Summary of CARO, 2004

Para1: Non-applicability:

1. Banking Companies
2. Insurance Companies
3. Companies registered u/s 25
4. Private Limited Company if at any point during the year its:

   a) Paid–up capital + Reserves ≤ Rs. 50 lakh

   Paid–up capital: *(equity + pref.)*; Reserves: *[Cap. reserve+Revaluation reserve+(Revenue Reserves–Dr.bal of P&La/c)]*

   b) Loan o/s ≤ Rs. 25 lakh

   (bank loans+all long term loans+all short term loans from any financial institution)

   c) Turnover ≤ Rs. 5 crores

   (Sales & services rendered income; excluding excise duty, discounts and sales returns)

Para 4: Matters to be included in Auditor's Report: Clauses:

(i) Fixed Assets

- a. Proper Records
- b. Physical verification, Material Discrepancies
- c. Substantial Part disposed off, affecting going concern

(ii) Inventory

- a. Physical Verification
- b. Adequacy of procedures for verification
- c. Proper records, discrepancies in physical verification

(iii) Loans granted & taken u/s 301

For Loans granted:
- a. Number of parties & amount of loan
- b. Terms & conditions and interest if prejudicial
- c. Receipt of principal & interest if regular
- d. For overdue amount > Rs. 1 lacs, recovery steps

For Loans taken:
- e. Number of parties & amount of loan
- f. Terms & conditions and interest if prejudicial
- g. Payment of principal & interest if regular

(iv) Adequacy of internal controls
- For purchase of inventory & fixed assets
- Failure to rectify major weaknesses
- For sale of goods & services

(v) Transactions u/s 301
- All particulars entered in register maintained
- Transactions made at reasonable prices (for transactions exceeding Rs. 5 lakh for each party for each FY).

(vi) Public Deposits: Non- compliance if any with provisions of RBI, Act and order of CLB

(vii) Adequacy of Internal Audit system: Applicability:
- All listed companies
- Unlisted companies with
  - Paid up share capital & reserve > Rs. 50 lakh
  - Average Annual turnover for preceding 3 FYs > Rs. 5 crores

(viii) Maintenance of cost records: If prescribed u/s 209, whether made & maintained.

(ix) Statutory dues
- a. Undisputed dues paid regularly; if not amount o/s > 6 months
- b. Disputed taxes due, with amount and forum where pending

(x) Net worth erosion
- Applicability: Companies registered >= 5 years
- Accumulated losses if > 50% of net worth
- Cash losses in current or previous year

(xi) Default in repayment of dues:
- Dues of bank/financial institutions/debenture holders
- State period & amount of dues.

(xii) Records for loans & advance granted:
- Applicability – loans against security of shares, debentures & other securities
- Adequate records if maintained; deficiencies if any.

(xiii) ***For Chit fund:*** compliance with applicable statutes
a) Net-owned funds to deposit liability ratio if > 1:20
b) Compliance with prudential norms on income recognition
c) Adequacy of credit appraisal procedures
d) Appropriateness of repayment schedules.

- Proper Records

(xiv) ***<u>Company trading/dealing in shares/debentures/securities</u>***
- Timely entries
- Held in own name (except u/s 49)

(xv) ***<u>Guarantee given to banks/financial institutions:</u>*** Terms & conditions, if prejudicial.

(xvi) ***<u>Application of terms loans:</u>*** used for the purpose for which obtained.

(xvii) ***<u>Application of short term loans:</u>*** short term loans if used for long term purpose & vice versa, specifying nature & amount.

(xviii) ***<u>Preferential allotment to persons covered u/s 301:</u>*** Price of issue if prejudicial.

(xix) ***<u>Securities created for Debentures issued</u>***

(xx) ***<u>End-use of money raised by public issue</u>***

(xxi) ***<u>Frauds:</u>*** on or by company noticed or reported, if yes, its nature & amount.