Companies Auditors Report Order (CARO) is not applicable. **(May 07)**

Answer

- ❖ Write 3 conditions related to Pvt. Limited companies;
- ❖ Violation of conditions (Loan > 100 lakh)
- ❖ Has to be reported under CARO clause viii.

Question:

The management of a limited company staffs that proposed dividend does not represent a liability and hence no provision need to be made-Comment. **(May 07)**

Answer:

- ❖ AS 4 – events occurring after the BS date;
- ❖ Schedule III (revised) – Not an obligation;
- ❖ In compliance of AS 4 – No comment by auditor;

Question:

ABC Limited to whom CARO is applicable made a public issue of 7% debentures of Rs. 3 crores, redeemable after 5 years and used the proceeds of issue for payment of Sundry creditors and other Current liabilities to the tune of 3 crores. **(May 2007)**

Answer:

- ❖ Write clause (ix) CARO.
- ❖ Look at the issue documents to know the purpose;
- ❖ If it is NOT used for the purpose – Report in CARO.

Question:

R Ltd. As at 31st March, 2016 defaulted in the repayment of interest and principal due to a financial institution. The due date was 28th February, 2016. However, the defaulted amount was paid on 5th April, 2016. The company's management is of the opinion that since the default is set right before the audit completion these need not be reported in CARO 2016. Comment and draft a suitable report. **(May 07)**

Answer

- ❖ Write clause (viii) of CARO
- ❖ Ar should report period and amount including interest.
- ❖ Report in the following manner

“The company has defaulted in repayment of principal and interest to the financial institution amounted to `....., that become due on 28th Feb, 2013. Also the period of default is 35 days”.

Question

A term loan was obtained from a bank for Rs.50 lakhs for the purpose of purchase of assets for Research & Development (R & D). Out of these funds, a vehicle was purchased for the use of the concerned director who was in charge of the R & D activities. (Nov 2012)

Answer

- Write clause (ix)
- Loan is not used for the said purpose; vehicle purchase cannot be considered for the purpose of R&D;
- The auditor should state the fact in his report that the out of term loan of R&D, a certain sum was not utilised for the purpose of acquiring the R & D assets.

Question:

Non-compliance of Section 73, 74, 75 & 76 would occur where the company fails to intimate the CLB, any default in repayment of deposits made by small depositors or part thereof or any interest there on."

Discuss this statement and state reporting requirements under the Companies (Auditor's Report) Order, 2016 for non-compliance of Section 73, 74, 75 & 76 of the Companies Act, 2013.

Answer:

the audit report should include following matters:

1. Write about the clause (v)
2. Section 73, 74, 75 & 76 deals with small depositors: who has deposited during a financial year a sum =>20,000 .
3. Non-compliance occurs where company fails to intimate CLB, any default in repayment of deposit by small depositors or part thereof or any interest thereupon.
4. The auditor has to first determine whether there is any default, when number of depositors are large, it may not be possible for an auditor to verify each repayment. In such situation, he should examine ICS.
5. He should obtain schedule of repayment and test reasonability of repayments made by the company. If during test check, default in repayment is noticed, he should see whether the same has been intimated to CLB

6. Over and above this, auditor should also examine regarding non-compliance of the sections of the act or rules made there under he should enquire about any order passed by any of the relevant authorities for contravention of Sec 73 to 76

7. The auditor should obtain management representation regarding the compliance of RBI and provisions of 73 to 76 or relevant rules and other matters.

Thank You