COMPANIES AUDITOR'S REPORT ORDER (CARO, 2003)

It shall apply to every company including a foreign company as defined in Sec 591 of the Act, except the following :-

1) Banking Company as defined in clause (c) of section 5 of the Banking
2) Regulation Act, 1949.
3) Insurance Company as defined in clause (21) of section 2 of the Act.
4) A Company licensed to operate under section 25 of the Act.
5) CARO will not be applicable if all the below conditions are satisfied

   Together:-
   a) private limited company
   b) paid up capital & reserves is 50 lacs or less
   c) Outstanding loan from Banks or Financial Institutions is 25lacs or less
   d) Turnover is 5 crores or less.

CARO Report includes the following:-

1) **Fixed Assets**
   a. Maintenance of proper records including quantitative details & situation of fixed assets
   b. Physical Verification of Fixed Assets by management at reasonable intervals. If material discrepancies are noticed whether, they are dealt with in the books of accounts
   c. Substantial part of Fixed Assets is disposed off which affects going concern.

2) **Inventory**
   a. Physical verification of Inventories conducted by Management at reasonable intervals.
   b. Procedures followed for Physical verification are reasonable & adequate or not. Maintenance of proper records of Inventory material discrepancies in any, are dealt in the books of accounts

3) **Loans**
   a. Loans given to parties' u/s 301 of the Act. Number of parties involved & amounts thereof.
   b. Rate of Interest & other conditions are prejudicial to the interest of the company.
   c. Whether receipt of principal & interest are regular.
   d. If overdue amount are more than Rs. 1 lakh, steps have been taken for the recovery of principal & interest.
   e. Loan taken from party's u/s 301 of the Act. Number of parties involved & amounts thereof.
   f. Rate of Interest & other conditions are prejudicial to the interest of the company.
   g. Payment of principal amount & interest are regular.

4) **Internal Control System**
   a. Adequate Internal Control System for purchase & sale of Fixed Assets & Inventory & accounting to the nature of the business, whether any continuing failure to correct major weaknesses in internal control system.

5) **Contract with Sec 301**
   a. Details included in register u/s 301.
   b. Contracts made at reasonable prices.
   c. Details required only if transactions exceed more than Rs. 5 lakh, in a year.

6) **Deposits recede from Public**
   a. Directives if RBI is complied.
   b. Provisions of Sec 58A & 58AA are complied. If not complied then discrepancies should be stated.

7) **Internal Control System**
   Commensurate with size & nature of its business.
   a. This information is required if only sum of paid up capital and reserves is more than Rs. 50 lakh or average annual turnover is more than Rs/ 5 crores for preceding 3 years consecutively.

8) **Cost records**
   Sec 209 (1) (d) – Cost records have been maintained.

9) **Statutory Dues**
   a. Whether Co. is regular in depositing of statutory dues. Outstanding dues of more than 6 months to be reported.
   b. In case of nonpayment due to dispute where cases are pending amount & forum where dispute is pending

10) **Companies having accumulated losses**
   a. Companies with age 5 years or more
   b. Financial losses more than 50% of its net worth (reporting)
   c. Cash losses in such financial year.

11) **Repayment of Dues**
   Whether default in repayment of dues to financial institutions of bank of debenture holders, if yes period & amount of default

12) **Loan 7 Advances given by way of pledge**
   Adequate documents & records to be maintained when Loans & Advances are given by way of pledge if shares, debentures & other securities. If not, deficiencies to be pointed.

13) **Provisions applicable to chit Fund Companies**
   a. Net Owned Funds Ratio is more than 1:2 s on balance sheet date. Deposit liability.
   b. Compliance with Prudential norms on income recognition & provisioning against sub-standard/doubtful/ loss assets.
   c. Adequate procedure for appraisal of credit proposal/ requests, assessment of credit needs & repayment capacity of borrowers.
   d. Repayment schedule of various loans granted by NIDHI is based on repayment capacity of borrower.

14) **Dealing or Trading in Shares, Securities, Debentures and Other Investments**

Proper records, timely entries. Investment held in own name except to extent of exemption u/s 49 of the Act.

15) **<u>Guarantee for Loans taken by others from or financial institution</u>**
Whether terms & conditions are prejudicial to the interest of the company.

16) **Whether Term Loans applied for purpose for which it is taken.**

17) **<u>Funds raised on short term used for long term</u>**
If yes nature & amount to be indicate.

18) **<u>Preferential allotment of shares to parties u/s 301</u>**
If yes whether price of issue is prejudicial to the interest of the company.

19) **Whether Security of charge has been created in respect of issue of debentures.**

20) **Whether the Management has disclosed on the end use of money raised by public issue & the same has been verified.**

21) **<u>Fraud noticed or reported</u>**
If yes the nature and the amount involved.

{<u>Conditions of Foreign Company (Sec 591 Act):-</u>

a) Companies Incorporated Outside India
and
b) Establish a Place of Business in India

<u>Exception to Foreign Company:-</u>

where a) & b) are fulfilled but 50% or more of paid up share capital (equity + preference) is held by one or more citizens of India or body corporate incorporated in India, then such Co is treated as Company incorporated in India & so it is not a Foreign Company. }