

# **Guidance Note on the Companies (Auditor's Report) Order, 2016**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

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## **Foreword**

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The Ministry of Corporate Affairs has issued the Companies (Auditor's Report) Order, 2016 (CARO 2016) which is applicable for audits of financial statements for periods beginning on or after April 1, 2015. The CARO 2016 contains several new reporting requirements which were not there in the earlier Orders, i.e, CARO 2003 and CARO 2015. An urgent need was felt by ICAI for providing appropriate guidance on CARO 2016 to the members so that the requirements and expectations of the Order can be fulfilled in letter and spirit by the auditors.

I am happy that the Auditing and Assurance Standards Board has brought out this Guidance Note on the Companies (Auditor's Report) Order, 2016 for the benefit of the members. The Guidance Note was initially developed by three expert groups constituted by the Board for this purpose and thereafter finalised with the contribution of all the members of the Board and the Council. The Guidance Note has been written in an easy to understand language and contains detailed guidance on the various Clauses of CARO 2016 and the various issues and intricacies involved therein. I am also happy that the Guidance Note is comprehensive and self-contained reference document for the members.

I wish to compliment CA. Shyam Lal Agarwal, Chairman, Auditing and Assurance Standards Board, CA. Sanjay Vasudeva, Vice-Chairman and all the members of the Auditing and Assurance Standards Board for bringing out this highly useful Guidance Note by putting their hard and day night efforts to provide in time for the benefit of the

members. I am sure that the members and other interested readers would find the Guidance Note immensely useful.

April 21, 2016  
New Delhi

**CA. M. Devaraja Reddy**  
President, ICAI

## Preface

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The Ministry of Corporate Affairs has issued the Companies (Auditor's Report) Order, 2016 (CARO 2016) vide Order dated 29<sup>th</sup> March 2016. The Order would be applicable for audit of the financial statements for the period beginning on or after April 1, 2015. As such it is applicable for the audits of financial year 2015-16 also. The Order contains several changes and new reporting requirements which were not covered in earlier CARO. These substantial changes made by the CARO 2016 necessitated the revision of the Statement on CARO 2003 earlier issued by ICAI.

I feel immense pleasure in placing in hands of the members this Guidance Note on the Companies (Auditor's Report) Order, 2016 which has been finalised in light of the requirements of the CARO 2016. This Guidance Note supersedes the earlier Statement on CARO 2003 for audit of financial statements for the period beginning on or after April 1, 2015.

At this juncture, I wish to place on record my gratitude to members of all the three study groups constituted for the purpose, Jaipur, New Delhi and Kolkata, for their dedicated efforts, despite the engagement in their professional matters and demands in their personal lives. My sincere thanks to: i) all the Jaipur Study Group Members, viz., CA. Bhupendra Mantri, CA. Ashok Singhal, CA. Vijay Kumar Jain, CA. Vishnu Mantri, CA. Vijay Jain, CA. Vikas Gupta, CA. Prahalad Gupta, CA. Ajay Atolia, CA. Ravi Raniwala, CA. Jugal Agrawal, CA. Shailendra Agarwal, CA. Anil Jain, CA. Rohit Ruwatia, CA. Pramod Kumar Boob, CA. P D Baid, CA. Dinesh Kumar Jain, CA. Sanjay Kumar Maheshwari, and CA. Keshav Garg, ii) all the Delhi Study Group Members, viz., CA. Anil Sharma (Deputy Convenor), CA. R Balasubramanian, CA. Anil Jobanputra, CA. Ashok Kumar Agarwal, CA. Rajiv Puri, CA. Sharad Chaudhry, CA. Nitin Chaudhry, CA. Munish Saraogi,

CA. V Rethinam, CA. Gurmeet Grewal, CA. Avineesh Matta, CA. Arun Saxena, CA. Anil Gupta and CA. K. A. Balasubramanian and iii) all the Kolkata Study Group Members, viz., CA. Debashis Mitra (Convenor), CA. Abhijit Bandyopadhyay, CA. Bhaskar Banerjee, CA. Arijit Chakraborty, CA. Mohit Bhuteria, CA. Santanu Ghosh, CA. Partha Sarathi De, CA. Nirupam Haldar, CA. Anindra Nath Chatterjee, CA. Sumit Binani, CA. Animesh Mukerji and CA. Nilima Joshi.

I also wish to express my deep gratitude to CA. M. Devaraja Reddy, President, ICAI and CA. Nilesh Vikamsey, Vice President, ICAI for their vision, guidance and support in this matter and to the activities of the Board.

I also wish to thank all my colleagues at the Central Council for their suggestions, cooperation and guidance in formulating and finalizing this Guidance Note and also to various authoritative pronouncements of the Board. My sincere thanks are also due to the members of the Auditing and Assurance Standards Board, viz., CA. Sanjay Vasudeva, (Vice Chairman), CA. Nand kishore Chidamber Hegde, CA. Nihar Niranjana Jambusaria, CA. Dhinal Ashvinbhai Shah, CA. Babu Abraham Kallivayalil, CA. Madhukar Narayan Hiregange, CA. G. Sekar, CA. K. Sripriya, CA. M P Vijay Kumar, CA. Ranjeet Kumar Agarwal, CA. Sushil Kumar Goyal, CA. Debashis Mitra, CA. Manu Agrawal, CA. Kemisha Soni, CA. Sanjiv Kumar Chaudhary, CA. Mangesh Pandurang Kinare, Shri P.K. Mishra, Dr. P.C. Jain, Ms. Indu Malhotra, CA. Abhijit Bandyopadhyay, CA. Harinderjit Singh, CA. Murali Krishna, CA Vijay Kumar Jain, CA. Akhil Bhalla, CA. Sandeep Dinanath Welling and CA. V. Balaji for their kind suggestions, support and guidance to finalise this Guidance Note and all other activities of the Board.

My special thanks to CA. Sanjay Vasudeva, Vice Chairman of the Board who has put all his efforts all the time, irrespective of his prior engagements in his profession, other

committees of ICAI and family matters, in finalising this Guidance Note in such a short time. My hearty thanks to the Secretary AASB and all her team members for their dedicated working even beyond the normal working hours of the Institute. I am confident that this Guidance Note on CARO 2016 would be found useful and well received by the members and other interested readers.

April 21, 2016  
New Delhi

**CA. Shyam Lal Agarwal**  
Chairman,  
Auditing and Assurance Standards Board





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## **Introduction**

1. The Central Government, in exercise of the powers conferred, under sub-section (11) of section 143 of the Companies Act, 2013\* (hereinafter referred to as “the Act”), issued the Companies (Auditor’s Report) Order, 2016, (CARO, 2016/ “the Order”) *vide* Order No. S.O. 1228(E) dated 29<sup>th</sup> March, 2016. CARO, 2016 contains certain matters on which the auditors of companies (except of those categories of companies which are specifically exempted under the Order) have to make a statement in their audit report. The text of the CARO, 2016 is given in **Appendix I** to this Guidance Note.

2. This Order is in supersession of the earlier Order issued in 2015, viz., the Companies (Auditor’s Report) Order, 2015 (CARO 2015). **Appendix II** to this Guidance Note contains a clause-by-clause comparison of the reporting requirements of the Order and the erstwhile CARO 2015.

3. The purpose of this Guidance Note is to enable the members to comply with the reporting requirements of the Order. It should, however, be noted that the clarifications and explanations contained in this Guidance Note are not intended to be exhaustive and the auditors should exercise their professional judgment and experience on various matters on which they are required to report under the Order.

## **General Provisions Regarding Auditor’s Report**

4. The requirements of the Order are supplemental to the existing provisions of section 143 of the Act regarding the auditor’s report. In this regard the following points may be noted:

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\*Readers’ attention is invited to the fact that the Companies (Amendment) Bill 2016 is before the Parliament for approval. This Guidance Note does not take into account the amendments to the Companies Act, 2013 as proposed in the aforesaid Bill.

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- (i) the provisions of sub-sections (1), (2) & (3) of section 143 are applicable to all companies while the Order exempts certain categories of companies from its application; and
- (ii) the provisions of sub-section (1) require the auditor to make certain specific enquiries during the course of his audit. The auditor is, however, not required to report on any of the matters specified in the sub-section unless he has any special comments to make on the said matters. In other words, if he is satisfied with the results of his enquiries, he has no further duty to report that he is so satisfied. The Order, on the other hand, requires a statement on each of the matters specified therein, as applicable to the company.

5. Another question that arises is about the status of the Order *vis a vis* the directions given by the Comptroller and Auditor General of India under section 143(5) of the Act. In this regard, it may be noted that the Order is supplemental to the directions given by the Comptroller and Auditor General of India under section 143(5) in respect of government companies. These directions continue to be in force. Therefore, in respect of government companies, the matters specified in the Order will form part of the auditor's report submitted to the members and the replies to the aforesaid questionnaire issued by the Comptroller and Auditor General of India will be governed by the requirements of section 143(5) of the Act.

6. The Order is not intended to limit the duties and responsibilities of auditors but only requires a statement to be included in the audit report in respect of the matters specified therein.

### **Applicability of the Order**

#### **Companies Covered by the Order**

7. The Order applies to all companies except certain categories of companies specifically exempted from the

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application of the Order.

8. The Order also applies to foreign companies as defined in clause (42) of section 2 of the Act. According to the aforesaid section, a “foreign company” means:

“Any company or body corporate incorporated outside India which -

- (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
- (b) conducts any business activity in India in any other manner.”

9. In the case of a foreign company, wherever under any of the provisions of the Act, an audit under Chapter X of the Act is required to be carried out, the Order would be applicable.

10. The Order is also applicable to the audits of branch(es) of a company since sub-section 8 of section 143 of the Act read with Rule 12 of the Companies (Audit and Auditors) Rules, 2014 clearly specifies that a branch auditor has the same duties in respect of audit as the company’s auditor. It is, therefore, necessary that the report submitted by the branch auditor contains a statement on all the matters specified in the Order, as applicable to the company, except where the company is exempt from the applicability of the Order, to enable the company’s auditor to consider the same while complying with the provisions of the Order.

#### **Companies Not Covered by the Order**

11. The Order provides that it shall not apply to:

- (i) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
- (ii) an insurance company as defined under the Insurance Act, 1938 (4 of 1938);

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- (iii) a company licensed to operate under section 8 of the Act;
- (iv) a One person Company as defined under clause (62) of section 2 of the Act and a Small Company as defined under clause (85) of the section 2 of the Act; and
- (v) a private limited company, not being a subsidiary or holding company of a public company, having a paid-up capital and reserves and surplus not more than rupees one crore as on the balance sheet date and which does not have total borrowings exceeding rupees one crore from any bank or financial institution at any point of time during the financial year and which does not have a total revenue as disclosed in Schedule III to the Act, (including revenue from discontinuing operations) exceeding rupees ten crores during the financial year as per the financial statements.

12. The Order specifically exempts banking companies, insurance companies and companies which have been licensed to operate under section 8 of the Act. The Order also exempts One Person Company and a Small Company from its application. The applicability of the Order would be based on the status of the company as at the balance sheet date. It may also be noted that in case a company is covered under the definition of small company, it will remain exempted from the applicability of the Order even if it falls under any of the criteria specified for private company.

13. The specific exemption under the Order is given to companies licensed under section 8 of the Act. However, it would appear that in view of the provisions of section 465 of the Act, the exemption would also extend to companies licensed to operate under section 25 of the Companies Act 1956.

14. A private limited company, in order to be exempt from the applicability of the Order, must satisfy all the conditions

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mentioned above collectively. In other words, even if one of the conditions is not satisfied, a private limited company's auditor has to report on the matters specified in the Order.

#### ***Private Limited Company***

15. The term "private limited company", as used in the Order, should be construed to mean a company registered as a "private company" {as defined in sub-section (68) of section 2 of the Act}.

#### ***Paid-up Capital and Reserves and Surplus***

16. Sub-section (64) of section 2 of the Act defines the term "paid-up capital" as such aggregate amount of money credited as paid-up as is equivalent to the amount received as paid up in respect of shares issued and also includes any amount credited as paid up in respect of shares of the company, but does not include any other amount received in respect of such shares, by whatever name called.

The Guidance Note on Terms Used in Financial Statements, issued by the Institute of Chartered Accountants of India, defines the term "paid-up share capital" as, "that part of the subscribed share capital for which consideration in cash or otherwise has been received. This includes bonus shares allotted by the corporate enterprise". Paid-up share capital would include both equity share capital as well as the preference share capital. While calculating the paid-up capital, amount of calls unpaid should be deducted from and the amount originally paid-up on forfeited shares should be added to the figure of paid-up capital. Share application money received should not be considered as part of the paid-up capital.

The Guidance Note on Terms Used in Financial Statements defines the term "reserve" as, "The portion of earnings, receipts or other surplus of an enterprise (whether capital or revenue) appropriated by management for a general or specific purpose other than provision for depreciation or diminution in the value of assets or for a known liability.