Audit Report–CARO 2003
COMPANIES (AUDITOR’S REPORT) ORDER, 2003
[Issued in terms of Section 227(4A) of the Companies Act, 1956]

Matters to be included in the Report:
The matters to be included in our report are specified in paragraph 4 of CARO.
CARO also applies to foreign companies i.e., companies incorporated outside India and having a place of business in India. However, the Order does not apply to (a) banking companies, (b) insurance companies, (c) companies licensed to operate under Section 25 of the Companies Act, 1956. The Order also does not apply to a private company
The Order also does not apply to a private company satisfying all of the following conditions.

(i) It has paid up capital and reserves of not more than Rs 50 lakh.

(ii) It does not have loans outstanding of not more than Rs 25 lakhs from banks and/or financial institutions at any point of time during the year under audit.

(iii) Its turnover for the year under audit does not exceed Rs 5 crore.
Applicability of CARO, 2003 to Private Company

- Scenario 1:
  i. Sales – 4 crore.
  ii. Excise duty collected & accounted separately – 50 lacs.
  iii. Sales tax collected & accounted separately – 75 lacs.
  V. Commission paid to 3rd party – 30 lacs.
Applicability of CARO, 2003 to Private Company

- Scenario 2:
  i. Paid up capital – 30 lakhs
  ii. General Reserve – 15 lakhs
  iii. Revaluation Reserve – 20 lakhs
Applicability of CARO,2003 to Private Company

- Scenario 3:
  For the year 2010–11, the company taken a loan of 30 lakhs from a bank 1–06–2010. It repays the loan on 30.6.2010.

  On B/S date no amount is due. Whether CARO is applicable?
FIXED ASSETS

(i) (a) “Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets.”
Example– Reporting Paragraph 4 (1) (a) :

The company has maintained proper records showing full particulars including quantitative details and situation of its principal fixed assets, other than the location of furniture and fixture and office equipments, which are under compilation, accordingly the fixed assets are physically verified by the management according to phased programme designed to cover all items over a period of three years which, in our opinion, is reasonable having regards to the size of the company and the nature of its assets. Pursuant to the management during the year and no material discrepancies have been noticed on such verification.
(i)(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.
Example Reporting—Paragraph 4(1) (b):

The company has a regular programme of physical verification of its fixed assets by which all network related fixed assets are verified in phased manner over a period of two years and all other assets are physically verified every year. In our opinion, this periodicity of physically verification is reasonable having regard to the size of the company and the nature of its assets. Pursuant to this policy, physical verification of network equipments and other assets was carried out during the current period for Punjab and Karnataka circle. However, as at the date of signing of this report the Company is still in the process of reconciling differences if any observed on physical verification. In the opinion of the management the difference, if any are not expected to be material.
(i)(c) If a substantial part of fixed assets have been disposed off during the year, whether it has affected the going concern.
The fixed assets disposed off during the year, in our opinion, do not constitute substantial part of the fixed assets of the Company and such disposal has in our opinion, not effected the going concern status of the Company.
Inventory
(ii) (a) “Whether physical verification of inventory has been conducted at reasonable intervals by the management.”
The inventory other than in transit has been physically verified at reasonable intervals during the year by the management. In our opinion, the frequency of such verification is adequate. In respect of inventory with third parties, which has not been physically verified, there is a process of obtaining conformation from such parties.
(ii)(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? If not, the inadequacies in such procedures should be reported.”
The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
(ii) (c) “Whether the company is maintaining proper records of inventory and 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.”
The company is maintaining proper records of inventory in so far as such records were examined by us and no material discrepancies were noticed on physical verification except for shortage of Rs. 9.67 crores which has been properly dealt with in the books of accounts.
(iii)(a) Has the company granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act. If so, give the number of parties and amount involved in the transactions.
The company has granted unsecured interest free loan to a wholly owned subsidiary company. The maximum amount involved during the year and year end balance of loan was Rs. 500 lacs.
(iii)(b) Whether the rate of interest and other terms and conditions of loans given by the company, secured or unsecured, are prima facie prejudicial to the interest of the company.
(iii)(c) whether payment of the principal amount and interest are also regular.
The company has taken loans from a company covered in the register maintained under section 301 of the Act 1956. The total amount outstanding as at year ended was Rs 976,100,000. The rate of interest and the terms and condition on which the said loans are taken is not prima facie prejudicial and as such no comments regarding regularity of payments are being made. Interest aggregating to Rs 133,469,737 was payable as an March 31, 2010.
(iii)(d) if overdue amount is more than one lakh, whether reasonable steps have been taken by the company for recovery of the principal and interest.
In respect of the loans granted by the Company, the same repayable on demand and therefore the question of overdue amount does not arise.

There is no overdue amount of more than rupees one lakh in respect of loans granted to any of the companies listed in the register maintained under section 301 of the Act.
(iii) (e) Has the company taken regular loans secured or unsecured from Companies, Firms or other parties covered in the register maintained under section 301 of the Act. If so, give the number of Parties and the amount involved in the transactions;

(iii) (f) Whether the Rate of Interest and other terms and conditions of loan taken by the company, secured or unsecured are prima facie prejudicial to the interest of the company; and

(iii) (g) Whether payment of the principal amount and the interest are also regular
The company has taken loans from two companies covered in the register maintained under section 301 of the companies Act, 1956. The maximum amount involved during the year is Rs 13,700 lacs and the year ended balance of the loans taken is Rs. 12,700 lacs. In our opinion, the rate of interest and other terms and condition on which these loans were taken are not prima facie prejudicial to the interest and there are no overdue amounts in respect of these loans.
<table>
<thead>
<tr>
<th>Internal Control</th>
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<tbody>
<tr>
<td>(iv) 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 good and services. Whether there is a continuing failure to correct major weaknesses in internal control.</td>
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</tbody>
</table>
In our opinion and according to the information and explanation given to us there is an adequate internal control system commensurate with the size of the company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. However in few cases, documentation in relation to revenue and expenditure at few project sites was weak which has been addressed during the year and the management is in the process of further strengthening the internal controls over the same during the course of our audit we have not observed any continuing failure to correct major weakness in internal control system of the company.
(v)(a) 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.
Reporting Example

- According to the information and explanation given to us the company has not entered into transaction which requires to be recorded in a register in pursuance of section 301 of the companies Act.
(v)(b) 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.

[This 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.]
Reporting Example

Where each of such transaction is in excess of Rs. 5 lakhs in respect of any party the transaction have been made at price which are prime facie reasonable having regard to the prevailing market price at the relevant time.
(vi) In case the company has accepted deposits from the public, whether the directives issued by the Reserve Bank of India and the provisions of sections 58A, 58AA or any other relevant provisions of the Act and the rules framed there under, where applicable, have been complied with. If not, the nature of contraventions should be stated; If an order has been passed by Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal whether the same has been complied with or not?
Company has not accepted any deposit from public in the current year and all deposit had matured and settled except for Rs 38.55 lakhs, out of which Rs. 36.50 lakhs are being retrained as per Garnishee order of Lok Ayukta, Bangalore and the balance Rs.2.05 lakhs thought matured have not been claimed by the depositors. In our opinion and according to the information and explanation given to us, the Company has complied with the provisions of section 58AA and other relevant provisions of the companies Act 1956 And the companies (Acceptance of Deposites) Rule, 1975.
INTERNAL AUDIT

(vii) *In the case of listed companies and/or other companies having a paid-up capital and reserves exceeding Rs.50 lakhs as at the commencement of the financial year concerned, or having an average annual turnover exceeding five crore rupees for a period of three consecutive financial years immediately preceding the financial year concerned, whether the company has an internal audit system commensurate with its size and nature of its business.*
The company has an internal audit system, the scope and coverage of which in our opinion require to be future enhanced to be commensurate with its size and the nature of its business.
COST RECORDS
(viii) “Where maintenance of cost records has been prescribed by the Central Government under section 209(1)(d) of the Companies Act, 1956 (1 of 1956), whether such accounts and records have been made and maintained.”
Under section 209(1) of the companies Act 1956 in respect of telecommunication activities and are of the prima facie the prescribed accounts and records have been made and maintained. We have however not made a detailed examination of the records with a view to determining whether they are accurate or complete.
STATUTORY DUES
Deposit of Undisputed statutory Dues
(ix)(a) *Is the company regular in depositing undisputed statutory dues including Provident Fund, 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 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.*

CA Vikas Oswal
There are delays in depositing the provident fund of Rs 25,00,989 and tax Deducted at source with the appropriate authorities during the year. However there are no arrears of outstanding statutory dues as at the last day of the financial year for a period of more than six months from the date they became payable.
(ix)(b) In case dues 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 amounts involved and the forum where dispute is pending shall be mentioned.
## Reporting Example

<table>
<thead>
<tr>
<th>SL. No</th>
<th>Nature of Statute</th>
<th>Nature of Dues</th>
<th>Period to which it relates</th>
<th>Forum where the dispute is pending</th>
<th>Amount (Rs in lacs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Karnataka Sales Tax &amp; CST Act</td>
<td>Sales Tax</td>
<td>1991</td>
<td>Sales Tax Appellate Tribunal</td>
<td>10.62</td>
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<td>2</td>
<td>Excise Duty</td>
<td>CENVAT</td>
<td>2008</td>
<td>Commissionerate Karnataka III</td>
<td>19.04</td>
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<tr>
<td></td>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>29.66</strong></td>
</tr>
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</table>
ACCUMULATED LOSSES AND CASH LOSSES

(x) Whether in case of a company which has been registered for a period not less than five years, its accumulated losses at the end of the financial year are not less than fifty per cent of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year.
The accumulated loss of the company are more than fifty percent of its net worth at the end of the financial year. The company has incurred cash loss during the year. In immediately preceding financial year also the company had incurred cash loss.
(xi) **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.
In our opinion and according to the information and explanation given to us the company has not defaulted in repayment of term loan installment to banks. However in the repayment of term loan installment amounting to Rs. 18.85lacs due in May 09 & Rs. 18.85lacs due in August 09 to UCO Bank And interest thereon Rs. 1.28lacs & RS. 0.73lacs were paid in July 09 & September 09 respectively.
(xii) Whether adequate documents and records 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; If not, the deficiencies to be pointed out.
As per the information and explanation given to us, the company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities to any body during the year the provisions of clause 4(xii) of the order are not applicable to the company.
(xiii) – First Part Whether the provisions of any special statute applicable to chit fund have been duly complied with?
(xiii) – Second Part In respect of nidhi/mutual benefit fund/societies:

(a) **whether the net-owned funds to deposit liability ratio is more than 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/doubtful/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**.
The provisions of any special statute applicable to chit fund/ nidhi/society benefit fund/societies are not applicable to the company.
(xiv) “If the company is dealing or trading in shares, securities, debentures and other investments, whether proper records have been maintained of the transactions and contracts and whether timely entries have been made therein; also 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, if any, granted under section 49 of the Act.
The shares, securities, debentures and other investments are held by the company in its own name except to the extent of the exemption granted under section 49 of the companies Act, 1956.
GUARANTEES GIVEN

(xv) 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.
The company has given corporate guarantees amounting to Rs. 1649.94 crores for loans taken by its subsidiaries and associates from bank and financial institutions. The terms and other conditions, in our opinion are not prima facie prejudicial to the interest of the company.
UTILISATION OF FUNDS
(xvi) Whether term loans were applied for the purpose for which the loans were obtained.
In our opinion and according to the information and explanation given to us on an overall basis the term loans have been applied for the purposes for which they were obtained.
(xvii) 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.
However as at March 31, 2010, short term loans amounting to Rs. 25.5 lacs have been temporarily placed in fixed deposits, pending utilization for the purpose for which they were obtained.
(xviii) Whether the company has made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act and if so whether the price at which shares have been issued is prejudicial to the interest of the company.
During the period covered by our audit report, the company has converted 32,70,000 warrants into equity shares of Rs 1 each at a premium of Rs. 16.50 per share on preferential basis to parties and companies covered in the register maintained under section 301 of the companies Act 1956.
(xix) Whether security or charge has been created in respect of debentures issued?
According to the information and explanation given to us during the period covered by our audit report, the company had issued 8.5% and 8.6% debentures of Rs. 50 crore each having a face value of Rs. 1 crore. The company has created security in respect of 8.5% debentures issued and is in the process of creating a charge in respect of 8.6% debenture issued.
(xx) Whether the management has disclosed on the end use of money raised by public issues and the same has been verified.
The company has allotted to QIB 7,03,50,000 equity shares of Rs 10 each at premium of Rs. 230 each on private placement basis aggregating to Rs 16,88,40,000 and the proceeds of the same have been utilized for the objects of the issue and the same has been verified by us.
(xxi) Whether any fraud 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.
The company has not been able to recover Rs. 5.70 million of sales wherein travel tickets were purchased by passenger through unauthorized usage of credit card. This amount has been recorded as an expenses during the period except for such unauthorized transaction no fraud on or by the company has been noticed or reported during the period covered by our audit.
As a Auditor how will you deal with the situations: X Ltd. to whom Companies (Auditor’s Report) Order, 2003 is applicable, has issued 9% Debenture of Rs. 5 crores, redeemable after 5 years and used the proceeds of issue for payment of Sundry Creditors and other Current Liabilities of Rs. 2.80 crores.
As a Auditor how will you deal with the situations : Director (Finance) of KK Ltd. informed their newly appointed statutory auditor that they have sound internal control system implemented by a renowned professional firm and he is satisfied with its effectiveness and functioning and therefore, the statutory auditor should concentrate on verifying only the routine books and financial statements.
As a Auditor how will you deal with the situations : The Company Has Stood Guarantee to Its Sister Concern, Whose Financial Condition Was Not healthy for a sum of Rs.20 lakhs borrowed from a bank.
State briefly the duty of auditor with regard to following – ‘No depreciation has been charged for the year ending 31st March, 2001, in respect of a spare bus purchased during the year and kept ready by the company for use as a stand by on the ground that it was not used during the year.'
The company has sent semi-finished goods to third parties for further processing which is lying with them at the end of the year.
Any Doubts???

Thank You