

Updated version of the Companies (Auditor's Report) Order unveiled by the MCA 16 April 2015



First Notes on:

Financial Reporting

Corporate law updates

Regulatory and other information

Disclosures

Sector:

All

Banking and Insurance

Information, Communication, Entertainment

Consumer and Industrial Markets

Infrastructure and Government

Relevant to:

All

Audit committee

CFO

Others

Transition:

Immediately

Within the next 3 months

Post 3 months but within 6 months

Post 6 months

Background

Section 227(4A) of the Companies Act, 1956 (1956 Act) required that the auditor's report of certain class of companies should include a statement on certain prescribed matters. These reporting requirements were prescribed under the Companies (Auditor's Report) Order, 2003 (CARO – 2003) by the Ministry of Corporate Affairs (MCA). Section 227(4A) of the 1956 Act ceased to be operational from 1 April 2014 after notification of section 143(11) under the Companies Act, 2013 (2013 Act).

Though section 143(11) of the 2013 Act provides requirements similar to section 227(4A) of the 1956 Act, the MCA had not prescribed CARO related requirements. Consequently, after consulting the Institute of Chartered Accountants of India (ICAI), the MCA on 10 April 2015 issued the Companies (Auditor's Report) Order, 2015 (CARO – 2015) prescribing certain reporting requirements for auditors of certain class of companies. CARO – 2015 will be effective from the date of its publication in the Official Gazette.

This issue of First Notes provides an overview of the CARO 2015 and is divided into following sections:

- Applicability of the CARO – 2015
- Companies covered under the CARO – 2015
- Reporting requirements carried forward in entirety/certain modification from the CARO – 2003
- New reporting requirements prescribed in the CARO – 2015
- Reporting requirements of the CARO – 2003 not carried forward.

Applicability of the CARO – 2015

- Every report made by the auditor under section 143 of the 2013 Act for financial year commencing on or after 1 April 2014 should include CARO – 2015.

Companies covered under the CARO – 2015

- The following tables highlight the class of companies whose auditors would need to comment on matters prescribed under the CARO – 2015 (in comparison to the CARO – 2003):

Companies covered under the CARO – 2015	Companies covered under the CARO – 2003
<p>Applies to every company (except companies that are excluded, see below), including a foreign company as defined under section 2(42) of the 2013 Act i.e. any company or body corporate incorporated outside India which:</p> <ul style="list-style-type: none"> ▪ has a place of business in India whether by itself or through an agent, physically or through an electronic mode, and ▪ conducts any business activity in India in any other manner. 	<p>Applies to every company, (except companies that are excluded, see below), including a foreign company as defined under section 591(1) of the 1956 Act i.e. companies incorporated outside India which:</p> <ul style="list-style-type: none"> ▪ after the commencement of 1956 Act, establish a place of business within India, and ▪ have before the commencement of 1956 Act, established a place of business within India and continue to have an established place of business within India at the commencement of 1956 Act.
Class of companies which are excluded from CARO – 2015 application	Class of companies which were excluded from CARO – 2003 application
<ul style="list-style-type: none"> ▪ Banking company as defined under section 5(c) of the Banking Regulation Act, 1949 ▪ Insurance company as defined under the Insurance Act, 1938. ▪ Companies incorporated with charitable objects, etc. i.e. companies licensed to operate under section 8 of 2013 Act ▪ Private company: <ul style="list-style-type: none"> – with a paid-up capital and reserves not more than INR50 lakhs – does not have outstanding loan exceeding INR25 lakhs from any bank or financial institution, and – does not have a turnover exceeding INR5 crore at any point of time during the financial year ▪ One person company as defined under section 2(62) of the 2013 Act i.e. a company which has only one person as a member ▪ Small company as defined under section 2(85) of the 2013 Act i.e. a company other than a public company: <ul style="list-style-type: none"> – paid-up share capital of which does not exceed INR50 lakhs or such higher amount as may be prescribed which shall not be more than INR5 crore, and – turnover of which as per its last statement of profit and loss does not exceed INR2 crore or such higher amount as may be prescribed which shall not be more than INR20 crore. <p>Following companies will not qualify as a small company:</p> <ul style="list-style-type: none"> – a holding or a subsidiary company, – a company registered under section 8 of 2013 Act, or – a company or body corporate governed by any special Act. 	<ul style="list-style-type: none"> ▪ Banking company as defined under section 5(c) of the Banking Regulation Act, 1949 ▪ Insurance company as defined under section 2(21) of the 1956 Act ▪ Companies incorporated with charitable objects, etc. i.e. companies licensed to operate under section 25 of the 1956 Act ▪ Private company: <ul style="list-style-type: none"> – with a paid-up capital and reserves not more than INR50 lakhs, – does not have outstanding loan exceeding INR25 lakhs from any bank or financial institution, and – does not have a turnover exceeding INR5 crore at any point of time during the financial year. <p>No such class of companies existed under the 1956 Act</p>

Matters to be reported in the CARO – 2015

- As compared to the CARO – 2003, the reporting requirements under the CARO – 2015 have been reduced considerably (i.e. from 21 clauses to 12 clauses). The following tables provide the reporting requirements that have either been carried forward in entirety/certain modification or has been now been deleted as compared to the CARO – 2003. Like CARO – 2003, under CARO – 2015 also, where:
 - an auditor's response to any of the reporting matters is unfavourable/qualified, the auditor should state the reason for such response
 - an auditor is unable to express any opinion in response to a particular question, the audit report should indicate such fact together with the reasons why it was not possible to provide a response to such a question.

Reporting requirements carried forward in entirety/certain modification from the CARO – 2003

Fixed assets

- Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets?
- 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?

Inventories

- Whether physical verification of inventory has been conducted at reasonable intervals by the management?
- 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.
- Whether the company is :
 - maintaining proper records of inventory,
 - 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?

Granting of loans to certain parties

- 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 2013 Act. If so:
 - whether receipt of the principal amount and interest are also regular, and
 - if overdue amount is more than INR1 lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest?

Internal control system

- 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?

Acceptance of deposits

- In case the company has accepted deposits¹, 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 2013 Act and the Rules framed thereunder, where applicable, have been complied with? If not, the nature of contraventions should be stated.
If an order has been passed by the Company Law Board or the National Company Law Tribunal or the Reserve Bank of India or any Court or any other Tribunal, whether the same has been complied with or not?

Maintenance of cost records

- Where maintenance of cost records has been specified by the Central Government under section 148(1) of the 2013 Act, whether such accounts and records have been made and maintained?

1. CARO – 2003 refers to deposits accepted from public

Reporting requirements carried forward in entirety/certain modification from the CARO – 2003

Deposit of statutory dues

- Is the company regular in depositing undisputed statutory dues including²:

– provident fund	– income-tax	– wealth tax	– duty of customs ³	– value added tax ⁵
– employees' state insurance	– sales-tax	– service tax	– duty of excise ⁴	– cess

and any other statutory due 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?

- In case dues of:

– income tax	– wealth tax	– duty of customs ³	– value added tax ⁵
– sales tax	– service tax	– duty of excise ⁴	– 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.)

Accumulated losses and incurrence of cash losses

- 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 50 per cent of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year?

Default in repayment of dues

- 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.

Guarantee for loans taken by others from banks or financial institutions

- Whether the company has given any guarantee for loans taken by others from banks or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company?

Application of term loans

- Whether term loans were applied for the purpose for which the loans were obtained?

Fraud reporting

- 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.

New reporting requirements prescribed in the CARO – 2015

- Whether the amount required to be transferred to investor education and protection fund (IEPF) in accordance with the relevant provisions of the 1956 Act and the Rules made thereunder has been transferred to such fund within time?

2. CARO – 2003 required the auditor to also comment on regularity in deposit of undisputed dues to IEPF

3. CARO – 2003 required the auditor to comment on regularity in deposit of custom duty

4. CARO – 2003 required the auditor to comment on regularity in deposit of excise duty

5. CARO – 2003 did not require the auditor to comment on regularity in deposit of value added tax

Reporting requirements of the CARO – 2003 not carried forward

Fixed assets

- If a substantial part of fixed assets has been disposed off during the year, whether it has affected going concern assumption of the company?

Granting of loans to certain parties

- Has the company granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the 1956 Act. If so,
 - give the number of parties and amount involved in the transactions, and
 - whether the rate of interest and other terms and conditions of loans given by the company, secured or unsecured, are prima facie prejudicial to the interest of the company?
- Has the company taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the 1956 Act? If so:
 - give the number of parties and the amount involved in the transactions,
 - whether the rate of interest and other terms and conditions of loans taken by the company, secured or unsecured, are prima facie prejudicial to the interest of the company, and
 - whether payment of the principal amount and interest are also regular?

Contracts/arrangements with certain parties

- Whether the particulars of contracts or arrangements referred to in section 301 of the 1956 Act have been entered in the register required to be maintained under that section?
- Whether transactions made in pursuance of such contracts or arrangements have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time?

(This information is required only in case of transactions exceeding the value of INR5 lakhs in respect of any party and in any one financial year.)

Internal audit system commensurate with size and nature of the business

- In the case of:
 - listed companies and/or other companies having a paid-up capital and reserves exceeding INR50 lakhs as at the commencement of the financial year concerned, or
 - having an average annual turnover exceeding INR5 crore 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?

Maintenance of documents and records for grant of loans and advances

- 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.

Requirements specific to a chit fund/nidhi/mutual benefit fund/societies

- Whether the provisions of any special statute applicable to chit fund have been duly complied with? In respect of nidhi/mutual benefit fund/societies, whether the:
 - net-owned funds to deposit liability ratio is more than 1:20 as on the date of balance sheet,
 - company has complied with the prudential norms on income recognition and provisioning against substandard/doubtful/loss assets,
 - company has adequate procedures for appraisal of credit proposals/requests, assessment of credit needs and repayment capacity of the borrowers,
 - repayment schedule of various loans granted by the nidhi is based on the repayment capacity of the borrower?

Reporting requirements of the CARO – 2003 not carried forward

Companies dealing/trading in securities, etc.

- 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 investments 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 1956 Act?

Short term funds used for long term investment

- Whether the funds raised on short-term basis have been used for long term investment? If yes, the nature and amount is to be indicated.

Preferential allotment of shares in certain cases

- Whether the company has made any preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the 1956 Act and if so whether the price at which shares have been issued is prejudicial to the interest of the company?

Creation of security/charge on the issue of debentures

- Whether security or charge has been created in respect of debentures issued?

Disclosure of end use of money raised by public issues

- Whether the management has disclosed on the end use of money raised by public issues and the same has been verified?



Our comments

- By issuing the much awaited reporting requirements under CARO – 2015, the MCA has addressed an important need of companies in India. Though it is the responsibility of the auditors to report on matters prescribed in the CARO – 2015, the companies would get affected as they need to provide the underlying information.
- CARO – 2015 is expected to apply to more number of companies :
 - *Foreign company*: The definition of a foreign company has been widened under section 2(42) of the 2013 Act (see definition the section ‘Companies covered under the CARO – 2015’ above). Entities should accordingly assess whether they would get covered under CARO – 2015. .
 - *Small company*: The 2013 Act introduced the concept of small company. The definition of a small company under the 2013 Act was amended by the MCA on 13 February 2015. Following the amendment, the revised definition requires that the both conditions as prescribed under section 2(85) of the 2013 Act i.e. paid-up share capital and turnover criteria should be met. Accordingly, fewer companies are expected to meet the definition of a small company under the 2013 Act and therefore, be outside the scope of CARO – 2015. Thus, companies should assess whether they would get covered under CARO – 2015.
- The ICAI had earlier excused the auditor’s from commenting on deposit of cess in their audit report as section 441A of 1956 Act was not notified, though such reporting requirements were prescribed in the CARO – 2003. This reporting requirement has been carried forward in the CARO – 2015 as well. However, it is interesting to note that no section which corresponds to section 441A of the 1956 Act has been enacted under the 2013 Act. The MCA/ICAI should clarify this matter to do away with any ambiguity.
- Obligation to report on timely transfer of amounts to the IEPF appears in the CARO – 2015 (refer to ‘New reporting requirements prescribed in CARO – 2015’ above) as well as in Rule 11(c) of the Companies (Audit and Auditors) Rules, 2014. The MCA/ICAI should make an attempt to harmonise the two reporting requirements and suggest a single reporting requirement which could encompass the objective envisaged in the Companies (Audit and Auditors) Rules, 2014 and the CARO – 2015.

The bottom line

The issue of the CARO – 2015 is indeed a welcome step as auditors are gearing up to report on the financial statements for the year ended 31 March 2015. The MCA should publish the CARO – 2015 in the Official Gazette at the earliest in order to make it legally enforceable.



KPMG in India

Ahmedabad

Commerce House V, 9th Floor 902
& 903, Near Vodafone House
Corporate Road, Prahaladnagar
Ahmedabad 380 051
Tel: +91 79 4040 2200
Fax: +91 79 4040 2244

Bengaluru

Maruthi Info-Tech Centre
11-12/1, Inner Ring Road
Koramangala, Bengaluru 560 071
Tel: +91 80 3980 6000
Fax: +91 80 3980 6999

Chandigarh

SCO 22-23 (1st Floor)
Sector 8C, Madhya Marg
Chandigarh 160 009
Tel: +91 172 393 5777/781
Fax: +91 172 393 5780

Chennai

No.10, Mahatma Gandhi Road
Nungambakkam
Chennai 600 034
Tel: +91 44 3914 5000
Fax: +91 44 3914 5999

Delhi

Building No.10, 8th Floor
DLF Cyber City, Phase II
Gurgaon, Haryana 122 002
Tel: +91 124 307 4000
Fax: +91 124 254 9101

Hyderabad

8-2-618/2
Reliance Humsafar, 4th Floor
Road No.11, Banjara Hills
Hyderabad 500 034
Tel: +91 40 3046 5000
Fax: +91 40 3046 5299

Kochi

Syama Business Centre
3rd Floor, NH By Pass Road,
Vytilla, Kochi – 682019
Tel: +91 484 302 7000
Fax: +91 484 302 7001

Kolkata

Unit No. 603 – 604, 6th Floor, Tower - 1,
Godrej Waterside, Sector – V,
Salt Lake, Kolkata - 700 091
Tel: +91 33 44034000
Fax: +91 33 44034199

Mumbai

Lodha Excelus, Apollo Mills
N. M. Joshi Marg
Mahalaxmi, Mumbai 400 011
Tel: +91 22 3989 6000
Fax: +91 22 3983 6000

Pune

703, Godrej Castlemaine
Bund Garden
Pune 411 001
Tel: +91 20 3058 5764/65
Fax: +91 20 3058 5775

Introducing KPMG in India IFRS Institute



KPMG in India is pleased to re-launch IFRS Institute - a web-based platform, which seeks to act as a wide-ranging site for information and updates on IFRS implementation in India.

The website provides information and resources to help board and audit committee members, executives, management, stakeholders and government representatives gain insight and access to thought leadership publications that are based on the evolving global financial reporting framework.

IFRS Notes



IFRS convergence – a reality now! MCA notifies Ind AS standards and implementation roadmap

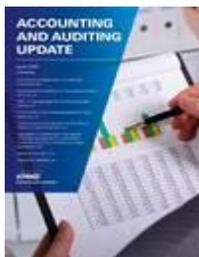
This issue of our IFRS Notes provides a high level analysis of the much awaited Indian Accounting Standards (Ind AS) that are converged with International Financial Reporting Standards (IFRS), which was finally notified by the Ministry of Corporate Affairs on 16 February 2015.

The notification of these IFRS converged standards aims to fill up significant gaps that exist in the current accounting guidance, and India can now claim to have financial reporting standards that are contemporary and virtually on par with leading global standards. This in turn may improve India's place in global rankings on corporate governance and transparency in financial reporting.

With the notification of 39 Ind AS standards together with the implementation roadmap, coupled with the progress made on finalising the Income Computation and Disclosure Standards (ICDS), the government has potentially addressed several hurdles which possibly led to deferment of Ind AS implementation in 2011.

Companies should make an impact assessment and engage with stakeholders, both internal and external, to deal with their respective areas of impact and ensure a smooth transition.

Missed an issue of Accounting and Auditing Update or First Notes?



April 2015

The April 2015 edition of the Accounting and Auditing Update captures the recent issue of the 'Income Computation and Disclosure Standards' (ICDS) by the Ministry of Finance. In this article, we have provided an overview of key matters and our brief comments. This month we discuss the disclosure requirements of the AS 14, Accounting for Amalgamations and the Equity Listing Agreement when a company formulates a scheme of amalgamation.

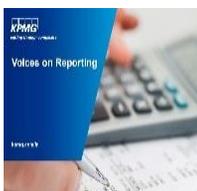
The Institute of Chartered Accountants of India (ICAI) has recently issued a guidance note on fraud reporting. We have provided an overview of this guidance note along with the requirements of the Companies Act, 2013. In addition, we have discussed the requirement of Clause 49 of the Equity Listing Agreement relating to aggregation of the related party transactions. Finally, we also highlight key amendments for the year ending 31 March 2015 introduced under Indian GAAP, IFRS and U.S. GAAP by the respective regulatory bodies in addition to our regular round up of regulatory updates



ICDS - A new paradigm for computing taxable income

On 31 March 2015, The Ministry of Finance has issued ten Income Computation and Disclosure Standards (ICDS), operationalising a new framework for computation of taxable income by all assesses. All assesses would be required to adopt these standards for the purposes of computation of taxable income under the heads "Profit and gains of business or profession" and "Income from Other Sources". These standards are applicable for previous year commencing from 1 April 2015, i.e., Assessment Year 2016-17 onwards.

The adoption of ICDS will significantly alter the way companies compute their taxable income, as many of the concepts from existing Indian GAAP have been modified. This may also require changes to existing process and systems. This special edition of our First Notes provides an overview of key matters and roadmap for implementation of ICDS, along with our brief comments



KPMG in India is pleased to present Voices on Reporting – a monthly series of knowledge sharing calls to discuss current and emerging issues relating to financial reporting.

On 18 March 2015, we covered the following topics :

- (1) Overview of section 143(12) of the Companies Act, 2013
- (2) Persons covered for reporting under section 143(12) of the Companies Act, 2013
- (3) Reporting on frauds in various scenarios.

Feedback/queries can be sent to aaupdate@kpmg.com

Back issues are available to download from: www.kpmg.com/in

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

This document is meant for e-communication only.