

Guidance on Reporting under The Companies (Auditor's Report) Order, 2015 (CARO, 2015) and Consequential Amendment to the Format of The Auditor's Report Of A Company¹



I. Reporting Under CARO, 2015

- As the members are aware, the Ministry of Corporate Affairs, on 10th April, 2015, notified the Companies (Auditor's Report) Order, 2015 (CARO, 2015). The text of the Order is available on the URL http://www.mca.gov.in/Ministry/pdf/Companies_Auditors_Report_Order_2015.pdf
- Members would have noted that, *inter alia*, the exemption criteria applicable to private companies as laid down in the paragraph 1(v) of the CARO, 2015 is same as that in the Companies (Auditor's Report) Order, 2003 (CARO, 2003). Also, it is noted that the twelve reporting clauses given in paragraph 3 of CARO, 2015 are similar in their requirements to the corresponding clauses in paragraph 4 of the CARO, 2003. Further, the requirement to state reasons for unfavourable or qualified answers as given in paragraph 4 of the CARO, 2015 is also similar to that contained in paragraph 4 of the CARO, 2003. Accordingly, members are advised to continue to draw in principle guidance from the relevant paragraphs of the Statement on the Companies (Auditor's Report) Order, 2003, issued by the Institute of Chartered Accountants of India.
- For the benefit of the members, following is a reference table of reporting clauses of CARO, 2015 and the corresponding paragraphs of the Statements on CARO, 2003, wherefrom relevant guidance can be drawn (subject to necessary changes in the context of the provisions of the Companies Act, 2013 and the Rules issued thereunder):

Clause of CARO, 2015	Relevant Paragraph/s of the Statement on CARO, 2003
(i) (a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;	44(a) to (n)
(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;	45(a) to (g)
(ii)(a) whether physical verification of inventory has been conducted at reasonable intervals by the management;	47(a) to (d)

¹ This Announcement is being issued in terms of the decision taken at the 342nd meeting of the Council of the Institute of Chartered Accountants of India.

Clause of CARO, 2015	Relevant Paragraph/s of the Statement on CARO, 2003
(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;	48(a) to (k)
(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;	49(a) to (h)
(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,	50(a) to (f)
(a) whether receipt of the principal amount and interest are also regular; and	52(a) to (e)
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	53(a) to (c)
(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.	57(a) to (m)
(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 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?	60(a) to (l)
(vi) where maintenance of cost records has been specified by the Central Government under sub-Section (1) of Section 148 of the Companies Act, whether such accounts and records have been made and maintained;	62(a) to (g)
(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.	63(a) to (r)
(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).	64(a) to (h)

Clause of CARO, 2015	Relevant Paragraph/s of the Statement on CARO, 2003
(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.	The members may note that the provisions relating to the Investor Education and Protection Fund (IEPF) are contained in Section 205C of the Companies Act, 1956 and the IEPF (Awareness and Protection of Investors) Rules, 2001. For the purpose of reporting on this clause, the members would need to examine the date of transfer <i>vis-a-vis</i> the time prescribed in the aforesaid provisions and Rules and report accordingly.
(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;	65(a) to (h)
(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;	66(a) to (h)
(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;	71(a) to (h)
(xi) whether term loans were applied for the purpose for which the loans were obtained;	72(a) to (j)
(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.	77(a) to (k)

4. Members may also continue to draw guidance, to the extent relevant, in respect of applicability of the CARO, 2015, form of report and Board's report, from the guidance given in the Statement on Companies (Auditor's Report) Order, 2003 (subject to necessary changes in the context of the provisions of the Companies Act, 2013 and the Rules thereunder).

II. Consequential Amendment to the Format of the Auditor's Report of A Company

5. The Auditing and Assurance Standards Board had, in December 2014, issued illustrative formats of the auditor's report on financial statements of a company under the Companies Act, 2013. While reporting on the requirements of CARO, 2015, a reference thereto also needs be added in the main audit report under the "Report on Legal

and Other Regulatory Matters" paragraph as follows:

"Report on Other Legal and Regulatory Requirements

As required by the Companies (Auditor's Report) Order, 2015 ("the Order"), issued by the Central Government of India in terms of sub-section (11) of Section 143 of the Companies Act, 2013, we give in the Annexure a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.

As required by Section 143 (3) of the Act, we report that:

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The aforesaid illustrative formats of the auditor's report, accordingly, stand amended to that extent.

**Chairman,
Auditing and Assurance Standards Board.**