

## Companies (Auditor's Report) Order, 2003 (CARO) Questionnaire

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| <b>Introduction</b> |
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The Companies Act, 1956, under Section 227(4-A) stipulates that the *“The Central Government may, by general or Special Order, direct that, in the case of such class of companies as may be specified in the order, the auditor’s report shall also include a statement on such matters as specified therein”*.

In exercise of this provision the Central Government vide GSR no: 480(E) has issued the Companies (Auditor’s Report) Order, 2003. The matters referred to in this order are to be commented upon by the Statutory Auditors and hence assumes importance that the company ensures adherence to the issues that are referred to in this order to escape adverse comment in the Auditors Report. It is in this regard that this questionnaire has been drafted to act as guidance document to ensure that the company complies with the CARO issues.

The CARO questionnaire needs to be applied at quarterly intervals and the adverse findings of the same be reported to the Audit Committee to aid them in ensuring compliance with these issues.

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|---------------------------|
| <b>CARO Questionnaire</b> |
|---------------------------|

**i. Fixed Assets**

| S.No | CARO Issues                                                                                                                                                                                                                                                 | Compliance |
|------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| a)   | Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets?                                                                                                                   |            |
| b)   | Whether these fixed assets have been physically verified by the management at reasonable intervals; whether any material discrepancies were noticed on such verification and if so, whether the same have been properly dealt with in the books of account? |            |
| c)   | If a substantial part of fixed assets have been disposed off during the year, whether it has affected the going concern                                                                                                                                     |            |

**Issues to be addressed:**

The verification and safeguarding of assets are the responsibility of the management and the auditor is expected to comment on the adequacy of these measures. Adequate documentation and physical controls ensure that the assets are safeguarded. With regard to point (c) above section 293 of the Companies Act also acts as a counter check that any substantial disposal of fixed assets cannot be done by the Board of Directors except with the consent of the shareholders in a general meeting. It may be ensured that any substantial sale is also evidenced by an approval of the shareholders in a general meeting.

**ii. Inventory**

| <b>S.No</b> | <b>CARO Issues</b>                                                                                                                                                                                                        | <b>Compliance</b> |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| a)          | Whether physical verification of inventory has been conducted at reasonable intervals by the management?                                                                                                                  |                   |
| b)          | Are the procedures of physical verification of inventory followed by the management reasonable and adequate in relation to the size of the company and the nature of its business?                                        |                   |
| c)          | Whether the company is maintaining proper records of inventory and whether any material discrepancies were noticed on such physical verification and if so, whether the same has been dealt with in the books of account? |                   |

**Issues to be addressed:**

As explained above the verification and safeguarding of assets are the responsibility of the management and the auditor is expected to comment on the adequacy of these measures. Adequate documentation and physical controls ensure that the assets are safeguarded. The internal audit questionnaire forming part of this manual is designed to address these issues. Additionally, with regard to point (ii) (c) Section 209 (b) & (d) prescribe the books of account that a company has to maintain with regard to the material purchase, consumption and utilisation. Adherence to this has to be ensured.

**iii. Transactions with Interested Parties**

| <b>S.No</b> | <b>CARO Issues</b>                                                                                                                                                                                                                                                                                                                   | <b>Compliance (*)</b> |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| a)          | Has the company either granted or taken loans, secured or unsecured to or from companies, firms or other parties covered in the register under section 301 of the companies act and whether the rate of interest and other terms and conditions of loans given or taken are prima facie prejudicial to the interests of the company? |                       |
| b)          | Are the payment of principal and interest amounts regular? If the over due amounts are more than Rs. One Lakh whether reasonable steps have been taken to recover the same?                                                                                                                                                          |                       |
| c)          | Whether transactions that needs to be entered into a register in pursuance of Section 301 of the Act have been so entered?                                                                                                                                                                                                           |                       |
| d)          | Whether each of these transactions have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time?                                                                                                                                                                                 |                       |
| e)          | Whether the company has made any preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Companies Act, and if so whether the price at which shares have been issued are prejudicial to the interests of the company.                                                  |                       |

*(With regard to point (d) above the information is required only in case of transactions exceeding the value of five lakh rupees in respect of any party and in any one financial year).*

**Issues to be addressed:**

The Companies Act has prescribed limitations and disclosure of interest with related parties by directors/managers of the company in sections 297, 299 and 301 of the companies act. Adherence to those provisions along with the terms of the loans has to be reviewed. This is proprietary in nature and compliance with these provisions must be ensured.

**iv. Internal Control, Audit and Book-Keeping**

| <b>S.No</b> | <b>CARO Issues</b>                                                                                                                                                                                                                                                                        | <b>Compliance<br/>(*)</b> |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| a)          | Are there adequate internal control procedures 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? Whether there is continuing failure to correct control weaknesses in Internal Control? |                           |
| b)          | Does the company have an internal audit system commensurate with its size and nature of business?                                                                                                                                                                                         |                           |
| c)          | Where Cost Records has been prescribed by the Central Government under clause (d) of Section 209 of the Companies Act, whether such accounts and records have been made and maintained?                                                                                                   |                           |
| d)          | Whether any frauds on or by the Company has been noticed or reported during the year? If yes the nature and the amount involved is to be indicated.                                                                                                                                       |                           |
| e)          | Whether adequate documents are maintained in cases where the company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.                                                                                                 |                           |
| f)          | Whether securities have been created in respect of debentures issued?                                                                                                                                                                                                                     |                           |

**Issues to be addressed:**

The Statutory Auditor is mandated to report on the adequacy of the record keeping, the level of internal controls and the Internal Audit System in place. Additionally the auditor is also expected to report on frauds committed on or by the company. The statutory auditor would review the Internal Audit System and the controls in place to mitigate risks of frauds. In this regard a greater duty is cast on the Management to ensure compliance with these aspects.

**v. Fixed Deposits and Statutory Compliances**

| <b>S.No</b> | <b>CARO Issues</b>                                                                                                                                                                                                                                                                           | <b>Compliance</b> |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| a)          | In case the company has accepted deposits from the public, whether the directives issued by the RBI and the provisions of Sections 58A of the Companies Act have been complied with?                                                                                                         |                   |
| b)          | Is the company regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employee's State Insurance, Income-Tax, Sales Tax, Wealth Tax, Customs Duty, Excise Duty, Cess and any other statutory dues with the concerned authorities? |                   |

**Issues to be addressed:**

Public funds acquisition and repayment has taken on a new face under the new regulations framed in this regard. In addition to ensuring compliance with CARO it is important to ensure compliance with the statutory aspects in this regard as the penal provisions are stringent.

It is relevant here to note that, any sums received from outside agencies/ employees and lying to the credit of such person will be construed as Deposits unless the same falls under the exempted deposits envisaged under Section 58A of the Companies Act, 1956 and Rules made thereunder.

**vi. Receipt and Application of Funds**

| <b>S.No</b> | <b>CARO Issues</b>                                                                                                                                                                           | <b>Compliance</b> |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| a)          | Whether the company has defaulted in repayment of dues to a financial institution or bank or debenture holders?                                                                              |                   |
| b)          | Whether the company has given any guarantee for loans taken by other from banks or financial institutions, the terms and conditions whereof are prejudicial to the interests of the company? |                   |
| c)          | Whether Term Loans were applied for the purpose for which the loans were obtained?                                                                                                           |                   |
| d)          | Whether the funds raised on short-term basis have been used for long-term investments and vice versa?                                                                                        |                   |
| e)          | Whether the management has disclosed the end use of money raised by public issue and whether the same has been verified?                                                                     |                   |

**Issues to be addressed:**

CARO has mandated that the Statutory Auditor has to report on the receipt and application of funds. This aspect assumes importance from the Management point of view as deviations if any in this regard should be found at the earliest and remedial measures taken therefor. With regard to points (c) and (d) the verification of cash flow statements preferably on a monthly basis would assist in identifying if there have been diversion of funds.