Companies (Auditor's Report) Order 2003
(CARO 2003)

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❖ WHAT IS CARO ?

- ✓ It is Company Auditor's Report Order.
- ✓ This order is ***issued by CG to the Auditors of the Company*** that they have to annex with their main report a detailed report as required by the CG.
- ✓ It is nothing but an ***annexure*** to the main audit report.

❖ When to report under CARO ?

- ✓ Auditor is required to report only in case of dissatisfaction as per Sec 227(1A), but
- ✓ Under CARO, auditor is required to ***report about EACH of 21 clauses*** whether he is *satisfied or not*.
- ✓ If a clause is not applicable to a company then also the auditor should report on that clause.
- ✓ Once CARO is applicable on a company the auditor has to report on ALL 21 clauses.

❖ Applicability of CARO-

- ✓ 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 u/s 5(c) of the Banking Regulation Act 1949.

  2) ***Insurance*** Company as defined u/s 2(21) of the Companies Act 1956.

  3) A Company licensed to operate ***u/s 25*** of the Companies Act 1956.

  4) A ***Private Limited*** Company, subject to fulfillment of ALL the following 3 condition at any point during the year.

     a) Aggregate of Paid up ***share capital*** and ***reserves*** should not exceed Rs. 50 Lakh.
     b) ***Outstanding loan*** from Banks or Financial Institutions should not exceed Rs. 25 Lakh.
     c) ***Turnover*** should not exceed Rs. 5 Crore.

-: CARO Report Includes The Following :-

1. FIXED ASSET:-

A. **Adequacy of record:** Whether or not proper records have been maintained to show ***full particulars*** including ***quantitative details*** and ***details about their situation*** of fixed asset.

B. **Verification:** Whether the Mgt. of the company has physical verified the fixed asset at reasonable intervals; whether ***material discrepancies*** observed, if any, on such verification have been ***suitable dealt*** within the books of accounts.

C. **Going Concern:** Whether the going concern assumption is violated in case of ***sale of a substantial part*** of the fixed assets.

2. INVENTORIES:-

A. **Verification:** Whether the Mgt. of the company has ***physical verified*** all the inventories at reasonable intervals.

B. **Adequacy of Verification Procedure:** Whether the ***procedure of physical verification*** of inventory are reasonable and adequate having regard to the size of the company and the nature of the business.

C. **Adequacy of record:** Whether the company is maintaining the proper records of inventory; whether any ***material discrepancies*** observed on physical verification, if any, on such verification have been ***suitable dealt*** within the books of accounts.

3. *LOAN TO / LOAN FROM DIRECTORS AND INTERESTED PARTIES:-*

A. **Particular of parties:** Has the company granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained u/s 301 of the Act. If so, give the ***number*** of parties and ***amount involved*** in the transaction.

B. **Terms & Condition:** Whether the rate of interest and other T&C of loans given by the company, secured on unsecured, are prima facie prejudicial to the ***interest of the company***.

C. **Repayment:** Whether receipt of the principal amount and interest are also ***regular***.

D. **Steps for Recovery:** If ***overdue*** amount is ***more that Rs. 1,00,000/-,*** whether reasonable ***steps*** have been taken by the company for recovery of the principal amount and interest.

a) **Particular of parties:** Has the company taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained u/s 301 of the Act. If so, give the ***number*** of parties and ***amount involved*** in the transaction.

b) **Terms & Condition:** Whether the rate of interest and other T&C of loans taken by the company, secured on unsecured, are prima facie prejudicial to the ***interest of the company.***

c) **Repayment:** Whether payment of the principal amount and interest are also ***regular***.

4. *INTERNAL CONTROL:-*

A. **Adequacy:** Is there an adequate Internal Control system commensurate (relating to) with the ***size*** of the company and the ***nature*** of the business, for the ***purchase of inventory and fixed asset***, and for the ***sale of goods and services.***

B. **Correction of Weakness:** Whether there is a ***continuing failure*** to correct major weakness in internal control system.

5. *TRANSACTION COVERED BY SECTION 301:-*

A. **Records:** Whether the particulars of contract / arrangement referred u/s 301 have been entered into register.

B. **Reasonability:** Whether transaction made in pursuance of such contracts / arrangements, have been made at price which are ***reasonable*** having regards to the prevailing ***market price*** at the relevant time.

This information is required only in case of transaction ***exceeding the value Rs. 5, 00,000/-*** in respect of ***any party*** and in respect of any ***one F.Y.***

6. DEPOSIT FROM PUBLIC:-

A. If the company has accepted deposit from public, whether the following are complied with-

- Directives of ***RBI*** are complied
- Provisions of Sec ***58A*** & ***58AA*** are complied.

B. The ***nature*** of ***contravention***, if any must be stated.

7. INTERNAL AUDIT:

Having regards to the size and nature of the business, the auditor should report whether or not the following companies have an Internal Audit system.

A. Listed Company (Public Ltd. Co.)

B. Companies having a paid-up share capital and reserves exceeding Rs. 50 lakh as on the ***commencement*** of the financial year.

C. Companies having an ***average annual turnover exceeding Rs. 5 Crore*** for a period of three consecutive financial years just ***preceding*** the financial year concerned.

8. STATUTORY DUE:-

A. Is the company regular in depositing undisputed statutory dues e.g. ***PF, Investor Education and Protection Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise duty, Cess*** and any other statutory due with the appropriate authorities and if not paid regular, the extent of the arrears of ***outstanding*** statutory due, as at the last date of the financial year concerned ***for a period of more than 6 months*** from the date they become payable, shall be indicated.

B. In case of Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise duty, Cess have not been deposited on account of ***any dispute*** then the ***amount involved*** and the ***forum*** where the ***dispute*** is ***pending*** should be mentioned.

9. COST ACCOUNTING RECORDS:-

A. Whether maintenance of cost records has been ***prescribed by CG***, whether such account and records has been ***made*** and ***maintained***.

B. The auditor is ***only to verify*** that the cost accounting records are made and maintained. He is not bound to check the accuracy of such records.

10. LOSS MAKING COMPANIES:-

In case of a company, which has been registered for a period of not less than 5 years, the following should be reported-

A. Whether the ***accumulated losses*** at the ***end*** of the relevant financial year ***exceeds 50% of its net worth.***

B. Whether the company has ***incurred cash losses*** in the financial year and the financial year immediately preceding the financial year. ***(current + preceding)***

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11. REPAYMENT OF DUES (LOANS):-

Whether ***default*** in repayment of ***principal*** and ***interest*** to financial institutions or bank or debenture holders, if yes ***period*** & ***amount*** of default should be reported.

12. LOANS AGAINST SECURITIES (SECURED LOAN GIVEN):-

A. If the company has advanced or granted loans / advances against security by way of pledge of shares, debentures and other securities, proper and ***adequate documents*** and ***records*** are to be maintained.

B. Where there are ***deficiencies*** in the maintenance of records, the same should be reported by the auditor.

13. CHIT / NIDHI / MUTUAL BENEFIT FUND / SOCIETIES:-

A. Whether or not ***provisions*** of any special structure applicable to chit fund have been duly ***complied*** with.

B. In respect of nidhi / mutual benefit fund / societies-

a) Whether the ***net owned fund to deposit liability ratio*** is more than 1:20 as on the ***BS date.***
b) Whether the company has ***complied*** with the ***prudential norms*** on ***income recognition*** and ***provisioning*** against sub-standard / doubtful / loss asset.
c) Whether the company has ***adequate procedure*** for appraisal of credit proposal s / request, 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.

14. COMPANY DEALING IN SECURITIES (INVESTMENT):-

Whether the company is dealing or trading in shares, securities, debenture and other investment, report whether-

a) Proper ***records*** have been maintained of transaction and contracts,
b) Timely ***entries*** have been made therein,
c) Shares, Securities, Debentures and other securities have been ***held*** by the company, in its ***own name*** except to the extent of the exemption, if any, granted u/s 49 of the Act.

15. GUARANTEES GIVEN:-

Whether the company has given any guarantee for loan taken by others from bank or financial institution, whether the ***T&C*** thereof are prejudicial to the ***interest of the company.***

16. END USE OF BORROWINGS (TERM LOAN USE):-

Whether or not term loan are applied ***for the purpose*** for which such loans were ***obtained.***

17. APPLICATION OF FUND (SHORT TERM FUND):-

A. Whether the ***short term*** funds have been ***applied for long term*** investment.

B. If such application is made, the ***nature and the amount*** involved should be indicated in the audit report.

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18. PREFERENTIAL ALLOTMENT:-

A. Whether the company has ***made any preferential allotment*** of shares to parties and companies covered in the register maintained u/s 301 of the Act.

B. If preferential allotment has been made, whether the issue of price of such shares ***to the interest of the company.***

19. SECURITIES FOR DBENTURE ISSUED:-

Whether or not ***adequate security*** / charge have been ***created*** in respect of debenture issued.

20. END USE OF ISSUE PROCEEDS (PUBLIC MONEY):-

A. Whether the end use of money raised by the public issue has been ***adequately disclosed*** by the management of the company.

B. Whether such end use and disclosure has been ***verified***.

21. FRAUD:-

Whether any ***fraud*** on or by the company has been noticed or reported during the year. Where any fraud is noticed and reported the nature and ***amount*** involved should be indicated.

I	Inventories	2
F	Fixed Asset	1
C	Chit Fund	13
C	Cost Accounting Records	9
D	Deposit From Public	6
I	Internal Control	4
S	Statutory Due	8
F	Fraud	21
I	Internal Audit	7
L	Loan Against Securities	12
L	Loan From / Loan To Directors	3
E	End Use Of Issue Proceeds	20
D	Deals In Securities	14
G	Guarantee Given	15
R	Repayment Of Due	11
A	Application Of Fund	17
B	Borrowings (End Use)	16
S	Securities For Debenture Issued	19
P	Preferential Allotment	18
L	Loss Making Companies	10
T	Transaction U/S 301	5

IF CCD IS FILLED GRAB SPL (SPECIAL) **T** (TEA)