

CARO 2016

Relearning CARO

- CA AVINEESH MATTA



tiya Vitta Salahkar Samiti

Auditor's Report

- S. 143 (1)
 - *6 issues to be inquired and reported in case of negations*

- S. 143(3)
 - *9 issue to be **Reported** per sub section 3*
 - *Rule 11 – report to include views and comments on 3 issues*
 - *Impact of Litigation; foreseeable losses on contracts; delay
IEPF*

- S. 143(11) CG in consultation with NFRA my order specified matters included

Companies (Auditor' Report) Order 2016

- Applicable on accounting periods commencing 01.04.2015
- Not applicable on auditor's reports on CFS
- Applicability on Entities
 - *All Companies including Foreign Companies, (Govt. Companies), but excluding*
 - *Banking and Insurance*
 - *Section 8 companies*
 - *OPC and Small Companies*
 - *Certain Private Companies not subs/ holding of Public Co., with*
 - Paid Up Capital and Reserves & Surplus < **one cr.**
 - *Incl. Bonus, Pref. Cap exclude Share Application Money*
 - Total Borrowing from Bank & FI < **one cr.**
 - Revenue incl. from Discontinued Operations per Sch. III < **Ten cr.**

Reporting

- Matters specified in paragraph 3 & 4 as may be applicable
- Period of compliance
 - *Whether period end date or whole of the period*
- Overall larger picture for whole of the year be viewed
- Assess the detrimental effect of failure to comply
- Supplemental to financial attest, not a separate audit engagement
- Comply audit standards – documentation, materiality
- Check lists and written management responses
- Need to include explicit basis of reaching at adverse opinion

Add-ons, now

- **Title deeds** being held in the name of the company
- Loans, secured or unsecured to parties covered under section 189
- Compliance with provisions of sections 185 and 186
- Payment of managerial remuneration
- Compliance with Net Owned Funds to Deposits ratio of 1:20 by Nidhi companies
- Compliance with section 177 and 188 for transactions with related parties
- Compliance with section 42 in case of private placement and preferential allotment of shares/FCDs/PCDs and end use of the funds so raised
- Compliance with section 192 in case of non-cash transactions with directors or connected persons
- Registration under section 45-IA of the RBI Act 1934

(i) Fixed Assets

- *Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. [Paragraph 3(i)(a)]*
- *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; [Paragraph 3(i)(b)]*
- *Whether the title deeds of immovable properties are held in the name of the company. If not, provide the details thereof; [Paragraph 3(i)(c)] – New Clause*
 - *TDRs and P&M embedded in land not immoveable*
 - *Report No. of cases, gross block and net block, court cases, etc.*

(ii) Inventory

- ***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; [Paragraph3(ii)]***
 - *Merged into one clause*
 - *All items at least once a year – ABC Classification*
 - *Day to day records, what if not maintained?*

(iii) Loans Granted

- ***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. 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 30 days, and whether reasonable steps have been taken by the company for recovery of principal and interest. [Paragraph 3(iii)]***
 - a) current year; b) & c) past years' loans also
 - Acquaint with s. 184, 188 & 189 and Meetings of Board & Its Powers rules
 - Squared up loans covered
 - NBFC need to consider RBI directions
 - Overdue - Report No. of cases, Amount overdue – Principal Interest and Total, Ste

(iv) Loans, Investments, Guarantees & Compliance to s. 185 & 186

- *In respect of loans, investments, guarantees, and security whether provisions of **185** and **186** of the Companies Act, 2013 have been **complied** with. If not, provide details thereof. [Paragraph 3(iv)]*
 - *Understand nitty-gritties of s. 185 & 186*
- *S. 185*
 - *MBP-1*
 - *Direct & Indirect lending prohibited*
 - *NBFC to follow RBI directive also*
- *S. 186*
 - *Layers of subsidiaries*
 - *Investment limits, rate of interest, FI approvals, consent of all directors present in m*
 - *Adequate and complete disclosures in Financial Statements*
 - *compliance with rules 10,11, 12 and 13 of the Companies (Meetings of Directors and Powers) Rules, 2014*

Reporting for s. 186 non-compliance

- [Non compliance of s. 186 CARO Reporting format.docx](#)

(v) Deposits

- *In case the company has accepted deposits from the public, whether the directives issued by the Reserve Bank of India and the provisions of **sections to 76** or any other relevant provisions of the Companies Act, 2013 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 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?** [Paragraph 3(v)]*
 - *Compliance with s. 73~76 Acceptance of Deposit Rules 2014*
 - *Limits, Advertisement, Insurance, Trustees, Receipts to Depositors, Records, Returns to be filed with RoC,*
 - *Examine system, efficacy of internal control, test check*
 - *MR for compliance with RBI, CLB/ Court Order*
 - *Report specific non-compliance*

(vi) Cost Records

- ***Whether maintenance of cost records has been specified by the Central Government under clause sub-section (1) of Section 148 of the Companies Act, 2013 and whether such accounts and records have been so **made and maintained**. [Paragraph 3(vi)]***
 - *The Companies (Cost Records and Audit) Rules, 2014*
 - *“made” applies in respect of cost accounts (or cost statements) and the word “maintained” applies in respect of cost records relating to materials, labour, overheads, etc.*
 - *General broad review only*

(vii) depositing undisputed statutory dues

- **Whether the company 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* 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 ;[Paragraph 3(vii)(a)]**
 - Only applicable ones incl. **overseas**; not contractual or one time occurrence
 - Non payment of advance tax; Rectification application
- **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. {A mere representation to the Department shall not constitute the dispute.} [Paragraph 3(vii)(b)]**
 - Show cause Notice/ SCN cum Demand
 - No appeal filed?
 - Provisions made in account?

Reporting

- “undisputed statutory dues including provident fund, employees’ state insurance, income-tax, sales-tax, wealth tax, service tax, duty of custom, duty of excise, value added tax, cess have not generally been regularly deposited with the appropriate authorities though the **(slight/serious)** delays in deposit have not been serious in cases/ large number of cases”.

- *Statement of Arrears of Statutory Dues Outstanding for More than Six Months*

Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Due Date	Date Payment

- *Statement of Disputed Dues*

Name of the Statute	Nature of the Dues	Amount (Rs.)	Period to which the amount relates	Forum where dispute is pending

(viii) *repayment of loans, financial institution, etc.*

- ***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). [Paragraph 3(viii)]***
 - ***All*** defaults existing on the date of balance sheet
 - NBFI, NBFC, et al included
 - Govt Co/ PSUs, Boards, Corporations, Foreign Govt excluded
 - Repayment of Borrowing and Dues to Debenture holders

Particulars- Lender wise	Amount of the Default as the Balance sheet date	Period of defaults	Remarks
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(ix) Money raised thru 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. If not, the details together with delays or default and subsequent rectification, if any, as may be applicable, be reported;[Paragraph 3(ix)]*
 - *Securities – s 2(h) SCRA*
 - *No legal requirement of disclosure of end use in FS, Co. should add Notes*
 - *SEBI (LODR) disclosure requirement on utilization and unutilized both*
 - *Terms loans from Private Parties*
 - *Past year(s) Term loans utilized in current year*
 - *Temporary parking in FDRs etc.*

(x) Fraud

- ***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 is to be indicated. [Paragraph3(x)]***
 - *Noticed or Reported*
 - *Material for misstatement of FS*
 - *Management fraud v. employee fraud*
 - *Fraudulent financial reporting v. Misappropriation of assets*
 - *S. 143(12) – Fraud reporting – reason to believe fraud is being committed*

(xi) Managerial Remuneration

- ***Whether Managerial remuneration has been paid or provided in accordance with the requisite approval 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[Paragraph 3(xi)]***
 - *Compliance with s 197, Schedule V, Rules 4 & 5 Companies (Appointment & Remuneration of Managerial Personnel) Rules 2014*
 - *Exclusion – sitting fee and for professional services*
 - *Entitled persons, limits, procedure and approval*
 - *Reporting to include person, amount paid/ provided, Due for recovery and steps taken*

(xii) Nidhi Companies

- ***Whether the Nidhi Company has complied with the Net Owned Funds to Deposits in the ratio of 1: 20 to meet out the liability and whether the Nidhi Company is maintaining ten per cent unencumbered term deposit as specified in the Nidhi Rules 2014 to meet out the liability; [Paragraph 3(xii)]***
 - *object of cultivating the habit of thrift and savings amongst its members, receiving deposits from, and lending to, its members only, for their mutual benefit*

(xiii) Transactions with Related Parties

- ***Whether all transactions with the related parties are in compliance with sections 177 and 188 of Companies Act, 2013 where applicable and the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards; [Paragraph 3(xiii)]***
 - *S. 177 (v) Approval and subsequent modification by Audit Committee*
 - *S. 188 applicable to all companies other than on arm's length transactions entered into in ordinary course of business*
 - *Directors/ shareholder approvals as are warranted*
 - *Test on TP mechanism per Income Tax Act*
 - *Subjective, judgmental*
 - *Obtain MR for disclosure*
 - *Management Assertion of responsibility for arm's length*

transactions outside the entity's normal course of business – SA 550

- Standard on Auditing (SA) 550 Related Parties (Paragraph A25) has listed certain examples of transactions outside the entity's normal course of business:
 - *Complex equity transactions, such as corporate restructurings or acquisitions*
 - *Transactions with offshore entities in jurisdictions with weak corporate laws*
 - *The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged*
 - *Sales transactions with unusually large discounts or returns*
 - *Transactions with circular arrangements, for example, sales with a commitment to repurchase*
 - *Transactions under contracts whose terms are changed before expiry.*
- Only illustrative

key aspects of SA 550

- The key aspects of SA 550 which would be relevant for reporting on this clause are:
 - *Identified significant related party transactions outside the entity's normal course of business, detailed guidance is available in paragraph A38 to A41 of SA 550.*
 - *Assertions that related party transactions were conducted on terms equivalent to those prevailing in an arm's length transaction, detailed guidance is available in paragraph A42 to A45 of SA 550.*
 - *Evaluation of the accounting for and disclosure of identified related party relationships and transactions, detailed guidance is available in paragraph A46 to A47 of SA 550.*

(xiv) Preferential allotment or private placement

- *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** 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 ; [Paragraph 3(xiv)]*
 - *Issued thru private placement offer letter*
 - *PAS – 4 Offer letter etc.*

Reporting

a. Non compliance of 42

b. End use

Nature of securities viz. Equity share / Preference shares / Convertible Debenture	Amount Involved	Nature of non-compliance
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Nature of securities viz. Equity share / Preference shares / Convertible Debenture	Purpose for for which funds raised	Total Amount Raised / opening unutilized balance	Amount utilized for the other purpose	Un-utilized balance as Balance date
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(xv) Non Cash Transactions with Directors or persons connected

- Whether **the company has entered** into any non-cash transactions with directors or persons connected with him **and if so**, whether the provisions of **section 185** of Companies Act, 2013 have been complied with. [Paragraph 3(xv)]
 - Arrangements to acquire assets other than for cash
 - Approval in general meeting
 - Valuation by registered valuer
 - Merger etc. under court order not covered
 - MR, MBP-1, MBP-2, MBP-4, FA Register, AC/ BoD Minutes, etc.

(xvi) NBFI Registration

- ***Whether the company **is required to be registered** under section 45-I A of the Reserve Bank of India Act, 1934 and if so, whether the registration has been obtained. [Paragraph 3(xvi)]***
 - *Understanding business, if principal business is Financing activity*
 - 50-50 Test - Financial Assets > 50% of total assets **and** income from Financial ass > 50% of Gross Income
 - *If required and registration not obtained reasons to be stated*

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