

Application of CARO 2016:

CARO, 2016 shall apply to every company including a foreign company as defined in Sec. 2(42) of the Companies Act, 2013, except:

- (i) a banking company;
- (ii) an insurance company;
- (iii) a company licensed to operate u/s 8 of the Companies Act;
- (iv) a One Person Company as defined in Sec. 2(62) of the Companies Act and a Small Company as defined in Sec. 2(85) of the Companies Act; and
- (v) a private limited company, not being a subsidiary or holding of a public company,
 - a. having a Paid up capital & Reserves & Surplus not more than ₹ 1 Cr as on the balance sheet date, and
 - b. which does not have total borrowings exceeding ₹ 1 Cr. from any bank or financial institution at any point of time during the financial year, and
 - c. which does not have a total revenue as disclosed in Schedule III to the Companies Act, 2013 (including revenue from discontinuing operations) exceeding ₹ 10 Cr. during the financial year as per the financial statements.

The order would be applicable for unlimited companies irrespective of the size of their paid-up capital and reserves, turnover or borrowings.

Every report made by the auditor u/s 143 of the Companies Act, 2013 on the accounts of every company examined by him to which this Order applies for the financial year commencing on or after 1st April, 2015, shall contain the matters specified in paragraphs 3 and 4, as may be applicable.

The Order shall not apply to the auditor's report on consolidated financial statements.

Important Points:

- a. Provisions of CARO are equally applicable in case of branches also, because under sec. 143(8), a branch auditor has same duties as of company auditor.
- b. A company is covered under the definition of small company, it will remain exempted from the applicability of the Order even if it falls under any of the criteria specified for private company.
- c. Paid up capital includes equity as well as preference.
- d. Amount originally paid-up on forfeited shares should be added to the figure of paid up capital.
- e. Share Application money should not be considered as part of paid up capital.
- f. Reserves includes Capital reserves, revenue reserves as well as Revaluation Reserves.
- g. Credit Balance of Profit and Loss Account will form part of reserve.
- h. In case of debit balance of profit or loss, the same shall be netted for computing reserves and surplus.
- i. Loans from banks and financial institutions are to be considered in aggregate. Financial Institutions will include NBFC.

- j. Loans may be in any form like term loan, demand loans, cash credit overdraft, export credit, bill purchased/discounted.
- k. Non-fund based credit facilities have devolved and have been converted into fund based credit facilities should also be considered as outstanding loan.
- l. Long term loans as well as short term loans, secured as well as unsecured will be considered.
- m. Outstanding dues in respect of credit cards will also be considered.
- n. Interest accrued as well as due does form part of outstanding loan, whereas interest accrued but not due is not considered as loan.
- o. Total revenue as disclosed in Schedule III comprises of Revenue from operations and Other Income.
- p. In respect of a company other than a finance company revenue from operations shall consists of revenue from
 - a. Sale of products;
 - b. Sale of services; and
 - c. Other operating revenues, as reduced by Excise duty.
- q. In respect of a finance company, revenue from operations shall consists of revenue from
 - a. Interest; and
 - b. Other financial services.
 - c. Other income shall consist of the followings: Interest Income (in case of a company other than a finance company); Dividend Income; Net gain/loss on sale of investments; Other non-operating income (net of expenses directly attributable to such income).

CARO 2016.

Category	Title	Para
Fixed Assets [Para 3(i)]	Adequacy of Records	Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;
	Physical verification	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
	Title Deeds	Whether title deeds of immovable properties are held in the name of the company. If not, provide details thereof
Inventories [Para 3(ii)]	Physical verification	a) whether physical verification of inventory has been conducted at reasonable intervals by the management; and
	Material discrepancies	b) 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.
Loans and Advances [Para 3(iii)]	Granting of any loans (secured or unsecured)	Whether the company has granted any loans, secured or unsecured to companies, firms, LLPs or other parties covered in the register maintained under section 189 of the Act. If so,
	Terms & conditions	(a) Whether the terms and conditions of the grant of such loans are not prejudicial to the company's interest;

	Repayment schedule	(b) Whether the schedule of repayment of principal and payment of interest has been stipulated and whether the repayments or receipts are regular;
	Reasonable steps for recovery of amount due for more than 90 days	(c) If the amount is overdue, state the total amount overdue for more than 90 days and whether reasonable steps have been taken by the company for recovery of the principal and interest.
Compliance of provisions of Secs. 185 & 186 - Para 3(iv)	Sec 185 & 186	In respect of loans, investments, guarantees, and security whether provisions of Sections 185 and 186 of the Companies Act, 2013 have been complied with. If not, provide details thereof.
Public Deposits [Para 3(v)]	Compliance with RBI directive	In case the company has accepted deposits from the public, whether the directives issued by the RBI 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 be stated;
	Compliance with NCLT order	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?
Cost Records [Para 3(vi)]	Cost Records	Whether maintenance of cost records has been specified by the CG u/s 148(1) of the Companies Act, 2013 and whether such accounts and records have been so made and maintained.
Statutory Dues [Para 3(vii)]	Depositing of dues and outstanding dues for more than 6 mon	(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, cess and any other statutory dues to 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.
	Disputed dues	(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 of any dispute, then the amounts involved and the forum where dispute is pending shall be mentioned.
Repayment of Dues - Para 3(viii)	Default in repayment	Whether the company has defaulted in repayment of loans or borrowings to a financial institution, bank, government or dues to debenture holders?
	Reporting of default	If yes, the period and amount of default to be reported (In case of defaults of banks, financial institutions and government, lender wise details to be provided).

Application of Money raised by public issue & term Loan - Para 3(ix)	Application of IPO/FPO	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.
	Details of default	If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported.
Fraud [Para 3 (x)]	Notice of fraud	Whether any fraud by the company or any fraud on the Company by its officers/employees has been noticed or reported during the year;
	Nature & Amount of fraud	If yes, the nature and the amount involved is to be indicated.
Managerial Remuneration - Para 3(xi)	Statutory limit	Whether managerial remuneration has been paid or provided in accordance with the requisite approvals mandated by the provisions of Sec. 197 read with Schedule V to the Companies Act?
	Refund of excess remuneration	If not, state the amount involved and steps taken by the company for securing refund of the same.
Nidhi Companies - Para 3(xii)	Compliance with Ratio	Whether the Nidhi Company has complied with the Net Owned Fund to Deposits in the ratio of 1: 20 to meet out the liability and
	Compliance with Nidhi Rules	Whether the Nidhi Company is maintaining 10% unencumbered term deposits as specified in the Nidhi Rules, 2014 to meet out the liability.
Transactions with related Parties - Para 3(xiii)	Compliance	Whether all transactions with the related parties are in compliance with Secs. 177 and 188 of Companies Act, 2013 where applicable and
	Disclosure	the details have been disclosed in the Financial Statements etc. as required by the applicable accounting standards.
Preferential Allotment - Para 3(xiv)	Preferential Allotment	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 Sec. 42 of the Companies Act, 2013 have been complied and the amount raised have been used for the purposes for which the funds were raised. If not, provide details in respect of the amount involved and nature of non compliance.
Non-cash transactions with directors - Para 3(xv)	Non-Cash Transactions with Directors	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.
Registration with RBI - Para 3 (xvi)	Registration u/s 45-IA	Whether the company is required to be registered u/s 45-IA of the Reserve bank of India Act, 1934 and if so, whether the registration has been obtained.