CARO
CA. Anurag Singal
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Companies (Auditor's Report) Order, 2003 (CARO, 2003)

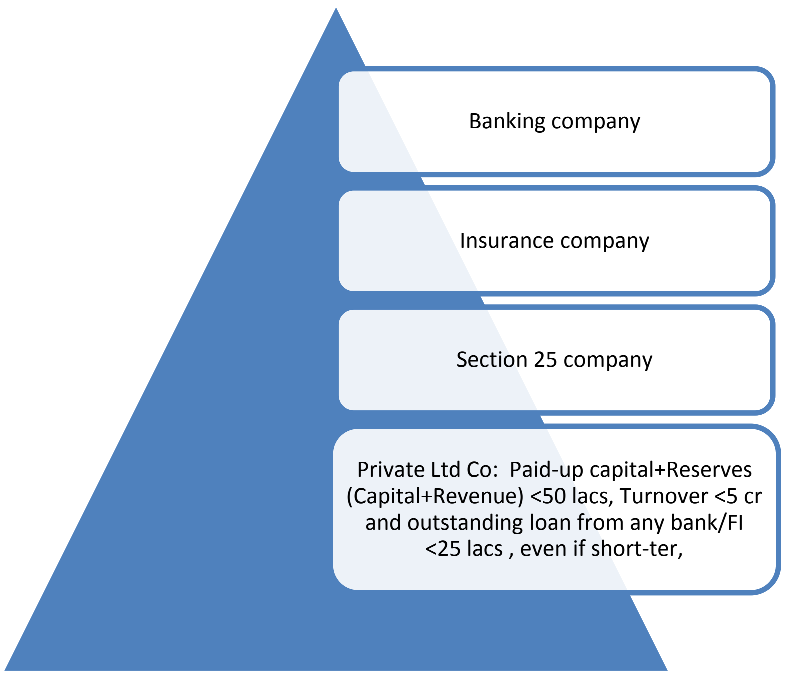
All companies including a foreign company as defined u/s 591

Banking companies, insurance companies and Section 25 companies = Exempt

Private companies fulfilling certain conditions= Exempt

Manufacturing company /Finance company / Investment company

Exemption



Turnover excludes

- Sales tax collected or excise duty collected if they are credited separately to sales tax account or excise duty account;
- Trade discounts
- Sales return even if the returns are from the sales made in the earlier years.
- Income received by way of rent or dividend/interest

Turnover Includes

- Commission allowed to third parties;

CARO = applicable to a private limited company if, at any point of time, during the financial year covered by the audit report:

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- Paid-up capital and reserves exceed the limit of rupees fifty lakh;
- Loan outstanding exceeding rupees twenty five lakh,
- Turnover exceeds rupees five crore.

Matters to be Included under CARO, 2003

The CARO, 2003 has also specified the matters to be included in the auditor's report of various companies. The auditor's report on the account of a company to which this Order applies shall include a statement on the matters, as specified in paragraphs 4 and of CARO, 2003.

Every audit report u/s 227 shall contain the matters specified in paragraphs 4 and 5.

1. Inventory

a) Did management conduct physical verification at reasonable intervals?

b) Is procedure = reasonable w.r.t. size of the company and the nature of its business?

c) If not, what are the inadequacies?

d) Are Inventory Records= adequate?

e) Any material discrepancies on physical verification? Adjustment in books?

2. Fixed assets

a) Did management conduct physical verification at reasonable intervals?

b) Is procedure = reasonable w.r.t. size of the company and the nature of its business?

c) If not, what are the inadequacies?

d) Are Fixed Assets Records= adequate?

e) Any material discrepancies on physical verification? Adjustment in books?

f) If substantial part of fixed assets disposed off during the year, whether Going Concern impacted.

3. Cost records

a) Records prescribed by the Central Government u/s 209(1) (d)?

b) If so, whether such accounts and records made and maintained.

4. Chit fund companies

a) Provisions of any special statute applicable to chit fund complied with?

b) If not, what was the default?

5. Deposits from public

a) If company accepted deposits from public, whether RBI guidelines and 58A/58AA complied with.

b) If not, what was the default?

c) If order passed by Company Law Board, complied?

6. Internal control

a) Is Internal Control for the purchase of inventory/fixed assets and sale of goods Any repeated occurrence of major weakness in internal control.

7. Statutory dues

a) Is the company regular in depositing undisputed statutory dues including PF, Investor Education and Protection Fund, ESIC, Income tax, Sales-tax, Wealth-tax, Custom Duty, Excise Duty, Cess etc with the appropriate authorities.

b) If not, how much outstanding for > 6 months for due date

c) If dues ≠ deposited but dispute filed at which forum?

8. Frauds

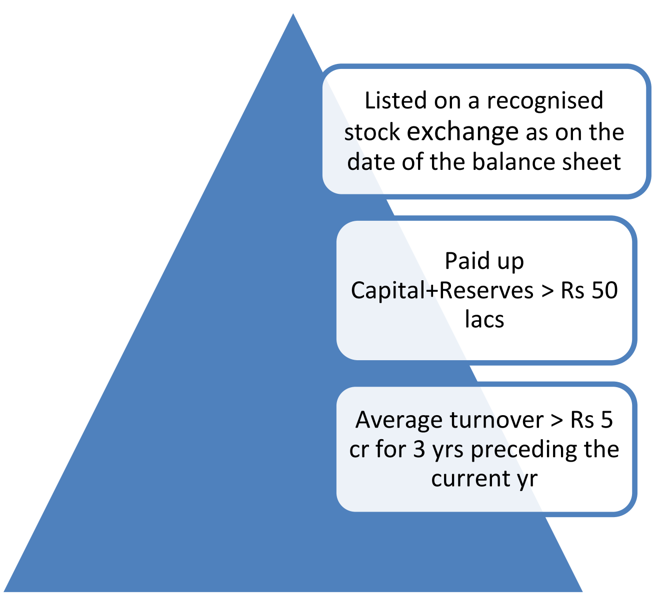
a) Any fraud on or by the company noticed or reported during the year?

b) If yes, nature and the amount?

9. Internal Audit

a) Is Internal audit system = reasonable w.r.t. size of the company and the nature of its business?

a) Applicable for



10. Loans to/from Related Party u/s 301 of Companies Act

11. Loan to /from Related Party u/s 301 of Companies Act?

a) Who? Amount?

b) Rate of Interest = prima facie prejudicial to the interest of the company?

c) Repayment of principal amount and interest = regular?

d) If Outstanding > Rs 1 lac, whether reasonable step taken by the company for recovery / payment of principal and interest.

12. Loans against Securities (pledge of shares, debentures)

a) Adequate documents and records maintained?

b) If not, deficiencies=?

13. End use of issue proceeds

a) Short term funds ≠ Long term investment

b) Long term funds ≠Short term investment

c) If yes, the nature and amount?

14. Dealing in Securities (Company)

a) Adequate documents and records maintained?

b) Timely entries made therein?

c) Whether company holds shares, debentures etc in its own name except to the extent of the exemption, if any, granted u/s 49

15. Guarantee Given for loans

a) Did company give any guarantee for loans taken by others? Terms and conditions = prejudicial?

16. **Repayment of dues**

a) Any default in repayment of dues to financial institution or bank or debenture holders?

b) If yes, the period and amount of default to be reported.

17. Application of IPO funds

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

18. End use of borrowings

a) Whether term loans were applied for the purpose for which the loans were the loans were obtained.

19. Securities for debenture issued?

a) Whether securities have been created in respect of debentures issued?

20. Preferential allotments to Related Party

a) Any preferential allotment of shares to Section 301 parties?

b) Price =prejudicial to the interest of the company?

21. Loss making company

a) If company registration ≥ 5 years

b) Accumulated losses at the end of FY > 50% of net worth.

c) Any cash losses in such/preceding financial year?

22. Transaction covered u/s Section 301

a) Relevant transactions (Value >Rs 5 lacs) = entered in register u/s 301?

b) Price = reasonable w.r.t. market prices at the relevant time?

23. NIDHI/ mutual benefit fund/ societies-special aspects

a) Whether net owned funds/ deposit liability > 1:20 as on the date of balance sheet.

b) Whether the company has complied with the prudential norms on income recognition and provisioning against sub-standard / default / loss assets.

c) Whether the company has adequate procedures for appraisal of credit proposals / requests, assessment of credit needs and repayment capacity of the borrowers.

d) Whether the repayment schedule of various loans granted by the nidhi is based on the repayment capacity of the borrower and would be conducive to recovery of the loan amount.

If auditor response to any clause = unfavourable or qualified, give reason also?

If auditor response to any clause = disclaimer of opinion (unable to express any opinion) give reason also?

Cases

Comment - X Ltd., to whom Companies (Auditor's Report) Order, 2003 is applicable, has issued 9% Debenture of ` 5 crores, redeemable after 5 years and used the proceeds of issue for payment of Sundry Creditors and other Current Liabilities of ` 2.80 crores.

As per CARO 2003, auditor must report whether funds raised on short-term basis have been used by the company for long-term investment and long-term funds have been used to finance short-term assets.

Check object of issue of debentures and end use of ` 5 crores.

Check Board's resolution authorizing the utilization of the fund for payment of current liabilities

Refer Cash Flow Statement and obtain requisite information/explanations from management

If satisfied that long-term funds used for payment of short-term liabilities, state in audit report

Other liabilities in Balance Sheet of AAS Limited include ` 7.8 lakhs being the amount of excise duty payable since 1.5.2008 remaining unpaid till 31.3.09. However, the same had been paid by the company on 15.4.2009 upon getting clarification from its advocates that the liability is actually payable by it.

According to CARO 2003, if any undisputed statutory due like excise duty, income tax etc, is not remitted within due date and is outstanding for more than six months, 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

Here, the statutory liability has crystallized and is outstanding for > 6 months. It is not a disputed liability. It is an undisputed liability about which the company had some doubts.

Hence auditor must disclose

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the Standards on Auditing applicable to IPCC

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CA. Anurag Singal is a graduate from St Xavier's College, Kolkata. He secured All India Rank 22 and 25 in CA Final and CA PE-II respectively, having secured All India Highest in Mathematics in CA PE-I. He received the "CA Professional Achiever-Manufacturing Sector" at 6th ICAI Awards 2012. His E-learning lectures on Auditing for CA IPCC and SFM and AMA for CA-Final are hosted on the Board of Studies Knowledge Portal of ICAI http://studentslms.icai.org/. He is a CA GMCS faculty and has mentored hundreds of students. His articles have been published in the CA Journal, ICFAI Journal, CA-EIRC Newsletter, Bombay Chartered Accountant Society and Taxmann

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