

**CARO, 2016**  
**(Notified on 29<sup>th</sup> March, 2016)**

# Important Section For CARO

- Sec 2(42) Foreign Company
- Sec 2(62) One Person Company
- Sec 2(85) Small Company
- Sec (8) Company
- Sec 189 Loan to Related Parties
- Sec 185 loan to Directors
- Sec 186 Loan and Investment by Company

# Important Sections for CARO

- Sec 73 to 76 Regarding Deposits
- Sec 148 Regarding Cost Audit
- Sec 177 & 188 Related Party Transactions
- Sec 42 Private Placement
- Sec 62 Further issue of Capital
- Sec 192 Non Cash Transaction with Directors
- NBFC Sec 45-1A RBI Act 1934

# Other Important Section

- Sec 128 Books of Accounts
- Sec 129 Financial Statement
- Sec 130 Re-opening of Accounts
- Sec 131 Voluntary revision of FS
- Sec 133 Accounting Standard
- Sec 134 Board Reports etc
- Sec 135 CSR
- Sec 137 Filling With Roc & 138 Internal Audit

# Other Important Sections

- Sec 139 Appointment of Auditors
- Sec 140 Removal & Resignation
- Sec 141 Eligibility Qualification & Dis
- Sec 142 Remuneration of Auditors
- Sec 143 Power & Duties and Auditing Standard
- Sec 144 Auditors Not to render certain services

# 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. Its not a subsidiary or holding of a Public Co.;
    - ii. (Paid up Capital + Reserves & Surplus)  $\leq$  Rs. 1 crore as on B/s Date; **AND**
    - iii. Outstanding Loans from Banks/ F.I.  $\leq$  Rs. 1 crore at any point of time during the financial year; **AND**
    - iv. Total Revenue (including revenue from discontinuing operations) under Schedule III  $\leq$  Rs. 10 crores during the financial year as per the financial statements

# 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

**Note:** **CARO, 2016 shall not apply to the auditor's report on consolidated financial statements [Proviso to Para 2 of CARO, 2016]**

# Significant Matters

## **Para 3(i) [(a) – (c)]: Fixed Assets**

- **Proper Record maintenance for quantity & location;**
- **Physical Verification at reasonable intervals**
- **Material discrepancies properly dealt in Books;**
- **Title deeds are held in the name of the Co.. If not, then details thereof**

# Significant Matters

## **Para 3(ii): Inventories**

- **Physical verification at Reasonable intervals**
- **Material discrepancies properly dealt in Books**

# **CARO vis-à-vis Section 189 Parties**

## **Para 3(iii) [(a) – (c)] : Loans (secured/ unsecured/ long term/ short term) Granted**

- **Number of parties [Co., Firms, LLPs or other parties] covered u/s 189 register and amount involved**
- **Terms and conditions are prejudicial**
- **Receipt of principal and interest – whether regular**
- **Reasonable steps taken to recover in case overdue amount for > 90 days**

# **CARO vis-à-vis Section 185 and Section 186**

## **Para 3(iv): Compliance of Section 185 and Section 186**

- **In respect of:**

- ☐ **loans,**
- ☐ **investments,**
- ☐ **guarantees, and**
- ☐ **security**

**whether provisions of section 185 and 186 of the Companies Act, 2013 have been complied with**

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

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

- Statutory dues to be deposited regularly
- Arrears > 6 months from due date payable on B/S Date
- Identification of undisputed amount
- Amounts involved in dispute not deposited and the forum (mere representation before a Forum not a dispute)

## **Para 3(viii): Default in repayment of dues**

- What constitutes Default not defined in CARO, 2016;
- Coverage: Financial Institutions, Banks, Government, Debenture Holders;
- principal as well as interest

# **CARO vis-à-vis IPO, FPO and Term Loans**

## **Para 3(ix) : Application of IPO, FPO and Term Loans**

- **IPO, FPO** includes debt instruments as well;
- **Term Loans** = Generally beyond 36 months and predetermined purpose (capital expenditure);
- Actual utilisation of money raised from IPO, FPO and term loans;
- Purpose to be stated (actual (+) pending utilisation);
- Details together with delays or default and subsequent rectification, if any, to be reported

# Significant Matters

## Para 3(v) : Deposits

- Compliance with RBI Directives, Sec 73 to Sec 76 - Examination of System;
- Order if any issued by NCLT/ CLB/ RBI whether complied with

## Para 3(vi) : Cost Records

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

# Significant Matters

## Para 3(xi): Managerial Remuneration

- Whether managerial remuneration has been paid or provided in accordance with the requisite approvals 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

# Significant Matters

## Para 3(xii): Nidhi Company

- **Compliance with the Net Owned Funds to Deposits in the ratio of at least 1: 20 to meet out its liability;**
- **Maintenance of at least 10% unencumbered term deposits as per the Nidhi Rules, 2014, to meet out its liability**

# Significant Matters

## **Para 3(xiii): Related Party Transactions**

- **Whether all transactions with the related parties are in compliance with section 177 and section 188 of Companies Act, 2013;**
- **Whether the details have been disclosed in the Financial Statements etc., as required by the applicable accounting standards**

# Significant Matters

## Para 3(x): Frauds

- **Frauds:**
  - 1. by the Company; or**
  - 2. on the Company by its officers or employees**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**

# Significant Matters

## **Para 3(xiv): Preferential Allotment/ Private Placements**

- Coverage: Shares or fully or partly convertible debentures;
- Verify compliance of Section 42 of the Co. Act, 2013;
- Amounts raised (as above) properly utilised or not

## **Para 3(xv): Non-cash transactions with Directors/ Connected Persons**

- Verify compliance of Section 192 of the Co. Act, 2013

## **Para 3(xvi): NBFCs etc. registrations with RBI**

- Whether the company is required to be registered u/s 45-IA of the RBI Act, 1934 and if so, whether the registration has been obtained.

**Thank you**