

CARO 2015

Section 143(11) of the Companies Act, 2013 states that the Central Government may order for the inclusion of a statement on specified matters in the Auditor's Report for specified class or description of companies. Hence CARO 2015 has been issued by the Central Government as 'additional matters' to be compiled by the statutory auditor of every company to which it applies.

Applicability of CARO 2015

It shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013 (18 of 2013) [hereinafter referred to as the Companies Act], except -

- (i) a **banking company** as defined section 5(c) of the Banking Regulation Act, 1949 (10 of 1949);
- (ii) an **insurance company** as defined under the Insurance Act, 1938;
- (iii) a company licensed to operate under **section 8** of the Companies Act;
- (iv) a **One Person Company** as defined under of 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.

The matters to be included in the Auditor's Report are specified in paragraph 3 of CARO 2015. They are tabulated as follows:

Clause	Item	Reporting Requirement
3(i)	Fixed Assets	(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
3(ii)	Inventory	(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;
3(iii)	Loans and Advances	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;
3(iv)	Internal Control	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?
3(v)	Deposits	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?
3(vi)	Cost Accounting Records	Where maintenance of cost records has been specified by the Central Government under section 148(1) of the Companies Act, 2013 whether such accounts and records have been made and maintained;
3(vii)	Statutory Dues	(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 if 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 amounts 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.
3(viii)	Accumulated Losses	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
3(ix)	Repayment of dues	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.
3(x)	Guarantee given	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;
3(xi)	Application of funds	Whether term loans were applied for the purpose for which the loans were obtained?
3(xii)	Fraud reporting	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

As per paragraph 4 of CARO 2015,

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