

Checklist for Audit Report under CARO

Client's Name: _____

Period ended: ____/____/200____

	<i>Y/N/NA/ Remarks</i>
Preliminary	
A. For all representations made to auditors on the basis of which the check-list is filled up, written confirmation from the client should be obtained, so far as is practicable.	
B. All certificates, representations, working papers on the basis of which checklist has been completed should be attached to this checklist and suitably referenced.	
C. Detailed working note as to why auditors have come to such conclusion should invariably be attached to this statement.	
D. All important observations must be properly documented and cross linked to the individual working papers.	
E. Where there are exceptions; i.e., adverse conclusions, such fact should be adequately highlighted.	
F. Signature of the Auditor should contain the name of the proprietor/partner and his membership No. of ICAI	
G. Applicability Verify that CARO is applicable to the company	
Exclusions 1. a banking company 2. an insurance company 3. a company under section 25 of the Companies Act 4. private limited company having: i) turnover of less than Rs. 5 crores, ii) paid-up capital and reserves not > Rs. 50 lakhs, iii) loan outstanding less than Rs. 10 lakhs from banks and FI, iv) not accepted public deposits. (In other words, CARO applicable when ANY of the above condition is not fulfilled) If CARO is not applicable to the company, state the fact in the main report.	



	Y/N/NA/ Remarks
1 Fixed assets	
1.1.1 Does the company maintain fixed asset Register/Cards	
1.1.2 Do these give the following particulars i) Description of the asset; ii) Accounts classification; iii) Location; iv) Identification No; v) Quantity; vi) Original cost; vii) Depreciation rate, amount; viii) Details regarding disposal; ix) Year of purchase x) Adjustment for revaluation (including AS 11 effect)	
1.1.3 Does the company maintain proper records showing full particulars including quantitative details and situation of fixed assets	
1.2.1 Has physical verification of the assets been conducted based on written instructions by the management at reasonable intervals. If yes: i) What is the frequency thereof ii) What is the percentage in value thereof iii) Is there sufficient evidence thereof	
1.2.2 Have the results of the verification been reconciled with the fixed asset record and if so: i) Has a list of discrepancies been prepared and placed on audit file ii) Are these discrepancies significant iii) How have the discrepancies been dealt with the accounts	
1.2.3 Did the auditors observe all or any part of the verification	
1.2.4 Has the asset register been reconciled with the financial records	
1.3 (a) Whether there have been sale/disposal of fixed assets of the company? (b) What is percentage of fixed assets sold/disposed of?	



	Y/N/NA/ Remarks
(c) What is the quantum of reduction in production capacity by such sale? (d) Whether the concept of 'going concern' has been affected by such reduction in production capacity? (e) If not give reasons. <i>Also refer to checklist on AAS 16.</i>	
2. Inventories	
2.1.1 List out the intervals at which physical verification is conduct for i) Raw and packing materials ii) Finished goods iii) Stores and spare parts iv) Consumables and others	
2.1.2 Has the inventory at year end been physically verified by the management	
2.1.3 Are comprehensive written stock taking instructions issued – Statement on auditing practices Appendix A. Obtain a copy thereof. If not, obtain a note on procedures of verification.	
2.1.4 Whether auditors were present for physical verification?	
2.1.5 Has due cognizance been taken of cut off procedures in physical verification and valuation of inventories?	
2.2.1 Are the procedures of physical verification followed by the management, reasonable and adequate?	
2.2.2 What is the percentage in value covered in the course of verification?	
2.3.1 Whether proper stock records are maintained?	
2.3.2 Whether they are properly maintained in adequate details?	
2.3.3 Verify the report of variations between book record and physical stock. Are the discrepancies material?	
3. Loans given by the company	
3.1.1 Has the company granted any loans, secured or unsecured to companies firm or other parties listed in the register maintained u/s 301.	
3.1.2 Has a list of all loans granted by the company been scrutinised and a list of loans to parties mentioned in the aforesaid registers separately obtained? <i>The list should contain the following:</i> i) Name of the party ii) Relationship with the company iii) Amount iv) Year end balance	



	Y/N/NA/ Remarks
Cross check the list of such loans obtained in (b) above, with the register maintained by the company under section 301 of the Companies Act, 1956.	
3.1.3 Has a list of such loans giving details of terms and conditions been placed on file? <i>Give No. of parties and amounts of transactions. (Maximum balance outstanding at any time during the year for each party should be considered)</i>	
3.2.1 Obtain details of the rate of interest and the terms and conditions of such loans. <i>Factors to be considered to evaluate terms:</i> i) repayment; ii) rate of interest iii) restrictive covenants iv) financial standing and ability to borrow/lend v) nature of security vi) availability of alternative sources of finance vii) urgency of borrowing viii) purpose of the loan ix) prevailing market rate of interest	
3.2.2 Obtain in writing from the management their explanations as to why the terms obtained are not prejudicial to the interests of the company in those instances where better terms could have been obtained.	
3.2.3 Check that loans and advances made on the basis of security have been properly secured.	
3.2.4 If the terms of the loan given are prima facie prejudicial has written explanation been obtained from the company as to why it should not be so considered.	
3.3.1 Whether the principal and / or interest are being regularly paid? Identify by scrutiny of the schedules of sundry debtors and loans and advances forming part of balance sheet and the ledger balances whether any advances have been given for a figure which is far in excess of the value of the orders or for a period which is far in excess of the normal trade practice or any other debit balances which could tantamount to loans or advances in the nature of loans.	
3.3.2 Test check the repayments of the principal amounts with the stipulation to ensure that the party is repaying the principal amounts as stipulated. <i>Extent of check:</i>	
3.3.3 Test-check the receipt of interest with the stipulation so as to ensure that such interest payments are regular. <i>Extent of check:</i>	



	Y/N/NA/ Remarks
3.3.4 Identify the loans and advances in the nature of loans where no stipulation has been made for repayments of the principal amount or for payment of interest.	
3.3.5 Ensure that where no repayments of the principal amounts or payments of interest have been stipulated, the auditor has indicated in the report that he has not made any specific comments because the terms of repayment and/or interest have not been stipulated.	
3.3.6 Obtain and report information as below for loans given a) Name of the party b) Relationship with the company c) Overdue principal d) Overdue interest e) Year end balance	
3.4.1 Obtain a list of overdue amount of more than Rs.1 lakh per party – obtain the note regarding steps being taken for recovery of the amounts and whether they are adequate and reasonable. If not, obtain explanation from management	
3.4.2 Verify the steps taken by the company as listed above and make your comments where the steps taken do not look reasonable and ask for company's response thereto. <i>Reasonable steps for Recovery include: Amounts involved, issue reminder/s, sending legal notice. Facts and circumstances of each case should be considered and in absence of legal steps auditor must satisfy himself that reasonable steps have been taken.</i>	
3.4.3 Can you conclude after considering the above and taking appropriate evidence on records that reasonable steps have been taken by the company?	
3.5 Loans taken by the company	
3.5.1 Has the company taken any loans, secured or unsecured from companies, firms or other parties listed in the register maintained u/s 301 of the Companies Act. Give No. of parties and amount involved in transactions. (Maximum balance outstanding at any time during the year for each party should be considered)	
3.5.2 Obtain a list of such loans containing details of terms and conditions for our records. Obtain a list of: 1] Name of the Party 2] Relationship with the company 3] Amount 4] Year end balance	



	Y/N/NA/ Remarks
3.6.1 Are the rate of interest and other terms on which these loans have been taken prima facie prejudicial to the interest of the company with regard to comparative terms for: a) security offered b) rate of interest c) terms of repayment d) loan given by the company e) other conditions attached <i>Obtain in writing from the management their explanations as to why the terms obtained are not prejudicial to the interests of the company in those instances where better terms could have been obtained.</i>	
3.7.1 Obtain a list, in detail or category wise, of loans and advances in the nature of loans which have been taken.	
3.7.2 Scrutinise the schedule of loans and advances forming part of the balance sheet in order to ensure the completeness of the list of loans and advances in the nature of loans given.	
3.7.3 Identify by scrutiny of the schedules of sundry debtors and loans and advances forming part of balance sheet and the ledger balances whether any advances have been given for a figure which is far in excess of the value of the orders or for a period which is far in excess of the normal trade practice or any other debit balances which could tantamount to loans or advances in the nature of loans.	
3.7.4 Test check the repayments of the principal amounts with the stipulation to ensure that the party is repaying the principal amounts as stipulated. <i>Extent of check:</i>	
3.7.5 Test-check the receipt of interest with the stipulation so as to ensure that such interest payments are regular. <i>Extent of check:</i>	
3.7.6 Identify the loans and advances in the nature of loans where no stipulation has been made for repayments of the principal amount or for payment of interest.	
3.7.7 Ensure that where no repayments of the principal amounts or payments of interest have been stipulated, the auditor has indicated in the report that he has not made any specific comments because the terms of repayment and/or interest have not been stipulated.	



	Y/N/NA/ Remarks
3.7.8 Obtain and report information as below for Loans given a) Name of the party b) Relationship with the Company c) Overdue principal d) Overdue interest e) Year end balance	
4. Internal control systems	
4.1 Obtain a note on the internal control system relating to purchase of fixed assets and inventories and for the sale of goods and services <i>Also refer checklist on AAS 6.</i>	
4.2 Has the system as explained been followed during the year?	
4.3 Obtain the internal audit reports of the current and previous years and list out the major weakness of continuing nature that has not been rectified, if any. <i>Here the weaknesses known to the management continues to persist in spite of steps taken by the management. Where management has not taken any steps the report should state the same.</i>	
4.4 As per auditor's evaluation of the systems existing during the year, is the internal control over the purchase of these assets and sale of goods adequate in relation to the size of the company and nature of its business. <i>Where any weakness that is capable of resulting in breach of internal controls is considered to be a major weakness and therefore comes within the ambit of reporting.</i> Whether any major weakness in Internal Control reported in earlier year? If yes, whether those weaknesses rectified or are still continuing – Obtain a note from the management. Whether additional area of major weakness noticed during the year and reported to the management?	
5. Transactions with related parties as per Register of Contract u/s 301	
5.1.1 Has a list of all parties entered in the register under section 301 been obtained?	
5.1.2 Whether transactions that need to be entered into a register in pursuance of section 301 of the Act have been so entered. <i>Obtain a written representation from management concerning the completion of the entries in the register u/s 301.</i>	
5.1.3 <i>Examine procedure followed for identifying the parties and the transactions.</i>	



	Y/N/NA/ Remarks
5.1.4 Obtain a list of firms or companies or other parties where directors are interested.	
5.1.5 Obtain a party-wise statement showing the following details of all transactions with the parties identified in step above: a) Purchase/sale contracts reference, date and value b) Purchase/selling rates c) Value of purchases/sales made in the year under the contract <i>Trace transactions in the books of account.</i>	
5.1.6 Cross check the list obtained in step (d) above, with the disclosure under section 299(3) and the register maintained by the company under section 301(1) of the Companies Act, 1956 for firms, or companies or other parties in which directors are interested. <i>Review Form 24AA to ensure compliance with sections 297 and 299.</i>	
5.1.7 Review last year's working papers to confirm whether data given in step 5.1.2 is correct.	
5.1.8 Enquire as to the affiliation of directors and key management personnel and officers with other entities.	
5.1.9 Obtain list of principal shareholders from the share register.	
5.1.10 Review the entity's income tax returns and other information supplied to regulatory agencies such as details shown in 3CD in respect of payments to specified person.	
5.1.11 Cross check all these information with disclosures made on related party transactions in the notes on accounts.	
5.1.12 Review the joint venture and other relevant agreements entered into by the entity.	
5.1.13 Whether contracts and arrangements referred to in section 301 have been entered in the register?	
5.2.1 Examine the statement obtained in step 5.1.4 above by reference to the register of contracts maintained under section 301(1) of the Companies Act, 1956. <i>Consider for examination the transactions of all such concerns exceeding an aggregate value of Rs. 5,00,000 each.</i> Obtain list of all purchases of any goods or materials aggregating during the year to Rs. 5,00,000 or more in respect of each party? Obtain list of all sales of any goods or materials or services aggregating during the year to Rs. 5,00,000 or more in respect of each party?	



	Y/N/NA/ Remarks
Ensured that the prices paid/received in above two lists are reasonable as compared to the prices of similar items supplied by/to other parties by: Comparing the rates at which purchase/sales have been from/to other parties. Comparing the other terms of purchases/sales such as terms of credit, delivery period, quality of the product, reliability of the source of supply; etc? Quotation analysis, reasons for not taking the lowest/highest prices <i>Identify the contracts or arrangements where the supply is from only one source or from more than one source and the prices paid for such transactions are reasonable as compared to other prices of similar items quoted by other parties. Also identify the cases where the supply is from only one source or more than one source without any price comparisons with alternative parties. (Obtain quotation/price list, if possible, as audit evidence)</i> In the light of above, can we say that the prices paid/received for each transaction in respect of each party in a financial year aggregating to Rs. 5,00,000 or more are reasonable? <i>In case of sole suppliers, reasonableness can be ascertained with reference to list prices of the supplier, other trade terms etc.</i>	
6. Deposits from the public	
6.1 Has the company accepted deposits including loans from the public within the meaning of the provisions of section 58-A. <i>Ensure that the company is not a private limited company which has restrictions on acceptance of deposits.</i>	
6.2 If such deposits have been considered as exempt u/s 58-A, have you placed on file reasons for the same?	
6.3 Has the company complied with the provisions of sections 58A and 58AA and Rules framed thereunder and also Guidelines issued by RBI?	
6.4 If not, has the nature of contraventions been placed on the file and accordingly disclosed in the report.	
6.5 Whether any order passed by the Company Law Board, National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal for non-compliance? If yes, whether the directions are complied with? <i>List out any contravention and report the same.</i>	



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	Y/N/NA/ Remarks
7. Internal Audit system	
7.1 Is the paid-up share capital and reserves of the company at the commencement of the financial year in excess of Rs. 50 Lakhs; or Does the average annual turnover (for the 3 financial years immediately preceding) of the company exceed Rs. 5 crores.	
7.2 If yes, does the company have an internal audit system i) in the form of outside firm(s) of chartered accountants ii) in the form of its own audit department	
7.3 Has internal audit programme been reviewed. Was it drawn in consultation with statutory auditors?	
7.4 Is the coverage of internal audit adequate?	
7.5 Are the persons carrying out the internal audit adequately qualified for the job?	
7.6 To whom do the internal auditor report?	
7.7 Have the internal audit reports been perused and management replies given on points of defaults and whether they have been duly acted upon?	
7.8 In view of what is stated above is the internal audit system of the company commensurate with its size and the nature of its business.	
8. Cost records	
8.1 Has maintenance of cost records been prescribed for any of the activities of the company	
8.2 If so, whether the records, have been verified to form a prima facie opinion thereon.	
8.3 Having regard to the above, can it be concluded that prima facie the prescribed records have been maintained.	
8.4 Has cost audit been prescribed in respect of these records and if so, have reports been perused.	
9.1 Statutory dues	
9.1.1 Obtain a statement (for Provident Fund, Investor Education and Protection Fund, Employees' state Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Excise duty, cess and any other statutory dues) showing the following details:	
a) Name of the statute b) Nature of dues c) Amount d) Date of deduction e) Due date	



	Y/N/NA/ Remarks
f) Date of deposit g) Amount of deposit h) Month wise deductions and contributions to Provident Fund and ESIC	
9.1.2 Verify the details obtained in step (a) above with the relevant records. <i>Extent of check:</i>	
9.1.3 In case of delays, are they significant? <i>Ensure where the company has not been regular in depositing the dues that the extent of the arrears of such dues, if any, have been indicated in the report by the auditor. Further ensure that the period to which the arrears relate and, wherever possible, the fact of subsequent clearance or otherwise have been indicated in the report by the auditor.</i>	
9.1.4 Have the arrears been cleared? If not have the amounts of arrears been disclosed in the report?	
9.1.5 Has the company been regular in deduction and/or deposit of statutory dues in all cases? <i>Ensure that management representation is obtained specifying amounts that are considered disputed, containing a list of cases and the amounts in respect of statutory dues which are undisputed and outstanding for > 6 months from the date they become payable.</i>	
9.2 Undisputed statutory dues	
9.2.1 Obtain list of taxes/duties outstanding as at year end in respect of:	
a) Income Tax b) Wealth Tax c) Sales Tax d) Customs Duty e) Excise Duty f) Service Tax g) Interest tax h) VAT i) Others (specify)	
9.2.2 In respect of undisputed amounts, identify those outstanding for over six months as at year end.	
9.2.3 Ensure proper disclosure of these items.	
9.2.4 Where liability is disputed obtain a file note detailing the status.	



	Y/N/NA/ Remarks
9.3 Disputed Statutory dues	
9.3.1 Obtain list of all disputed statutory dues whether provided or not in following format Name of statute Nature of dues Year(s) to which it pertains Amount (Rs.) Forum where dispute is pending	
10. Sick Industry	
10.1 (a) Has the Company been registered for a period of seven or more years	
(b) Are the accumulated losses of the company at the year end equal to or more than 50% of its net worth and	
(c) Has the company suffered cash losses in the concerned financial year and in the immediately preceding financial year?	
10.2 Where the company is a sick industrial company, is a detailed note justifying the preparation of Accounting on a going concern basis placed on file.	
11. Dues to financial institutions	
11.1 Obtain a list of dues payable during the year to (a) Financial Institutions (b) Bank (c) Debenture holders	
11.2 Whether these dues have been paid in time? List all defaults in any payments showing the period of default and amounts.	
12. Secured loans and advances granted	
12.1 Whether the company has granted any loans or advances on the basis of security by way of pledge of share and securities?	
12.2 Whether Adequate documents and records are maintained for each such loan?	
12.3 Whether the shares and securities held in Company's name or are in possession of company – obtain confirmation letters from the parties who have pledged the security?	



	Y/N/NA/ Remarks
12.4. If proper documents or records are not available obtain explanation from the company – List of the deficiencies.	
13. Chit Fund, Nidhi or Mutual Benefit Company	
13.1 Whether the net-owned funds to deposit liability ratio is more than 1:20 as on the date of balance sheet?	
13.2 Whether the company has complied with the prudential norms on income recognition and provisioning against sub-standard/default /loss assets?	
13.3 Whether the company has adequate procedures for appraisal of credit proposals/requests, assessment of credit needs and repayment capacity of the borrowers?	
13.4 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?	
14. Investment Company	
14.1 Is the company dealing or trading in shares, securities, debentures, and other investments?	
14.2 Have proper records been maintained of transactions and contracts? <i>Identify the records maintained by the company for recording the dealings/trading, transactions in shares, securities, debentures and other investments such as contracts etc. and ensure its adequacy?</i>	
14.3 Have timely entries been made in such records?	
14.4 Have shares, securities, debentures and other investments been held in the name of the company?	
14.5 If not, has company been exempted u/s 49 of the Companies Act.	
14.6 Also refer to the RBI directions as Auditor's Report on NBFCs issued on 2nd January, 1998.	
15. Guarantees given by company	
15.1 Obtain a list of all guarantees given by company on behalf of others to any bank or financial institutions showing a) Loan amount b) Period c) Maximum liability as guarantor d) Whether any security e) Other terms and conditions	



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	Y/N/NA/ Remarks
15.2 Whether any of the terms and conditions are prejudicial to the interest of the company? If yes, ask for explanation from the company;	
15.3 Verify that parties on whose behalf the guarantees have been given are financially capable of handling the liabilities	
15.4 If not, obtain written clarification from management why the guarantee is not prejudice to the interest of the company.	
16. Term loans	
16.1 If the company has obtained any term loans during the year or earlier year, obtain a list of loans and the purpose for which obtained as per the sanctions letter.	
16.2 Verify that the loans are applied for the purpose for which they were obtained	
16.3 If any of the loan still remains to be applied; Whether the same has been kept separately in bank for future application?	
16.4 Obtain confirmation from company that it shall be applied for the same purpose for which they have obtained	
17. Source of Funds and its application	
17.1 Prepare a Cash Flow statement showing sources of funds and application of funds segregating short-term funds and investments and long-term funds and investments.	
17.2 List out Long-term Funds (a) Long-term Investments (b) Short-term funds (c) Cash generation during the year (d) Change in working capital	
17.3 Whether Long Term Investments match with total of long-term funds and Cash generation during the year?	
17.4 Comment on whether the long-term funds have been applied for long-term Investments or not? If any adverse comment discuss with the management.	
18. Preferential Issue	
18.1 Whether the company has made any preferential allotment of shares to parties and companies covered in register maintained under Sec. 301? Obtain the terms of the issue and the price at which it is issued;	



	Y/N/NA/ Remarks
18.2 Whether proper resolutions have been passed and consent of appropriate authority such as SEBI obtained?	
18.3 Whether the price at which shares are issued has been arrived at taking into account the market value of shares of the company? Whether the issue price is unreasonable as compared to market value? Give % of issue price to market value;	
18.4 If the issue price looks unreasonable ask for an explanation from the Company why it is not prejudicial to the interest of the Company;	
Securities and debentures	
19. Whether the securities have been created in respect of debentures issued? Has the charge created been registered with the ROC?	
End use of public issue Funds	
20. Verify from the Director's Report whether the management has disclosed on the end use of money realised by public issues. Have you ensured that end use of money is disclosed in the Notes on Accounts? <i>Verify the same by reviewing the Board Minutes and the Issue Document?</i> Have you examined documents submitted to SEBI and Fund Flow statement where one to one correlation is not possible? Ensure that management representation is obtained.	
21. Frauds	
21.1 Whether any fraud committed anywhere has been noted during the audit? Whether full investigation has been carried out?	
21.2 Whether the company has filed any complaint with police or criminal case registered against any person for any fraud committed – Get a list of cases filed from the company;	
21.3 Whether any other party has filed any criminal case or complaint against the company for any fraud or cheating?	
21.4 Whether any time during the year or period of audit any report of fraud committed by company reported in press has been noticed?	
21.5 Collect the details of all such frauds by or against the company together with the amount involved.	

Checked by:

Reviewed by:

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