

**CARO, 2015**  
**(Notified on 10<sup>th</sup> April, 2015)**

**By:**  
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# Applicability

- Applicable to **foreign companies** defined u/s 2(42);
  - Not Applicable to:
    1. Banking Company
    2. Insurance Company
    3. Section 8 Company
    - 4. Private Company**, if:
      - i. (Paid up Capital + Reserves)  $\leq$  Rs. 50 Lacs; **AND**
      - ii. Outstanding Loan  $\leq$  Rs. 25 Lacs; **AND**
      - iii. Turnover  $\leq$  Rs. 5 Crores
- at any point of time** during the financial year.

# Turnover

Whether “realisable amount to be made” should be the correct interpretation

- **“Turnover”** means the aggregate value of the **realisation of amount made**
  1. from the sale, supply or distribution of **goods**; or
  2. on account of **services** rendered; or
  - 3. both,**by the company during a financial year

# Question

- **ABC Private Limited has provided the following information for the financial year 2014-2015:**

<b>1. Total sales turnover</b>	<b>6 cr.</b>
<b>2. Amount realised from sales turnover</b>	<b>4.5 cr.</b>
<b>3. Paid up share capital</b>	<b>40 L</b>
<b>4. Outstanding Loans from Bank/ F.I.</b>	<b>15 L</b>

**Advise whether CARO, 2015 is applicable on ABC Private Limited**

# Applicability

- **Not Applicable to:**
  - 5. One Person Company [Sec. 2(62)];**
  - 6. Small Company [Sec. 2(85)]:** a Company having:
    - a) Paid up share capital  $\leq$  50 lakhs [5 cr.]; **and**
    - b) Turnover **as per last P & L**  $\leq$  2 cr. [20 cr.]
- **Following do not qualify as a Small Company:**
  - a) Public company;
  - b) Holding or a subsidiary company;
  - c) Section 8 Company;
  - d) Co. or body corporate governed by any special Act

# Question

- **ABC Private Limited has provided the following information for the financial year 2014-2015:**
  - 1. Total sales turnover** **2 cr.**
  - 2. Paid up share capital** **40 L**

**Rule of Interpretation:**

**Expressio unis est exclusio alterius**

# Significant Matters

## Clause 3(i): Fixed Assets

- Proper Record maintenance for quantity & location;
- Physical Verification at reasonable intervals
- Material discrepancies properly dealt in Books;
- ~~Substantial part of fixed assets disposed, if yes, Whether Going Concern affected~~

# Significant Matters

## Clause 3(ii): Inventories

- Physical verification at Reasonable intervals
- Procedure of physical verification is Reasonable
- Proper records maintained
- Material discrepancies properly dealt in Books



# CARO vis-à-vis Section 189 Parties

## **Clause 3(iii) [(a) – (b)] : Loans (secured/ unsecured) Granted**

- Number of parties covered u/s 189 register and amount involved
- Receipt of principal and interest – whether regular
- Terms and conditions are prejudicial
- Reasonable steps taken to recover in case overdue amount > Rs. 1 lac.

## ~~Clause 4 (III) [(c) – (g)] : Loans Taken~~

- ~~• Number of parties and amount involved~~
- ~~• Terms and Conditions Prejudicial~~

## ~~Clause 4 (V) : Section 301 Contracts or Arrangement~~

- ~~• Completion of entries in Register~~
- ~~• Transaction > Rs. 5 lacs are Reasonable~~

# CARO vis-à-vis Internal Control and Internal Audit System

## Clause 3(iv): Internal Control Procedures

- In respect of:
  - ☐ Purchase of inventory and fixed assets;
  - ☐ Sale of goods and services;
- Commensurate with the size of the company and nature of its business – Identify major weaknesses, if any.
- Continuing failure to correct major weakness

## ~~Clause 4 (VII) : Internal Audit (Applicability??)~~

- ~~• Commensurate with nature & size of business~~

# **CARO vis-à-vis Statutory Dues and Financial Dues**

## **Clause 3(vii): Undisputed Statutory Dues**

- Statutory dues to be deposited regularly
- Identification of undisputed amount
- Amounts involved in dispute not deposited and the forum (mere representation before a Forum not a dispute)
- T/f to IEPF – whether made in time

## **Clause 3(ix): Default in repayment of dues**

- What constitutes Default;
- Coverage: Financial Institutions, Banks, debenture holders;
- principal as well as interest

# **CARO vis-à-vis Term Loans and Other Loans**

## **Clause 3(xi) : Application of Term Loans**

- **Generally beyond 36 months and predetermined purpose (capital expenditure)**
- **Actual utilisation of term loans**
- **One to One correlation not necessary**
- **Purpose to be stated (actual (+) pending utilisation)**

## ~~**Clause 4 (XVII): Application of Funds – Short-Term**~~

- ~~**Preparing movement of funds – Source and Application**~~

# CARO vis-à-vis Sick Company

## Clause 3(viii): Sick Company

- Reporting about following required if company has been **registered  $\geq 5$  years**;
- Accumulated Losses  $> 50\%$  of Net Worth
  - ☐ Computation of Accumulated Losses
  - ☐ Computation of Net Worth & Adjust Qualification
- Cash Losses in C.Y. and P.Y.

# Significant Matters

## **Clause 3(v) : ~~Public Deposits~~**

- Compliance with RBI Directives, Sec 58A, 58AA - Examination of System;
- Order if any issued by NCLT/ CLB/ RBI whether complied with

## **Clause 3(vi) : Cost Records**

- Proper cost records as prescribed u/s 148(1)

## **~~Clause 4 (XII) : Adequacy of Documents w.r.t. shares/ debentures/ other securities~~**

- ~~Maintaining adequate records for loans and advances given on security of above~~

# Significant Matters

## ~~Clause 4 (XIII) : Chit Fund Companies~~

- ~~• NOF/ Deposits Liability > 1:20;~~
- ~~• Compliance with Prudential Norms~~
- ~~• Adequate procedures for credit worthiness appraisals;~~
- ~~• Repymt Schedule vis-à-vis borrower's repymt capacity~~

## ~~Clause 4 (XIV) : Companies dealing in shares, etc.~~

- ~~• Proper records~~

## **Clause 3(x): Guarantees for loans taken by others from bank or financial institutions**

- All guarantees are recorded properly
- Terms and conditions are not prejudicial to interests of company

# Significant Matters

## Clause 4 (XVIII) Preferential allotment

- If made to Particular Companies
- Valuation of Companies

## Clause 4 (XIX)

- Proper Security has been created in favour of Debenture Holders

## Clause 4 (XX) Use of funds –

### Public Issue

- Raising of funds through public issue
- Relationship between amount raised and amount used



# Significant Matters

## Clause 3(xii): Frauds

- Fraud **on or by the Company** noticed or reported during the year;
- If yes, then indicate the nature and the amount involved
- Audit Plan to conform with SA 240;
- Reports of Internal Audit;
- Enquiries made to management

**Thank You**

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