COMPANIES (AUDITOR'S REPORT) ORDER, 2016

(CARO 2016)

UNDERSTANDING THE CHANGES!

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Articulator

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RECENT CHANGES IN COMPANIES (AUDITOR'S REPORT) ORDER

NOTIFICATION OF CARO 2016

(A Comparison of CARO 2015 with CARO 2016)

The Ministry of Corporate Affairs has notified the Companies (Auditor's Report) Order, 2016 (CARO 2016) vide its Notification no. S.O. 1228(E) dated 29th March, 2016. This Order supersedes the Companies (Auditor's Report) Order, 2015 dated 10th April, 2015 and shall be applicable for the financial year commencing on or after **1st April, 2015.**

CARO 2016 has introduced a number of new reporting requirements by Statutory Auditors and has cast much more responsibility on them as compared to the CARO 2015.

In this Article, an attempt has been made to compare the provisions of CARO 2015 and CARO 2016 with the aim of highlighting the changes put forth by CARO, 2016 and the revised requirements to be complied going forward. This is not an analysis of the CARO 2016 but a comparison with its previous order to throw light on the changes introduced in order to facilitate an understanding of the new requirements and to prepare ahead.

While making the comparison, CARO 2015 has been taken as the basis to draw out a comparison of the common stipulations between both the Orders and the additional requirements of CARO 2016 have been stated separately for ease of understanding.

COMPARISON OF CARO 2015 AND CARO 2016

Basis of Comparison	APPLICABILITY TO COMPANIES	
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
It shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013 except (i) a banking company as defined in clause (c) of section 5 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 clause (62) of section 2 of the Companies Act and a small company as defined under clause (85) of section 2 of the Companies Act; and (v) a private limited company with a paid up capital and reserves not more than **Rs. 50 Lakhs** and which does not have loan outstanding exceeding **Rs. 25 Lakhs** from any bank or financial institution and does not have a turnover exceeding **Rs. 5 Crores** at any point of time during the financial year.	It shall apply to every company including a foreign company as defined in clause (42) of section 2 of the Companies Act, 2013, except (i) a banking company as defined in clause (c) of section 5 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 clause (62) of section 2 of the Companies Act and a Small Company as defined under clause (85) of section 2 of the Companies Act; and (v) a private limited company, not being a subsidiary or holding of a public company, having a paid up capital and reserves and surplus not more than **Rs. 1 Crore** as on the balance sheet date and which does not have total borrowings exceeding **Rs. 1 Crore** from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as defined in Scheduled III to the Companies Act, 2013 (including revenue from discontinuing operations) exceeding **Rs. 10 Crores** during the financial year as per the financial statements.	1. CARO 2016 will apply to all private companies which are subsidiaries or holding companies of any public company irrespective of their capital, borrowings, turnover etc. 2. The thresholds limits for applicability of CARO 2016 to Private Companies has been increased as below: • Paid up capital and reserves and surplus – Rs. 1 Crore (Previously Rs. 50 Lakhs) • Borrowings – Rs. 1 Crore (Previously Rs. 25 Lakhs) • Revenue – Rs. 10 Crores (Previously Turnover Rs. 5 Crores) • 3. Paid up capital and reserves and surplus to be reckoned as at balance sheet date (previously no clarity) 4. Borrowings to be reckoned at any time of the financial year (previously no clarity) 5. Turnover has been replaced with Revenue as per Schedule III.

Basis of Comparison	APPLICABILITY WITH RESPECT TO FINANCIAL YEAR	
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
For the financial year commencing on or after **1st April, 2014.**	For the financial year commencing on or after **1st April, 2015.** The Order shall not apply to the auditor's report on consolidated financial statements (CFS).	There was no specific prescription in CARO 2015 that it shall not apply to consolidated financial statements.

MATTERS TO BE INCLUDED IN THE AUDITOR'S REPORT

Basis of Comparison		FIXED ASSETS
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
(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;	(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; (c) Whether title deeds of immovable properties are held in the name of the company. If not, provide details thereof.	Additional Reporting requirement: Whether title deeds of immovable properties are held in the name of the company. If not, details to be provided.

Basis of Comparison		INVENTORY
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
(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;	(ii) Whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account;	Verification of procedures followed by the management for physical verification of inventory and their adequacy and also maintenance of proper records of inventory need not be included in the report.

Basis of Comparison		GRANTING OF LOANS BY COMPANIES
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
(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;	(iii) Whether the company has granted any loans, secured or unsecured to companies, firms, Limited Liability Partnerships or other parties covered in the register maintained under section 189 of the Companies Act, 2013. If so, (a) Whether the terms and conditions of the grant of such loans 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 or receipts are regular; (c) if the amount is overdue, state the total amount overdue for more than ninety days, and whether reasonable steps have been taken by the company for recovery of the principal and	The limit of Rs. 1 Lakh for overdue amount has been removed and instead any amount due for more than 90 days needs to be reported now. **Additional Reporting Requirement:** The auditor also needs to report regarding compliance with provisions of Sections 185 and 186.

(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;	interest; (iv) In respect of loans, investments, guarantees and securities, whether provisions of Section 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide details thereof.	

Basis of Comparison		INTERNAL CONTROL SYSTEM
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
(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.	-	**Deleted** 

Basis of Comparison		ACCEPTANCE OF DEPOSITS
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
(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 thereunder, 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?	(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, 2013 and the rules framed thereunder, where applicable, have been complied with? If not, the nature of such contraventions 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?	**No change** 

Basis of Comparison		MAINTENANCE OF COST RECORDS
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
(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 thereunder, 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?	(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, 2013 and the rules framed thereunder, where applicable, have been complied with? If not, the nature of such contraventions 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?	**No change**

Basis of Comparison		STATUTORY DUES
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
(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 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	(vii) (a) whether the company is regular in depositing undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, 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) Where dues of income tax or sales tax or service tax or duty of customs or duty of excise or value added tax have not been deposited on account	The requirement of reporting on transfer to IEPF has been done away with. 

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 thereunder has been transferred to such fund within time.	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).	

Basis of Comparison	**ACCUMULATED LOSSES FOR NEWLY INCORPORATED COMPANIES**	
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
(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;	-	Deleted

Basis of Comparison	**REPAYMENT OF DUES TO FINANCIAL INSTITUTION OR BANK OR DEBENTURE HOLDERS**	
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
(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;	(viii) Whether the company has defaulted in repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders? If yes, the period and the amount of default to be reported (in case of defaults to banks, financial institutions, and Government, lender wise details to be provided).	**Additional reporting requirement:** Default in loans and borrowings from Government also to be reported and in case of any default in repayment, other than to debenture holders, the same needs to be reported lenderwise.

Basis of Comparison	APPLICATION OF MONEY RECEIVED THROUGH LOANS, PUBLIC OFFERS ETC.	
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
(xi) whether term loans were applied for the purpose for which the loans were obtained;	(ix) Whether moneys raised by way of initial public offer or further public offer (including debt instruments) and term loans were applied for the purposes for which those are raised. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported	**Additional reporting requirement:** The Auditors are now additionally required to report regarding moneys raised by way of initial public offer or further public offer (including debt instruments).

Basis of Comparison		REPORTING ON FRAUD
Companies (Auditor's Report) Order, 2015	**Companies (Auditor's Report) Order, 2016**	**Changes In Nutshell**
(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.	(x) Whether any fraud by the company or any fraud on the Company by its officers or employees has been noticed or reported during the year; If yes, the nature and the amount involved to be indicated.	**No change**

The above table is meant to serve as a quick reference for comparing the stipulations of CARO 2015 and CARO 2015 with respect to requirements which are similar in both the orders.

Given below are the additional requirements introduced in the CARO 2016, which were not there in CARO 2015.

ADDITIONAL REPORTING REQUIREMENTS UNDER CARO, 2016

(Other than those already stated above)

(xi) Whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of section 197 read with schedule V to the Companies Act? If not, state the amount involved and steps taken by the company for securing refund of the same.

(xii) Whether the Nidhi Company has complied with the Net Owned Fund in the ratio of 1: 20 to meet out the liability and whether the Nidhi Company is maintaining 10% unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability.

(xiii) Whether all transactions with the related parties are in compliance with Section 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the accounting standards.

(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 the Companies Act, 2013 have been complied with and the amount raised have been used for the purposes for which the funds were raised. If not, provide the details in respect of the amount involved and nature of non-compliance.

(xv) Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether provisions of Section 192 of Companies Act, 2013 have been complied with.

(xvi) 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.

WRAP UP

As far as the applicability of CARO 2016 is concerned, the threshold limit for Private Companies has been increased. However, Private Companies which are holding or subsidiary company of any public company are brought within the ambit of CARO 2016 without any adherence to capital or other requirements. Further, many additional responsibilities have been cast on the Auditors while rendering the report under CARO 2016 like compliance with provisions of Sections 177, 185, 186, 188, 192 and 197 etc. of the Companies Act, 2013.

PROFESSIONAL LIFE

ENDLESS POSSIBILITIES

WITH

BORDERLESS SUCCESSES

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