

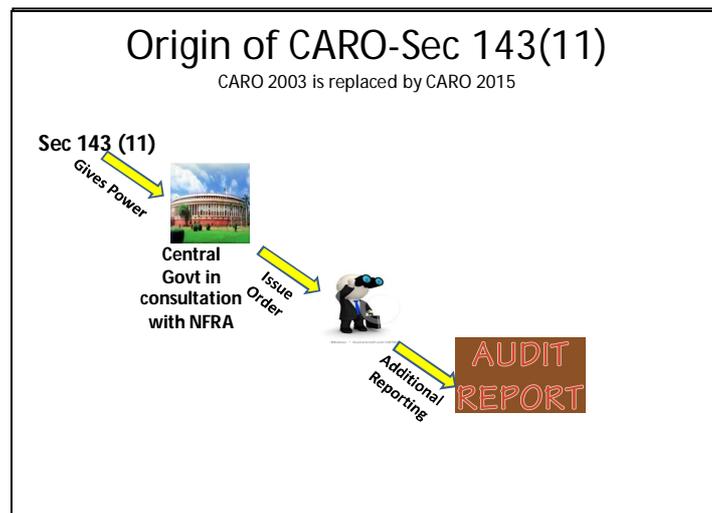
CARO 2015

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Click here for full video explaining CARO 2015 as per these notes

ORIGIN OF CARO-SEC 143(11): CARO 2003 is replaced by CARO 2015



APPLICABILITY OF CARO:

It shall apply to every company including a foreign company

Exemptions (IB-COPS)

1. Insurance Company
2. Banking Company
3. Section 8 Company (Charitable Purpose)
4. One Person Company
5. Private Limited Company Paid up capital + Reserves not exceeding 50 Lakhs
Loan from Banks & FI not exceeding 25 Lakhs Turnover not exceeding 5 crore
6. Small Company (Other than Public Company)
 - (i) paid-up share capital of which does not exceed 50 Lakhs or such higher amount as may be prescribed which shall not be more than 5 Crores;
 - (ii) turnover of which as per its last profit and loss account does not exceed 2 crore or such higher amount as may be prescribed which shall not exceeding 20 crore:

Provided that nothing in this clause shall apply to—

- (A) a holding company or a subsidiary company;
- (B) a company registered under section 8; or
- (C) a company or body corporate governed by any special Act

CASES ON EXEMPTIONS OF CARO:

Sr No	Case	Exemption
1	Is exemption available for both life insurance & general insurance ?	Yes, applicable to both.
2	Is it applicable to NBFC ?	No, Exemption is only to Banks.
3	In December NBFC was converted into Bank ?	Yes, we have to see status as on year end and it is a bank at year end.
4	In December Bank was converted into NBFC ?	No, we have to see status as on year end and it is a NBFC at year end.
5	Private unlimited company has paid up capital of 40 lakhs, outstanding loans 15 lakhs, turnover of 3.5 crores ?	No, it is unlimited company, exemptions are only for limited company.
6	Private limited company has equity share capital of 20 lakhs, preference share capital of 10 lakhs, general reserves of 30 lakhs, P&L debit balance (60) lakhs, Securities Premium of 10 lakhs, Capital Reserve of 15 Lakhs, Share Application 20 lakhs, Share Forfeiture 5 lakhs, Revaluation Reserve 8 lakh, will this company get exemption ?	Computation of paid up capital & reserves:- Eq 20 + Pref 10 + Gen Res 30 – Debit bal of P&L *(30) + Sec Premium 10 + Capital Reserve 15 + Share Forfeiture 5 + Revaluation Reserve = 68, As it crosses 50 lakhs CARO is applicable . *Debit bal of P&L can be deducted to the extent of free reserves.
7	Private limited company has following borrowings from Mr Mukesh Ambani 20 Lakhs , Mr Vijay Malaya 5 lakhs, ICICI Bank 5 lakhs, IFCI 10 lakhs is exemption available ?	We have to consider borrowings only from Banks & FIs so total is ICICI 5 + IFCI 10 = 15 lakhs, it is below 25 lakhs so exemption is available.
8	Private Limited company has taken CC of 30 lakhs and balance outstanding as on date is 10 lakhs ?	We don't have to see limit, we have to see actual amount outstanding, it is not exceeding 25 lakhs, Exemption is available.
9	Private limited company has Sale of goods Rs 4 Crore , Sale of services Rs 2 Crore, Sales return Rs 1.5 Crore (Including 0.5 Crore from previous year) Excise Duty included in sale of goods Rs 75 lakhs, Other Income Rs 40 lakhs, VAT on sales included above 20 lakhs is CARO applicable ?	Computation of Turnover Sale (Goods) 4 crore + Sale (Services) 2 Crore – Sales Return (1.5 Crore) – *Excise Duty 75 lakhs – *VAT on Sales 20 lakhs = 3.55 Crores If excise and VAT are accounted separately then they will not be included. As Turnover is below 5 Crores CARO not applicable.

SHORT CUT TO REMEMBER CARO 2015	
	Flipkart - se formal kharide Fixed Assets
	IRCTC - se mumbai ki tickets karwayi Inventory
	Linked in - se bade companion ke naam nikale Loans
	Instagram - pe train se photo upload kiya Internal Control Systems
	Daily motion - se interview ka video dekha Deposits
	CNN - se current affairs ki news dekhi Cost Records
	Statutory Dues
	Loss
	Repayment
	Guarantee
	Term Loans
	Fraud

CLAUSES OF CARO 2015:

Fixed Assets	Clause (i)
(i) (a) whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;	<ol style="list-style-type: none"> Records should include including quantitative details and situation. These records should also contain fixed assets that have been fully depreciated or amortized or have been retired from active use and held for disposal. The records should also contain necessary particulars in respect of item of fixed assets that have been fully impaired during the period covered by the audit report. The purpose of showing the situation of the assets is to make verification possible. Where assets like furniture etc., are located in the residential premises of members of the staff, the fixed assets register should indicate the name/ designation of the person.
(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;	<ol style="list-style-type: none"> Physical verification of the assets has to be made by the management and not by the auditor. The auditor may observe the verification, particularly when verification of all assets can be made by the management on a single day or within a relatively short period of time. It is necessary to ensure that the person making the verification had the required technical knowledge, where such knowledge is required. It is also possible for verification to be made by outside expert agencies engaged by the management for the purpose. The management may decide about the periodicity of physical verification of fixed assets.

	<p>6. Auditor should obtain a management representation letter confirming that the fixed assets are physically verified by the company as per policy of the company.</p> <p>7. The letter should also include the details of the material discrepancies noticed during the physical verification of the fixed assets.</p> <p>8. If no discrepancies were noticed during the physical verification, the management representation letter should also mention this fact clearly.</p>
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Inventory	Clause (ii)
(ii) (a) whether physical verifications of inventory has been conducted at reasonable intervals by the management;	The periodicity of the physical verification of inventories depends upon the nature of inventories and their location.
(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>1. In case the procedures of physical verification of inventories, in the opinion of the auditor, <u>are not reasonable and adequate in relation to the size of the company and the nature of its business, the auditor has to report the same.</u></p> <p>2. While the physical verification of inventories <u>is primarily the duty of the management,</u> the auditor is expected to examine the methods and procedures of such verification.</p> <p>3. This would require the auditor to make use of his professional judgment.</p> <p>4. <u>The SA-501, "Audit Evidence-Additional Consideration for specific items"</u>, lays down the guidance regarding the audit procedures to be applied for physical verification of inventory.</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	<p>1. It requires the auditor to comment whether any, material discrepancies were noticed on physical verification of inventory and if so, whether those material discrepancies have been properly dealt with in the books of account.</p> <p>2. What constitutes "proper records" has not been defined.</p> <p>3. The records should contain the particulars in respect of all items of inventories.</p>

Loans granted to parties covered in Sec 189 register	Clause (iii)
(iii) whether the company has granted any loans, secured or unsecured to companies,	1. The <u>auditor should obtain a list of companies,</u> firms or other parties covered in the register maintained under Section 189 of the Act from the management.

<p>firms or other parties covered in the register maintained under section 189 of the Companies Act. If so, (a) whether receipt of the principal amount and interest are also regular; and</p>	<p>2. The auditor is required to disclose the requisite information in his report in respect of all parties covered in the register maintained under Section 189 of the Act <u>irrespective of all the period to which such loan relates.</u> 3. The auditor should also take into consideration the loan transactions that have been <u>squared-up during the year and report such transactions under the clause.</u></p>
<p>(b) if overdue amount is more than rupees one lakhs, whether reasonable steps have been taken by the company for recovery of the principal and interest;</p>	<p>1. In such cases, the auditor has to examine the steps, if any, taken for recovery of this amount. 2. <u>It is not necessary that steps to be taken must necessarily be legal steps.</u> 3. Depending upon the circumstances, issue of reminders or the sending of an advocate's or solicitor's notice, may amount to "reasonable steps" even though no legal action is taken.</p>

Internal Control System	Clause (iv)
<p>(iv) is there an <u>adequate internal control system commensurate with the size of the comply and the nature of its business,</u> 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.</p>	<p>1. "Internal Control System" means all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, the orderly and efficient conduct of its business. 2. Reference may also be <u>made to SA 315 and Sa 330.</u> 3. The auditor should review the reports of internal auditor. 4. The auditor may come <u>across situations where a weakness in internal control has been placed before the board of directors but the same has not been considered.</u> 5. In case there is a <u>continuing failure on the part of the company to correct major weakness in the internal control system, the auditor should also make a re-assessment of the control risk.</u></p>

Deposits	Clause (v)
<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</p>	<p>1. Non-compliance of Section 73 to 76 would occur in the event when a company fails to intimate the Company Law Board any default in repayment of deposit made by small depositors or part thereof or any interest thereupon. 2. The auditor has to, therefore, first determine whether there is a default in</p>

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?	any repayment of such deposits. 3. The auditor, in such a case, should examine the internal controls in this regard and determine its efficacy.
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Cost Records	Clause (vi)
(vi) where maintenance of cost records Government under sub-section (l) of section been specified by the Central of the Companies Act, whether has 148 such accounts and records have been made and maintained:	<ol style="list-style-type: none"> 1. Section 128 (1) (d) of the Act requires a company pertaining to a class of companies engaged in production, processing, manufacturing or mining activities to maintain proper books of account showing particulars relating to utilization of material or labour or to other items of cost as may be prescribed. 2. The order requires the auditor to report whether cost accounts and records have been made and maintained. 3. The auditor should obtain a written representation from the management. 4. The auditor should, conduct a general review of the cost records to ensure that the records as prescribed are made and maintained.

Statutory Dues	Clause (vii)
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 ii 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.	<ol style="list-style-type: none"> 1. This clause requires the auditor to report upon the regularity of the company in depositing undisputed statutory dues. 2. The intention of the Government, in this clause is to ascertain how regular the company is in depositing statutory dues with the appropriate authorities. 3. Since the emphasis of the clause is one the regularity, the scope of auditor's inquiry is restricted to only those statutory dues which the company is required to deposit regularly to an authority. 4. For the purpose of this clause, the auditor should consider a matter as "disputed" where there is a positive evidence or action on the PAT of the company to show that it has not accepted the demand for payment of tax or duty, e.g., where it has gone into appeal. 5. It may be noted that penalty and/or interest levied under the respective laws would be

	covered within the term "amounts payable".
(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).	<ol style="list-style-type: none"> 1. This clause requires that in case of disputed statutory dues, the amounts involved should be stated along with the forum where the dispute is pending. 2. It is clarified here that mere representation to the concerned Department does not constitute dispute.
(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 there under has been transferred to such fund within time.	

Loss making companies	Clause (viii)
(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;	<ol style="list-style-type: none"> 1. The clause is applicable to all the companies that are in existence for five years or more from the date of registration till the last day of the financial year covered by the auditor's report. The clause requires the auditor to report: <ol style="list-style-type: none"> a. Whether the accumulated losses at the end of the financial year are more than 50% of its net worth; and b. Whether the company has incurred cash losses during the period covered by the report and in the financial year immediately preceding the period covered by the report. 2. The term "loss" should be constructed to mean the net profit/loss shown by the profit and loss account of the company as adjusted after taking into account qualifications in the audit report. 3. "Net worth" is "sum total of the paid-up capital and free reserves after deducting the provisions or expenses as may be prescribed". 4. The figure of cash loss of the company for the financial year covered by the audit report and the immediately preceding financial year should also be adjusted for the effect of qualifications in the respective audit reports.

Repayment	Clause (ix)
(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:	<ol style="list-style-type: none"> 1. If the answer is in the affirmative the auditor is also required to mention the period of default and the amount of default. 2. Dues to financial institution, banks or debenture holders would include the principal as well as interest. 3. It is clarified that the auditor should report the period and amount of all defaults existing at the balance sheet data irrespective of when those defaults have occurred. 4. The auditor should obtain a schedule of repayments to banks, financial institutions and debenture holders from the management of the company. 5. The auditor should examine the agreement or other documents containing the terms and conditions of the loans and borrowings of the company from banks and financial institution. 6. The auditor should also examine the debenture trust deed.

Guarantee	Clause (x)
(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;	<ol style="list-style-type: none"> 1. Guarantee given by a company is a contingent liability. 2. In respect of contingent liabilities, the auditor is normally concerned with seeking reasonable assurance that all contingent liabilities are identified and properly valued and disclosed as an off-balance sheet item. 3. The auditor should examine the Memorandum of Association of the company with a view to determine whether the company can give a guarantee. 4. The auditor should also verify whether the company has complied with the requirements of Act.

Term Loans	Clause (xi)
(xi) whether term loans were applied for the purpose for which the loans were obtained;	<ol style="list-style-type: none"> 1. The auditor should ascertain whether the company has taken any "term loans". 2. Term loans normally have a fixed or pre-determined repayment 3. Schedule. 4. Terms loans are generally provided by banks and financial institutions for acquisition of capital assets which often become the security for the loan. 5. The auditor should examine the terms and conditions subject to which the company has obtained the term loans. 6. It may so happen that the term loans taken during the year might not have been applied for the stated purpose during

	the year, for example, the loan was disbursed at the end of the year.
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Fraud	Clause (xii)
(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.	<ol style="list-style-type: none"> 1. The clause does not require the auditor to discover the frauds on the company and by the company. 2. The auditor is also required to comply with the requirements of SA-240. 3. The term "fraud" refers to an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage. 4. Misappropriation of assets involves the theft of an entity's assets. 5. The auditor should examine the reports of the internal auditor with a view to ascertain whether any fraud has been reported or noticed by the management. 6. The auditor should also discuss the matter with other employees of the company. The auditor should also examine the minute book of the board meeting of the company in this regard.

KINGFISHER AIRLINE CARO REPORT:

Relevant Clauses for CARO 2015 from FY 11-12

1. Fixed Assets:

- a. The Company has maintained records showing full particulars including quantitative details and situation of fixed assets. However, comprehensive **description of assets and current location are to be incorporated in the asset records after completion of reconciliation** referred to in paragraph 1(b) below.
- b. Fixed assets were **physically verified by the management during the year 2010-11**. Pending completion of reconciliation which is reportedly under progress, **discrepancies, if any, cannot be ascertained** (refer note 51 of the Notes).

2. Inventory:

- a. Management has conducted physical verification of inventory at **reasonable intervals during the year**.
- b. The procedures of physical verification of inventories followed by the management are **reasonable and adequate in relation to the size** of the Company and the nature of its business.
- c. **No material discrepancies** were noticed on physical verification.

3. Loans Granted:

As informed, the Company has **not granted any loans, secured or unsecured** to companies, firms or other parties covered in the register maintained under section 189 of the Act.

4. Internal Control System:

In our opinion and according to the information and explanation given to us, and taking into consideration management's representation that a **large number of items purchased are of a special nature** for which alternative **quotations cannot be obtained**, there are adequate internal control procedures commensurate with the size of the Company and the nature of its

business for the **purchases of inventory**. Internal controls in respect of **sale of services and purchase of fixed assets to be strengthened**. Subject to our observations in paragraph 1(b) above and notes 46 of the Notes, during the course of our audit, **no continuing failure to correct major weakness in internal controls has been noticed**.

5. Deposits:

The Company has **not accepted any deposits from the public**.

6. Cost Records:

To the best of our knowledge and as explained, the Central Government has **not prescribed the maintenance of cost records under section 128 (1) (d)** of the Act for the products of the Company.

7. Statutory Dues:

A. Undisputed statutory dues in respect of **service tax, withholding taxes and fringe benefit tax dues have not been regularly deposited** with the appropriate authorities. Undisputed statutory dues in respect of **provident fund, employees' state insurance, investor education and protection fund, wealth tax, customs, excise duty, cess as applicable, have generally been regularly deposited with the appropriate authorities barring few months**.

B. According to the information and explanations given to us:-

(i) **No amounts were outstanding as at year end on account of undisputed amounts payable in respect of investor education and protection fund, sales tax, customs duty, excise duty and cess for a period of more than six months from the date they became payable**.

(ii) **Undisputed amounts payable in respect of tax deducted at source of Rs. 53,938.17 Lacs, service tax of Rs. 1,984.41 Lacs, professional tax of Rs. 8.61 Lacs (pertaining to regions for which registration is not obtained) (In all cases relating to the years 2007-08 to 2011-12), fringe benefit tax of Rs. 55.87 Lacs (balance of tax for the financial year 2008-09) and gratuity to resigned employees of Rs. 25.39 Lacs relating the year 2011-2012 were outstanding for a period of more than six months from the date they became payable (excluding applicable interest in all cases except in respect of fringe benefits tax) (to the extent identified pending review and reconciliation of the relevant accounts)**. The due dates for these amounts are as per respective statutes. The tax

deducted at source liability indicated in this paragraph is without considering tax on certain payments to non-residents (liability withdrawn/ not provided for based on professional advice) as referred to in note 52 of the Notes and tax on guarantee and security commission payable to certain guarantors (liability withdrawn at the behest of consortium bankers) as referred to in note 36(b) of the Notes.

C. According to the information and explanations given to us, the following dues have not been deposited with the concerned authorities on account of dispute.

Year	Estimated amount (Rs. in Lacs)	Pending Before
Tax deducted at source		
Liability arising out of rejection of approvals under section 10(15A) of the Income Tax Act, 1961.	9,730.67	Delhi High Court. In certain cases, writs proposed by the Company is yet to be filed.
Service Tax		
2004-05 to 2007-08	475.02	Customs, Excise and Service Tax Appellate Tribunal
January 2005 to September 2007	18,333.78	Customs, Excise and Service Tax Appellate Tribunal.
June 2008 to April 2010	687.82	Customs, Excise and Service Tax Appellate Tribunal.

8. Loss:

The Company's **accumulated losses at the end of the financial year were more than fifty percent of its net worth.** The Company has incurred **cash losses** during the financial year and in the immediately preceding financial year.

9. Repayment:

Based on our audit procedures and as per the information and explanations given by the management, the Company has defaulted in repayment of loans and interest to banks and financial institutions. Delays were noticed in payment of interest & principal on several occasions during the year. Estimated unpaid overdues to banks and institutions as at March 31, 2012 aggregated to Rs. 79,774.60 Lacs including devolved guarantees/letters of credit unfunded as at March 31, 2012. The over dues relate to the financial year 2011- 2012. Interest aggregating to Rs. 5,107.10 Lacs for the calendar year 2011 were due to debenture holders as at March 31, 2012 (net of tax).

10. Gurantees:

According to the information and explanations given to us, the Company has not given guarantees during the year for loans taken by others from banks or financial

Institutions. Accordingly, the provisions of clause 4(xv) of the Order are not applicable to the Company.

11. Term Loan:

Based on information and explanations given to us by the management, term loans taken during the year have been applied for the purpose for which they were obtained, wherever specified by the bank in the relevant sanction letters.

12. Fraud:

As per the information and explanations furnished to us by the management, no material frauds on or by the Company and causing material misstatements to financial statements have been noticed or reported during the course of our audit, except for charge backs received by the Company from credit card service providers due to **mis-utilisation of credit cards by third parties of Rs. 92.18 Lacs.**

CASE STUDIES ON CARO

1. CA Vishwam is appointed as the Branch Auditor of VVK Ltd. Is he required to comply with the CARO when issuing his Branch Audit Report, or is CARO applicable only with respect to the Audit Report issued by the Principal Auditor?

1. Sec.143 (8) of the Act specifies that a Branch Auditor has the same duties in respect of Audit as the Company's Auditor.
2. Hence, the Report submitted by the Branch Auditor should contain a statement on all the matters specified in CARO, to enable the Company's Auditor to consider the same. Hence CARO is applicable for Branch Audits also.

2. Krishna Ltd is a registered Non-Banking Financial Company which does the business of Lease Financing. Comment whether CARO is applicable for this Company. Refer to applicability and exemption from CARO given above. CARO is applicable to all Companies.

Banks are exempted from CARO. However, NBFCs are not exempt. Hence, CARO is applicable to Krishna Ltd.

3. BK Ltd, a Benefit Fund, registered under NBFC Regulations, is in existence for the past two decades. On 31st December 2011, this Company is converted into a Bank. You have been appointed as an Auditor for the Financial Year 2011-2012. Comment whether CARO is applicable for this Company.

Refer to applicability and exemption from CARO. As on the date of B/Sheet, the Company is a Banking Company.
Hence, CARO is not applicable, irrespective of the fact that the Company was converted from NBFC during the year.

4. Mittal Pvt Ltd provides the following information for the Financial Year 2011 – 2012. Comment whether CARO is applicable for this Company: (a) Paid-up Share

Capital and Reserves –Rs50 Lakhs, (b) Outstanding Loans from Banks –Rs24 Lakhs, (c) Turnover –Rs6 Crores. Refer to applicability and exemption from CARO.

To be exempt from CARO, a Private Limited Company must satisfy all the conditions (mentioned above) cumulatively. Even if one of the conditions is not satisfied, the Private Limited Company's Auditor has to report on the matters specified in CARO. Hence, CARO is applicable in the above case, since Turnover condition is attracted.

5. CA Bhava is appointed as the Auditor BB Pvt Unlimited, a Company registered under Companies Act, with Unlimited Liability.

For Financial Year 2011–2012, the Company had a Turnover of Rs3 Crores, Outstanding Loans from Banks and FI of Rs23 Lakhs and Paid-Up Capital with Reserves of Rs48 Lakhs. Comment whether his Audit Report must comply with CARO. Refer to applicability and exemption from CARO.

1. The term "Private Limited Company", as used in the exemption from CARO, should be construed to mean a Company registered as a "Private Company" (as defined in Sec.3(1)(iii) of the Act) and which has a Limited Liability.
2. So, CARO would be applicable to Private Unlimited Companies, irrespective of the size of their Paid-Up Capital and Reserves, Turnover, Borrowings from Banks/Financial Institutions. Hence, in the present case, Turnover / Capital Base / Loan Criterion need not be considered for the Company and CARO is applicable directly.

6. Guru Pvt Ltd has 2 branches – in Chennai and in Mumbai. Each Branch has a separate Statutory Auditor and the Company, as a whole, has a Central Statutory Auditor. Comment which of these Auditors must comply with CARO.

Details	Chennai branch	Mumbai Branch	Total
Paid up capital & reserve (in lakhs)	30	30	60
Outstanding loans from & FI (in lakhs)	10	26	36
Turnover (in crores)	3	6	9

1. Conditions to be satisfied for being exempt from CARO are laid down in respect of the Company **taken as a whole**.
2. So, if CARO is applicable to the Company as a whole, then **each and every Branch** of the Company will also be automatically covered under CARO (irrespective of the fact that the Branch's transactions are within the limits).
3. The Branch Auditor has the same reporting responsibilities in respect of the Branch as those of the Auditor appointed u/s 224 of the Act has in respect of the Company. The comments of the Branch Auditor in respect of the Branch are dealt with by the Central Statutory Auditor of the Company while finalizing his report under the Order.
4. Hence in this case, all the three Auditors must comply with CARO.

7. Keshav Pvt Ltd has a balance of Rs15 Lakhs as Capital Reserve, Rs15 Lakhs as Revenue Reserves, Rs20 Lakhs as Revaluation Reserve and Rs10 Lakhs as Paid-Up Share Capital as on 31stMarch 2012. Comment on the applicability of CARO to this Company.

Refer to Explanation for Paid-Up Share Capital and Reserves.

1. Reserves includes all types of Reserves (Capital Reserves, Revenue Reserves, Revaluation Reserve, etc)
2. Here, Paid-Up Capital + Reserves = Rs10 Lakhs (Paid-Up Capital) + Rs50 Lakhs (Capital Reserve + Revenue Reserve + Revaluation Reserve) = Rs60 Lakhs. Hence, CARO is applicable for this Company.

8. Mahath Pvt Ltd provides the following information for the financial year ending 31.03.2012. Comment whether CARO is applicable for this Company.

Liabilities	Amount	Assets	Amount
Paid up share capital	35	Misc. Expenses	10
Capital reserve	7	Profit and loss (Dr.)	15
Revaluation reserve	10		
General reserve	10		

Refer to explanation for Paid-Up Share Capital and Reserves.

1. Debit balance of P&L A/c, should be **reduced from the figure of Revenue Reserves only**. So, if the Company does not have Revenue Reserves, Debit Balance of P&L A/c **cannot** be reduced from the figures of Paid-Up Capital, Capital Reserves and Revaluation Reserves. Also, Miscellaneous Expenditure to the extent not written off **should not be deducted** from the figure of Reserves for the purpose of computing Paid-Up Capital + Reserves.

2. In the present case,

(a) Paid-Up Capital =

Rs35 Lakhs

(b) Reserves = 7 + 10 + 10 =

Rs27 Lakhs

(c) (Minus) P&L (Dr) to the extent of Revenue Reserves (i.e. General Reserve) = Rs10 Lakhs

(d) Paid up Capital + Reserves [(a) + (b) – (c)] =

Rs50 Lakhs

3. Hence, CARO is applicable for this Company.

9. Prithvi Pvt Ltd has Outstanding Payable balances of Rs15 Lakhs with SBI, Rs16 Lakhs HSBC and Rs17 Lakhs with ICICI as on 31stMarch 2012. Comment on the applicability of CARO to this Company.

1. **“Any Bank or Financial Institution (FI)”**, would refer to the Aggregate to all Loans and not with reference to each Bank or Financial Institution.

2. In the given case, the aggregate of Loans Outstanding = 15 Lakhs +16 Lakhs +17 Lakhs = Rs 48 Lakhs (exceeds the limit). Hence, CARO is applicable.

10. AP Pvt Ltd has borrowed Rs 80 Lakhs on 15thJune 2011 and repaid the entire loan before 31stMarch 2012. Comment on the applicability of CARO to this Company.

1. Balance Outstanding from a Bank or Financial Institution for the purpose of applicability of CARO, shall be construed **at any point of time** during the year and not as at the end of the year (i.e. 31st of March).

2. Where the Company had taken a Loan from a Bank in excess of Rs25 Lakhs during the year, but the year-end balance of the same is NIL, the Company would be covered by CARO, notwithstanding that it fulfils all other conditions for exemption from the Order. In the present case, AP Pvt Ltd will be covered under CARO.

11. Vayu Pvt Ltd has a Turnover of Rs4 Crores for the Financial Year 2011 – 2012. The Outstanding balance of Loans from Banks and Financial Institutions is Rs24 Lakhs throughout the year. The Company had a Capital of Rs60 Lakhs at the beginning of the year and on 15.09.2011 the Company made a Buy Back of Shares worth Rs20 Lakhs resulting in a Share Capital of Rs40 Lakhs as on 31stMarch 2012. Comment whether CARO is applicable for the Company.

Refer to applicability and exemptions from CARO.

1. CARO would be applicable to a Private Limited Company if, **at any point of time**, during the Financial Year covered by the Audit Report –

- (a) its Paid-Up Capital and Reserves exceed the limit of Rs50 Lakhs, or
- (b) It has Loan Outstanding exceeding Rs25Lakhs, or
- (c) Its Turnover exceeds Rs5 Crores.

2. In the present situation, Vayu Pvt Ltd's Share Capital was Rs60 Lakhs at the beginning of the year, thus exceeding the limits laid down in CARO. Hence, CARO is applicable.

12. Bhargava Ltd has not paid Advance Tax for the Financial Year 2011–2012. Is it an irregularity in payment of Statutory Dues? Should the Auditor comment under CARO?

1. **General Rule:** Non-payment of Advance Income Tax **would constitute default** in payment of Statutory Dues.

2. **Windfall Gains:** It may, however, happen that the Company might not have any Taxable Income on the due dates on which Advance Tax is required to be paid. If such a Company has an Income after the last date on which the Advance Tax was required to be paid and consequently the Company incurs interest under the relevant provisions of the Income Tax Act, 1961, it should not be construed as irregularity in Advance Tax payment.

13. Adhvaryu Ltd has not paid ESI and EPF on a monthly basis. However the entire arrears are paid on the month of March (along with respective interest) and as on the Balance Sheet date, no amount is due to be paid in respect of EPF and ESI.

Bring out the Auditor's responsibilities under CARO.

1. The Auditor has to report on the regularity of deposit of Statutory Dues **irrespective of the fact** whether or not there are any **arrears on the Balance Sheet date**.
2. There may be situations where a Company has deposited the relevant dues before the end of the year while it has been in default in the matter for a significant part of the year.
3. In cases where there are no arrears on the Balance Sheet date, but the Company has been irregular during the year in depositing the Statutory Dues, the Auditor should **state this fact** in his Audit Report.

14. Rithvik Ltd rents out Immovable Property (which was erstwhile exempt from Service Tax). The Company in the Current Year, for the first 5 months, has neither collected nor remitted the Service Tax. In the Current Year, the same has been subject to Service Tax (with retrospective effect) and hence the Department of Excise and Customs raised a demand notice on Ritvik Ltd for the full year's Service Tax (along with interest for delayed payment for the first 5 months). The Demand Notice specified a due date of March 15th and the Company paid the entire due on that date. Is it an irregularity in Statutory Payment?

1. **First View:** The Statutory Dues referred to in this Clause become payable on the last date by which payment can be made without attracting penalty and/or interest under the relevant law. Hence, in the above case, there is an irregularity in relation to the first 5 months Service Tax due.
2. **Second View:** It can also be argued that the amounts referred to in the clause become so payable as at the date of the expiry of the stay granted by the Authorities or, where instalments have been granted for the payment of Statutory Dues referred to in the Clause, the date on which the default occurs and the amount becomes payable to the Authorities. If this view is taken, in the above case, there is no irregularity in remittance of Service Tax.
3. **Conclusion:** As the purpose of this Clause is to indicate the amounts which have become actually payable & are outstanding as at the Balance Sheet date for a period of more than 6 months from the date they became payable, the latter view conforms more closely to the requirements of CARO. Hence it can be concluded that the Company is not irregular in depositing Statutory Dues.

15. Lakshmi, a CA, argues that clause (XII) of CARO requires an Auditor to report on the Frauds evidenced in the Company.

Hence, indirectly it casts responsibility on the part of the Auditor to find out all the Frauds happened in the Company.

However Harini, another CA, rejects the above statement saying that the Auditor is not responsible for finding the frauds in the Company. Comment on the correctness of above statements.

1. **Clause 4(xii) Reporting:** The Auditor should report "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".
2. **Scope of Audit:** The Clause does **not** require the Auditor to discover the Frauds on the Company and by the Company. The scope of Auditor's inquiry under this Clause is restricted to Frauds '**noticed or reported**' during the year. The use of the words "**noticed or reported**" indicates that the Management should have the knowledge about the Frauds on the Company or by the Company that have occurred during the period covered by the Auditor's Report
3. **Duties under SA:** However, this Clause does not relieve the Auditor from his responsibility to consider Fraud and Error in an audit of Financial Statements. In other words, irrespective of the Auditor's comments under this Clause, the Auditor is also required to comply with the requirements of SA-240 on "The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements".