SHORT TITLE & COMMENCEMENT

1) Short Title ➔ Companies (Auditor's Report) Order, 2003
2) Commencement ➔ Effective from 01-07-2003

APPLICABILITY OF ORDER [SECTION 1(2)]

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

1) Banking Co. ➔ As defined in Banking Regulation Act, 1949
2) Insurance Co. ➔ As defined in the Insurance Act
3) Sec. 25 Co. ➔ A company licensed to operate u/s 25 of the Act
4) Pvt. Ltd. Co, ➔ A Pvt. Ltd. Company having all of the following three conditions satisfied –
   - ⇨ PUC + Reserves < = Rs. 50 Lacs
   - ⇨ Loan outstanding from Bank/ Financial Institute < = Rs. 25 Lacs
   - ⇨ Turnover at any Pt. Of time during the F.Y. < = Rs. 5 Crore

DEFINITIONS [SECTION 2]

1) Act ➔ Companies Act, 1956
2) Chit Fund / NIDHI /Mutual Benefit Co. ➔ It includes following 2 types of Companies –
   - ⇨ A co. engaged in managing, conducting or supervising of any KAMETI Transaction
   - ⇨ Co. whose principal business is accepting FDs from members and lending money to them

   KAMETI Transaction –> where a number of subscribers, subscribe to a certain sum of instalments for a definite period and each subscriber, in his turn, shall be entitled to a prize amount (As determined by Lot, Auction, Tender or any other manner agreed by subscribers)

AUDIT REPORT TO CONTAIN MATTERS SPECIFIED IN U/S 4 & 5 [SEC. 3]

Audit report of every company to which this order applies shall contains the matters specified in paragraphs 4 & 5.

MATTERS TO BE INCLUDED IN AUDITORS REPORT [SECTION 4]

1.	Fixed Assets	Records of FA	⇨ Whether Co is maintaining proper records of FA showing full particulars. (incl. Quantitative Details & Situation of FA)
		Physical verification of FA	⇨ Whether Mgmt physically verified these F.A. at reasonable intervals. ⇨ whether any material discrepancies were noticed on such verification, ⇨ If Noticed, whether the same have been properly dealt with in the books of account
		Going Concern	⇨ Whether a disposal of substantial part of F.A. during the year, if any, affected the going concern
2.	Inventories	Physical Verification	⇨ Whether Mgmt. Conducted the physical verification of inventory at reasonable intervals
		Reasonableness and adequacy of physical verification procedures	⇨ Are the procedures of physical verification of inventory followed by the Mgmt. 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.
		Records of Inventory	⇨ whether the company is maintaining proper records of inventory
		Accounting treatment of any Discrepancy	⇨ 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
3.	Loan to/from Parties covered under register u/s 301	Loan granted to parties of register u/s 301	⇨ Has the company granted any loans (secured/unsecured) to Companies/Firms/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 transactions
		Prudence of ROI/ T&C	⇨ whether ROI/other T&Cs of loans given are prima facie prejudicial to the interest of the company
		Regularity of receipts	⇨ whether receipt of the principal amount and interest are also regular
		Overdue AMT. > 1 Lakh	⇨ if overdue amount is more than Rs. 1 lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest

		Loan taken from parties of register u/s 301	⇨ Has the co. taken any loans (secured/unsecured) from Companies/Firms/Other Parties covered in the register maintained u/s 301 of the Act? ⇨ If so, give the number of parties and the amount involved in the transactions
		Prudence of ROI/ T&C	⇨ whether ROI/other T&Cs of loan taken are prima facie prejudicial to the interest of the company
		Regularity of payments	⇨ Whether payment of the principal amount and interest are also regular
4.	Internal Control	Adequate 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
		Failure to correct weaknesses	⇨ Whether there is continuing failure to correct major weakness in internal control system
5.	Comment on Register maintained u/s 301	Maintenance of register u/s 301	⇨ whether the particulars of contracts or arrangements referred to in section 301 of the Act have been entered in the register required to be maintained under that section
		Prudence of transaction u/s 301	⇨ 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
6.	Co. Accepted Deposit from public	Compliance of RBI & Act	⇨ in case the company has accepted deposits from the public, whether following are complied with – o Directives issued by the RBI and o Provisions of sec. 58A, 58AA or any other relevant provisions of the Act and the rules framed there under, where applicable ⇨ If not, the nature of contraventions should be stated
		Compliance of any order by any Authority	⇨ If any order has been passed by **CLB/National Company Law Tribunal/RBI/Any Court/Any other tribunal** whether the same has been complied with or not

7.	Internal Audit	Whether Specified Co. Have an Internal Audit system	⇨ whether the following company has an internal audit system commensurate with its size and nature of its business – o Listed companies o Companies having a PUC & Reserves > Rs.50 lakhs as at commencement of the F.Y. concerned. o Companies having an average annual turnover exceeding Rs. 5 crore for a period of three consecutive F.Y. immediately preceding the financial year concerned
8.	Cost records	Maintenance of Cost record, if Prescribed	⇨ where maintenance of cost records has been prescribed by the CG u/s 209(1)(d) of the Act ⇨ whether such accounts and records have been made and maintained
9.	Statutory dues	Regularity in depositing undisputed statutory dues	⇨ Is the co. regular in depositing undisputed statutory dues including PF/Investor Education and Protection Fund/ESI/I. Tax/Sales tax/Wealth Tax/Service Tax/Custom Duty/Excise Duty/cess and any other statutory dues 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.
		Disputed statutory dues not deposited	⇨ In case dues of Income tax/ sales tax/wealth tax/ service tax/ Customs duty/Excise duty/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 Department shall not constitute the dispute).
10.	Performance of Co. Regd. for 5 years	Acc. Losses against Net Worth & Cash Losses	⇨ In case of a company which has been registered for a period not less than five years, whether – o its accumulated losses at the end of the F.Y. are not less than 50 % of its net worth and o It has incurred cash losses in such F.Y. and in the immediately preceding F.Y.

11.	Default in repayment of dues	Default in repayment to Bank/ Fin. Inst./ Deb. holder	⇨ 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
12.	Loan secured by shares/ Deb./other	adequacy of records in case of such loan	⇨ Whether adequate documents/records are maintained in cases where the company has granted loans/advances on the basis of security by way of **pledge of Shares/Deb./other securities**. ⇨ If not, the deficiencies to be pointed out.
13.	Chit fund & NIDHI/ mutual benefit fund/societies	Compliance by chit fund	⇨ Whether the provisions of any special statute applicable to chit fund have been duly complied with?
		Compliance by NIDHI/ mutual benefit fund/ societies	⇨ In respect of Nidhi/ Mutual benefit fund/societies – o whether the net-owned funds to deposit liability ratio is more than 1:20 as on the date of balance sheet o whether the company has complied with the prudential norms on income recognition and provisioning against sub-standard/doubtful/loss assets o whether the company has adequate procedures for appraisal of credit proposals/requests, assessment of credit needs and repayment capacity of the borrowers o whether the repayment schedule of various loans granted by the nidhi is based on the repayment capacity of the borrower
14.	Co. Dealing in securities	Records & compliance in case of dealing in shares	⇨ if the company is dealing or trading in shares, securities, debentures and other investments o whether proper records have been maintained of the transactions and contracts and o whether timely entries have been made therein; also o 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 granted u/s 49 of the Act
15.	Guarantee given to bank	Prudence of T&Cs of guarantees	⇨ whether the company has given any guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof are prejudicial to the interest of the company;
16.	Term loan	Correct use of loan	⇨ whether term loans were applied for the purpose for which the loans were obtained
17.	Short term raised fund	Correct use of funds	⇨ 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
18.	Preferential Allotment to parties u/s 301	Details and Prudence of such allotment	⇨ 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 and ⇨ if so whether the price at which shares have been issued is prejudicial to the interest of company
19.	Debenture	Security & Charge	⇨ Whether security or charge has been created in respect of debentures issued
20.	money raised from public	Disclosure end use such money	⇨ whether the management has disclosed on the end use of money raised by public issues and the same has been verified
21.	Fraud	Details of fraud	⇨ Indicate the nature and amt. of any fraud on or by the company, noticed or reported during the year, if any.

Companies (Auditor's Report) Order, 2003 [Sec. 5 Reasons to be stated for unfavourable or qualified answers]

- Where, in the auditor's report, the answer to any of the questions referred to in paragraph 4 is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified answer, as the case may be.
- Where the auditor is unable to express any opinion in answer to a particular question, his report shall indicate such fact together with the reasons why it is not possible for him to give an answer to such question