

CARO, 2003 AND MAOCARO, 1988 - A COMPARATIVE STUDY

MAOCARO, 1988	CARO, 2003
<p>1. Short title, application and commencement.</p> <p>(1) This order may be called the Manufacturing and Other Companies (Auditor's Report) Order, 1988 ["MAOCARO"]</p> <p>(2) (a) It shall apply to every company including a foreign company as defined in section 591 of the Companies Act, 1956 (1 of 1956) which is engaged or proposes to engage in one or more of the following activities namely:-</p> <ul style="list-style-type: none"> (i) Manufacturing, mining or processing; (ii) Supplying and rendering services; (iii) trading; and (iv) the business of financing, investment, chit fund, nidhi or mutual benefit societies. <p>(b) It shall not apply to</p> <ul style="list-style-type: none"> (i) a banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949); (ii) an insurance company as defined in section 2(21) of the Companies Act, 1956 (1 of 1956); and (iii) a company licensed to operate under section 25 of the Companies Act, 1956 (1 of 1956). 	<p>1. Short title, application and commencement.</p> <p>(1) This Order may be called the Companies (Auditor's Report) Order, 2003 ["CARO"]</p> <p>(2) It shall apply to every company including a foreign company as defined in section 591 of the Act, except the following:-</p> <ul style="list-style-type: none"> (i) a Banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949); (ii) an insurance company as defined in clause (21) of section 2 of the Act; (iii) a company licensed to operate under section 25 of the Act; and (iv) a private limited company with a paid up capital and reserves not more than fifty lakh rupees and has not accepted any public deposit and does not have loan outstanding ten lakh rupees or more from any bank or financial institution and does not have a turnover exceeding five crore rupees.

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<p>Amendment</p> <p>Applicability of 'MAOCARO' to different types of companies, classified based on their activities is done away with.</p> <p>'CARO' is applicable to every company including a foreign company as defined in section 591 of the Companies Act, 1956 ('the Act'), except to:</p> <ul style="list-style-type: none"> ▪ a banking company, ▪ an insurance company, ▪ a company licensed to operate under section 25 of the Act and ▪ to private company meeting specified criteria <p>New exception is added to exclude a private limited company with a paid up capital and reserves <= Rs.50 lacs and has not accepted any public deposit and does not have a loan outstanding from any bank or financial institution of => Rs.10 lacs and does not have a turnover > Rs.5 crores</p>	
<p>Comment</p> <p>For a private limited company all the four conditions need to be satisfied, to be eligible for exception from 'CARO'.</p> <p>By definition, private company by its articles prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives. Hence, the rationale behind the restriction on account of 'public deposit' is not clear.</p>	
<p>2. Definitions. – In this Order:-</p> <p>(a) "chit fund", "nidhi" or "mutual benefit" company means a company engaged in the business of managing, conducting or supervising as a foreman or agent of any transaction or arrangement by which it enters into an agreement with a number of subscribers that every one of them shall subscribe to a certain sum of installments for a definite period and that each subscriber, in his turn, as determined by lot or by auction or by tender or in such other manner as may be provided for in the agreement, shall be entitled to a prize amount, and</p>	<p>2. Definitions. – In this Order, unless the context otherwise requires,-</p> <p>(a) "Act" means the Companies Act, 1956 (1 of 1956);</p> <p>(b) "chit fund company", "nidhi company" or "mutual benefit company" means a company engaged in the business of managing, conducting or supervising as a foreman or agent of any transaction or arrangement by which it enters into an agreement with a number of subscribers that every one of them shall subscribe to a certain sum of installments for a definite period</p>

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<p>includes companies whose principal business is accepting fixed deposits from, and lending money to, members;</p> <p>(b) "finance company" means a company engaged in the business of financing, whether by making loans or advances or otherwise, of any industry, commerce or agriculture and includes any company engaged in the business of hire-purchase, lease financing and financing of housing;</p> <p>(c) "investment company" means a company engaged in the business of acquisition and holding of, or dealing in, shares, stocks, bonds, debentures, debenture stocks, including securities issued by the Central or any State Government or by any local authority, or in other marketable securities of a like nature;</p> <p>(d) "manufacturing company" means a company engaged in any manufacturing process as defined in the Factories Act, 1948 (63 of 1948);</p> <p>(e) "mining company" means a company owning a mine, and includes a company which carries on the business of a mine either as a lessee or occupier thereof;</p> <p>(f) "processing company" means a company engaged in the business of processing materials with a view to their use, a sale, delivery or disposal;</p> <p>(g) "service company" means a company engaged in the business of supplying, providing,</p>	<p>and that each subscriber, in his turn, as determined by lot or by auction or by tender or in such other manner as may be provided for in the agreement, shall be entitled to a prize amount, and includes companies whose principal business is accepting fixed deposits from, and lending money to, members;</p> <p>(c) "finance company" means a company engaged in the business of financing, whether by making loans or advances or otherwise, of any industry, commerce or agriculture and includes any company engaged in the business of hire-purchase, lease financing and financing of housing;</p> <p>(d) "investment company" means a company engaged in the business of acquisition and holding of, or dealing in, shares, stocks, bonds, debentures, debenture stocks, including securities issued by the Central or any State Government or by any local authority, or in other marketable securities of a like nature;</p> <p>(e) "manufacturing company" means a company engaged in any manufacturing process as defined in the Factories Act, 1948 (63 of 1948);</p> <p>(f) "mining company" means a company owning a mine, and includes a company which carries on the business of a mine either as a lessee or occupier thereof;</p> <p>(g) "processing company" means a company engaged in the business of processing materials with a</p>

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<p>maintaining and operating any services, facilities, conveniences, bureaux and the like for the benefit of others;</p> <p>(h) "trading company" means a company engaged in the business of buying and selling goods.</p>	<p>view to their use, a sale, delivery or disposal;</p> <p>(h) "service company" means a company engaged in the business of supplying, providing, maintaining and operating any services, facilities, conveniences, bureaux and the like for the benefit of others;</p> <p>(i) "trading company" means a company engaged in the business of buying and selling goods.</p>
<p>Amendment</p> <p>No change in definitions.</p>	
<p>3. Auditor's report to contain matters specified in paragraphs 4 and 5. – Every report made by the auditor under section 227 of the Companies Act, 1956 (1 of 1956) on the accounts of every company examined by him to which this Order applies for every financial year ending on any day on or after the commencement of this Order, shall contain the matters specified in paragraphs 4 and 5.</p>	<p>3. Auditor's report to contain matters specified in paragraphs 4 and 5. – Every report made by the auditor under section 227 of the Act, on the accounts of every company examined by him to which this Order applies for every financial year ending on any day on or after the commencement of this Order, shall contain the matters specified in paragraphs 4 and 5.</p>
<p>'CARO' comes into force on July 1, 2003, and applies for every financial year ending on any day on or after July 1, 2003.</p>	
<p>4. The matters to be included in the auditor's report. – The auditor's report on the account of a company to which this Order applies shall include a statement on the following matters, namely :-</p> <p>(A) In the case of a manufacturing, mining or processing company;</p> <p>(B) In the case of a service company;</p>	<p>4. Matters to be included in the auditor's report. – The auditor's report on the account of a company to which this Order applies shall include a statement on the following matters, namely:-</p>

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<p>(C) In the case of a trading company; and (D) In the case of a finance, investment, chit fund, nidhi or mutual benefit company.</p>	
<p>Amendment</p> <p>'MAOCARO' separately listed each class of company to which the order was applicable. No such separate listing in 'CARO', as there is no specific mention of 'Class of Companies'.</p>	
<p>Comment</p> <p>'CARO' is applicable to all companies, other than those specifically excluded, irrespective of 'type' or 'class'.</p>	
<p>4 (A) (i) Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets; whether these 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;</p> <p>4 (A) (ii) Whether any of the fixed assets have been revalued during the year; if so, the basis of revaluation should be indicated;</p>	<p>4 (i) (a) Whether the company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets;</p> <p>4 (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;</p> <p>4 (i) (c) If a substantial part of fixed assets have been disposed off during the year, whether it has affected the going concern;</p>
<p>Amendment</p> <p>New Para 4 (i) (c) relating to disposal of fixed assets is added in CARO and Para 4 (A) (ii) in MAOCARO relating to revaluation of fixed assets is deleted.</p>	

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<p>Comment</p> <p>In case of a disposal of 'substantial part of fixed assets during the year, the reporting is required as to whether it has affected the going concern or not. It would be advisable to include reasons for the conclusion reached in this regard.</p>	
<p>4 (A) (iii) Whether physical verification has been conducted by the management at reasonable intervals in respect of finished goods, stores, spare parts and raw materials;</p>	<p>4 (ii) (a) Whether physical verification of inventory has been conducted at reasonable intervals by the management;</p>
<p>Amendment</p> <p>'Physical verification of finished goods, stores, spare parts and raw materials' is replaced by 'physical verification of inventory'.</p>	
<p>Comment</p> <p>The word 'Inventory' has not been defined in 'CARO' and therefore all categories/types of inventory' would now get covered.</p> <p>In the 'The Guidance Note on Terms used in Financial Statements', Inventory is defined as <i>"Tangible property held for sale in the ordinary course of business, or in the process of production for such sale, or consumption in the production of goods or services for sale, including maintenance supplies and consumables other than machinery spares"</i>.</p> <p>Reporting would be required, in respect of all inventories, including those, which are specifically excluded for application of AS 2. Inventories excluded in AS 2 are:</p> <ul style="list-style-type: none"> ▪ work in progress arising under construction contracts , including directly related to service contracts, ▪ work in progress arising in the ordinary course of business of service providers, ▪ shares, debentures and other financial instruments held as stock in trade, ▪ producers' inventories of livestock, agricultural and forest products, and mineral oils, ores and gases to the extent that they are measures at net realisable value in accordance with established practices in those industries. 	

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4 (A) (iv) Are the procedures of physical verification of stocks 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;	4 (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;
<p>Amendment</p> <p>No change except, the word 'stocks' is replaced by the word 'inventory'.</p>	
<p>Comment</p> <p>The term 'stocks' in 'MAOCARO' was used in generic sense to include all types of stocks of the company. But, the term 'inventory' is wider in its meaning and as mentioned in Para 4 (ii) (a) above, all types or categories of inventories including that which are excluded from application of AS 2 would get covered.</p>	
4 (A) (v) Whether any material discrepancies have been noticed on physical verification of stocks as compared to book records, and if so, whether the same have been properly dealt with in the books of account;	4 (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;
<p>Amendment</p> <p>New assertion: 'whether the company is maintaining proper records of inventory'.</p> <p>Deletion of 'as compared to book records' in relation to material discrepancies noticed on physical verification of stocks.</p>	

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Comment ‘Proper records of inventory’ has not been specified. Generally such records should record the movement of stocks giving details of : <ul style="list-style-type: none">▪ Item description, classification thereof▪ Receipts▪ Issues, dispatches , transfers, adjustments▪ Inventory on hand	
4 (A) (vi) Whether the auditor, on the basis of his examination of stocks, is satisfied that such valuation is fair and proper in accordance with the normally accepted accounting principles? Is the basis of valuation of stocks same as in the preceding year; if there is any deviation in the basis of valuation, the effect of such deviation, if material should be reported;	Deleted
Amendment Auditors comment on valuation of stocks, as to whether fair and proper and the effect (if material) of any deviation in the basis of valuation, has been deleted.	
Comment As reporting on compliance with accounting standards is also covered in Auditors Report, the reporting under this Para in ‘MAOCARO’ was redundant.	

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<p>4 (A) (vii) If the company has taken any loans, secured or unsecured, from companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956 (1 of 1956), and/or from the companies under the same management as defined under sub-section (1B) of section 370 of the Companies Act, 1956 (1 of 1956), whether the rate of interest and other terms and conditions of such loans are prima facie prejudicial to the interest of the company;</p> <p>4 (A) (viii) If the company has granted any loans, secured or unsecured to companies, firms or other parties listed in the register maintained under section 301 and/or to the companies under the same management as defined under sub-section (1B) of section 370 of the Companies Act, 1956 (1 of 1956), whether the rate of interest and other terms and conditions of such loans are prima facie prejudicial to the interest of the company;</p>	<p>4 (iii) (a) Has the company either granted or taken any loans, secured or unsecured to/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 amount involved in the transactions;</p> <p>4 (iii) (b) Whether the rate of interest and other terms and conditions of loans given or taken by the company, secured or unsecured, are prima facie prejudicial to the interest of the company;</p>
<p>Amendment</p> <p>Reporting in respect of loans taken/given from companies under the same management as defined under section 370(1B) of the Act has been deleted. Now reporting is only in respect of loans granted /taken to/from 301 parties.</p> <p>New reporting requirement to give ‘the number of parties’ and ‘the amount involved’ in the transactions.</p>	

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Comment

Deletion is consequent to the amendment in the Companies Amendment Act, 1999, pursuant to which the provisions of section 370 have been deleted.

‘Amount involved’ has not been specified. In case of frequent inter group fund transfers in the nature of loans, reporting of ‘the amount involved’ needs to be examined - whether all transactions to be added for disclosure?

From the wordings, it appears that Para 4 (iii) (b) is applicable to all the loans granted / taken and not just to the loans granted / taken to/from 301 parties. However, the intention could be that Para 4 (iii) (b) is applicable only to items covered in Para 4 (ii) (b). Reporting under ‘MAOCARO’ was only in respect of loans taken / granted from / to 301/370(1B) parties.

4 (A) (ix) Whether the parties to whom the loans, or advances in the nature of loans, have been given by the company are repaying the principal amounts as stipulated and are also regular in payment of the interest and if not whether reasonable steps have been taken by the company for recovery of the principal and interest;

4 (iii) (c) Whether payment of the principal amount and interest are also regular;

4 (iii) (d) If overdue amount is more than one lakh , whether reasonable steps have been taken by the company for recovery/payment of the principal and interest;

Amendment

New assertion. ‘Whether payment of the principal and interest are also regular’

New Para is applicable to both loans taken as well as loans given.

To report in respect of overdue amount > Rs.1 lac, whether the company has taken reasonable steps for recovery/payment of the principal and interest.

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<p>Comment</p> <p>As the words 'payment of the principal amount and interest' are used, the Para is applicable only to 'loans taken' and not 'to loans given or granted'.</p> <p>'Advances in the nature of loans' have not been explicitly included in 'CARO' unlike in 'MAOCARO'. However, the same may have to be considered for reporting under this Para.</p>	
<p>4 (A) (x) Is there an adequate internal control procedure commensurate with the size of the company and the nature of its business, for the purchase of stores, raw materials, including components, plant and machinery, equipment and other assets, and for the sale of goods;</p>	<p>4 (iv) Is there an adequate internal control procedure 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 a continuing failure to correct major weaknesses in internal control;</p>
<p>Amendment</p> <p>'Purchase of stores, raw materials, including components, plant and machinery, equipment and other assets and for sale of goods' is replaced by "purchase of inventory and fixed assets and for sale of goods'.</p> <p>Additional reporting on 'whether there is a continuing failure to correct major weaknesses in internal control'.</p>	
<p>Comment</p> <p>The terms 'inventory' and 'fixed assets' is much wider than the items specified in the same category under 'MAOCARO'.</p> <p>Reporting on failure to correct major weaknesses in internal control would presumably be only in respect of 'purchase of inventory and fixed assets' and for 'sale of goods' and not for any other item.</p>	
<p>4 (A) (xi) Whether the transaction of purchase of goods and materials and sale of goods, materials and services, made in pursuance of contracts or arrangements entered in the register(s) maintained</p>	<p>4 (v) (a) Whether transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered;</p> <p>4 (v) (b) Whether each of these transactions have been</p>

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<p>under section 301 of the Companies Act, 1956 (1 or 1956) as aggregating during the year to Rs.50,000/ (Rupees fifty thousand) or more in respect of each party, have been made at prices which are reasonable having regard to prevailing market prices for such goods, materials, or services or the prices at which transactions for similar goods or services have been made with other parties;</p>	<p>made at prices which are reasonable having regard to the prevailing market prices at the relevant time;</p>
<p>Amendment</p> <p>Additional reporting is required on 'Whether transactions that need to be entered into a 301 register have been so entered'.</p> <p>Reporting with regard to 'reasonability of prices' is now required for transactions > Rs. 5 lacs in respect of any party in any one financial year, as against 'transactions of purchase of goods and materials and sale of goods, materials and services, made with 301 parties, aggregating during the year to => Rs.50,000.'</p>	
<p>Comment</p> <p>Reporting is now called for on 'completeness of entries recorded in 301 register'.</p> <p>Earlier 'purchase of services' were excluded in 'MAOCARO', now such transactions are also covered.</p> <p>'In any one financial year' should be taken to mean 'transactions during the accounting year under audit.'</p>	
<p>4 (A) (xii) Whether any unserviceable or damaged stores, raw materials or finished goods, are determined and whether provisions for the loss, if any, have been made in the accounts;</p>	<p>Deleted</p>

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<p>Amendment</p> <p>Auditors comments on determination of damaged stocks and making provision for loss, if any, in the accounts is deleted.</p>	
<p>4 (A) (xiii) In case the company has accepted deposits from the public, whether the directives issued by the Reserve Bank of India and the provisions of section 58A of the Companies Act, 1956 and the rules framed thereunder, where applicable, have been complied with? If not, the nature of contraventions should be stated;</p>	<p>4 (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 and 58AA 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 whether the same has been complied with or not?</p>
<p>Amendment</p> <p>Reporting on section 58AA is inserted.</p> <p>Reporting in respect of 'compliance of CLB order', if any, is also required.</p>	
<p>Comment</p> <p>Reporting on section 58AA is consequent to insertion of the new section relating to 'Small Depositors' in the Act.</p>	
<p>4 (A) (xiv) Is the company maintaining reasonable records for the sale and disposal of realisable by-products and scraps, where applicable;</p>	<p>Deleted</p>
<p>Amendment</p> <p>Deletion of reporting on records of scrap and by-products.</p>	
<p>4 (A) (xv) In the case of companies having a paid-up capital exceeding Rs.25 lakhs as at the commencement of</p>	<p>4 (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</p>

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<p>the financial year concerned, or having an average annual turnover exceeding Rs.2 crore 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;</p>	<p>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;</p>
<p>Amendment</p> <p>Now made applicable to all listed companies.</p> <p>For other companies having a paid up capital and reserves > Rs.50 lacs (earlier Rs.25 lacs of capital) or average annual turnover > Rs.5 crores (earlier Rs.2 crores)</p>	
<p>Comment</p> <p>Applicable to all listed companies.</p> <p>Smaller unlisted companies would now get excluded from having to report on internal audit.</p>	
<p>4 (A) (xvi) Where maintenance of cost records have 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;</p>	<p>4 (viii) Where maintenance of cost records has been prescribed by the Central Government under clause (d) of sub-section (1) of section 209 of the Act, whether such accounts and records have been made and maintained;</p>
<p>Amendment</p> <p>No change.</p>	
<p>4 (A) (xvii) Is the company regular in depositing Provident Fund and Employees' State Insurance dues with the</p>	<p>4 (ix) (a) Is the company regular in depositing undisputed statutory dues including Provident Fund, Investor</p>

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<p>appropriate authority and if not, the extent of arrears of Provident Fund and Employees' State Insurance dues shall be indicated by the auditor;</p> <p>4 (A) (xviii) Whether any undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty and excise duty were outstanding, as at the last day of the financial year concerned, for a period of more than six months from the date they became payable; if so, the amounts of such outstanding dues be reported;</p>	<p>Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth 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;</p>
<p>Amendment</p> <p>Two separate paragraphs in 'MAOCARO' are merged into this new paragraph in 'CARO'.</p> <p>Dues of Investor protection fund , cess and any other statutory dues is added.</p> <p>Reporting is now required on 'whether the company is regular in depositing undisputed statutory dues (which includes all the dues) with appropriate authorities'.</p>	
<p>Comment</p> <p>The scope of reporting on regularity of deposit is now enlarged to include all statutory dues instead of only PF and ESIC.</p> <p>In 'MAOCARO', the extent of arrears in respect of provident fund and employees state insurance dues was required even where the arrears was of less than 6 months, now arrears of only more than 6 months will have to be given.</p> <p>Now all the statutory dues are covered for reporting of arrears of outstanding statutory dues for more than 6 months.</p>	

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-	<p>4 (ix) (b) In case dues of sales tax/income tax/custom tax/wealth tax/excise duty/cess have not been deposited on account of any dispute, then the amounts involved and the forum where dispute is pending may please be mentioned;</p> <p>(A mere representation to the Department shall not constitute the dispute).</p>
<p>Amendment</p> <p>Insertion of new Para for reporting on amounts disputed.</p>	
<p>Comment</p> <p>What constitutes a 'dispute' needs to be examined in light of 'Explanation' given that "<i>A mere representation to the Department shall not constitute the dispute</i>".</p>	
<p>4 (A) (xix) Whether personal expenses have been charged to revenue account; if so, the details thereof should be reported;</p>	<p>Deleted</p>
<p>Amendment</p> <p>Deletion of reporting on personal expenses.</p>	
<p>4 (A) (xx) Whether the company is a sick industrial company within the meaning of clause (o) of sub-section (1) of section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 (1 of 1986); if so, whether a reference has been made to the Board for Industrial and Financial Reconstruction under section 15 of that Act;</p>	<p>4 (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 financial year immediately preceding such financial year also;</p>

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<p>Amendment</p> <p>Instead of a 'sick industrial company' the reporting is in respect of a company, registered for => 5 years ,if</p> <ul style="list-style-type: none"> • its accumulated loss at the financial year end is => 50% of its net worth and • it has incurred cash losses in current and preceding financial years 	
<p>Comment</p> <p>This Para is now also applicable to a company, which is not an 'industrial company'.</p> <p>The objective appears to be to identify and report 'potentially sick companies', as an industrial company which meets the criteria in 'CARO' may not be a sick industrial company as per definition in the Act.</p>	
-	<p>4 (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;</p>
<p>Amendment</p> <p>Insertion of new Para on defaults in repayment of loans.</p>	
<p>Comment</p> <p>In case of a company which is in continuing defaults in respect of such loans, this may call for a separate annexure.</p> <p>In case, where there is a default during the year, but which has been regularised as at the year-end, whether reporting under this Para is necessary needs to be examined.</p>	
<p>4 (B) (ii) Whether the company has a reasonable system of recording receipts, issues and consumption of materials and stores and allocating materials consumed to the relative jobs, commensurate with its size and nature of its business;</p>	<p>Deleted</p>

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<p>4 (B) (iii) Whether the company has a reasonable system of allocating man hours utilised to the relative jobs, commensurate with its size and nature of its business;</p> <p>4 (B) (iv) Whether there is a reasonable system of authorisation at proper levels, and an adequate system of internal control commensurate with the size of the company and the nature of its business, on issue of stores and allocation of stores and labour to jobs;</p>	
<p>Amendment</p> <p>Deletion on reporting on system of : recording receipts and issues ; allocation of materials and stores to jobs; allocating man-hours to jobs ; authorization; and internal controls, in respect of service company.</p>	
<p>4 (C) (ii) Have the damaged goods been determined and if the value of such goods is significant, has provision been made for the loss;</p>	<p>Deleted</p>
<p>Amendment</p> <p>Deletion of reporting on damaged traded goods.</p>	
<p>4 (D) (ii) Whether adequate documents and records are maintained in a case where the company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities;</p>	<p>4 (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;</p>

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Amendment 'Deficiencies' need to be reported in case adequate documents and records are not maintained.	
Comment This Para in 'MAOCARO' was included under Para 4 D, being the matters relating to 'Finance/Investment/Chit Fund/Nidhi/Mutual Benefit Companies. In 'CARO', this has not been specifically brought out. Hence, one view can be that this Para is applicable to all companies in cases where loans and advances have been granted on the security by way of pledge of shares, debentures and other securities. Additional reporting is now called for to point out 'deficiencies' noticed in this regard.	
4 (D) (iii) Whether the provisions of any special statute applicable to chit fund, nidhi or mutual benefit society have been duly complied with;	4 (xiii) Whether the provisions of any special statute applicable to chit fund have been duly complied with? 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 balance sheet date; 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;

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<p>Amendment</p> <p>Additional reporting in respect of four matters, viz. ratio, compliance with prudential norms, procedures for credit appraisal and appropriateness of repayment schedule.</p>	
<p>Comment</p> <p>In 'MAOCARO', such statute, being applicable to Chit fund/Nidhi/Mutual benefit society was specified, whereas in 'CARO' such statute is referred to only in respect of 'Chit fund'. This has no Comment as such companies are collectively defined under one common definition in Para 2(b) of 'CARO'.</p> <p>Comment called for in Para 4 (xiii) d. is subjective in nature and may cause difficulty in reporting.</p>	
<p>4 (D) (iv) 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 Companies Act, 1956 (1 of 1956);</p>	<p>4 (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 securities 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;</p>
<p>Amendment</p> <p>No change.</p>	
<p align="center">—</p>	<p>4 (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;</p>

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Amendment Insertion of new Para on reasonability of the terms and conditions of guarantees given.	
Comment Comment called for is subjective in nature and may cause difficulty in reporting. To reach a conclusion on this Para, it would be necessary to peruse such guarantee documents executed to identify any conditions/terms, which are 'restrictive' in nature from the company's perspective. It may also be necessary to 'benchmark' such guarantees executed for 'reasonability of terms and conditions' with other guarantees executed in similar such circumstances by other companies.	
–	4 (xvi) Whether term loans were applied for the purpose for which the loans were obtained;
Amendment Insertion of new Para on usage of term loans.	
Comment Comment called for is subjective in nature and may cause difficulty in reporting Where utilisation is from a common pool of funds (in which the term loan disbursement is deposited), it would be difficult to ascertain the end use.	
–	4 (xvii) Whether the funds raised on short-term basis have been used for long term investment and vice versa; If yes, the nature and amount is to be indicated;
Amendment Insertion of new Para on usage of short-term and long-term funds.	

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Comment Comment called for is subjective in nature and may cause difficulty in reporting Fund flow/Cash Flow statements to be analysed specifically to identify/ascertain such cases. Where utilisation is from a common pool of funds, it would be difficult to ascertain the end use.	
–	4 (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;
Amendment Insertion of new Para on reasonability of price of shares issued under preferential allotment.	
Comment Comment called for is subjective in nature and may cause difficulty in reporting This Para is presently not applicable to private companies as the provisions of section 81 of the Act, relating to 'further issue of shares' are not applicable to private companies. However, this provision would be applicable to a private company once the Companies (Amendment) Bill, 2003 is enacted. The Prof. Varma Committee has recommended the draft rules for Preferential Allotment by Unlisted Public Companies, contained in their report submitted to the Central Government on 'ESOP, Sweat Equity and Preferential Allotment'. The compliance with these rules will have to be ensured.	
–	4 (xix) Whether securities have been created in respect of debentures issued;

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Amendment Insertion of new Para on creation of securities in respect of debentures.	
Comment Reporting is called for only in respect of 'secured debentures', other secured loans are not included.	
–	4 (xx) Whether the management has disclosed on the end use of money raised by public issues and the same has been verified;
Amendment Insertion of new Para on end use of money raised by public issues.	
Comment As per the SEBI (Disclosure and Investment Protection) Guidelines 2000, in case of public issues, in the 'offer document' the Board of Directors of issuer company have to include a statement to the effect that: <ul style="list-style-type: none">• all proceeds of issue shall be deposited into a separate bank account;• details of all monies utilised out of the issue shall be disclosed under an appropriate separate head in the balance sheet, indicating the purpose for which such monies had been utilised and• details of unutilised monies out of the issue shall be disclosed under an appropriate separate head in the balance sheet, indicating the form in which such unutilised monies have been invested. The last disclosure was already required in the annual accounts as per Part I of Schedule VI. Now, the auditors have to verify the disclosure regarding 'actual use' for reporting under this Para. If any deficiencies/discrepancies are noticed on such verification, then same needs to be brought out in the report.	
–	4 (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;
Amendment Insertion of new Para on reporting of frauds.	

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Comment

Reporting is required in respect of frauds on or by the company which were:

- noticed or
- reported

Though, it is not explicitly specified, the reporting may be in respect of such frauds noticed or reported by the management and not by the auditors.

The term 'reported' may mean 'reported to law enforcing authorities' and/or to 'related regulatory authorities'.

The extent to which the information is to be detailed for reporting 'the nature and the amount involved' needs to be examined.