

CARO-2015

GOVERNMENT OF INDIA - MINISTRY OF CORPORATE AFFAIRS (MCA) Order dt. 10th April, 2015

In exercise of the powers conferred by section 143(11) of the Companies Act, 2013 and in supersession of the Companies (Auditor's Report) Order, 2003, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 480 (E), dated the 12th June, 2003, except as respects things done or omitted to be done before such supersession, the Central Government, after consultation with the Institute of Chartered Accountants of India, constituted under the Chartered Accountants Act, 1949 (38 of 1949), hereby makes the following Order, namely:-

1. Short title, application and commencement –

(1) This order may be called the Companies (Auditor's Report) Order, 2015.

(2) It shall apply to every company including a foreign company as defined in section 2(42) of the Companies Act, 2013 [hereinafter referred to as the Companies Act], except –

- (i) a banking company as defined in section 5(c) of the Banking Regulation Act, 1949 (10 of 1949);
- (ii) an insurance company as defined under the Insurance Act, 1938 (4 of 1938);
- (iii) a company licensed to operate under section 8 of the Companies Act;
- (iv) a One Person Company as defined under section 2(62) of the Companies Act and a small company as defined under section 2(85) of the Companies Act; and
- (v) a private limited company with a paid up capital and reserves not more than rupees fifty lakh and which does not have loan outstanding exceeding rupees twenty five lakh from any bank or financial institution and does not have a turnover exceeding rupees five crore at any point of time during the financial year.

(3) It shall come into force on the date of its publication in the Official Gazette.

2. Auditor's report to contain matters specified in paragraphs 3 and 4. –

Every report made by the auditor under section 143 of the Companies Act, on the accounts of every company examined by him to which this Order applies for the financial year commencing on or after 1st April, 2014, shall contain the matters specified in paragraphs 3 and 4.

3. Matters to be included in the auditor's report. –

The auditor's report on the account of a company to which this Order applies shall include a statement on the following matters, namely:-

- (i) (a) Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets; (b) 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;
- (ii) (a) Whether physical verification of inventory has been conducted at reasonable intervals by the management; (b) are the procedures of physical verification of inventory followed by the

management reasonable and adequate in relation to the size of the company and the nature of its business. If not, the inadequacies in such procedures should be reported; (c) 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;

- (iii) Whether the company has granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 189 of the Companies Act. If so, (a) whether receipt of the principal amount and interest are also regular; and (b) if overdue amount is more than rupees one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest;
- (iv) Is there an adequate internal control system 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 goods and services. Whether there is a continuing failure to correct major weaknesses in internal control system;
- (v) 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 and the rules framed there under, where applicable, have been complied with? If not, the nature of contraventions should 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?
- (vi) Where maintenance of cost records has been specified by the Central Government under sub-section (1) of section 148 of the Companies Act, whether such accounts and records have been made and maintained;
- (vii) (a) Is the company regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues with the appropriate authorities and ii not, 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 six months from the date they became payable, shall be indicated by the auditor. (b) in case dues of income tax or sales tax or wealth tax or service tax or duty of customs or duty of excise or value added tax or cess have not been deposited on account of any dispute, then the amount involved and the forum where dispute is pending shall be mentioned. (A mere representation to the concerned Department shall not constitute a dispute). (c) whether the amount required to be transferred to investor education and protection fund in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and rules made there under has been transferred to such fund within time.
- (viii) whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year;
- (ix) Whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders? If yes, the period and amount of default to be reported;
- (x) Whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company;
- (xi) Whether term loans were applied for the purpose for which the loans were obtained;
- (xii) Whether any fraud on or by the company has been noticed or reported during the year; If yes, the nature and the amount involved is to be indicated.

4- Reasons to be stated for unfavorable or qualified answers.-

(1) Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavorable or qualified, the auditor's report shall also state the reasons for such unfavorable or qualified answer, as the case may be.

(2) Where the auditor is unable to express any opinion in answer to a particular question, his report shall indicate such fact together with the reasons why it is not possible for him to give an answer to such question.

SUPER SUMMARY PT on CARO-2015

- Central Government, after consultation with the ICAI, hereby makes the ***Companies (Auditor's Report) Order, 2015***. Apply w.e.f. FY Starting 1st April, 2015.
- ***Applicability*** - Every company including a foreign company u/s 2(42) of CA, 2013.
- ***Non-Applicability*** -
 - (a) A Banking Company as defined in Section 5(c) of the Banking Regulation Act, 1949;
 - (b) An Insurance Company as defined under the Insurance Act, 1938;
 - (c) A company licensed to operate under Section 8 of the Companies Act;
 - (d) A One Person Company as defined u/s 2(62) of the Companies Act and a small company as defined u/s 2(85) of the Companies Act; and
 - (e) A Private Limited Company with a
 - ✓ Paid up Capital and Reserves *up to* Rs. 50 Lakhs
 - ✓ Loan Outstanding *up to* Rs. 25 Lakhs from any bank or financial institution and
 - ✓ Turnover *up to* Rs. 5 crores at any point of time during the financial year.
- ***Auditor's report to contain matters*** - Every report made by the auditor u/s 143 of the Companies Act, on the accounts of every company examined by him to which this Order applies for the FY w.e.f. 1st April, 2014, shall contain the matters as below.
- ***Matters to be included in the auditor's report*** -
 - (i) **Fixed Assets** – *Maintenance + Physical Verification + Discrepancy*
 - Maintenance of proper records showing full particulars, including quantitative details and situation of fixed assets;
 - Physically verified by the management at reasonable intervals;
 - If any material discrepancies on verification then, properly dealt with in the books of account;
 - (ii) **Inventory** – *Maintenance + Physical Verification + Procedures + Discrepancy*
 - Maintenance of proper records showing full particulars, including quantitative details;
 - Physical verification of inventory at reasonable intervals by the management;
 - Procedures of physical verification followed by the management reasonable and adequate in relation to the size of the company and the nature of its business. If procedure inadequate it should be reported;
 - If any material discrepancies on verification then, properly dealt with in the books of account;
 - (iii) **Loans Given** – *Granted + Repayment + Recovery*
 - Granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained u/s 189 of the Companies Act;
 - Receipt of the Principal amount and Interest are also regular; and
 - If overdue amount is more than rupees one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest;
 - (iv) **Internal Control System** – *Adequate ICS + Weakness in ICS*
 - Adequate internal control system(ICS) commensurate with the size of the company and the nature of its business,
 - ICS for the purchase of inventory and fixed assets and for the sale of goods and services.
 - Report on continuing failure to correct major weaknesses in ICS.

- (v) **Accept Deposits** – *RBI Directions Compliances + Order of CLB/NCTL/RBI/Court Compliances*
- Accepted Deposits as per direction by RBI and u/s 73 to 76 or any other relevant provisions of the Companies Act and the rules complied with;
 - If not complied, the nature of contraventions should be stated;
 - If an order has been passed by CLB or NCLT or RBI or any court or any other tribunal, whether the same has been complied with or not?
- (vi) **Cost Records** – *Maintenance as specified by CG*
- Maintenance of cost records has been specified by the Central Government u/s 148(1) of the Companies Act;
 - Whether such accounts and records have been made and maintained;
- (vii) **Statutory Dues** – *Depositing Regularly + O/s 6 months reported + Amount & Forum mentioned + Transfer to IEPF*
- Regular in depositing undisputed statutory dues including PF, ESI, income-tax, sales-tax, wealth tax, service tax, duty of customs, duty of excise, value added tax, cess and any other statutory dues with the appropriate authorities;
 - If the arrears of O/s statutory dues as at the last day of the FY concerned for a period of more than six months from the date they became payable, shall be indicated;
 - In case dues of taxes or cess have not been deposited on account of any dispute - Amount involved and the forum where dispute is pending shall be mentioned; *(A mere representation to the concerned Department shall not constitute a dispute)*
 - Amount transferred to investor education and protection fund in accordance with the relevant provisions of the Companies Act, and rules within time.
- (viii) **Accumulated Losses** – *Reg. 5 yrs Co. + Acc. Losses min. 50% of Net Worth + Cash Losses in FY and Preceding FY*
- Company which has been registered for a period not less than five years - its accumulated losses at the end of the FY are not less than 50% of its net worth; and
 - Whether it has incurred cash losses in such FY and in the immediately preceding FY;
- (ix) **Repayment Defaults** – *To Bank/FI/Debenture holders + Report-Period & Amount*
- Defaulted in repayment of dues to a financial institution or bank or debenture holders;
 - The period and amount of default to be reported.
- (x) **Guarantee Given** – *Loan taken by others + T&C are not prejudicial*
- Given any guarantee for loans taken by others from bank or financial institutions;
 - Terms and conditions are prejudicial to the interest of the company.
- (xi) **Term Loans** – *Applied for Purpose*
- Term loans were applied for the purpose for which the loans were obtained;
- (xii) **Fraud** – *On/By Company + Report-Nature & Amount*
- Whether any fraud on or by the company has been noticed or reported during the year;
 - The nature and amount involved is to be indicated.
- **Reasons to be stated for unfavorable or qualified answers.-**
- ✓ Where, in the auditor's report, the answer to any of the questions referred above is unfavorable or qualified, the auditor's report shall also state the reasons.
 - ✓ Where the auditor is unable to express any opinion in answer to a particular question, his report shall indicate such fact together with the reasons why it is not possible for him to give an answer to such question.