

Companies (Auditor's Report) Order, 2015

Notification

S.O. (E).- In exercise of the powers conferred by **sub-section (11) of section 143** of the Companies Act, 2013 (18 of 2013) and in supersession of the Companies (Auditor's Report) Order, 2003, published in the gazette of India, Extraordinary, Part II, Section 3, Sub-section (i), vide number G.S.R. 480 (E), dated the 12th June, 2003, except as respects things done or omitted to be done before such supersession, the Central Government, after consultation with the **Institute of Chartered Accountants of India**, constituted under the Chartered Accountants Act, 1949 (38 of 1949), made the **Companies (Auditor's Report) Order, 2015 vide Notification dated 10.04.2015.**

Snapshot of New Reporting Requirement

- ✓ This Reporting Requirement shall be applicable from the **financial year commencing on or after 1st April, 2014.**
- ✓ Instead of Reporting under 21 clauses, now reporting is to be made only in respect of 12 Clauses.
- ✓ With regard to applicability of this order to Private Limited Companies, the threshold limit of Loans Outstanding from Banks or Public Financial Institutions has been raised from ₹ 10 Lacs to ₹ 25 Lacs.
- ✓ Many of the reporting requirements under the erstwhile CARO 2003, were retained and some requirements are omitted to be in line with the requirements of Companies Act, 2013.
- ✓ No Substantial Inclusion in the reporting requirement is made.
- ✓ A quick comparison as provided below, will help the readers to understand the impact of the New Reporting requirement.

Users Guide

- ✓ Words with **shaded pattern** indicates – Deletion of the words.
- ✓ Words with **Italics and Bold** indicates – New Inclusion

Comparison of CARO–2003 vs CARO–2015

Para	CARO, 2003	CARO, 2015
1	Short title, application and commencement. - (1) This order may be called the Companies (Auditor's Report) Order, 2003.	Short title, application and commencement. - (1) This order may be called the Companies (Auditor's Report) Order, 2015.
1(2)	<p>It shall apply to every company including a foreign company as defined in section 591 of the Act, except the following :-</p> <p>(i) a Banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);</p> <p>(ii) an insurance company as defined in clause (21) of section 2 of the Act;</p> <p>(iii) a company licensed to operate under section 25 of the Act; and</p> <p>(iv) a private limited company with a paid up capital and reserves not more than fifty lakh rupees and has not accepted any public deposit and does not have loan outstanding ten lakh rupees or more from any bank or financial institution and does not have a turnover exceeding five crore rupees.</p>	<p>It shall apply to every company including a foreign company as defined in Clause 42 of Section 2 of the Act Companies Act, 2013 (18 of 2013) [hereinafter referred to as the Companies Act], except:-</p> <p>(i) a Banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);</p> <p>(ii) an insurance company as defined under Insurance Act, 1938 (4 of 1938);</p> <p>(iii) a company licensed to operate under section 8 of the Act; and</p> <p>(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</p> <p>(v) a private limited company with a paid up capital and reserves not more than fifty lakh rupees and does not have loan outstanding exceeding twenty Five lakh rupees from any bank or financial institution and does not have a turnover exceeding five crore rupees at any point of time during the Financial Year.</p>
1(3)	It shall come into force on the 1st day of July, 2003.	It shall come into force on the date of its publication in the Official Gazette.
2	Definitions for certain Companies given	No Definitions Provided

Para	CARO, 2003	CARO, 2015
3	<p>Auditor's report to contain matters specified in paragraphs 4 and 5. –</p> <p>Every report made by the auditor under section 227 of Act, on the accounts of every company examined by him to which this Order applies for every financial year ending on any day on or after the commencement of this Order, shall contain the matters specified in paragraphs 4 and 5.</p>	<p>Auditor's report to contain matters specified in paragraphs 3 and 4. –</p> <p>Every report made by the auditor under section 143 of the Companies Act, on the accounts of every company examined by him to which this Order applies for the financial year commencing on or after 1st April, 2014, shall contain the matters specified in paragraphs 3 and 4.</p>
4	<p>Matters to be included in the auditor's report. –</p> <p>The auditor's report on the account of a company to which this Order applies shall include a statement on the following matters, namely :-</p> <p>(i) (a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;</p> <p>(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;</p> <p>(c) if a substantial part of fixed assets have been disposed off during the year, whether it has affected the going concern;</p> <p>(ii) (a) whether physical verification of inventory has been conducted at reasonable intervals by the management;</p> <p>(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;</p>	<p>Matters to be included in the auditor's report. –</p> <p>The auditor's report on the account of a company to which this Order applies shall include a statement on the following matters, namely:-</p> <p>(i) (a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;</p> <p>(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;</p> <p>(ii) (a) whether physical verification of inventory has been conducted at reasonable intervals by the management;</p> <p>(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;</p>

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	<p>(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;</p> <p>(iii) (a) has the company either granted or taken any loans, secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of the Act. If so, give the number of parties and amount involved in the transactions.</p> <p>(b) whether the rate of interest and other terms and conditions of loans given or taken by the company, secured or unsecured, are prima facie prejudicial to the interest of the company;</p> <p>(c) whether payment of the principal amount and interest are also regular;</p> <p>(d) if overdue amount is more than one lakh, whether reasonable steps have been taken by the company for recovery/payment of the principal and interest;</p> <p>(iv) is there an adequate internal control procedure 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. Whether there is a continuing failure to correct major weaknesses in internal control;</p> <p>(v) (a) whether transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered;</p>	<p>(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;</p> <p>(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,</p> <p>(a) whether receipt of the principal amount and interest are also regular; and</p> <p>(b) if overdue amount is more than one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest;</p> <p>(iv) is there an adequate internal control procedure 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. Whether there is a continuing failure to correct major weaknesses in internal control;</p>

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	<p>(b) whether each of these transactions have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time;</p> <p>(This information is required only in case of transactions exceeding the value of five lakh rupees in respect of any party and in any one financial year).</p> <p>(vi) 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 58A and 58AA of the 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 whether the same has been complied with or not?</p> <p>(vii) in the case of listed companies and/or other companies having a paid-up capital and reserves exceeding Rs.50 lakhs as at the commencement of the financial year concerned, or having an average annual turnover exceeding five crore rupees for a period of three consecutive financial years immediately preceding the financial year concerned, whether the company has an internal audit system commensurate with its size and nature of its business;</p> <p>(viii) where maintenance of cost records has been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act, whether such accounts and records have been made and maintained;</p>	<p>(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?</p> <p>(vi) where maintenance of cost records has been prescribed 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;</p>

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	<p>(ix) (a) is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Custom Duty, Excise Duty, 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.</p> <p>(b) in case dues of sales tax/income tax/custom tax/wealth tax/excise duty/cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending may please be mentioned.</p> <p>(A mere representation to the Department shall not constitute the dispute).</p> <p>(x) 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 financial year immediately preceding such financial year also;</p>	<p>(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, Custom Duty, Excise Duty, 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.</p> <p>(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 amount\$ involved and the forum where dispute is pending shall be mentioned.</p> <p>(A mere representation to the concerned Department shall not constitute a dispute).</p> <p><i>(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.</i></p> <p>(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;</p>

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	<p>(xi) 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;</p> <p>(xii) whether adequate documents and records are maintained in cases where the company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities; If not, the deficiencies to be pointed out.</p> <p>(xiii) whether the provisions of any special statute applicable to chit fund have been duly complied with? In respect of nidhi/ mutual benefit fund/societies;</p> <p>(a) whether the net-owned funds to deposit liability ratio is more than 1:20 as on the date of balance sheet;</p> <p>(b) whether the company has complied with the prudential norms on income recognition and provisioning against sub-standard/default/loss assets;</p> <p>(c) whether the company has adequate procedures for appraisal of credit proposals/requests, assessment of credit needs and repayment capacity of the borrowers;</p> <p>(d) whether the repayment schedule of various loans granted by the nidhi is based on the repayment capacity of the borrower and would be conducive to recovery of the loan amount;</p>	<p>(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;</p>

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	<p>(xiv) if the company is dealing or trading in shares, securities, debentures and other investments, whether proper records have been maintained of the transactions and contracts and whether timely entries have been made therein; also whether the shares, securities, debentures and other securities have been held by the company, in its own name except to the extent of the exemption, if any, granted under section 49 of the Act;</p> <p>(xv) 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;</p> <p>(xvi) whether term loans were applied for the purpose for which the loans were obtained;</p> <p>(xvii) whether the funds raised on short-term basis have been used for long term investment and vice versa; If yes, the nature and amount is to be indicated;</p> <p>(xviii) whether the company has made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act and if so whether the price at which shares have been issued is prejudicial to the interest of the company;</p> <p>(xix) whether securities have been created in respect of debentures issued?</p>	<p>(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;</p> <p>(xi) whether term loans were applied for the purpose for which the loans were obtained;</p>

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	<p>(xx) whether the management has disclosed on the end use of money raised by public issues and the same has been verified;</p> <p>(xxi) 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.</p>	<p>(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</p>
	<p>Reasons to be stated for unfavourable or qualified answers. –</p> <p>Where, in the auditor's report, the answer to any of the questions referred to in paragraph 4 is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified answer, as the case may be.</p> <p>Where the auditor is unable to express any opinion in answer to a particular question, his report shall indicate such fact together with the reasons why it is not possible for him to give an answer to such question.</p>	<p>Reasons to be stated for unfavourable or qualified answers.-</p> <p>(1) Where, in the auditor's report, the answer to any of the questions referred to in paragraph 3 is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified answer, as the case may be.</p> <p>(2) Where the auditor is unable to express any opinion in answer to a particular question, his report shall indicate such fact together with the reasons why it is not possible for him to give an answer to such question</p>