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MAY '19
REVISION NOTES

**Advanced Auditing and
Professional Ethics**

Part - II

COMPANY AUDIT**INTRODUCTION:**

This chapter is based upon the provisions of Companies Act 2013.

For company audit chapter- following references are important

- 1) Chapter X- Audit and Auditors (Sec 139- Sec 148) read with Company (Audit and Auditors) Rules
- 2) Companies Amendment Act, 2017

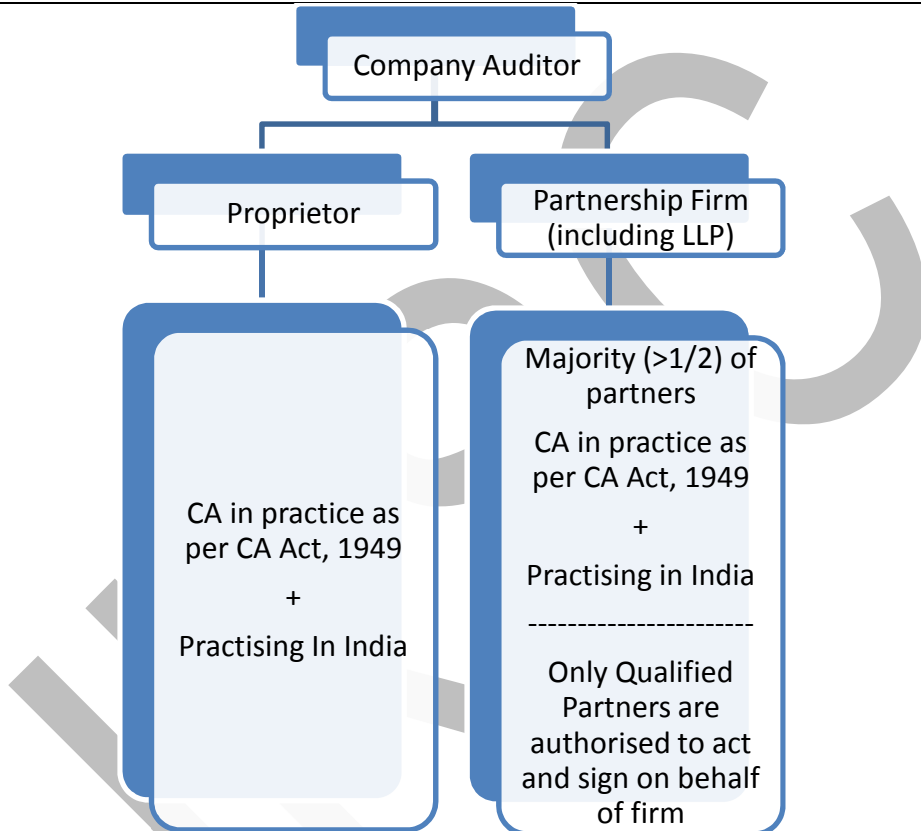
The sections discussed in this chapter are applicable from FY 14-15 onwards unless otherwise specified.

Following topics are covered in this chapter

- 1) Eligibility and Qualification
- 2) Disqualifications
- 3) Appointment
- 4) Remuneration
- 5) Removal
- 6) Rights and duties
- 7) Penalties
- 8) Branch Audit
- 9) Cost Audit

1. Eligibility and Qualification- Sec 141(1) and (2)

Sec 141. Eligibility, qualifications and disqualifications of auditors	
(1)	A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant: Provided that a firm whereof majority of partners practising in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.
(2)	Where a firm including a limited liability partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm



Notes-

Section 25 of the Chartered Accountants Act, 1949 provides that:

(1) No company, whether incorporated in India or elsewhere, shall practise as chartered accountants.

Here, the term “company” shall include any limited liability partnership which has company as its partner for the purpose of this section.

(2) If any company contravenes this provision then, without prejudice to any other proceedings which may be taken against the company, every director, manager, secretary and any other officer thereof who is knowingly a party to such contravention shall be punishable with fine which may extend on first conviction to `1,000 and on any subsequent conviction to `5,000.

2. Disqualification

Sec 141. Eligibility, qualifications and disqualifications of auditors	
(3)	The following persons shall not be eligible for appointment as an auditor of a company, namely:
a	a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008
b	an officer or employee of the company
c	a person who is a partner, or who is in the employment, of an officer or employee of the company
d	a person who, or his relative or partner— (i) is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company: Provided that the relative may hold security or interest in the company of face value not exceeding one thousand rupees or such sum as may be prescribed; (refer note g) (ii) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as may be prescribed (refer note h) ; or (iii) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, for such amount as may be prescribed;
e	a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed (refer note i & j)
f	a person whose relative is a director or is in the employment of the company as a director or key managerial personnel.
g	a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies. (refer note k)
h	a person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction (refer note f)
i	any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialised services as provided in section 144 (refer note i & j)
(4)	Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in sub-section (3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

In section 141 of the principal Act, in sub-section (3), for clause (i), the following clause shall be substituted, namely:— '(i) a person who, directly or indirectly, renders any service referred to in section 144 to the company or its holding company or its subsidiary company. Explanation.—For the purposes of this clause, the term "directly or indirectly" shall have the meaning assigned to it in the Explanation to section 144.'

Notes:

- a) If one partner is disqualified then all partners are disqualified due to the concept of Independence
- b) The term relative includes {in case of HUF- all members of HUF are relatives} {in any other case-mother (step mother), father (step father), brother (step brother), sister (step sister), spouse, son (step son), son's wife, daughter, daughter's husband}
- c) The term Group companies means company, holding company, subsidiary company, subsidiary of holding company, associate company
- d) During the course of audit if person or partner is disqualified then auditor needs to vacate his position as an auditor of the company immediately and another auditor will be appointed by board of directors within 30 days as per Sec 139 (8) {Refer Casual Vacancy notes}
- e) There are various situations which are not covered in the disqualifications prescribed above. However requirement of independence is pre-requisite in audit and hence even though a person may not be disqualified under companies act, 2013 however he needs to evaluate his independence before accepting the assignment because it is not only important to be independent but it is also important to appear as independent as per the guidance note given by The ICAI on Independence.
- f) If person or partner is convicted by court for offence involving fraud then we need to check the eligibility of the membership under CA Act, 1949.
- g) Relative of person or partner holding securities in excess of Rs. 1 Lakh Face value and corrective action has not been taken within 60 days of the purchase of securities by Relative.
In case of Company not having share capital (e.g. Company Limited by guarantee), the section remains unchanged.
- h) As per the Guidance note issued by The ICAI, audit fees received on progressive basis i.e. after beginning the engagement is not treated as an advance of the fees and hence there is no indebtedness involved.
- i) Business Relationship means any relationship apart from statutory audit entered for commercial purpose EXCEPT FOR-
 - Commercial transactions which are in the nature of professional services permitted to be rendered by an auditor or audit firm under the Act and the Chartered Accountants Act, 1949 (unless such services are prohibited u/s 144 of the act)
 - consumption of goods and services by auditor provided it is at arm's length price
- j) **Sec 144- auditor not to render services to Company, its holding and subsidiary company.**
 - List of Services which are not to be rendered
 - (i) Accounting and book keeping services;
 - (ii) Internal audit;
 - (iii) Design and implementation of any financial information system;
 - (iv) Actuarial services;
 - (v) Investment advisory services;

- (vi) Investment banking services;
 - (vii) Rendering of outsourced financial services;
 - (viii) Management services; and
 - (ix) Any other kind of services as may be prescribed.
- Relative of person or partner is also not allowed to render the above services.
 - Person or Partner shall not provide such services through any other entity, whatsoever; in which such person or partner has significant influence or control
 - e.g. Firms working under common brand name, firms having common partners etc.

k) Ceiling Limit on number of companies to be audited.

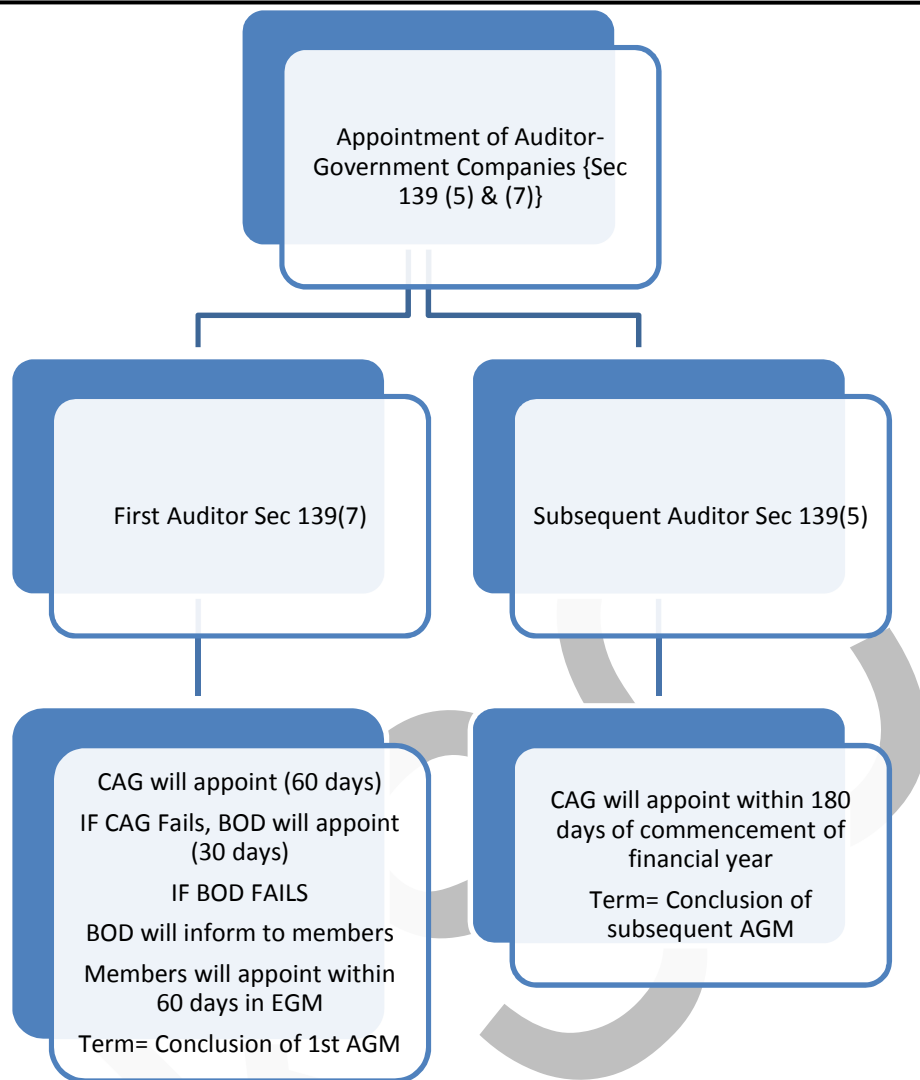
Ceiling on Audit- 20 companies per ***individual***

- Following Companies ***are included*** in this limit:
 - Public Companies
 - Private Limited Companies having Paid up capital of Rs.100 crore or more
- Person or Partner who is in whole time employment elsewhere cannot conduct audit of companies.
- This Means that the Limit ***does not*** include following companies:
 - ***One Person Company***
 - ***Small Company***
 - ***Dormant Company***
 - ***Private Limited companies having Paid up Capital of Less than Rs.100 crore***

3. Appointment

3a. Appointment of auditor- Government Companies

Sec 139 Appointment of auditors	
(5)	Notwithstanding anything contained in sub-section (1), in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, the Comptroller and Auditor-General of India shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of one hundred and eighty days from the commencement of the financial year, who shall hold office till the conclusion of the annual general meeting.
(7)	Notwithstanding anything contained in sub-section (1) or sub-section (5), in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State Governments, the first auditor shall be appointed by the Comptroller and Auditor-General of India within sixty days from the date of registration of the company and in case the Comptroller and Auditor-General of India does not appoint such auditor within the said period, the Board of Directors of the company shall appoint such auditor within the next thirty days; and in the case of failure of the Board to appoint such auditor within the next thirty days, it shall inform the members of the company who shall appoint such auditor within the sixty days at an extraordinary general meeting, who shall hold office till the conclusion of the first annual general meeting.

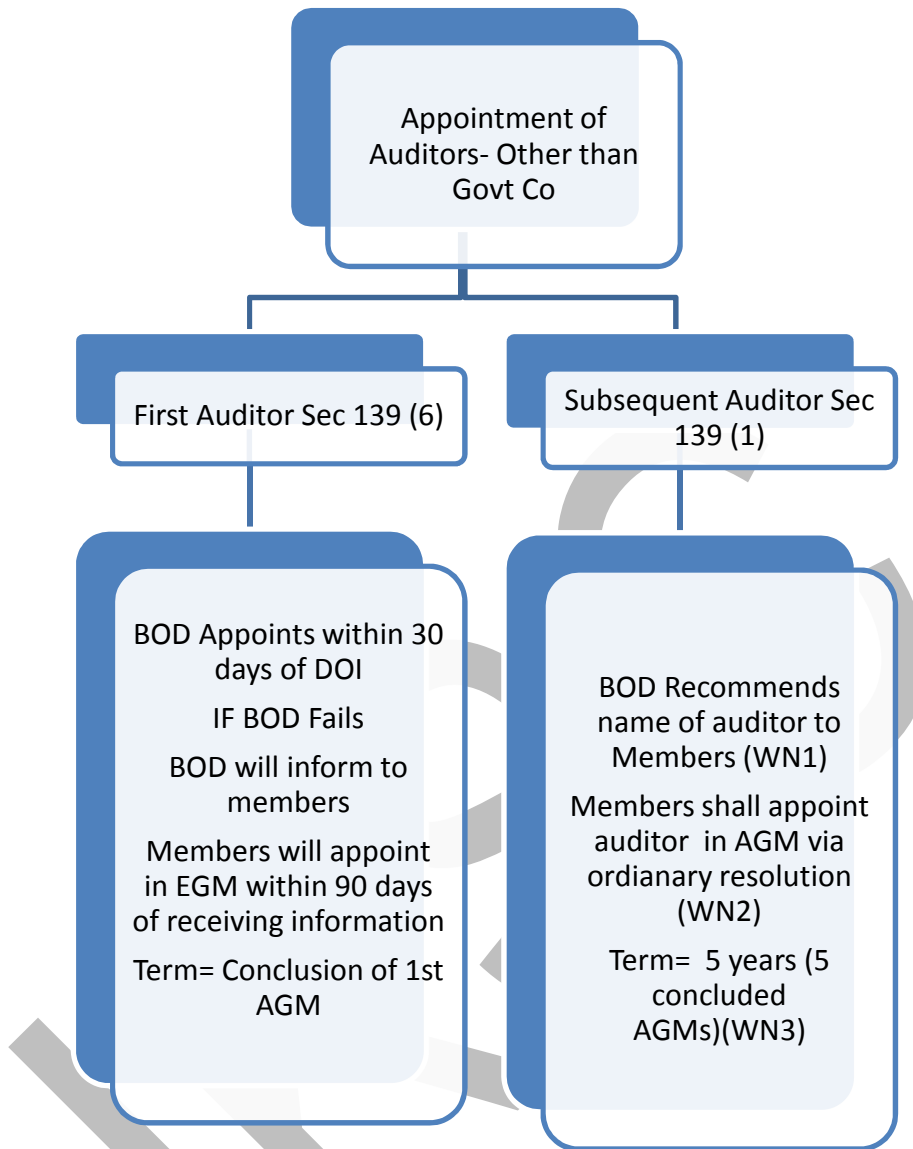


3b. Appointment of Auditor- Other than Government Companies

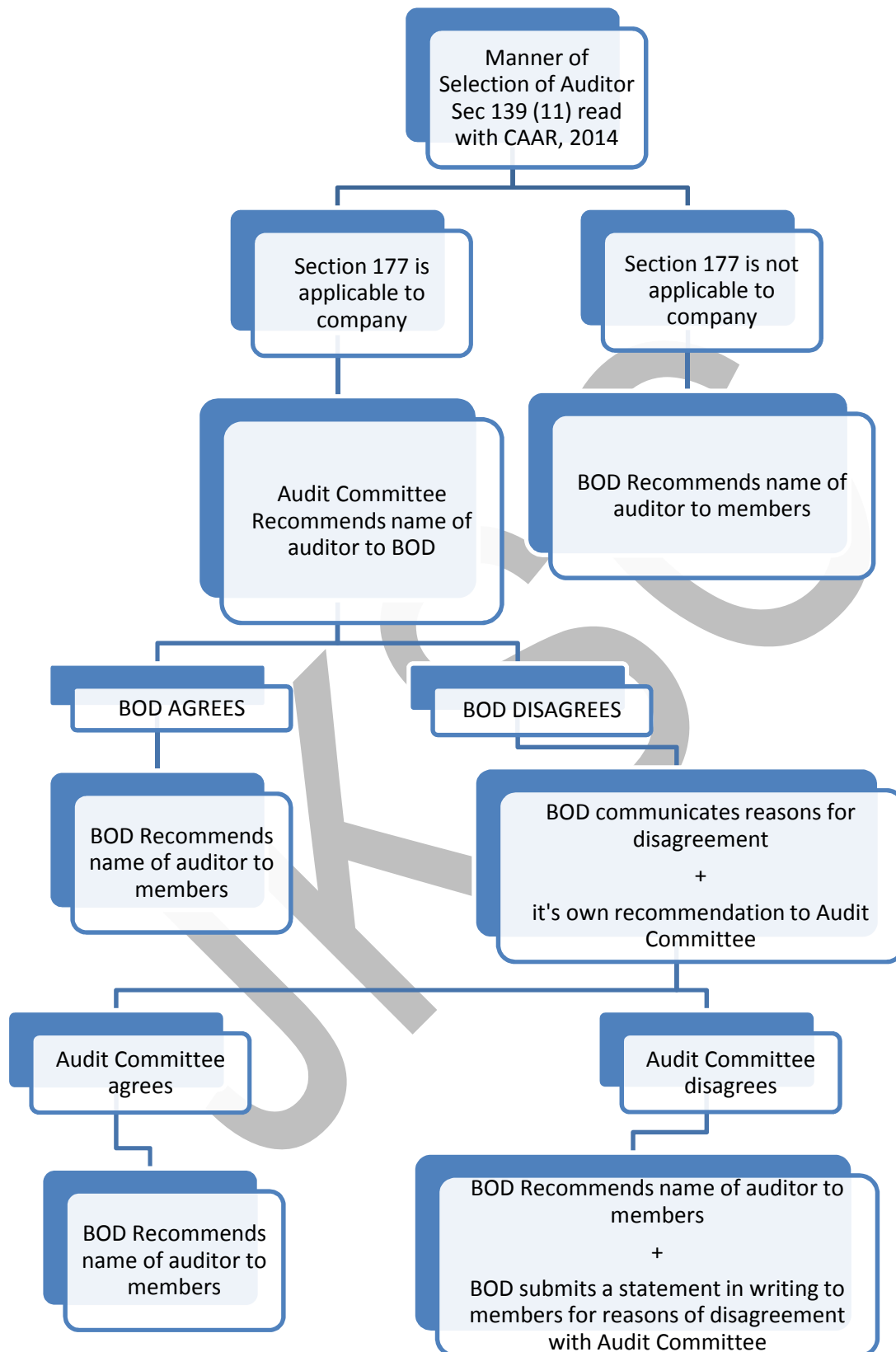
Sec 139 - Appointment of Auditor

(1)	<p>Subject to the provisions of this Chapter, every company shall, at the first annual general meeting, appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting and the manner and procedure of selection of auditors by the members of the company at such meeting shall be such as may be prescribed:</p> <p>Provided that the company shall place the matter relating to such appointment for ratification by members at every annual general meeting:</p> <p>Provided further that before such appointment is made, the written consent of the auditor to such appointment, and a certificate from him or it that the appointment, if made, shall be in accordance with the conditions as may be prescribed, shall be obtained from the auditor:</p> <p>Provided also that the certificate shall also indicate whether the auditor satisfies the criteria provided in section 141:</p> <p>Provided also that the company shall inform the auditor concerned of his or its appointment, and also file a notice of such appointment with the Registrar within fifteen days of the meeting in which the auditor is appointed.</p> <p><i>Explanation.</i>—For the purposes of this Chapter, “appointment” includes reappointment.</p>
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(2)	<p>No listed company or a company belonging to such class or classes of companies as may be prescribed, shall appoint or re-appoint—</p> <p>(a) an individual as auditor for more than one term of five consecutive years; and</p> <p>(b) an audit firm as auditor for more than two terms of five consecutive years: Provided that—</p> <p>(i) an individual auditor who has completed his term under clause (a) shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term;</p> <p>(ii) an audit firm which has completed its term under clause (b), shall not be eligible for re-appointment as auditor in the same company for five years from the completion of such term: Provided further that as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years:</p> <p>Provided also that every company, existing on or before the commencement of this Act which is required to comply with provisions of this sub-section, shall comply with the requirements of this sub-section within three years from the date of commencement of this Act:</p> <p>Provided also that, nothing contained in this sub-section shall prejudice the right of the company to remove an auditor or the right of the auditor to resign from such office of the company.</p>
(3)	<p>Subject to the provisions of this Act, members of a company may resolve to provide that:</p> <p>(a) in the audit firm appointed by it, the auditing partner and his team shall be rotated at such intervals as may be resolved by members; or</p> <p>(b) The audit shall be conducted by more than one auditor.</p>
(4)	<p>The Central Government may, by rules, prescribe the manner in which the companies shall rotate their auditors in pursuance of sub-section (2).</p> <p><i>Explanation.</i>—For the purposes of this Chapter, the word “firm” shall include a limited liability partnership incorporated under the Limited Liability Partnership Act, 2008.</p>
(6)	<p>Notwithstanding anything contained in sub-section (1), the first auditor of a company, other than a Government company, shall be appointed by the Board of Directors within thirty days from the date of registration of the company and in the case of failure of the Board to appoint such auditor, it shall inform the members of the company, who shall within ninety days at an extraordinary general meeting appoint such auditor and such auditor shall hold office till the conclusion of the first annual general meeting.</p>
(9)	<p>Subject to the provisions of sub-section (1) and the rules made thereunder, a retiring auditor may be re-appointed at an annual general meeting, if—</p> <p>(a) he is not disqualified for re-appointment;</p> <p>(b) he has not given the company a notice in writing of his unwillingness to be re-appointed; and</p> <p>(c) a special resolution has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed.</p>
(10)	<p>Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company.</p>
(11)	<p>Where a company is required to constitute an Audit Committee under section 177, all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.</p>



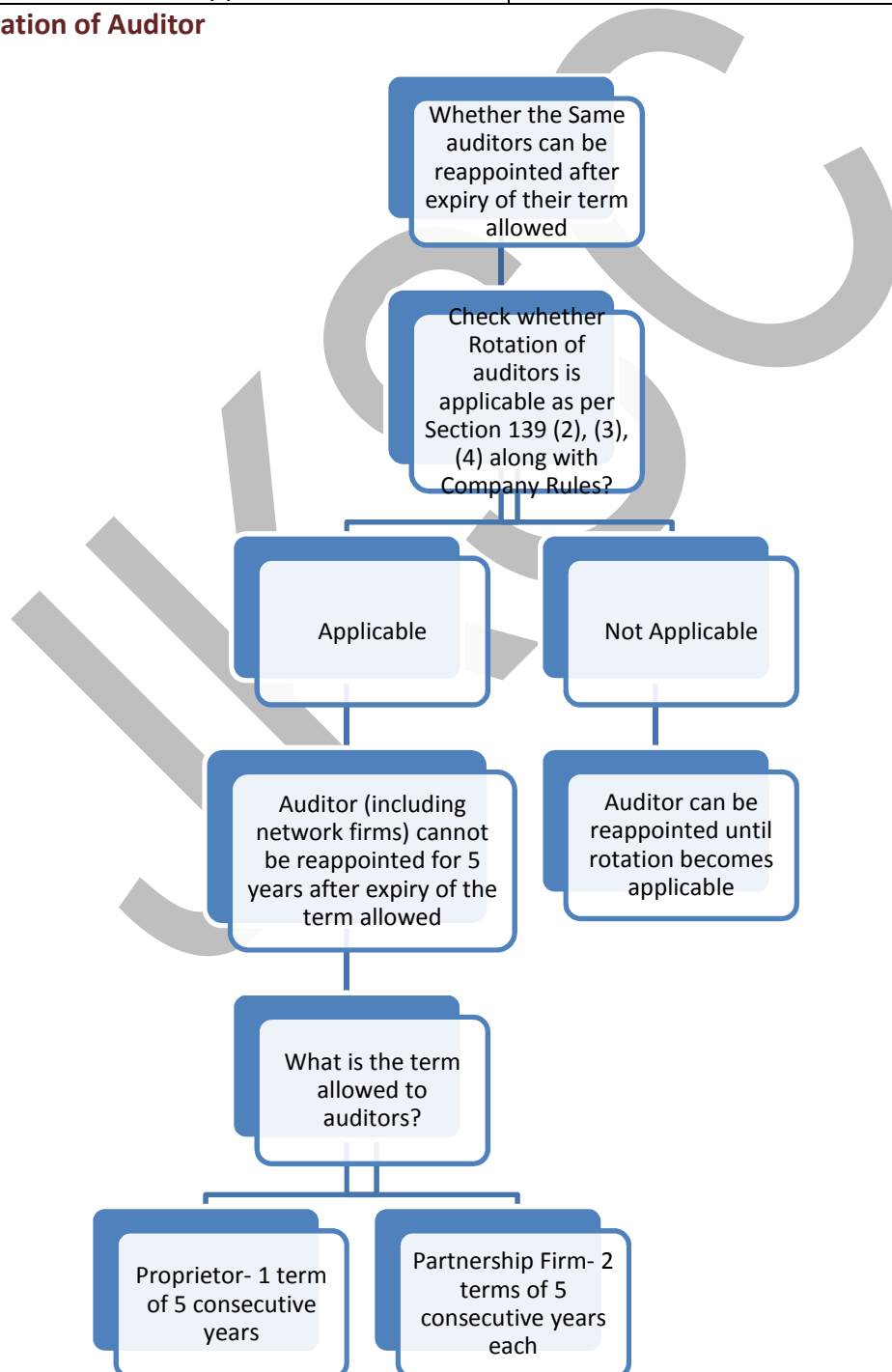
i) Recommendation process



ii) Possible Scenarios

S. No.	Situation	Solution
1	Members appoint the proposed auditor	Company Needs to file FORM ADT-1 within 15 days of appointment.
2	Members don't appoint the proposed auditor	
3	Proposed auditor withdraws his consent or death before appointment and similar contingencies occur	
4	Members don't want proposed auditor to be appointed and existing auditor to be reappointed	

iii) Rotation of Auditor



Note –

- 1) Applicability:
- 2) For auditors appointed before commencement of Companies Act, 2013, a transitional period of 3 years shall be given i.e. FY 14-15, 15-16 and 16-17.

Auditor is	Period Served before Companies Act, 2013	Transitional Period	Total Period at the end of transitional period	Additional Period after transitional period is over
Partnership	2 years	3 years	5 years	5 years
	35 years	3 years	38 years	0 years
Proprietor	1 year	3 years	4 years	1 year
	12 years	3 year	15 years	0 year

- 3) If auditor vacates the office as an auditor of the company due to any reason then such vacation will be deemed as expiry of term allowed and auditor cannot be reappointed for another 5 years.
- 4) Incoming Auditor should not be associated with the outgoing auditor in any manner whatsoever. E.g Common Partners, network firms etc.
- 5) During the term allowed, members can pass a resolution for rotation of partners along with audit team in order to secure independence of auditors.
- 6) As per SQC-1- rotation should be done after 7 years. SQC- 1 became applicable from April 1, 2009 (FY 09-10). So rotation should be done after FY 15-16. As per the Co Act, 2013, transitional period of 3 years is given which ends on FY 16-17.
Hence, no rotation required as per SQC-1 because Law will supersede Standard i.e. Rotation will be done from FY 17-18.

3c. Casual Vacancy

Sec 139 (8)

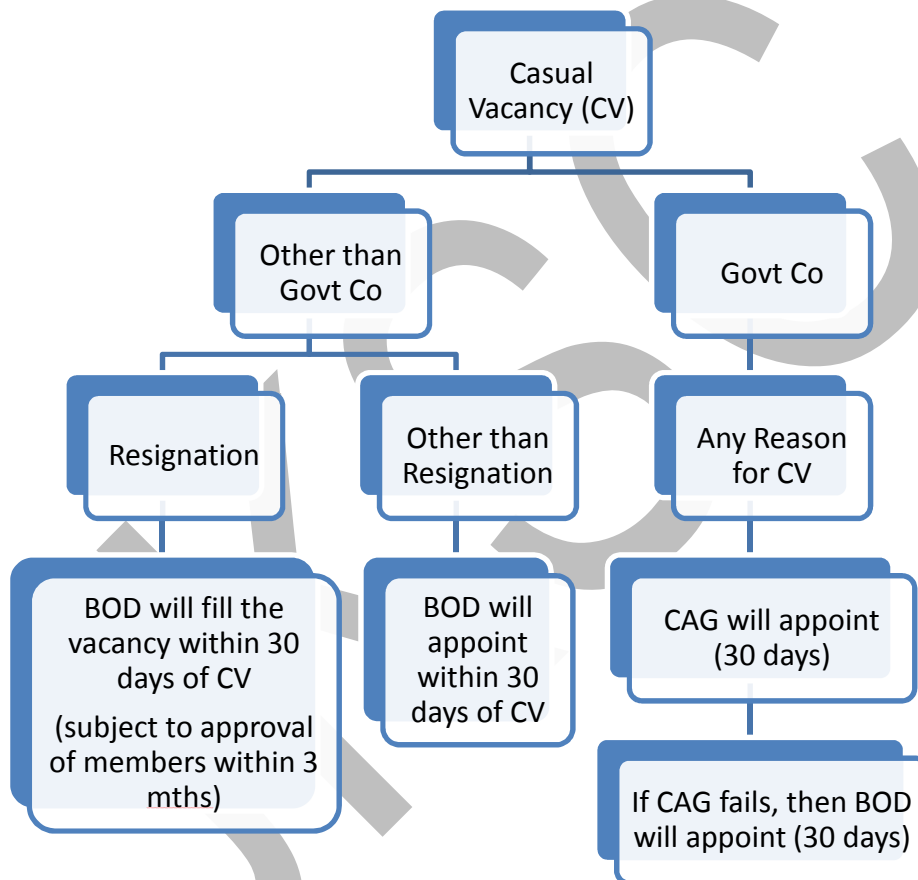
Any casual vacancy in the office of an auditor shall—

- (i) in the case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Board of Directors within thirty days, but if such casual vacancy is as a result of the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting;
- (ii) in the case of a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Comptroller and Auditor-General of India within thirty days.

Provided that in case the Comptroller and Auditor-General of India does not fill the vacancy within the said period, the Board of Directors shall fill the vacancy within next thirty days.

As per section 140(2) the auditor who has resigned from the company shall file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company and the Registrar, and in case of the companies referred to in section 139(5) i.e. Government company, the auditor shall also file such statement with the Comptroller and Auditor-General of India, indicating the reasons and other facts as may be relevant with regard to his resignation. In case of failure the auditor shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees as per section 140(3).

(As per Companies Amendment Act, 2017 , In section 140 of the principal Act, in sub-section (3), for the words "fifty thousand rupees", the words "fifty thousand rupees or the remuneration of the auditor, whichever is less," shall be substituted.)



Note – In case of Resignation, auditor needs to file form ADT-3 within 30 days of date of resignation with Company, ROC and CAG (only in case of Government companies).

Auditor appointed under Casual Vacancy shall continue up to conclusion of Next AGM.

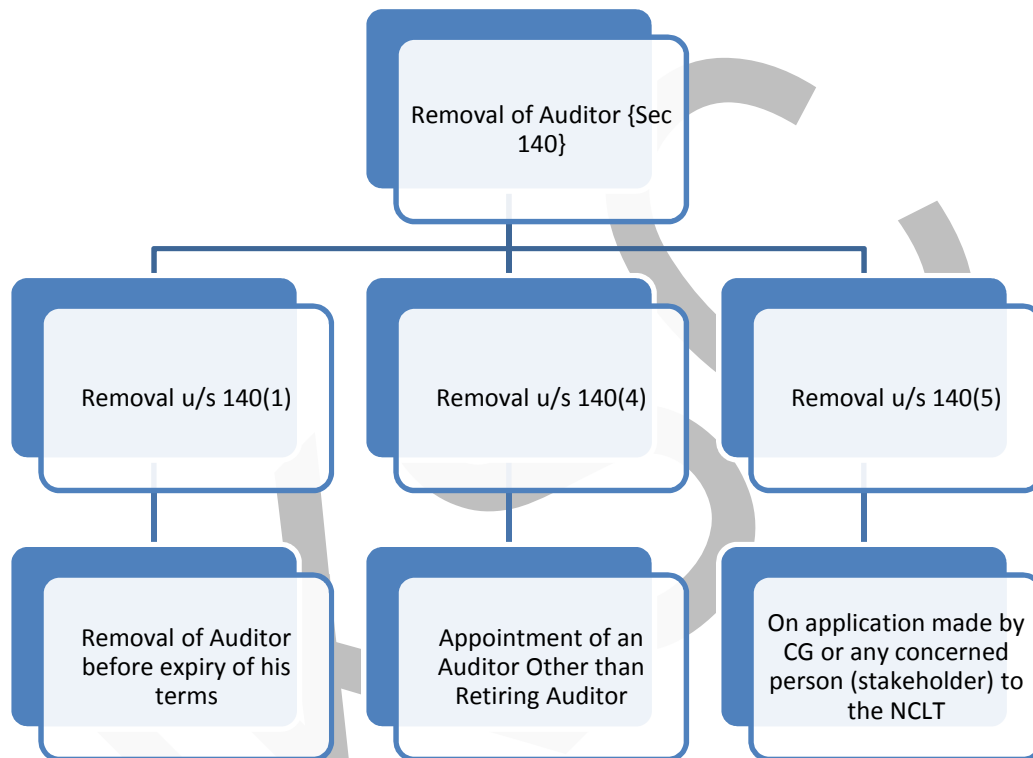
4. Remuneration

Sec 142 Remuneration of Auditors	
(1)	The remuneration of the auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein: Provided that the Board may fix remuneration of the first auditor appointed by it.
(2)	The remuneration under sub-section (1) shall, in addition to the fee payable to an auditor, include the expenses, if any, incurred by the auditor in connection with the audit of the company and any facility extended to him but does not include any remuneration paid to him for any other service rendered by him at the request of the company.

Notes

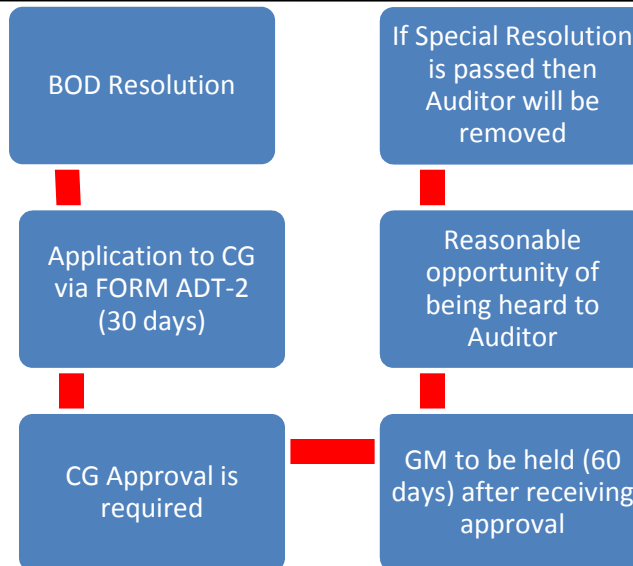
1. General Rule- Fixed by members in General Meeting
2. First auditor appointed by BOD- Fixed by Board of Directors
3. Includes- Audit fees agreed + Reimbursement, if any, of Expenses incurred in connection with audit
4. Excludes- Any sum of money paid for other services provided by the auditor
5. Manner of Remuneration should not violate Clause 10 Part I of First Schedule to CA Act, 1949.

5. Removal of Auditor



5a. Removal before expiry of his term

Sec 140	
(1)s	The auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf in the prescribed manner: Provided that before taking any action under this sub-section, the auditor concerned shall be given a reasonable opportunity of being heard.



5b. Appointment of an auditor other than retiring auditor

Sec 140 (4)

(i) Special notice shall be required for a resolution at an annual general meeting appointing as auditor a person other than a retiring auditor, or providing expressly that a retiring auditor shall not be re-appointed, except where the retiring auditor has completed a consecutive tenure of five years or, as the case may be, ten years, as provided under sub-section (2) of section 139.

(ii) On receipt of notice of such a resolution, the company shall forthwith send a copy thereof to the retiring auditor.

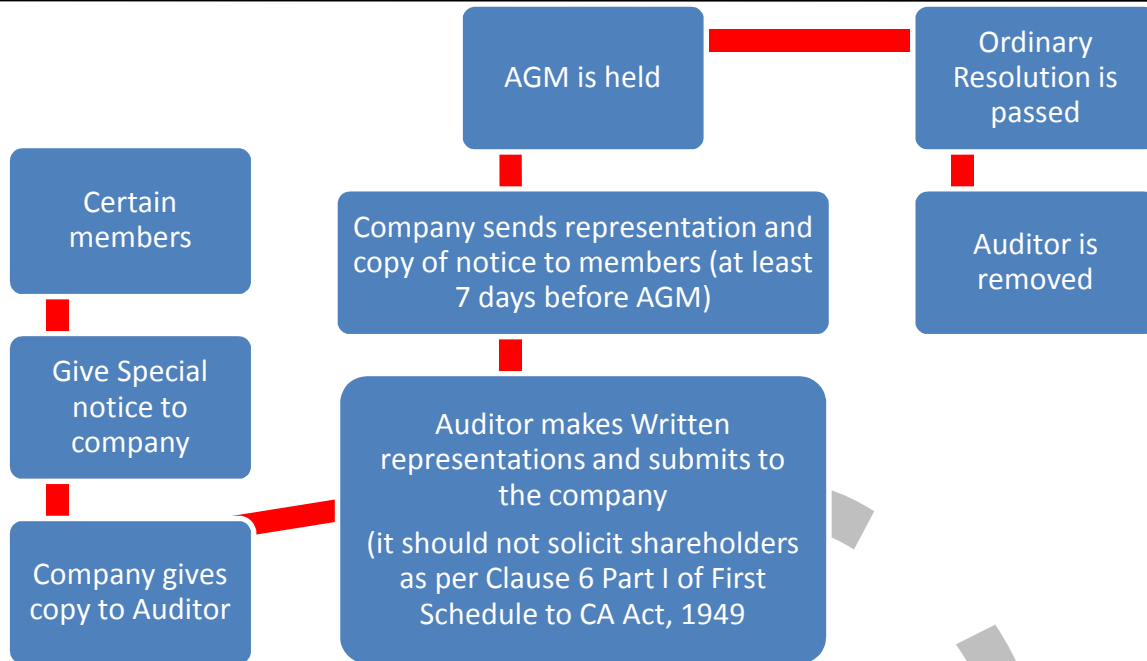
(iii) Where notice is given of such a resolution and the retiring auditor makes with respect thereto representation in writing to the company (not exceeding a reasonable length) and requests its notification to members of the company, the company shall, unless the representation is received by it too late for it to do so,—

(a) in any notice of the resolution given to members of the company, state the fact of the representation having been made; and

(b) send a copy of the representation to every member of the company to whom notice of the meeting is sent, whether before or after the receipt of the representation by the company, and if a copy of the representation is not sent as aforesaid because it was received too late or because of the company’s default, the auditor may (without prejudice to his right to be heard orally) require that the representation shall be read out at the meeting:

Provided that if a copy of representation is not sent as aforesaid, a copy thereof shall be filed with the Registrar:

Provided further that if the Tribunal is satisfied on an application either of the company or of any other aggrieved person that the rights conferred by this sub-section are being abused by the auditor, then, the copy of the representation may not be sent and the representation need not be read out at the meeting.



Special notice u/s 115 of Companies Act, 2013 can be given by-

It can be sent by Member or Members holding at least 1% of voting power or Shares with paid up value of at least Rs. 5 Lacs. It must be sent at least 14 days before the date of meeting.

If the Tribunal is satisfied on an application either of the company or of any other aggrieved person that the rights conferred by section 140(4) of the Companies Act, 2013 are being abused by the auditor, then, the copy of the representation may not be sent and the representation need not be read out at the meeting.

5c. Removal by National Company Law tribunal

Sec 140 (5)

Without prejudice to any action under the provisions of this Act or any other law for the time being in force, the Tribunal either suo moto or on an application made to it by the Central Government or by any person concerned, if it is satisfied that the auditor of a company has, whether directly or indirectly, acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its directors or officers, it may, by order, direct the company to change its auditors:

Provided that if the application is made by the Central Government and the Tribunal is satisfied that any change of the auditor is required, it shall within fifteen days of receipt of such application, make an order that he shall not function as an auditor and the Central Government may appoint another auditor in his place:

Provided further that an auditor, whether individual or firm, against whom final order has been passed by the Tribunal under this section shall not be eligible to be appointed as an auditor of any company for a period of five years from the date of passing of the order and the auditor shall also be liable for action under section 447.

Explanation I.—It is hereby clarified that the case of a firm, the liability shall be of the firm and that of every partner or partners who acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its director or officers.

Explanation II.—For the purposes of this Chapter the word “auditor” includes a firm of auditors.

6. Rights and Duties of Auditor**6a. Rights of Auditor****Sec 143**

- | | |
|-----|---|
| (1) | Every auditor of a company shall have a right of access at all times to the books of account and vouchers of the company, whether kept at the registered office of the company or at any other place and shall be entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor .
Provided that the auditor of a company which is a holding company shall also have the right of access to the records of all its subsidiaries & associates in so far as it relates to the consolidation of its financial statements with that of its subsidiaries & associates. |
| (2) | The auditor shall make a report to the members of the company on the accounts examined by him and on every financial statements which are required by or under this Act to be laid before the company in general meeting and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder. |

Sec 146

All notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company, and the auditor shall, unless otherwise exempted by the company, attend either by himself or through his authorised representative, who shall also be qualified to be an auditor, any general meeting and shall have right to be heard at such meeting on any part of the business which concerns him as the auditor.

6b. Duties of Auditor

Sec 143

(1)	<p>amongst other matters inquire into the following matters, namely:—</p> <p>(a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;</p> <p>(b) whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;</p> <p>(c) where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;</p> <p>(d) whether loans and advances made by the company have been shown as deposits;</p> <p>(e) whether personal expenses have been charged to revenue account;</p> <p>(f) where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.</p> <p><u>Note: “The auditor is not required to report on the matters specified in sub-section (1) unless he has any special comments to make on any of the items referred to therein. If he is satisfied as a result of the inquiries, he has no further duty to report that he is so satisfied.”</u></p>
(3)	<p>The auditor’s report shall also state—</p> <p>(a) whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;</p> <p>(b) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;</p> <p>(c) whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company’s auditor has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;</p> <p>(d) whether the company’s balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;</p> <p>(e) whether, in his opinion, the financial statements comply with the accounting standards;</p> <p>(f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;</p> <p>(g) whether any director is disqualified from being appointed as a director under sub-section (2) of section 164;</p> <p>(h) any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;</p> <p>(i) whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;</p> <p>(j) Such other matters as may be prescribed.</p>
(4)	Where any of the matters required to be included in the audit report under this section is answered in the negative or with a qualification, the report shall state the reasons therefore
(9)	Every auditor shall comply with the auditing standards.
(10)	The Central Government may prescribe the standards of auditing or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority:

	Provided that until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards.
(11)	The Central Government may, in consultation with the National Financial Reporting Authority, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein.
(12)	Notwithstanding anything contained in this section, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within such time and in such manner as may be prescribed.
(15)	If any auditor, cost accountant or company secretary in practice do not comply with the provisions of sub-section (12), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

Sec 145: Duty to sign audit report

The person appointed as an auditor of the company shall sign the auditor's report or sign or certify any other document of the company, in accordance with the provisions of sub-section (2) of section 141 and the qualifications, observations or comments on financial transactions or matters, which have any adverse effect on the functioning of the company mentioned in the auditor's report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

In section 143 of the principal Act,— (i) in sub-section (1), in the proviso, for the words "its subsidiaries", at both the places, the words "its subsidiaries and associate companies" shall be substituted; (ii) in sub-section (3), in clause (i), for the words "internal financial controls system", the words "internal financial controls with reference to financial statements" shall be substituted; (iii) in sub-section (14), in clause (a), for the words "cost accountant in practice", the words "cost accountant" shall be substituted.

Working Notes:**1) Duties of auditor****A) Statutory Reporting Requirements**

- Sec 143 (1)- Duty to inquire on certain matters
- Sec 143 (3)- Duty to report upon Certain matters =
- Sec 143(11)- Duty to report upon any other matter required by Central Government E.g. CARO 2016

B) Other Duties

- Sec 143 (4)- Duty to state reasons for negative remarks
- Sec 143 (9) & (10)- Duty to comply with Auditing Standards
- Sec 143 (12)- Duty to report Fraud to Central Government
- Sec 146- Duty to attend General Meeting either by himself or through his authorised representative (CA) unless exempted by shareholders.

2) Sec 143(12) of Companies Act, 2013- The ICAI Guidance note

1 Q: Who all are covered under 143(12) of the Companies Act 2013 to report the Fraud?

A: Reporting obligation to statutory auditor; cost auditor and secretarial auditor

2 Q: Whether auditors appointed under other regulations are covered under 143(12)?

A: No, the fraud reporting is not applicable to internal auditor, tax auditor.

3 Q: What are the procedures to be followed, if the Fraud is **Rs.1 crore or more?**

A: If identified any fraud and the amount involved INR 1 crore or more:

- a) Report within two days to Audit Committee / Board
- b) Wait upto 45 days for reply from Board / Audit Committee
- c) Within 15 days of receipt of above replies – forward to Central Government – Details to be included specified in Form ADT – 4
- d) If no reply from Directors – forward to Central Government, the note send to Board / Audit Committee.
- e) The report / note to be submitted by Registered Post with Acknowledgement due / Speed post

4 Q: What are the procedures to be followed, if the Fraud below Rs.1 crore?

A: If identified any fraud and the amount involved is less than INR 1 crore:

- a) Report within two days to Audit Committee / Board
- b) Adequate disclosures in Board report including remedial action taken.

5 Q: Whether fraud identified during other engagements including Limited Review / tax audit to be reported?

A: If an offence of fraud in the company, that is identified by the auditor in the course of providing attest or non-attest services, which the auditor uses or intends to use the information, when performing the statutory audit, then the matter may become reportable.

6 Q: An already identified fraud either by Management / other auditors, whether to be reported by the Auditor?

A: Auditors need to report on fraud, only if he is the first person to identify/note such instance in the course of performance of his duties as an auditor.

Accordingly, in case a fraud has already been reported or has been identified by the management or through the company's vigil/whistle blower mechanism and has been being remediated with by them and such case is informed to the auditor, he will not be required to report the same.

7. Penalties- Sec 147

Sec 147	
(1)	If any of the provisions of sections 139 to 146 (both inclusive) is contravened, the company shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than ten thousand rupees but which may extend to one lakh rupees, or with both.
(2)	If an auditor of a company contravenes any of the provisions of section 139, section 143, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees: Provided that if an auditor has contravened such provisions knowingly or wilfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.
(3)	Where an auditor has been convicted under sub-section (2), he shall be liable to— (i) refund the remuneration received by him to the company; and (ii) Pay for damages to the company, statutory bodies or authorities or to any other persons for loss arising out of incorrect or misleading statements of particulars made in his audit report.
(4)	The Central Government shall, by notification, specify any statutory body or authority or an officer for ensuring prompt payment of damages to the company or the persons under clause (ii) of sub-section (3) and such body, authority or officer shall after payment of damages to such company or persons file a report with the Central Government in respect of making such damages in such manner as may be specified in the said notification.
(5)	Where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil or criminal as provided in this Act or in any other law for the time being in force, for such act shall be of the partner or partners concerned of the audit firm and of the firm jointly and severally.

Companies Amendment Act, 2017:

In section 147 of the principal Act,—

- (i) in sub-section (2),— (a) after the words "five lakh rupees", the words "or four times the remuneration of the auditor, whichever is less" shall be inserted; (b) in the proviso, for the words "and with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees", the words "and with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees or eight times the remuneration of the auditor, whichever is less" shall be substituted;

- (ii) In sub-section (3), in clause (ii), for the words "or to any other persons", the words "or to members or creditors of the company" shall be substituted;
- (iii) in sub-section (5), the following proviso shall be inserted, namely:— "Provided that in case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable."

8. Branch Audit- Sec 143(8)

No	Area	Particulars
1	Who can conduct?	Company Auditor Any other person qualified for appointment If branch office outside India- person qualified under laws of that country
2	Appointment	As per provisions of Section 139.
3	Powers and duties	Same as mentioned earlier. Such Rights and duties extend up to branch records
4	Report	Prepare a report on branch accounts examined and submit report to company auditor.
5	Term of office	Same as per Section 139
6	Remuneration	As fixed by company in GM

9. Cost Audit- Sec 148

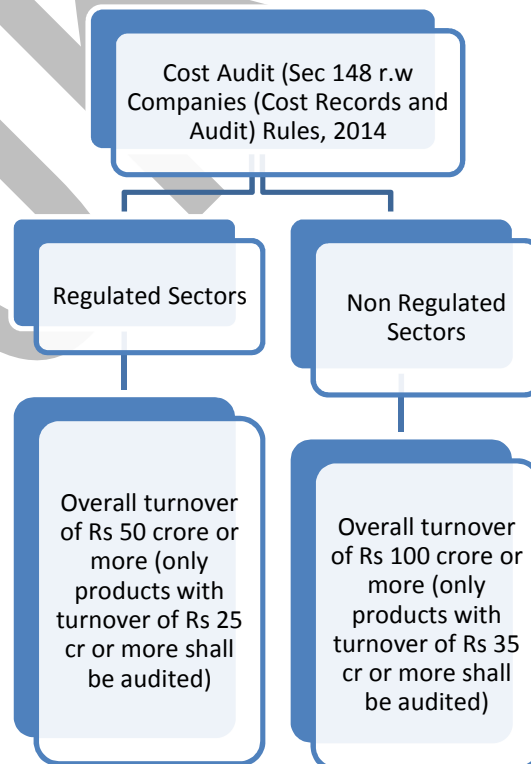
Sec 148	
(1)	Notwithstanding anything contained in this Chapter, the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies: Provided that the Central Government shall, before issuing such order in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such special Act.
(2)	If the Central Government is of the opinion, that it is necessary to do so, it may, by order, direct that the audit of cost records of class of companies, which are covered under sub-section (1) and which have a net worth of such amount as may be prescribed or a turnover of such amount as may be prescribed, shall be conducted in the manner specified in the order.
(3)	The audit under sub-section (2) shall be conducted by a Cost Accountant who shall be appointed by the Board on such remuneration as may be determined by the members in such manner as may be prescribed: Provided that no person appointed under section 139 as an auditor of the company shall be appointed for conducting the audit of cost records: Provided further that the auditor conducting the cost audit shall comply with the cost auditing standards. <i>Explanation.</i> —For the purposes of this sub-section, the expression "cost auditing standards" mean such standards as are issued by the Institute of Cost and Works Accountants of India, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government.
(4)	An audit conducted under this section shall be in addition to the audit conducted under section 143

(5)	The qualifications, disqualifications, rights, duties and obligations applicable to auditors under this Chapter shall, so far as may be applicable, apply to a cost auditor appointed under this section and it shall be the duty of the company to give all assistance and facilities to the cost auditor appointed under this section for auditing the cost records of the company: Provided that the report on the audit of cost records shall be submitted by the cost accountant in practice to the Board of Directors of the company.
(6)	A company shall within thirty days from the date of receipt of a copy of the cost audit report prepared in pursuance of a direction under sub-section (2) furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein.
(7)	If, after considering the cost audit report referred to under this section and the information and explanation furnished by the company under sub-section (6), the Central Government is of the opinion that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by that Government.
(8)	If any default is made in complying with the provisions of this section,— (a) The company and every officer of the company who is in default shall be punishable in the manner as provided in sub-section (1) of section 147; (b) The cost auditor of the company who is in default shall be punishable in the manner as provided in sub-sections (2) to (4) of section 147.

As per Companies Amendment Act, 2017, In section 148 of the principal Act,—

- (i) **In sub-section (3),— (a) for the words "Cost Accountant in practice", the words "cost accountant" shall be substituted; (b) in the Explanation, for the words "Institute of Cost and Works Accountants of India", the words "Institute of Cost Accountants of India" shall be substituted;**
- (ii) **In sub-section (5), in the proviso, for the words "cost accountant in practice", the words "cost accountant" shall be substituted.**

Applicability of Cost Audit



The requirement for cost audit under these rules shall not be applicable to a company

- (i) Whose revenue from exports, in foreign exchange, exceeds 75% of its total revenue;
or
- (ii) Which is operating from a special economic zone.
- (iii) Which is engaged in generation of electricity for captive consumption through Captive Generating Plant.

Regulated and Non- Regulated Sectors**List of Regulated Sectors**

1. Telecommunication Services
2. Generation, transmission distribution and supply of Electricity
3. Petroleum products
4. Drugs and pharmaceuticals
5. Fertilizers
6. Sugar and industrial alcohol

List of Non Regulated Sectors

1. Machinery used for defence space atomic research
2. Turbo jets and Turbo propellers
3. Arms and ammunition
4. Aeronautical Services
5. Steel and Cement
6. Rubber and allied products
7. Roads and other infrastructure project
8. Ores and mineral products
9. Edible oil
10. Jute and Jute products

OTHER CHAPTERS – CONTENT

SR. NO	TOPIC
1	Audit of Banks
2	Audit of Insurance Companies
3	Audit of Public Sector Undertakings
4	Audit of NBFC
5	Audit of Mutual Funds
6	Audit of Members of Stock Exchange
7	Audit of Depositories
8	Audit of Accounts of Non – Corporate Borrowers of the Bank
9	Audit of Stock and Debtors
10	Environment Audit
11	Energy Audit
12	Peer Review
13	Quality Review
14	Investigation
15	Due Diligence
16	Forensic Audit
17	Internal Audit
18	Management Audit
19	Operational Audit
20	Audit of Consolidated Financial Statements
21	Audit Under Fiscal Laws
22	Audit Under Automated Environment
23	Sarbanes Oxley Act, 2002
24	Audit Committee and Corporate Governance (Company Law)

AUDIT OF BANKS

S.N	Particulars	Content
1	Legal Framework	a) Banking Regulation Act, 1949. b) State Bank of India Act, 1955. c) Companies Act, 2013. d) State Bank of India (Subsidiary Banks) Act, 1959. e) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970. f) Regional Rural Banks Act, 1976. g) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980. h) Information Technology Act, 2000. i) Prevention of Money Laundering Act, 2002. j) Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. k) Credit Information Companies (Regulation) Act, 2005. l) Payment and Settlement Systems Act, 2007. m) RBI ACT, 1934.
2	Form and Content of FS	a) Prepare a Balance Sheet and a Profit and Loss Account in the forms set out in the Third Schedule to the Act b) Form A of the Third Schedule- Form of Balance Sheet c) Form B contains the form of Profit and Loss Account. d) Disclosure requirements under the various Accounting Standards, as specified under section 133 of the Companies Act, 2013, read with Rule 7 of the Companies (Accounts) Rules 2014
3	Audit provisions	a) (same as per Companies Act, 2013 apart from specifics given below) b) Most banks, especially those in public sector, appoint four or more (depending upon their size and Board decision, as per RBI guidelines) firms of chartered accountants to act jointly as statutory central auditors (SCAs)
A	Eligibility and Qualification	As per Companies Act, 2013
B	Appointment	Nationalised Bank- Board of Directors (prior approval of RBI) State Bank of India- CAG in consultation with Central Government Subsidiaries of SBI- Board of Directors of SBI Regional Rural Bank- Board of directors with prior approval of CG Any other Case- By Shareholders in General Meeting (prior approval of RBI)
C	Remuneration	Nationalised Bank and SBI auditors- In Consultation with Central Government
D	Reporting	Audit Report as per the ICAI + Sec 143 of Companies Act, 2013 + Long Form Audit report as prescribed by RBI + Explain the scope of assignment in the main report and any other reporting requirement as prescribed by the RBI
4	Conducting Bank Audit	
A	Initial Consideration	a) Acceptance and Continuance- assess the engagement risk b) Declaration of indebtedness- to be furnished before appointment c) Internal assignments in banks by statutory auditors- audit firms should not undertake statutory audit assignment while they are associated with internal assignments during the same year d) Understanding Terms of Audit Engagement e) Communication with previous auditor as per CA Act, 1949 f) Establish the engagement team

B	Understanding	<p>a) Understanding the bank and its environment including internal control and accounting system- to identify and assess the risks of material misstatement and develop plan to test operating effectiveness of the controls and test of details</p> <p>b) Understanding components of Internal Control- Refer SA 315</p>
C	Risk Assessment	<p>a) SA 315- Risk Assessment Procedure, SA 240- Identify fraud risk factors</p> <p>b) Risks associated with outsourcing of activities- SA 402 (since modern day banks extensively use outsourcing)</p>
D	Execution	<p>a) Audit Strategy as per SA 300</p> <p>b) Determine Audit Materiality</p> <p>c) Responses to the assessed Risks as per SA 330 (further audit procedures)</p>
E	Reporting	As discussed Earlier (refer point 3D)
F	Special Considerations in IT environment	<p>a) authorised, accurate and complete data is made available for processing</p> <p>b) system prevents unauthorised amendments to the programmes</p> <p>c) segregation of duties is ensured while granting system access to users</p> <p>d) Check that the bank takes daily and monthly backups</p> <p>e) charges calculated manually for accounts when function is not regulated through parameters are properly accounted for and authorised.</p> <p>f) balance in general ledger tallies with the balance in subsidiary book</p>
5	Non - Performing Asset	
A	Classification	<p>a) General Criteria: Amount of instalment/principal or interest remains overdue for more than 90 days</p> <p>b) Cash Credits and Overdrafts: A cash credit or overdraft account is treated as NPA if it remains out of order as indicated above. (out of order: where outstanding balance remains in excess of sanctioned limit or there are no/minimal credits continuously for 90 days as on the date of balance sheet)</p> <p>c) Credit Card accounts: Minimum amount due remains over due for more than 90 days from the next statement date</p> <p>d) Agricultural advance: Short duration crops- instalment remains overdue for 2 crop seasons Long duration crops- Instalment remains overdue for 1 crop season ("crop season" means period upto harvesting, "long duration" means crop season more than 1 year) Relief measures can be given by banks in case of natural calamities as per RBI guidelines</p>
B	Exception	<p>a) Temporary deficiencies</p> <p>b) Natural Calamities as given above</p> <p>c) Loan is guaranteed by CENTRAL GOVERNMENT. (here there is no need to create NPA provision on the amount of asset however, income accrued but not realised must be reversed)</p> <p>d) On lending arrangement (when bank lends money that they have received from another person. Hence bank is merely transferring the funds)</p>
C	Income recognition	<p>a) Generally – Income recognised accrual basis</p> <p>b) In case of NPA- Reverse the income accrued but not realised (create provisions) and further income will be recognised on cash basis.</p> <p>c) Advance granted against term deposits- interest on advance can be</p>

		booked as income provided adequate margin is available in the account. d) Government guaranteed accounts- reversal income accrued but not realised.
D	Provisioning	As per RBI guidelines- Substandard, Doubtful and loss asset
7	CRR and SLR	
A	Cash Reserve Ratio	Specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with the RBI.
B	Statutory Liquidity Ratio	require to maintain in the form of gold, government approved securities before providing credit to the customers (% of net demand and time liabilities)
C	Compliance with SLR	a) Correctness of the compilation of DTL (Demand and Time Liabilities) position. b) Maintenance of liquid assets. Audit procedure: a) Verify correctness of consolidated DTL position by reconciling with data received from branches. b) Verify compliance with RBI circular for inclusions and exclusions while calculating DTL position. c) Verify maintenance of liquid assets- securities, gold verification and cash reserves.
8	Concurrent Audit	
A	Meaning	a) To verify the authenticity of the transaction/activity within the shortest possible time after the same takes place. b) Continuous audit of transactions mandated by RBI c) Scope is governed by RBI circular and terms of engagement agreed with Board of Directors and audit committee.
B	Coverage	a) At least 50 % of total deposits b) At least 50 % of total advances c) 100% audit of treasury functions d) Head office operations are fully audited and such number of branches are selected which ensure the above coverage.
C	Functions	a) Cash verification b) Verifying Investments c) Verifying Deposits d) Verifying Advances e) Regularity of forex transactions f) Book- Keeping g) Reporting to BOD and Audit committee along with recommendations (frequency can be monthly/quarterly based upon RBI circular)
9	Vouching Verification	
A	Cash, Bank Balance.	a) Carry out the physical verification of cash as close to the balance sheet date as possible. b) should be agreed with the balance shown in the cash book and the cash balance book c) <u>Balance with Reserve Bank of India</u> (i) Verify the ledger balances in each account with reference to the bank confirmation certificates and reconciliation

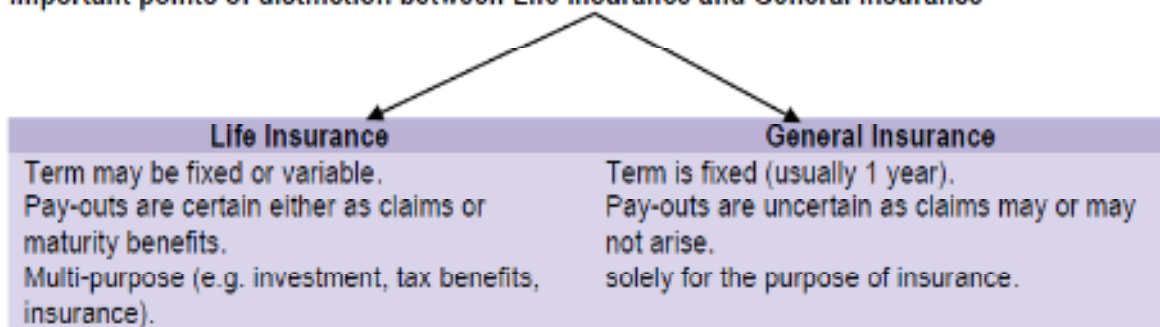
		<p>statements as at the year-end.</p> <p>(ii) Obtain a written explanation from the management as to the reasons for old outstanding transactions in reconciliation statement.</p> <p>d) <u>Balance with banks (other than RBI)</u></p> <p>(i) review reconciliation statements and examine outstanding items</p> <p>(ii) Confirmation from such banks</p> <p>(iii) For balances with banks outside India- additionally check the conversion into Indian currency at the exchange rates prevailing on the balance sheet date.</p>
B	Investments	<p>a) Verify investment policy of the bank including their internal control</p> <p>b) Verify compliance with RBI guidelines</p> <p>c) Check the segregation of duties within the bank staff in terms of executing trades, settlement and monitoring of such trades, and accounting of the same (generally termed as front office, middle office and back office functions' segregation)</p> <p>d) Examine the reconciliation statement, confirmations from counter-party etc.</p> <p>e) Physical verification at the close of the business on the date of balance sheet.</p> <p>f) Examine valuation of various securities especially in compliance with RBI guidelines</p> <p>g) Check whether bank is dealing on behalf of others and if yes, whether separate accounts are maintained for such investments or not.</p> <p>h) Check the classification of securities as "available for sale" and "held to maturity" and its shifting.</p>
C	Advances	<p>a) Check classification of advances and its disclosure (The Third Schedule to the Act requires classification of advances made by a bank from three different angles, viz., nature of advance, nature and extent of security, and place of making advance (i.e. whether in India or outside India).</p> <p>b) Examine internal control- policy of the bank, sanctioning authority, system of verifying credibility of the borrower, system of recording advances etc.</p> <p>c) Examine loan documentation- purpose of the loan, sanction letter, security and collaterals taken from the borrower</p> <p>d) Recoverability of advances and income recognition</p> <p>e) Provisioning and NPA norms whether applied properly or not (as discussed earlier).</p> <p>f) Whether security is adequate and legally enforceable or not.</p>
E	Non-Banking Assets Acquired in Satisfaction of Claims	<p>a) Verify such assets with reference to the relevant documentary evidence, e.g., terms of settlement with the party, order of the Court or the award of arbitration, etc.</p> <p>b) Check that the ownership of the property is legally vested in the bank.</p> <p>c) If there is any dispute or other claim about the property, the auditor should examine whether the recording of the asset is appropriate or not.</p> <p>d) 4. In case the dispute arises subsequently, the auditor should examine whether a provision for liability or disclosure of a contingent liability is appropriate.</p>
F	Capital	<p>a) Check Maintenance of TIER I and TIER II capital (Tier I capital consists mainly of share capital and disclosed reserves and it is a bank's highest</p>

		<p>quality capital because it is fully available to cover losses. Tier II capital consists of certain reserves and certain types of subordinated debt. The loss absorption capacity of Tier II capital is lower than that of Tier I capital.)</p> <p>b) Maintenance of capital risk adequacy ratio (CRAR) in relation to the risk weighted assets.</p>
G	Reserves and Surplus	<p>a) Verify the opening balances of various reserves with reference to the audited balance sheet of the previous year.</p> <p>b) Additions to or deductions from reserves should also be verified in the usual manner, e.g., with reference to board resolution.</p> <p>c) In the case of statutory reserves and share premium, compliance with legal requirements should also be examined.</p> <p>d) Whether the requirements of the governing legislation regarding transfer of the prescribed percentage of profits to reserve fund have been complied with.</p> <p>e) In case the bank has been granted exemption from such transfer, the auditor should examine the relevant documents granting such exemption.</p> <p>f) Whether the appropriations from share premium account conform to the relevant legal requirements.</p>
H	Deposits	<p>a) Verify balances in individual accounts on a sample basis</p> <p>b) whether the balances as per subsidiary ledgers tally with the related control accounts in the General Ledger</p> <p>c) Check the calculations of interest on a test check basis.</p> <p>d) debit balances in current accounts are not netted out on the liabilities side but are appropriately included under the head 'advances</p> <p>e) deposit receipts and cash certificates are issued serially and all of them are accounted for in the registers</p> <p>f) interest on deposits has been paid on the basis of 360 days in a year.</p> <p>g) framework relating to 'Know Your Customer' and Anti-Money Laundering measures is formulated and put in place by the bank</p>
I	Borrowings	<p>a) Obtain and verify confirmation certificates and other supporting documents such as, agreements, correspondence</p> <p>b) whether a clear distinction has been made between 'rediscount' and 'refinance' for disclosure of the amount under the above head since rediscount does not figure under this head</p> <p>c) whether borrowings of money at call and short notice are properly authorised</p> <p>d) whether the amount shown in the branch accounts is properly classified based on security or otherwise</p>
K	Contingent Liabilities	<p>a) Major concern is completeness, valuation and disclosure.</p> <p>b) Letter of credit: official guarantee issued by the bank on behalf of its customers for financing the trade especially import of goods</p> <p>c) Letter of comfort: Bank certifies the credit worthiness of the borrower but it is not an official guarantee. Auditor needs to check whether an obligation has been cast under such letter and if yes, then it needs to be disclosed as contingent liability</p> <p>d) Obtain written representations from the management regarding completeness, valuation and disclosure of contingent liability</p> <p>e) Verify claims against the bank not acknowledged as debt i.e. the legal cases through discussions with bank's legal counsel, board meeting minutes etc.</p>
L	Telegraphic	<p>a) The bank should have a reliable private code known only to the</p>

	Transfer and Demand Draft	<p>responsible officers of its branches coding and decoding of the telegrams should be done only by such officers.</p> <p>b) The signatures on a demand draft should be checked by an officer with the specimen signature book.</p> <p>c) All the telegraphic transfers and demand drafts issued by a branch should be immediately confirmed by advices to the branches concerned.</p> <p>d) On payment of these instruments, the paying branch should send a debit advice to the originating branch.</p>
M	Inter Branch Accounts	<p>Examine whether Inter-branch accounts are normally reconciled at the central level. The auditor should report on the year-end status of inter-branch accounts indicating the dates up to which all or any segments of the accounts have been reconciled. The auditor should also indicate the number and amount of outstanding entries in the inter branch accounts, giving the relevant information separately for debit and credit entries. The auditor can obtain the relevant information primarily from branch audit reports.</p>
N	Credit Card operations	<p>a) effective screening of applications</p> <p>b) strict control over storage and issue of cards</p> <p>c) Control for confirmation and co-ordination with the merchants for cards used by the customers</p> <p>d) system to monitor and follow-up customers' payments</p>
O	Sale and Purchase of NPAs	<p>a) The policy laid down by the Board of Directors in this regard relating to procedures, valuation and delegation of powers.</p> <p>b) Only such NPA has been sold which has remained NPA in the books of the bank for at least 2 years.</p> <p>c) The assets have been sold/ purchased "without recourse" only.</p> <p>d) Subsequent to the sale of the NPA, the bank does not assume any legal, operational or any other type of risk relating to the sold NPAs.</p> <p>e) The NPA has been sold at cash basis only.</p> <p>f) The bank has not purchased an NPA which it had originally sold.</p>

AUDIT OF INSURANCE COMPANIES

Important points of distinction between Life Insurance and General Insurance



S.N	PARTICULARS	CONTENT
LEGAL FRAMEWORK		
A	Applicable Laws	<p>1.The Insurance Act, 1938 as amended by the Insurance Laws (Amendment) Act, 2015 (including Insurance Rules, 1939)</p> <p>2. The Insurance Regulatory and Development Authority Act, 1999 as amended by the Insurance Laws (Amendment) Act, 2015</p> <p>3. The Insurance Regulatory and Development Authority Regulations framed under the IRDA, Act, 1999</p>

		4. The Companies Act, 2013 5. IRDA Investment Regulations, 2013 (as amended from time to time).
B	Registration	1. Section 3 of the Insurance Act, 1938 requires every insurer to obtain a certificate of registration before commencement of insurance business in India. 2. No insurer other than an Indian insurance company can commence the insurance business after the enactment of the IRDA Act, 1999.
C	Minimum Paid up Capital	1. The minimum paid-up equity share capital of an Indian insurance company carrying on insurance business should be Rs.100 crores excluding preliminary expenses incurred in the formation and registration of company.

AUDIT PROVISIONS

A	Appointment	1. General Insurance Corporation of India, and its subsidiaries and the divisions is made by the Comptroller and Auditor General of India 2. in the case of others, auditor is appointed at the AGM after ensuring that the auditor satisfies the compliance requirements with the relevant sections of the IRDAI Guidelines. 3. Currently, an auditor can conduct audit only for three insurance companies and not more than 2 life or 2 general. The Guidelines also mandate a mandatory joint audit for all insurance companies.
B	Remuneration	1. in accordance with the provisions of section 142 of the Companies Act, 2013
C	Investment Risk Management Systems and Process Audit	The IRDA vide Circular No. INV/CIR/008/2008-09 Dt. 22nd Aug, 2008 advised that the Chartered Accountants firm, which is not the Statutory or Internal or Concurrent Auditor of the concerned Insurer shall certify that the Investment Risk Management Systems and Processes are in place.

AUDIT OF LIFE INSURANCE COMPANIES (NEW SYLLABUS)

A	Type of LIC products	Refer Note 1
B	ACTUARIAL PROCESS	1. The job of actuary or actuarial department in any Life Insurance Company involves, detailed analysis of data to quantify risk. 2. Within the department fundamentals of Insurance business is determined from pricing to policy valuations techniques 3. Auditors in the Audit report are required to certify, whether the actuarial valuation of liabilities is duly certified by the appointed actuary, including to the effect that the assumptions for such valuation are in accordance with the guidelines and norms, if any, issued by the authority and/or the Actuarial Society of India in concurrence with the IRDA. 4. Auditor may discuss with the Actuaries with respect to process followed and assumptions made by him before certifying the Policy liabilities.
C	UNDERWRITING	1. The underwriter assesses the risk and determines the premium to be charged. The function of the underwriter is to acquire- or to “write” - business that will bring money to the insurance company. 2. the objective of the Audit should be to review the process of acceptance of risk through the underwriting process, and evaluate and test the effectiveness of internal controls in place to ensure timely and accurate Insurance policy, adherence to the IRDA Act and Rules and regulations made there under
D	Re-insurance	1. Reinsurance is a risk mitigating tool adopted by Insurer whereby the risk underwritten by one Insurer is transferred partially to another

		<p>Insurer</p> <p>2. objective of the audit should be to check and confirm that reinsurance premium calculation and payment is in accordance with the agreement with the reinsurer</p> <p>3. Whether provision has been made for outstanding reinsurance premium and is properly accounted for in books of accounts under respective heads</p>
E	Free Look Cancellation	<p>1. FLC is an option provided to the policyholder wherein he has a period of 15 days from the date of receipt of the policy document to review the Terms & Conditions of the policy and in case of disagreement to any of the terms & conditions, he/ she has the option to return the policy stating the reason for policy's cancellation</p> <p>2. FLC REFUND= FLC PREMIUM PAID- PROPORTIONATE RISK PREMIUM – MEDICAL CHARGES, if any, by insurer</p> <p>3. Auditor should check whether to check and confirm that FLC requests are received within 15 days from receipt of policy document by the policy holder</p> <p>4. Verify accuracy of the FLC refund processed. Confirmations can be taken from the insured.</p>
F	Policy lapse and revival	<p>1. In order to keep a life insurance policy "in force" the policy holder is required to pay premiums when due (either monthly/ quarterly/annual/bi-annual). If payment is missed, the insurer allows a period of 15/30 days from the premium due date for making the payment. This period is termed as "grace period". If the policy holder does not make the payment within the grace period, the policy gets "lapsed". Thus, a payment within the grace period is deemed to be a payment on the due date.</p> <p>2. Where the premium is not paid within the grace period, the policy lapses but may be revived during the life time of the life assured. Some insurers do not allow revival, if the policy has remained in lapsed condition for more than five years</p> <p>3. objective of the audit is to check and confirm that due dates are recorded and monitored properly and policies are marked as "lapsed" on non -receipt of renewal premium within due dates/grace period</p> <p>4. In case of revival request, whether adequate checks are in place for receipt of outstanding amounts and adequate documents are obtained before reviving the policy.</p>
G	Policy surrender	<p>1. Surrender of an insurance policy refers to the voluntary termination of the insurance contract before the expiry of the term of the contract.</p> <p>2. A policy becomes eligible for surrender on completion of 3 years from the commencement of the policy provided that 3 years premium have been paid within the due dates.</p> <p>3. Eligibility for surrender is mentioned in the policy document. The policy can be surrendered only when the insured person is alive.</p> <p>4. objective of the audit is to check and confirm that surrender requests are received from the policy holder only, and that adequate controls are in place to ensure proper verification process for checking of request, whether premiums are paid on regular basis</p>
AUDIT OF GENERAL INSURANCE COMPANIES		
A	Premium	<p>1. Internal control over issue of policy, stamp, stationery etc.</p> <p>2. Document verification- policy agreement, cover note, actuarial workings etc.</p>

		<p>3. Premium revenue recognition based upon the risk pattern established by the insurance company.</p> <p>4. Co-insurance- premium recognition as per co-insurance agreement. Premium is received by the leading co-insurer and distributed to other co-insurers.</p> <p>5. premium commission as given to the re-insurer needs to be verified as per re-insurance agreement</p> <p>6. Verifying agency commission</p> <p>7. Verify refund of premium and proportionate recovery from the agent</p> <p>8. Verify accounting and taxation aspects</p>
B	Claims Paid	<p>Risk cannot be assumed unless and until first premium is received or it is guaranteed to be received.</p> <p>1. Sanctioning of the claim</p> <p>2. Co-insurance- verify whether claim apportionment is as per co-insurance agreement</p> <p>3. Re-insurance- whether claim intimation given to re-insurer and amount recovered? If not, whether it has been reflected as amount receivable</p> <p>4. Salvage value recovered</p> <p>5. Full provision for litigated claims</p> <p>6. acknowledgment from claimant for amount received and unqualified discharge note for claims fully settled</p>
C	Re-insurance Outward	<p>It means Insurer has transferred risk to another insurer</p> <ul style="list-style-type: none"> - accuracy of the amounts re-insured, tally information received from various divisions and operating units with audited figures - cessions have been made as per guidelines applicable for various categories of risk - cessions have been made as per re-insurance agreement - whether outward remittances to foreign re-insurer made as per forex regulations - check calculation in case of automatic cessions under long-term treaty agreements - whether outstanding losses recoverable on cessions for major claims have been confirmed by re-insurer - consider any major event after balance sheet date which can affect calculations
D	Commission Paid to Insurance Agents	Vouch and verify accuracy of the amounts paid as per agreement.
E	Incoming and outgoing co-insurance	<p>Incoming co-insurance- it means auditor is auditing co-insurer who is not the leader. Auditor should verify- premium account credited based upon advice from leader, scrutinise communication received post audit period and confirm amount with leader</p> <p>Outgoing co-insurance- vice-versa i.e. auditor is auditing co-insurer who has accepted maximum risk (leading co-insurer) and invited other co-insurers to share the risk.</p>
F	Claims Provision	<p>Amount is determined by outstanding liability at year end calculated by each branch/division</p> <ul style="list-style-type: none"> - date of loss is important for provisioning and not date of communication - provision has been made only for legally enforceable claims i.e. as per the agreement - provision is not in excess of amount insured

		<ul style="list-style-type: none"> - amount should also include loss surveyor fee and other expenses related to claims - events after balance sheet date have been considered - average clause applied in case of under-insurance by the insured - in case of co-insurance, the company has made provisions only for its own share - for claims under litigation, provision is made as per legal advisor's view - claims are provided net of estimated salvage value
6	Contents of Audit Report	3. Schedule C to the Regulations lays down the matters to be dealt with by the auditor's report of an insurance company. Schedule C is applicable to insurers carrying on general insurance business as well as life insurance business

Note 1:**LIC PRODUCTS****Term / Protection:**

Term life Insurance is traditional form of Life Insurance Product. Term Insurance generally takes care of pure income replacement needs rather than Capital appreciation requirements. Term Insurance covers the policy holder for specific period and pays the death benefits only if the policy holder dies during the policy period.

Endowment/ Pure Endowment:

Endowment policies cover the risk for a specified period and at the end of the policy the sum assured is paid back to the policyholder along with all bonus accumulated during the policy term.

Money Back Plan:

Money Back policies are type of Endowment policies which provides periodic payments of partial benefits during the term of policy so long as the policy holder is alive. Peculiar nature of these policies is that, in event of death at any time during policy term, the death claim would comprise of full sum assured without deduction of any survival benefit amounts. Also, bonus is calculated on sum assured.

Whole Life Insurance Product:

It provides cover thought the life time of the person. Unlike Endowment plans they do not carry any maturity value and sum assured is paid to the family in case of unfortunate death of the policyholder.

Unit Linked Insurance Plan (ULIP):

Unit Linked Insurance Plans are such Insurance plans where the value of the policy changes as per the underlying Investment Assets. It allows protection and flexibility in Investment. The Premium paid is used for the purchase of units in Investment assets.

Pension or Retirement Plans:

A pension plan is retirement solution where policyholder decides the age retirement age and agrees to pay premium till the time of the retirement and thereafter he has option to commute the a part of his fund value and take an annuity for the balance. Pension plan provides Income protection as well as the Life Cover.

Annuities:

Annuity is a contract where Insurer in return for the payment at regular intervals till fixed date makes series of agreed payments at regular intervals from fixed date.

Group Insurance:

Group Insurance is an insurance that covers a group of people, who are the members of the societies, employees of an organisation or professionals in common group.

Note 2.**Types of Re-insurance agreement:**

- a) Facultative re-insurance- each transaction and each risk is negotiated separately
- b) Treaty re-insurance- long term arrangement such as ceding fixed percentage, geographical divisions etc.

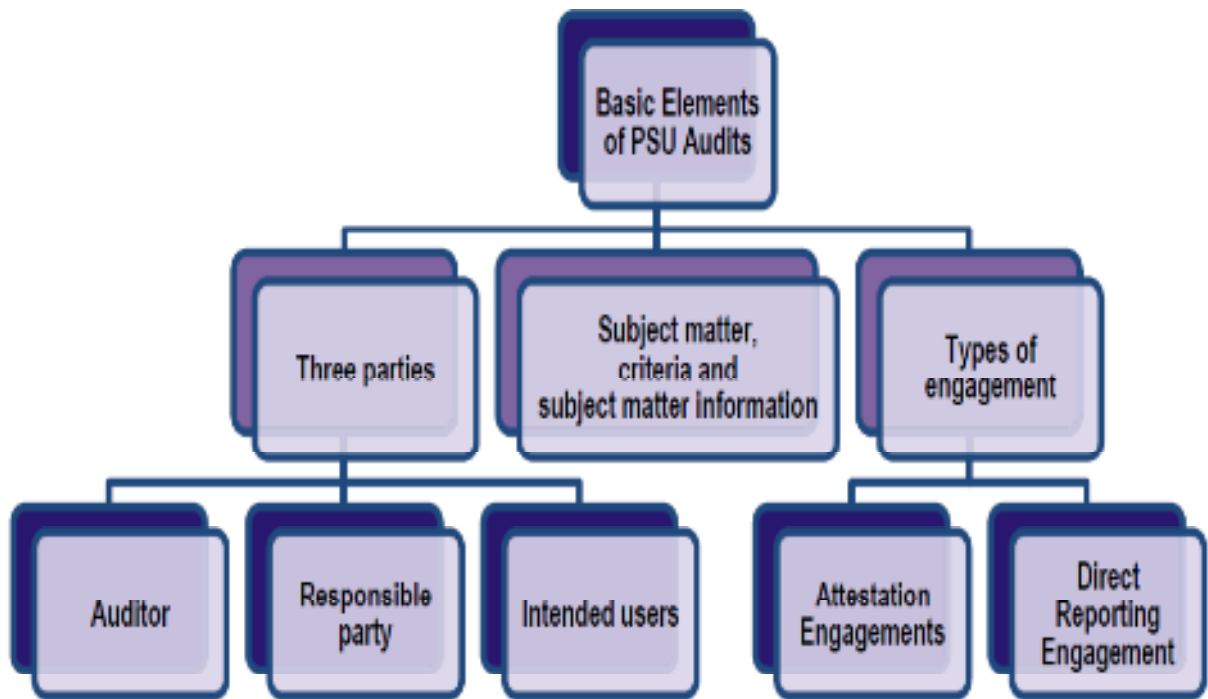
AUDIT OF PUBLIC SECTOR UNDERTAKING

S.N	Particulars	Content
1	Government Audit Framework	1. Audit of Government Company 2. Audit of Government undertakings under the authority of CAG of India done through Indian Accounts and Audit Department
A	Audit of Government Company	As per Sec 139 (5) and (7) of Companies Act, 2013.
B	Comptroller and Auditor General of India and Indian Audit and Accounts department	1. CAG derives authority from Article 148-151 of constitution of India 2. CAG also derives powers from CAG Act, 1971 3. Once appointed CAG holds office for a term of 6 years or upto age of 65 years whichever is earlier 4. Indian accounts and audit department functions under the authority of CAG of India.
C	Working of Audit Board	1. for conducting comprehensive audit appraisals of the working of Public Sector Enterprises engaged in diverse sectors of the economy. 2. These Audit Boards associate with them experts in disciplines relevant to the appraisals. 3. They discuss their findings and conclusions with the managements of the enterprises and their controlling ministries and departments of government to ascertain their view points before finalisation. 4. The results of such comprehensive appraisals are incorporated by the Comptroller and Auditor General in his reports. 5. Audit Boards have no separate legal entity and work under the supervision and control of the Comptroller and Auditor General
D	Public Accounts Committee (PAC)	1. Constituted in Parliament and every state legislative 2. Examine Accounts and Audit report submitted by CAG of India 3. Duty of PAC to examine legal disbursement of money and expenditure was done as per the authorisation. 4. Where there is evidence that a particular policy is not leading to the desired results, or is leading to waste, it is the duty of the Committee to bring it to the notice of the Parliament.
E	Committee on Public Undertakings	the same financial control on the public sector undertakings as the PAC exercises over the functioning of the Government departments.
2	Objective and Scope of Audit of PSU	
A	Financial & Compliance Audit	1. Financial audit- to express an opinion on the financial statements and comment upon material misstatements, if any. 2. Compliance audit is the independent assessment of whether a given subject matter is in compliance with the applicable authorities identified as criteria (as per rules, orders and regulations)
B	Propriety Audit	Propriety audit stands for verification of transactions on the tests of public interest, commonly accepted customs and standards of conduct.

B-i	Principles	(i) that the expenditure is not <i>prima facie</i> more than the occasion demands and that every official exercises the same degree of vigilance in respect of expenditure as a person of ordinary prudence would exercise in respect of his own money; (ii) that the authority exercises its power of sanctioning expenditure to pass an order which will not directly or indirectly accrue to its own advantage; (iii) that funds are not utilised for the benefit of a particular person or group of persons and (iv) that, apart from the agreed remuneration or reward, no other avenue is kept open to indirectly benefit the management personnel, employees and others.
B-ii	Propriety areas u/s 143(1) of Companies Act, 2013	Refer Company Audit- Duties of Auditor
B-iii	Propriety areas under CARO 2016	Clause (iii), Clause (vii), Clause (viii), Clause (ix), Clause (xi) and Clause (xiv)
C	Performance Audit	A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function.
C-i	Focus Upon	1. Economy - It is minimising the cost of resources used for an activity, having regard to appropriate quantity, quality and at the best price. 2. Efficiency - It is the input-output ratio. In the case of public spending, efficiency is achieved when the output is maximised at the minimum of inputs, or input is minimised for any given quantity and quality of output. 3. Effectiveness - It is the extent to which objectives are achieved and the relationship between the intended impact and the actual impact of an activity.
C-ii	Planning	1. Understanding the entity /programme 2. Defining the Objectives and the Scope of Audit – 3. Determining Audit Criteria- standards used to determine whether a program meets or exceeds expectations 4. Deciding Audit Approach a. Analysis of procedures b. Use of existing data c. Survey d. Analysis of results e. Quantitative analysis 5. Developing Audit Questions 6. Assessing Audit Team Skills and whether Outside Expertise required 7. Preparing Audit Design Matrix (ADM)- The ADM highlights the data collection and analysis method as well as the type and sources of evidence required to support audit opinion/findings 8. Establishing Time Table and Resources 9. Intimation of Audit Programme to Audit Entities
3	Elements of PSU Audit	
A	Three Parties	Auditor: The role of auditor is fulfilled by Supreme Audit Institution (SAI), India and by its personnel delegated with the duty of conducting audits. Responsible Party: The relevant responsibilities are

		determined by constitutional or legislative arrangement. Generally, auditable entities and those charged with governance of the auditable entities would be the responsible parties. Intended Users: Intended users are the individuals, organizations or classes thereof for whom the auditor prepares the audit report.
B	Subject Matter, Criteria and Subject Matter Information	Subject Matter: This refers to the information, condition or activity that is measured or evaluated against certain criteria. (Actual information) Criteria: These are the benchmarks used to evaluate the subject matter Subject Matter Information: This refers to the outcome of evaluating or measuring the subject matter against the criteria.
C	Types of Engagement	
C-i	Attestation Engagement	Attestation Engagements: Such Engagement where the responsible party measures subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion. <i>Financial audits are always attestation engagements, as they are based on financial information presented by the responsible party.</i>
C-ii	Direct Reporting Engagements	Direct Reporting Engagement: In such engagements, It is the auditor who measures or evaluates the subject matter against criteria. <i>Performance audits and compliance audits are generally direct reporting engagements</i>
4	Principles of PSU Audit	
A	General Principles	1. Ethics and Independence 2. Professional Skepticism and Judgment 3. Quality Control 4. Audit team management and skill 5. Audit Risk 6. Materiality 7. Documentation 8. Communication
B	Principles related to Audit Process	1. Planning the audit- establish the terms of audit, identify risks of fraud and develop an audit plan 2. Conducting audit- perform planned audit procedures and obtain audit evidence. 3. Reporting and follow-up - prepare a report based upon the conclusions and follow-up on reported matters.
5	Role of CAG in audit of Government Company- Sec 143(5), (6) & (7) of Companies Act,2013	CAG has a right to - appoint, remove and direct auditor of government company - to order test audit of a government company - within 60 days of receiving report from auditor of government company, CAG may a) order a supplementary audit of financial statements through person authorised by him b) submit his comments on audit report
6	Audit Report of the CAG of India	To facilitate a proper consideration, the reports of the C&AG on the audit of PSUs are presented to the Parliament in several parts consisting of the following:

		<p>(a) Introduction containing a general review of the working results of Government companies, deemed Government companies and corporations;</p> <p>(b) Results of comprehensive appraisals of selected undertakings conducted by the Audit Board;</p> <p>(c) Summary of the company auditors' reports submitted by them under the directions issued by the C&AG and that of comments on the accounts of the Government companies; and</p> <p>(d) Significant results of audit of the undertakings not taken up for appraisal by the Audit Board.</p>
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AUDIT OF NBFC

S. No	Particulars	Content
1	Definition	<p>Definition of NBFC: Section 45 I(f) of Reserve Bank of India (Amendment) Act, 1997 defines a non-banking financial company as:</p> <p>(i) A financial institution which is a company;</p> <p>(ii) A non-banking institution which is a company with principal business of receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner;</p> <p>(iii) Such other non-banking institution or class of such institutions, as the Reserve Bank with the previous approval of the Central Government may specify by notification in the Official Gazette</p> <p>General Criteria: Further, Financial activity as principal business also happens when a company's financial assets constitute more than 50 per cent of the total assets and income from financial assets constitute more than 50 per cent of the gross income</p> <p>Registration Under Section 45–IA of the Reserve Bank of India (Amendment) Act, 1997, no non-banking financial company is allowed to commence or carry on the business of a non-banking financial institution without obtaining a certificate of registration issued by the Reserve Bank of India.</p>
2	Types of NBFC	
A	Asset finance Company	The principal business of these companies is to finance the assets such as machines, automobiles, generators, material equipments, industrial machines etc. Principal business for this purpose is defined as aggregate of financing real/physical assets supporting economic activity and income arising therefrom is not less than 60% of its total assets and total income respectively.
B	Loan Company	The main business of such companies is to make loans and advances (not for assets but for other purposes such as working capital finance etc.)
C	Infrastructure Finance Company	A company which has net owned funds of at least ` 300 Crore and has deployed 75% of its total assets in Infrastructure loans is called IFC provided it has credit rating of A or above and has a CRAR of 15%.
D	Infrastructure Debt Fund- NBFC	IDF-NBFC is a company registered as NBFC to facilitate the flow of long term debt into infrastructure projects. IDF-NBFC raise resources through issue of Rupee or Dollar denominated bonds of minimum 5 years maturity. Only Infrastructure Finance Companies (IFC) can sponsor IDF-NBFCs.
E	Investment Company	The main business of these companies is to deal in securities
F	Core- Investment Company	A systematically important NBFC (assets ` 500 crores and above) which has deployed at least 90% of its assets in the form of investment in shares or debt instruments or loans in group companies is called CIC-ND-SI. Out of the 90%, 60% should be invested in equity shares or those instruments which can be compulsorily converted into equity shares.
G	NBFC- Micro	NBFC-MFI is a non-deposit taking NBFC which has at least

	Finance Institution	85% of its assets in the form of microfinance. Such microfinance should be in the form of loan given to those who have annual income of ` 1,00,000 in rural areas and ` 160,000 in urban or semi urban areas. Such loans should not exceed ` 1,00,000 and its tenure should not be less than 24 months. Further, the loan has to be given without collateral. Loan repayment is done on weekly, fortnightly or monthly installments at the choice of the borrower.
H	NBFC- Factors	Factoring business refers to the acquisition of receivables by way of assignment of such receivables or financing, there against either by way of loans or advances or by creation of security interest over such receivables but does not include normal lending by a bank against the security of receivables etc. NBFC-Factor is a non-deposit taking NBFC engaged in the principal business of factoring. The financial assets in the factoring business should constitute at least 50 percent of its total assets and its income derived from factoring business should not be less than 50 percent of its gross income
I	Mortgage Guarantee Companies (MGC)	MGC are financial institutions for which at least 90% of the business turnover is mortgage guarantee business or at least 90% of the gross income is from mortgage guarantee business and net owned fund is ` 100 crores
J	NBFC- Non-Operative Financial Holding Company (NOFHC):	NOFHC is financial institution through which promoter / promoter groups will be permitted to set up a new bank. It's a wholly-owned Non-Operative Financial Holding Company (NOFHC) which will hold the bank as well as all other financial services companies regulated by RBI or other financial sector regulators, to the extent permissible under the applicable regulatory prescriptions.
3	Prudential Norms	
A	Capital Requirements	Every applicable NBFC shall maintain a minimum capital ratio consisting of Tier I and Tier II capital which shall not be less than 15 percent of its aggregate risk weighted assets on-balance sheet and of risk adjusted value of off-balance sheet items. The Tier I capital in respect of applicable NBFCs (other than NBFC-MFI and IDF-NBFC), at any point of time, shall not be less than 8.5% by March 31, 2016 and 10% by March 31, 2017. Applicable NBFCs primarily engaged in lending against gold jewellery (such loans comprising 50 percent or more of their financial assets) shall maintain a minimum Tier I capital of 12 percent.
B	Income Recognition	Every NBFC shall, after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes, namely: (i) Standard assets; (ii) Sub-standard assets; (iii) Doubtful assets; and (iv) Loss assets.
C	Provisioning Requirements	Refer Note 1
4	Audit Procedures	1. Ascertaining the Business of the Company 2. Evaluation of Internal Control System 3. Registration with the RBI

		4. Compliance with NBFC Public Deposit Directions 5. Compliance with NBFC Prudential Norms Directions
5	Auditor's Duty	
6	CARO 2016 Norms	Clause (xii)- NIDHI company and clause (xvi)- Registration with RBI under RBI ACT, 1934.
7	Classification of Fraud by NBFC (RBI CIRCULAR)	(a) Misappropriation and criminal breach of trust. (b) Fraudulent encashment through forged instruments, manipulation of books of account or through fictitious accounts and conversion of property. (c) Unauthorised credit facilities extended for reward or for illegal gratification. (d) Negligence and cash shortages. (e) Cheating and forgery. (f) Irregularities in foreign exchange transactions. (g) Any other type of fraud not coming under the specific heads as above.

NPA Shall mean:

Interest has remained overdue for a period of three months or more.

Note 1 Provisioning Norms

Classification	Provision required
Sub-standard	
Doubtful	
-upto one year	
- one to three years	
- more than three years	
Loss Asset	

Standard asset

AUDIT OF MUTUAL FUNDS

S.N	Particulars	Content
1	Structure of Mutual Fund	<p>1. the Security Exchange Board of India (SEBI) regulates and supervises the mutual fund industry in India</p> <p>2. The Securities and Exchange Board of India (Mutual Fund) Regulations, 1996</p> <p>3. Association of Mutual Funds in India (AMFI): AMFI, the association of SEBI registered mutual funds in India of all the registered Asset Management Companies, was incorporated on August 22, 1995, as a non-profit organization. As of now, all the 42 Asset Management Companies that are registered with SEBI, are its members.</p>
A	Sponsor	The Sponsor(s) are those who establish the Mutual Fund Trust and the Asset Management Company (AMC). They constitute the shareholders of the AMC.
B	Asset Management Company	The AMC is a corporate entity, which floats, markets and manages a mutual fund scheme and in return receives a management fee paid from the fund corpus. Sponsor or the Trustee appoints the AMC through Investment Management.
C	Board of Trustee	The trustees of a Mutual Fund could be constituted as a 'Board of Trustees' or could be incorporated as a 'Trustee Company'. The Sponsor appoints the trustees for the mutual fund. Trusteeship fees are paid by mutual fund schemes.
2	Type of Mutual Fund Schemes	
A	By Structure	
A-i	Open Ended Schemes	This scheme allows investors to buy or sell units at any point in time. This does not have a fixed maturity date.
A-ii	Close Ended Schemes	This type of scheme has a stipulated maturity period and investors can invest only during the initial launch period known as the NFO (New Fund Offer) period
A-iii	Interval Schemes	This type of scheme operates as a combination of open and closed ended schemes. It allows investors to trade units at pre-defined intervals
B	By Investment Objective	
B-i	Growth	The objective is to provide long-term capital appreciations and invests predominantly in equity and equity related instruments.
B-ii	Income	The objective is to provide regular income. These schemes normally invest in fixed income securities, thus, providing a stable income.
B-iii	Balanced	The aim is to combine the benefits of both growth and income funds by investing in a mix of equity and debt securities thereby diversifying risks.
B-iv	Money Market	Investment objectives are to provide a highly liquid portfolio of money market instruments to provide reasonable returns and high liquidity to the unit holders. These schemes invest in money market instruments with, normally, short durations as treasury bills, certificates of deposit, commercial paper and inter-bank call money
B-v	Gilt	Investments are predominantly in securities issued by the Government, thus, having very low risks.
C	Other	

	Schemes	
C-i	Exchange Traded Scheme	An Investment fund traded on the stock exchange. ETF's hold asset such as stock, commodities, bonds, etc. and trade close to its NAV over the course of the trading day. Most ETF track an Index e.g., Nifty 50 or the price of the commodity e.g., gold and the NAV is close to these benchmarks subject to tracking errors
C-ii	Tax Saving	It is an open ended fund with lock in periods and offers rebates to investors under section 80 C of the Income tax Act. It aims to invest predominantly in equity and equity related instruments across sectors. The tax laws are based on the contributions made to any (ELSS).
C-iii	Capital Protection	Normally, they are close close-ended scheme with 3 to 5 years maturity and aim at endeavouring by investing in fixed income securities as primary objective and generate capital appreciations by investing in equity and equity related instruments. The protection of capital is not guaranteed
C-iv	Fund of Funds	It a fund, which invests in other mutual funds. This allows investors to achieve a broad diversification and an appropriate asset allocation with investments in a variety of fund categories that are all part of one fund. Return is dependent on the return of the underlying funds
C-v	Real Estate Funds	A real estate fund is a type of mutual fund that primarily focuses on investing in securities offered by public real estate companies
3	Audit Provisions	
A	Statutory Audit	<p>1. The scope of the statutory auditor is verification of the reports on the accuracy of accounting records maintained for the Fund, the AMC and the Trustee Company/ board of trustees.</p> <p>2. Under the SEBI Mutual Fund regulations, the statutory auditors of the AMC and Mutual fund schemes are to be different entities</p>
B	Statutory Auditor's Report	<p>A certificate to the effect that,—</p> <p>(i) he has obtained all information and explanations which, to the best of his knowledge and belief, were necessary for the purpose of the audit;</p> <p>(ii) the balance sheet and the revenue account give a fair and true view of the scheme, state of affairs and surplus or deficit in the Fund for the accounting period to which the Balance Sheet or, as the case may be, the Revenue Account relates;</p> <p>(iii) The statement of account has been prepared in accordance with accounting policies and standards as specified in the Ninth Schedule.</p> <p>The auditor shall give his opinion as to whether:</p> <p>(i) the Balance Sheet gives a true and fair view of the scheme wise state of affairs of the fund as at the balance sheet date, and</p> <p>(ii) The Revenue Account gives a true and fair view of the scheme wise surplus/deficit of the fund for the year/period ended at the balance sheet date.</p>
C	Information Systems Audit	<p>1. SEBI has mandated system audit for mutual funds.</p> <p>2. Under the circular, an independent CISA/CISM/DISA qualified or equivalent auditor is appointed for audit of systems and processes.</p> <p>3. Mutual Funds/ AMCs should get the above systems audit conducted once in two years. The Systems Audit Report and compliance status should be placed before the Trustees of the mutual fund</p>

D	Inspection by SEBI	<p>As per Regulation 61 of SEBI (Mutual Fund Regulations), 1996, SEBI may appoint one or more persons as inspecting officer to undertake the inspection of the books of account, records, documents and infrastructure.</p> <p>(a) to ensure that the books of account are being maintained by the mutual fund, the trustees and asset management company in the manner specified in these regulations;</p> <p>(b) to ascertain whether the provisions of the Act and these regulations are being complied with by the mutual fund, the trustees and Asset Management Company;</p> <p>(c) to ascertain whether the systems, procedures and safeguards followed by the mutual fund are adequate;</p> <p>(d) to ascertain whether the provisions of the Act or any rules or regulations made thereunder have been violated;</p> <p>(e) to investigate into the complaints received from the investors or any other person on any matter having a bearing on the activities of the mutual funds, trustees and asset management company; and</p> <p>(f) To suo motu ensure that the affairs of the mutual fund, trustees or Asset Management Company are being conducted in a manner which is in the interest of the investors or the securities market.</p>
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AUDIT OF MEMBERS OF STOCK EXCHANGE

S.N	Particulars	Content
1	Member of Stock Exchange	Brokers are registered as members of stock exchange.
2	Role of SEBI	It may be noted that since SEBI is the regulator of the securities market, the Securities Contract (Regulation) Act, 1956, through section 10, empowers SEBI to make or amend the byelaws of stock exchanges.
3	Margins	<p>In order to restrict excessive speculation and also to safeguard the interests of the investors, members are required to keep certain deposits with the stock exchange authorities. These deposits are termed 'margins'.</p> <p>The members are required to collect the margin from their clients, wherever applicable, and deposit the amount collected with the Clearing House.</p>
A	Mark-to-Market Margin	MTM margin is the notional loss, which a member or his client would incur, if the net cumulative outstanding positions in all securities were closed out at the closing price of the relevant trading day, which is different from the price at which the transaction had been entered into.
B	Volatility Margin	<p>Volatility margin is imposed to curb excessive volatility in the market and to act as a deterrent to building up of excessive outstanding positions</p> <p>The volatility margin is levied on the net outstanding positions of the member, in each security, based on the respective margin rates.</p>
C	Gross Exposure Margin	Gross exposure margin is computed on the aggregate of the net cumulative outstanding positions (purchases or sales) in each security.
4	Types of Market under NEAT	National Exchange Automated Trading
A	Normal Market	All orders which are of regular lot size or multiples thereof are traded in the normal market. For shares which are traded in the compulsory dematerialised mode the market lot of these shares is one.

B	Odd Lot Market	An order is called an odd lot order if the order size is less than regular lot size; such orders are traded in the odd-lot market. In an odd-lot market, both the price and quantity of both the orders (buy and sell) should exactly match for the trade to take place.
C	Spot Market	Spot orders are similar to the normal market orders except that spot orders have different settlement periods vis-à-vis normal market. These orders do not have any special terms or attributes attached to them.
D	Auction Market	In the auction market, auctions are initiated by the Exchange on behalf of trading members for completing the settlement process.
5	Rolling Settlement	A rolling settlement is one in which trades outstanding at the end of the day have to be settled (payments made for purchases or deliveries in the case of sale of securities) within “X” business days from the transaction date. Thus, in a T+2 rolling settlement, a transaction entered into on Monday, for instance, will be settled on Wednesday when the pay-in or pay-out takes place.
6	Circuit Filter or Circuit Breaker	Circuit Breakers or circuit filters are the price bonds that set the upper and lower limit within which a stock can fluctuate on any particular day. A price band for a day is a function of previous trading day’s closing. SEBI has directed the exchanges to apply circuit filters on scrips traded in Rolling Settlement if their price fluctuates more than prescribed % of the closing price of scrips on the previous day in any direction. Price bands restrict extreme price movements and thereby resist price manipulation
7	Audit and Accounts Provisions	
A	Statutory Audit	1. Subsequent to the corporatisation of the Members of Stock Exchanges, statutory audit is now required under the Companies Act. 2. Members may get their financial statements audited under the statute governing them. For example, a company which is a member of a stock exchange would get its accounts audited under the provisions of the Companies Act, 2013. The members of stock exchanges may also get their accounts audited under the Income Tax Act, 1961.
B	Sauda Book	details of all deals transacted by them on a day to day basis. This is also known as trade file.
C	Verification of Contract note	- signed by authorised signatory -Contract notes have been serially numbered. -Format of the Contract Note is as prescribed by the Regulations of the Exchange. - contains SEBI registration number, brokerage details
D	Audit Report	According to the form of audit report prescribed by the Government, the auditor is required to report whether the member of the stock exchange had complied with the requirements of the stock exchange insofar as they relate to maintenance of accounts and that he was regular in submitting the required accounting information to the stock exchange.

AUDIT OF DEPOSITORIES

S.N	Particulars	Content
1	Regulatory Framework	-The Depositories Act, 1996 -The SEBI (Depositories and Participants) Regulations, 1996 -Bye-laws of Depository -Business Rules of Depository.
2	Records to be maintained	Depositories are required to maintain the following records and documents, namely: (a) records of securities dematerialised and rematerialised; (b) the names of the transferor, transferee, and the dates of transfer of securities; (c) a register and an index of beneficial owners; (d) details of the holding of the securities of beneficial owners as at end of each year. (e) records of instructions received from and sent to participants, issuers, issuers' agents and beneficial owners; (f) records of approval, notice, entry and cancellation or pledge or hypothecation, as the case may be; (g) details of participants; (h) details of securities declared to be eligible for dematerialisation in the depository; and (i) such other records as may be specified by the Board for carrying on the activities as a depository.
3	SEBI INSPECTION	(a) to ensure that the books of account are being maintained by the depository, participant, issuer or its agent in the manner specified in these regulations; (b) to look into the complaints received from the depositories, participants, issuers, issuers' agents, beneficial owners or any other person; (c) to ascertain whether the provisions of the Act, the Depositories, the bye-laws, agreements and these regulations are being complied with by the depository, participant, beneficial owners, issuer or its agent; (d) to ascertain whether the systems, procedures and safeguards being followed by a depository, participant, beneficial owners, issuer or its agent are adequate; (e) to <i>suo motu</i> ensure that the affairs of a depository, participant, beneficial owner, issuer or its agent, are being conducted in a manner which are in the interest of the investors or the securities market.
4	Inspection Report	Contents and Format of Inspection Report, Inspection report should be divided in 4 parts: 1. Executive Summary 2. Observations 3. Checklist 4. Annexure
5	Auditor and its powers	It is also provided that the auditor so appointed shall have the same powers of the inspecting or investigating officer.

AUDIT OF ACCOUNTS OF NON-CORPORATE BORROWERS OF THE BANK

S.N	Particulars	Content
1	Requirement	The Reserve Bank of India (RBI), keeping in view the need for bringing discipline in the matter of maintenance of accounts by non-corporate entities, has issued a circular dated 12 th April, 1985 to all Banks recommending audit of accounts of all non-corporate borrowers enjoying working capital limits of ₹ 10 lacs and above from the banking system
2	Special Audit Report	A lending bank may, in special cases, require the non-corporate entity to obtain a special report from the auditor. Such a report can be called by a lending bank if it finds that it is necessary to have more information about the working of the entity. In such a case the report will have to be given by the auditor on a quarterly basis.

AUDIT OF STOCK AND DEBTORS (AUDIT OF BORROWER ACCOUNTS)

S.N	Particulars	Content
1	Requirement	Review, Monitoring and Supervision of advances of all borrowal accounts include Unit Inspection inter alia consisting of audit of stock and debtors. This audit is carried out either by Concurrent Auditors or by empanelled external auditors. The scope of audit, the percentage verification as well as format of reporting are prescribed by the Banks.
2	Audit process	<ol style="list-style-type: none"> 1. Preparation for inspection 2. Information to be collected at the time of visit to the borrower – about go-down, stock; manufacturing and related records, book debts etc. 3. Check drawing power calculations Drawing power calculations = Value of Stock + Value of Debtors - Unpaid Stock – Stock under LC – Stock under Bills - Stock under packing credit - Obsolete/non-saleable stock - Unrelated stock/old stock - margin 4. Evaluate the findings of inspection of stock and debtors 5. report will have to be given in the format prescribed by the bank

ENVIRONMENTAL AUDITING

1. **Framework:** The Regulatory Authorities like Ministry of Environment and Forest (MOEF), State Pollution Control Board (SPCB), State Department of Environment (SDOEn.) etc., have come into play to clear the projects from environmental viewpoint before it's commissioning. The Environmental Impact Assessment (EAI) is a pre-requisite to start an industry

2. Environmental audit process:












<u>Stage 1:</u>	<u>Stage 2:</u>	<u>Stage 3:</u>	<u>Stage 4:</u>
Pre-audit or Planning Stage	On-site or Field Audit	Post – Audit	Follow up or Review Stage
<ul style="list-style-type: none"> • Collect Background Information • Define Objectives • Define Scope • Select audit criteria • Select audit team members • Develop audit plan or use protocol • Inform the facility • Review the background information 	<ul style="list-style-type: none"> • Opening conference • Identify areas of concern • Site/facility inspection • Records/document review • Staff interviews • Initial review of findings • Closing/exit conference 	<ul style="list-style-type: none"> • Final evaluation of findings • Submit preliminary report • Get approval of management • Hold exit conference • Submit final report 	<ul style="list-style-type: none"> • Verify the actions taken on audit findings or recommendations

ENERGY AUDIT

1. As per the Energy Conservation Act, 2001, Energy Audit is defined as “the verification, monitoring and analysis of use of energy including submission of technical report containing recommendations for improving energy efficiency with cost benefit analysis and an action plan to reduce energy consumption”.
2. Functions of Energy Auditor:
 1. Quantify energy costs and consumption
 2. Highlight areas requiring detailed investigation
 3. Recommendations for improving energy efficiency
3. Preliminary Energy audit:
 - Establish energy consumption in the organization
 - Estimate the scope for saving
 - Identify the most likely (and the easiest areas for attention)
 - Identify immediate (especially no-/low-cost) improvements/ savings

- Set a 'reference point'
- Identify areas for more detailed study/measurement
- Preliminary energy audit uses existing, or easily obtained data

4. Detailed energy audit:

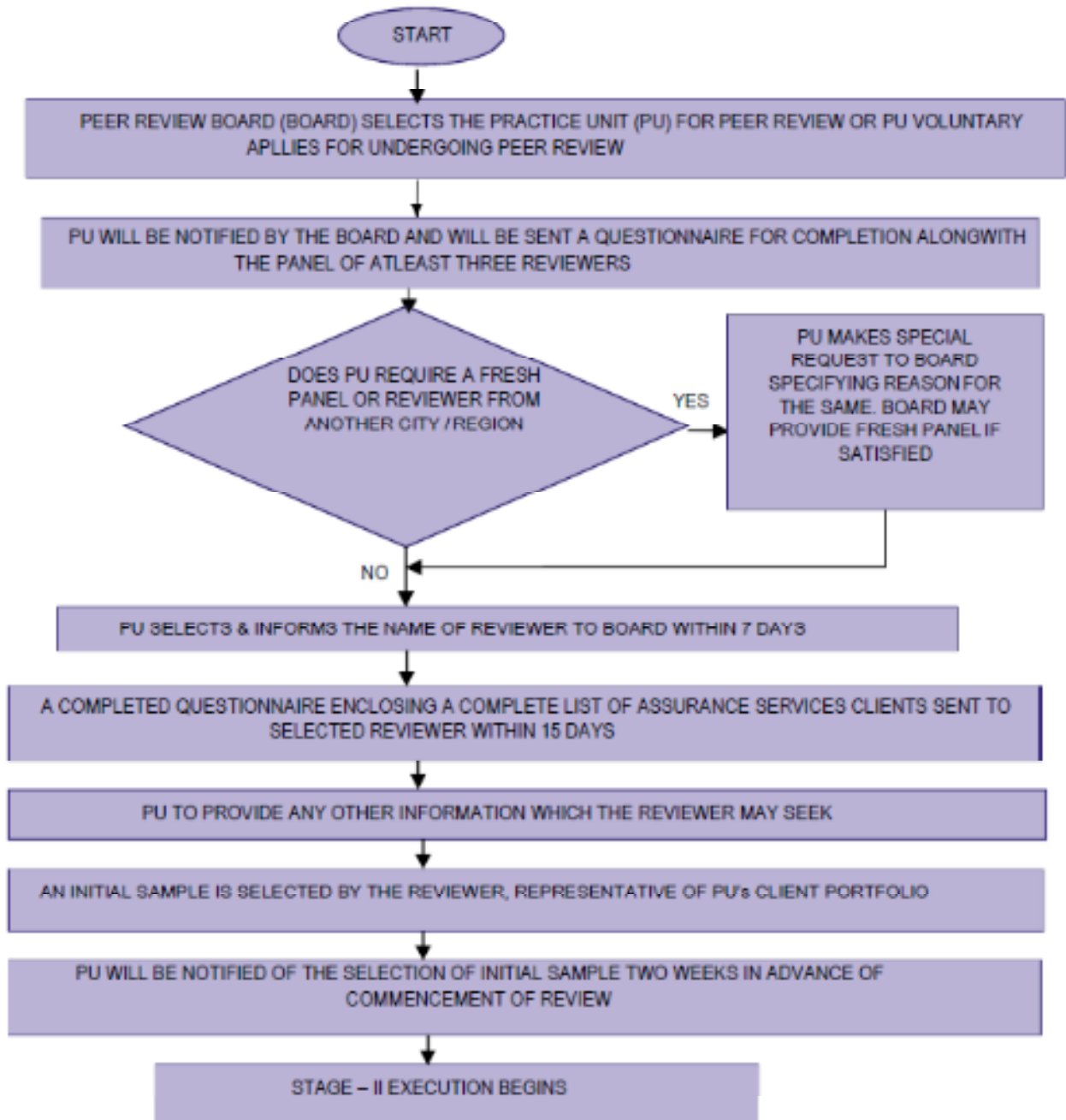
Step 1	Step 2	Step 3
Pre-audit phase:	Audit phase:	Post audit phase:
<ul style="list-style-type: none">  Plan and organise  Walk through audit  Informal interview with plant personnel 	<ul style="list-style-type: none">  Primary data collection  Conduct survey and monitoring  Conduct detailed trials and experiments  Analysis of energy use  Identification and development of energy conservation opportunities  Cost benefit analysis  Report preparation and presentation to the plant personnel and management 	<ul style="list-style-type: none">  Implementation and follow-ups

PEER REVIEW:		
S.N	Particulars	Content
1	Framework	“Peer Review” means an examination and review of the systems and procedures to determine whether they have been put in place by the practice unit for ensuring the quality of assurance services.
2	Objective	To check whether members of the institute while carrying out assurance services a. Comply with Technical, ethical and professional standards as applicable including other regulatory requirements b. have in place proper systems including documentation thereof to demonstrate quality of assurance services Thus, the primary objective of peer review is not to find out deficiencies but to improve the quality of services rendered by members of the profession.
3	Scope	The Review shall cover: (i) Compliance with Technical, Professional and Ethical Standards (ii) Quality of reporting. (iii) Systems and procedures for carrying out assurance services. (iv) Training programmes for staff (including articled and audit assistants) concerned with assurance functions, including availability of appropriate infrastructure. (v) Compliance with council guidelines
4	Applicability	The Periodicity of Peer Review will be: a. Level - I Practice Units – Once in 3 years b. Level - II Practice Units – Once in 4 years c. Level - III Practice Units – Once in 5 Years However, if the Board so decides or otherwise at the request of the Practice Unit, the Peer Review for a Practice Unit can be conducted at shorter intervals. Further, CA firm should hold a valid peer review certificate to be an auditor of listed companies
5	Eligibility to be a reviewer	A peer reviewer shall be a member 1. with at least 10 years of experience in practice as per CA ACT, 1949 2. undergone requisite training as prescribed by the board 3. furnish a declaration as prescribed by the board (including declaration of confidentiality and no conflict of interest) 4. should have conducted audit of level I entities for atleast 7 years to be eligible to conduct peer review of level I entities. 5. should not have disciplinary proceeding pending against him
6	Peer Review Process	
A	Selection and appointment of reviewer	(i) Notification to the Practice Unit: A Practice Unit which has been selected for a Peer Review shall be notified by the Board.

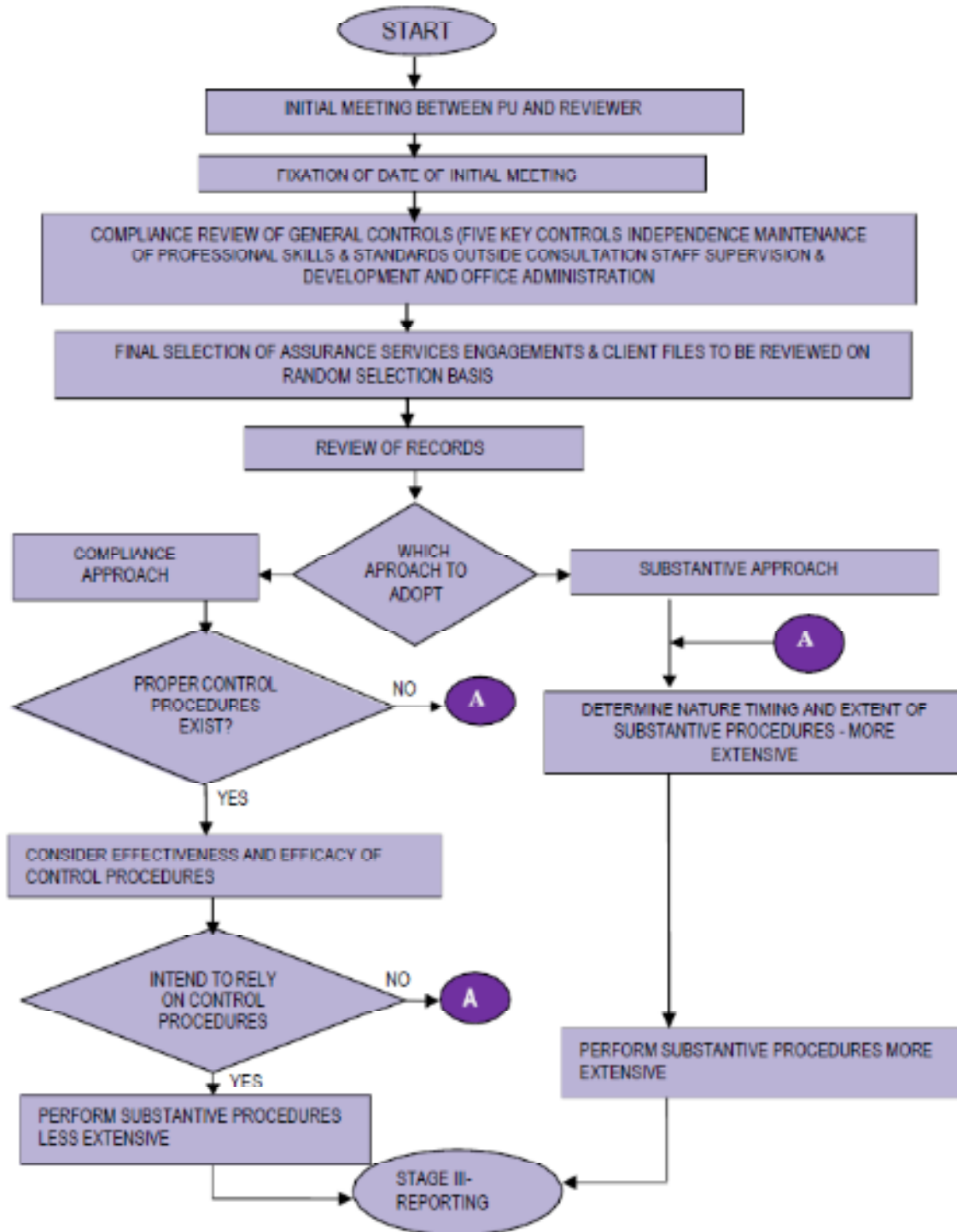
		<p>(ii) Name of three Reviewers shall be recommended by the Board to the Practice Unit so selected.</p> <p>(iii) The Practice Unit shall select one out of the three Reviewers & intimate to the Board within seven days of receipt of the names.</p> <p>(iv) The Board shall intimate the Reviewer so selected and seek his consent within seven days.</p>
B	Planning	<p>1. Information to be furnished by the practice unit to the reviewer within 15 days of Reviewer's consent-questionnaire sent by the board, complete list of assurance service clients indicating nature of services, note on the policies and procedures</p> <p>2. Selection of Sample by the reviewer based upon nature of services, practising unit methodology and client's served by the practice unit.</p>
C	Execution	<p>1. Peer Review visits will be conducted at the Practice Unit's head office or /and branch (es) or any other locations. This on-site Review should not extend beyond seven working days.</p> <p>2. The Reviewer is required to adopt a combination of compliance approach and substantive approach in the Review process</p>
D	Reporting	<p>Review report shall include the following:</p> <ul style="list-style-type: none"> a. Independence b. Maintenance of professional skills and standards c. Outside consultation d. Staff recruitment, supervision and development e. office administration <p>(i) Discussion/Communication of Findings</p> <p>(ii) Peer Review Report of Reviewer</p> <p>In case of a modified report, The Board shall order for a "Follow On" Review after a period of one year from the date of issue of report. If the Board so decides, the period of one year may be reduced but shall not be less than six months from the date of issue of the report.</p>

Peer Review process:

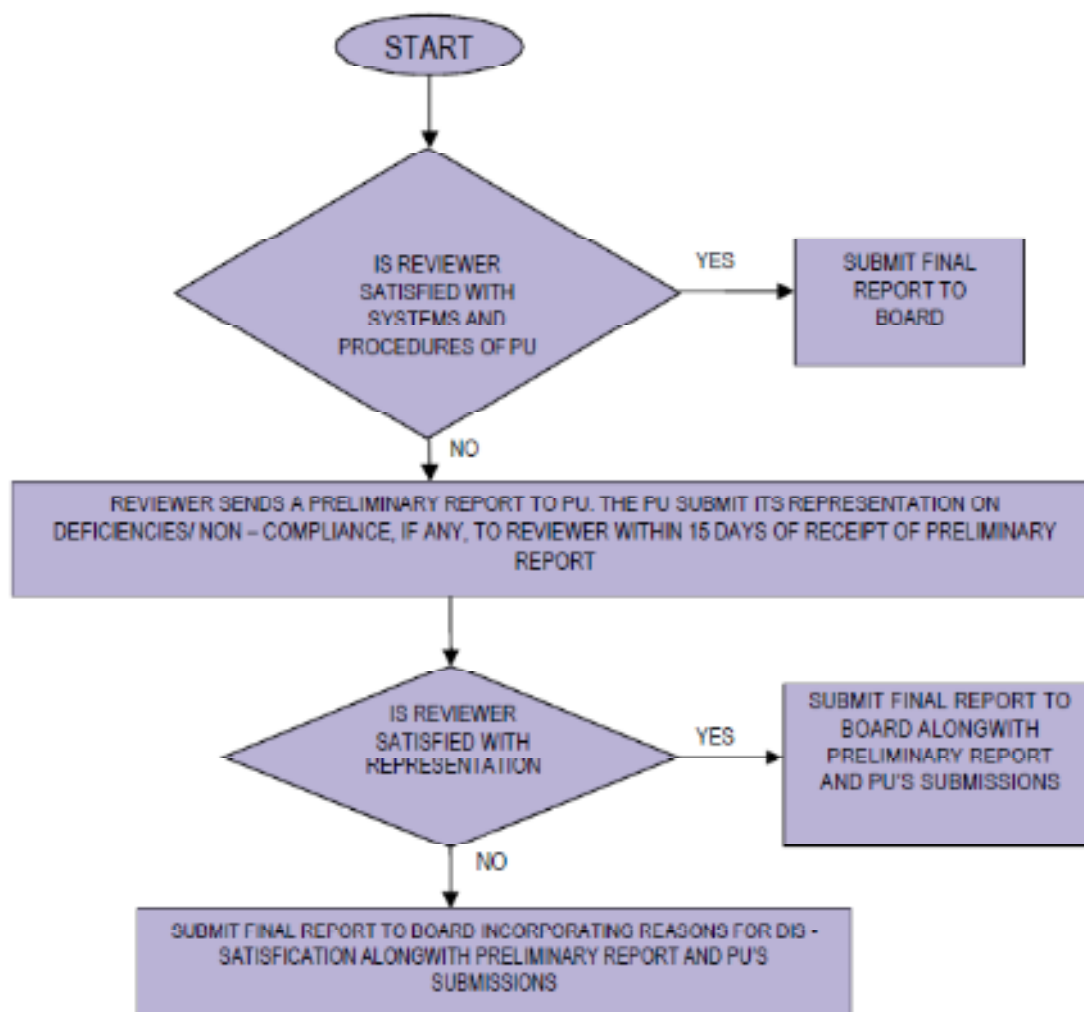
Stage-I: Planning



Stage- II: Execution



Stage- III: Reporting



QUALITY REVIEW		
S.N	Particulars	Content
1	Framework	1. Quality review is directed towards evaluation of audit quality and adherence to various statutory and other regulatory requirements 2. It is done under the authority of Quality Review Board 3. It is not the purpose of a review, however, to review all of a firm's audits or to identify every aspect in which a reviewed audit is deficient. Accordingly, a review should not be understood to provide any assurance that the firm's audits, or its clients' financial statements or reporting thereon, are free of any deficiencies.
2	Quality Review board & their powers	1. The Quality Review Board (hereinafter "QRB"/ "the Board") has been set up by the Central Government under section 28A of the Chartered Accountants Act, 1949. 2. the Board comprises of a Chairperson and ten

		<p>other members having experience in the field of law, economics, business, finance or accountancy</p> <p>3. five members of the Board shall be nominated by the Central Government and other five members shall be nominated by the Council of the Institute of Chartered Accountants of India</p> <p>4. Powers of QRB are</p> <ul style="list-style-type: none"> - on its own or with assistance of the ICAI evaluate and review the quality of the audit work - lay down the procedure for evaluation criteria i.e. set the benchmarks for evaluating quality of the services - call for information from the ICAI, Council or its Committees, Members, Clients of Members etc. - make recommendations to the council to guide the members
3	Selection of Audit firms	<p>Basis for Selection:</p> <p>A. Selection of Audit Firm based on the Financial Statements of the Enterprise/s Audited by the latter: Under this category, in the initial stage, the audited accounts of companies having wider public interest, such as listed companies, insurance companies, NBFCs, unlisted public sector undertakings, asset management companies may be selected by QRB</p> <p>B. Criteria based on Audit Firms Auditing the Accounts: Selection of audit firms may also be made for review of their work on random basis, the volume of work handled by them represented by the number and nature of clients, their involvement in sectors that may be identified as facing high risk, as well as on account of their reported involvement in fraud or likelihood of fraud. Audit firms auditing large as well as mid-cap/small cap companies may be selected for the purpose.</p>
4	Quality Review Process	<ol style="list-style-type: none"> 1. Selection of Audit Firm and Technical Reviewer to conduct Quality Review and sending Offer Letter of Engagement to the Technical Reviewer. 2. Intimation to the Audit Firm about the proposed Quality Review and acceptance of the assignment by the Technical Reviewer. Also marking a copy of the intimation to the Technical Reviewer. 3. Technical Reviewer to carry out the Quality Review by visiting the office of the Audit Firm by fixing the date as per mutual consent. 4. Audit firm to submit representation on the preliminary report to the Technical Reviewer.
5	Objective of technical review	<p>As per the Reporting Guidelines issued by the Board, the technical reviewer is required to examine the procedures and implementation thereof in the Audit firm under review (AFUR) for ensuring:</p> <p>(a) compliance with the applicable technical standards in India, other applicable professional and ethical</p>

		<p>standards and relevant laws and regulations;</p> <p>(b) implementation of a system of quality control with reference to the applicable quality control standards;</p> <p>(c) consideration of SA 240, “The Auditors’ Responsibilities relating to Fraud in an Audit of Financial Statements” issued by The Institute of Chartered Accountants of India (ICAI); and</p> <p>(d) whether there is no material misstatement of assets and liabilities as at the reporting date in respect of the Company/entity audited by the AFUR.</p>
6	Empanelment of technical reviewers	<p>Board decided the following criteria for empanelment of technical reviewers with the board</p> <ol style="list-style-type: none"> 1. minimum 15 years of post qualification experience as a CA and currently active in practice of accounting and auditing 2. should have handled as a signing partner/proprietor at least three statutory audit assignments as a Central Statutory Auditor of Banks/Public Limited Companies/Government Companies/Private Limited Companies having annual turnover of rupees fifty crores and above during the last ten financial years. Provided that out of the aforesaid three statutory audit assignments, at least one must be in respect of entities other than Private Limited Companies. 3. should not have any disciplinary proceeding under the Chartered Accountants Act, 1949 4. should not currently be a Member of the QRB or ICAI’s Central Council/Regional Council/Branch level Management Committee.
7	Quality review approach	<ol style="list-style-type: none"> 1. Reviewer could undertake a maximum of one on-site visit to the Statutory Audit firm which shall not extend beyond seven days or, in exceptional circumstances, such other extended period, for specific reasons to be recorded in writing, with the prior approval of the Chairperson, Quality Review Board, which shall not, in any case, extend beyond fourteen days 2. should ensure that all information, papers, materials, documents etc. relating to the company/audit firm, as selected and assigned to them are kept confidential 3. The Technical reviewer should evaluate the findings of quality review and the responses given by the engagement team based on the facts and circumstances that existed at the time when the AFUR issued the audit opinion. 4. The reviewer, after completion of his review, is required to submit a preliminary report to the audit firm on the review of the quality of audit and reporting by the auditors in the general purpose financial statements within the specified period of time before submitting the final report to the Board

		<p>5. a reviewer may qualify the report due to one or more of the following:</p> <ul style="list-style-type: none"> - non-compliance with technical standards; - non-compliance with relevant laws and regulations; - quality control system design deficiency;
8	Basic Elements of Reviewer's report	<p>a) Elements relating to audit quality of companies- assignment specific comments</p> <p>b) Elements relating to quality control framework adopted by the audit firm in conduct audit- system of quality control implemented by the firm, firm's policies and procedures.</p>

Basic Elements of the Reviewer's Report

The report should contain:

(a) Elements relating to audit quality of companies:

- (i) A reference to the description of the scope of the review and the period of review of audit firm conducted along with existence of limitation(s), if any, on the review conducted with reference to the scope as envisaged.
- (ii) A statement indicating the instances of lack of compliance with technical standards and other professional and ethical standards.
- (iii) A statement indicating the instances of lack of compliance with relevant laws and regulations.

(b) Elements relating to quality control framework adopted by the audit firm in conducting audit:

- (i) An indication of whether the firm has implemented a system of quality control with reference to the quality control standards.
- (ii) A statement indicating that the system of quality control is the responsibility of the reviewed firm.
- (iii) An opinion on whether reviewed firm's system of quality control has been designed to meet the requirements of the quality control standards for attestation services and whether it was complied with during the period reviewed to provide the reviewer with reasonable assurance of complying with technical standards in all material respects.
- (iv) Where the reviewer concludes that a modification in the report is necessary, a description of the reasons for modification. The report of the reviewer should also contain the suggestions.
- (v) A reference to the preliminary report.
- (vi) An attachment which describes the quality review conducted including an overview and information on planning and performing the review.

INVESTIGATION		
S.N	Particulars	Content
1	Meaning	It requires special in-depth examination of the particular records or transaction with the objective of establishing a part or happening or assessing a particular situation. The scope of audit is broad based and general in nature whereas investigation is narrow and specific.
2	Audit vs Investigation	Refer Note 1
3	Steps in Investigation	
A	Determination of objectives and establishment of scope of investigation	<ol style="list-style-type: none"> 1. Absolutely clear about what is sought to be achieved by the investigation. 2. The period which the investigation should cover should be clearly specified. 3. Obtain clearly written instructions covering the object and the scope of investigations.
B	Formulation of the investigation programme	Programme should be drawn up having regard to the nature of the business, the structure of business, the instructions from the client embodying the objectives, the consequent scope and depth and the necessity to extend the investigation into books and records
C	Collection of Evidence	<ol style="list-style-type: none"> 1. obtain oral explanations from various personnel of the concerned business 2. In case his client is a person external to the business (investigation by bank, CG etc), it may be necessary for the investigator to get the matter formally agreed to by the business through the client.
D	Analysis and Interpretation of Findings	Correlation of facts and figures will be necessary before the investigator can reach his conclusion. The conclusion should be well reasoned and backed by established facts and data.
E	Reporting of findings	<ol style="list-style-type: none"> 1. addressed to the party at whose instance the investigation has been carried out 2. nature of the report is governed mainly by two factors: <ol style="list-style-type: none"> a. instructions given by the client b. findings of the investigating accountant
4	Types of Investigation	Refer Note 2
A	Statutory	
A-i	Investigation into the affairs of a company as envisaged under Section 210	1. Where the Central Government is of the opinion, that it is necessary to investigate into the affairs of a company- on report from registrar/inspector, special resolution passed by the company or in public interest.

A-ii	Investigation into the affairs of a company by Serious Fraud Investigation Office under Section 212	1. The Central Government may, by an order, assign the investigation, into the affairs of the company, to the Serious Fraud Investigation Office, when it considers necessary to investigate into the affairs of the company.
A-iii	Investigation into the affairs of a company in other cases as provided under Section 213	The Tribunal may order investigation into affairs of the company, on an application received by specified number of members and supported by such evidence; or on an application made to it by any other person or otherwise.
A-iv	INVESTIGATION OF OWNERSHIP OF A COMPANY	According to Section 216 of the Companies Act, 2013, where it appears to the Central Government that there is a reason so to do, it may appoint one or more inspectors to investigate and report on matters relating to the company, and its membership for the purpose of determining the true persons, who are or have been financially interested in the success or failure, whether real or apparent, of the company; or who are or have been able to control or to materially influence the policy of the company.
B	Non- Statutory	Refer Illustrative Questions in JKSC textbook.

Note 1 – Audit vs Investigation

Basis of Difference	Investigation	Audit
(i) Objective	An investigation aims at establishing a fact or a happening or at assessing al particular situation.	The main objective of an audit is to verify whether the financial statements display a true and fair view of the state of affairs and the working results of an entity.
(ii) Scope	The scope of investigation may be governed by statute or it may be non- statutory.	The scope of audit is wide and in case of statutory audit the scope of work is determined by the provisions of relevant law.
(iii) Periodicity	The work is not limited by rigid time frame. It may cover several years, as the outcome of the same is not certain.	The audit is carried on either quarterly, half-yearly or yearly.
(iv) Nature	Requires a detailed study and examination of facts and figures.	Involves tests checking or sample technique to draw evidences for forming a judgement and expression of opinion.
(v) Inherent Limitations	No inherent limitation owing to its nature of engagement.	Audit suffers from inherent limitation.
(vi) Evidence	It seeks conclusive evidence.	Audit is mainly concerned with prima- facie evidence.
(vii) Observance of Accounting Principles	It is analytical in nature and requires a thorough mind, capable of observing, collecting and evaluating facts.	Is governed by compliance with generally accepted accounting principles, audit procedures and disclosure requirements.
(viii) Reporting	The outcome is reported to the person(s) on whose behalf investigation is carried out.	The outcome is reported to the owners of the business entity.

DUE DILIGENCE

S.N	Particulars	Content						
1	Meaning and application	<p>1. Due diligence is a process of investigation, performed by investors, into the details of a potential investment such as an examination of operations and management and the verification of material facts</p> <p>2. Due diligence involves an analysis carried out before acquiring a controlling interest in a company to determine that the conditions of the business conform with what has been presented about the target business. Also due diligence can apply to recommendation for an investment or advancing a loan/credit</p>						
2	Difference between due diligence and audit	Due diligence aims to take the care that a reasonable person should take before entering into an agreement or a transaction with another party whereas audit is expressing an opinion on historical financial information and its presentation in the financial statements.						
3	Importance	<p>-To confirm that the business is what it appears to be;</p> <p>-To identify potential 'deal killer' defects in the target and avoid a bad business transaction;</p> <p>-To gain information that will be useful for valuing assets, defining representations and warranties, and/or negotiating price concessions; and</p> <p>-To verify that the transaction complies with investment or acquisition criteria.</p>						
4	Areas of due diligence	<table border="1"> <tr> <td>Commercial or Operational Due Diligence</td> </tr> <tr> <td>Financial Due Diligence</td> </tr> <tr> <td>Tax Due Diligence</td> </tr> <tr> <td>Legal Due Diligence</td> </tr> <tr> <td>Environmental Due Diligence</td> </tr> <tr> <td>Personnel Due Diligence</td> </tr> </table>	Commercial or Operational Due Diligence	Financial Due Diligence	Tax Due Diligence	Legal Due Diligence	Environmental Due Diligence	Personnel Due Diligence
Commercial or Operational Due Diligence								
Financial Due Diligence								
Tax Due Diligence								
Legal Due Diligence								
Environmental Due Diligence								
Personnel Due Diligence								
5	Conducting Due diligence	<p>Refer Note 1</p> <ol style="list-style-type: none"> to identify trouble spots and ask for explanations Get the best team of people Get help in all areas like finance, tax accounting, legal, marketing, technology, and any others relevant to the assignment Take a risk management approach Talk to customers, suppliers, business partners, and employees are great resources Prepare a comprehensive report detailing the compliances and substantive risks/issues 						

FORENSIC AUDIT

S.N	Particulars	Content
1	Forensic Accounting	Forensic Accounting: The integration of accounting, auditing and investigative skills yields the specialty known as Forensic Accounting. It is the study and interpretation of accounting evidence. It is the application of accounting methods to the tracking and collection of forensic evidence, usually for investigation and prosecution of criminal acts such as embezzlement or fraud. Forensic Accounting can sometimes be referred to as Forensic Auditing.
2.	Process of Forensic Accounting	
A	Initialization	Remove all doubts as to the real motive, purpose and utility of the assignment. It is helpful to meet the client to obtain an understanding of the important facts, players and issues at hand. A Conflict check should be carried out as soon as the relevant parties are established. It is often useful to carry out a preliminary investigation prior to the development of a detailed plan of action. This will allow subsequent planning to be based upon a more complete understanding of the issues.
B	Develop the plan	Knowledge gained by meeting with the client and carrying out the initial investigation and will set out the objectives to be achieved and the methodology to be utilized to accomplish them.
C	Obtain relevant evidence	This may involve locating documents, economic information, assets, a person or company, another expert or proof of the occurrence of an event. In order to gather detailed evidence, the investigator must understand the specific type of fraud that has been carried out, and how the fraud has been committed
D	Perform analysis	It will involve: - calculating economic damages - summarizing a large number of transactions - utilizing a computerized application such as a spread sheet, data base or computer model
E	Reporting	Auditors will include information detailing the fraudulent activity, if any has been found. The client will expect a report containing the findings of the investigation, including a

		summary of evidence and a conclusion as to the amount of loss suffered as a result of the fraud. The report may include sections on the nature of the assignment, scope of the investigation, approach utilized, limitations of scope and findings and/or opinions.
F	Court proceedings	Likely to lead to legal proceedings against the suspect, and members of the investigative team will probably be involved in any resultant court case. The evidence gathered during the investigation will need to be presented at court, and team members may be called to court to describe the evidence they have gathered and to explain how the suspect was identified
3	Forensic Audit Techniques	
I	General Audit Techniques	Refer Module
II	II Statistical and Mathematical Techniques	
III	III Technology based /Digital Forensics Techniques	
IV	IV Computer Assisted Audit techniques	
V	V Generalised Audit Software (GAS)	
VI	VI Common Software tool (CST)	
VII	VII Data mining techniques	
VIII	VIII Laboratory analysis physical and evidences.	
4	Forensic Audit Report	
A	A Executive Summary	Refer Module
B	B Risk Analysis	
C	C Audit process	
D	D Evidence of Risk Events	
E	E Audit Recommendations	
F	F Governance on Recommendation implementation	
G	G Annexure	
5	Difference between other audits and forensic audit	Refer Module

INTERNAL AUDIT

S.N	Particulars	Content
1	Meaning	As defined in scope of the Standards on Internal Audit, Internal Audit means “an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto.”
2	Sec 138 of Companies Act, 2013	
A	Eligibility	Either be a chartered accountant or a cost accountant (whether engaged in practice or not), or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the companies. The internal auditor may or may not be an employee of the company.
B	Applicability	Refer note 1
3	Scope	<p>1. Scope of Internal Audit depends upon discussion with the management because:</p> <p>a. Sec 138 is silent on rights, duties and coverage of Internal Audit</p> <p>b. Standards on Internal Audit (SIA) issued by the ICAI are recommendatory and not mandatory in nature.</p> <p>2. Scope Generally includes the following:</p> <p>a. Review of internal control System and procedures</p> <p>b. Review of custodianship and safeguarding the assets</p> <p>c. Review of compliance with policies, plans, procedures and regulations</p> <p>d. Review of relevance and reliability of information</p> <p>e. Review of organisation structure</p> <p>f. Review of utilisation of resources</p> <p>g. Review of achievement of goals and objectives</p>
4	Independence	<p>Internal auditor is relatively less independent than statutory auditor because:</p> <p>1. Internal auditor is appointed by management</p> <p>2. Scope is decided by the management</p> <p>3. Internal auditor reports to the management</p> <p>4. Internal auditor can also be an employee of the company</p>
5	Internal Audit Report	Refer note 2
6	Relationship with External Auditor	Refer Note 3
7	SA 610	Refer SA notes

Note 1 – Applicability of Internal audit – Sec 138

(a) every listed company:	
(b) every unlisted public company having –	(iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
(i) paid up share capital of fifty crore rupees or more during the preceding financial year; or	(iv) outstanding deposits of twenty five crore rupees or more at any point at time during the preceding financial year; and
(ii) turnover of two hundred crore rupees or more during the preceding financial year; or	
(c) every private company having –	(ii) Outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year.
(i) turnover of two hundred crore rupees or more during the preceding financial year; or	

Note 2 – Audit Report Format

- (a) Title;
- (b) Addressee;
- (c) Report Distribution List;
- (d) Period of coverage of the Report;
- (e) Opening or introductory paragraph;
 - (i) Identification of the processes/functions and items or financial statements audited; and
 - (ii) A statement of the responsibility of the entity's management and the responsibility of the internal auditor;
- (f) Objectives paragraph – statement of the objectives and scope of the internal audit engagement;
- (g) Scope paragraph (describing the nature of an internal audit):
 - (i) a reference to the generally accepted audit procedures in India, as applicable;
 - (ii) a description of the engagement background and the methodology of the internal audit together with procedures performed by the internal auditor; and
 - (iii) a description of the population and the sampling technique used.
- (h) Executive Summary, highlighting the key material issues, observations, control weaknesses and exceptions;
 - (i) Observations, findings and recommendations made by the internal auditor;
 - (j) Comments from the local management;
- (k) Action Taken Report – Action taken / not taken pursuant to the observations made in the previous internal audit reports;
- (l) Date of the report;
- (m) Place of signature; and
- (n) Internal auditor's signature with Membership Number.

Note 3 – Relationship with External Auditor

BASIS FOR COMPARISON	INTERNAL AUDIT	EXTERNAL AUDIT
1. Meaning	It refers to an on-going audit function performed within an organization by a separate internal auditing department.	It is an audit function performed by the independent body which is not a part of the organization.
2. Examination	Internal auditor examines the Operational efficiency of the organisation.	External auditor examines the Accuracy and Validity of Financial Statements.
3. Appointment	Internal auditor is appointed by the Management.	External auditor is appointed by the Members.
4. Users of Report	User of Internal audit report is the Management.	User of external audit report is Stakeholders.
5. Period	Internal audit is a Continuous Process throughout the year.	External audit is done once in a year.
6. Opinion	Opinion is provided on the effectiveness of the operational activities of the organization.	Opinion is provided on the truthfulness and fairness of the financial statement of the company.
7. Status of Auditor	Internal auditor is employee of the company, thus, less independent.	External auditor is an independent person

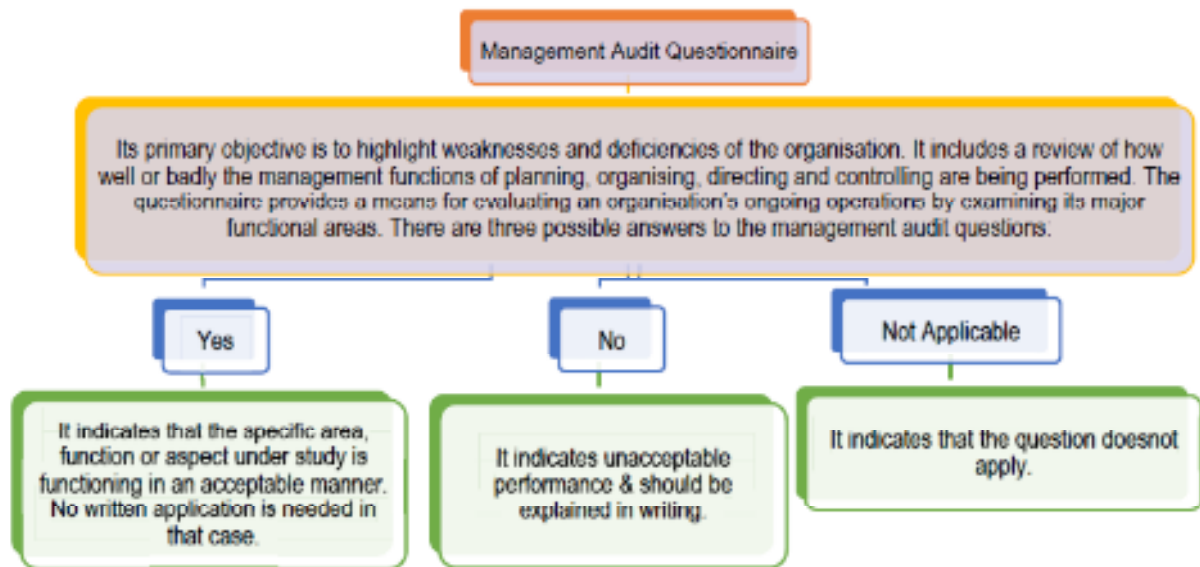
MANAGEMENT AUDIT

S.N	Particulars	Content
1	Meaning	Management audit is an “audit of the management” also. The scope and content of management audit. It should cover everything that we know as operational audit and, in addition it should also include review of the adequacy and competence of the objectives, plans, policies and decisions of the top management
2	Classification of Management audit report	Reports may be divided into four main categories: 1. Reports prepared by the management audit staff after their visits to a unit. 2. Periodical reports prepared by senior members of management audit department which summarise the main audit findings and recommendations for the period under consideration and which afford a concise review of the department’s activities for that period. 3. Reports on the results of special investigations and inquiries. 4. An annual audit report.
3	Planning	1. Devising Statement of policy- scope discussion in consultation with top management 2. Location of audit personnel within the organisation- Management audit function should be independent. 3. Allocation of personnel- technical and experienced audit team

		<p>4. Time allocation and cost consideration</p> <p>5. Frequency of reporting and conducting audit- to be fixed in consultation with top management</p>
4	Behavioural Problems Encountered	<p>1. Staff/line conflict - The staff/line relationship is inherently prone to conflict. Management auditors are staff. And line people in the sense all members of other departments of the organisation are likely to regard the management auditor the same way as they regard other staff people. Management auditors being specialists in their field may think that their approach and solutions are the only answers.</p> <p>2. Control- amount of fear that his actions when reported are likely to cause adverse effect on those who receive the auditor's report, viz., top management.</p>
5	Solution to behavioural problems	<p>1. create an atmosphere of trust and friendliness</p> <p>2. Constructive criticism - It is essential that the auditor should concentrate only on constructive criticism. He should also make obvious in his report the value of his comments in tangible terms.</p> <p>3. Reporting methods - To achieve this objective, the auditor has to make a concerted effort to convey effectively his role by adopting a friendly but firm tone in his report. It is always possible to disagree without being disagreeable.</p> <p>4. Participative approach - It is well established that auditor's reports have better acceptability if the improvements suggested are discussed with those who have to implement them and made to feel that they have participated in the recommendations made for improvements.</p>
6	Tools for Conducting Mgmt. audit	<p>1. Getting the facts through interviews -</p> <p>a. The management auditors should know what information is desired, and they should be prepared to ask a number of direct questions to get the desired information</p> <p>b. the auditors should begin by stating the purpose of the audit. Emphasis should be placed on getting the facts that are essential to review and appraise the functional area(s) under study</p> <p>2. Measuring performance through the Management Audit Questionnaire –</p> <p>a. the questionnaire is concerned with the appraisal of management actions in accomplishing organisation objectives. Its primary objective is to highlight weaknesses and deficiencies of the organisation for possible improvements.</p> <p>Refer note 1</p>
7	Management audit report – Types	<p>1. Oral reports - In many situations, the reporting of results will be on an oral basis. Generally, It is a result of emergency action needs. It may also be a prelude to more formal written reports.</p> <p>2. Interim written reports - In situations where it is deemed advisable to inform management of significant</p>

		<p>developments during the course of the audit, or at least preceding the release of the regular report, there may be some kind of interim written report.</p> <p>3. Regular written reports - audit assignment will include the preparation of a formal written report. The form and content of such written reports will vary widely, both as between individual audit assignments and individual companies. (Refer Note 2)</p> <p>4. Summary written reports - These summary reports are also referred to as 'flash' reports'. In a number of companies the practice has developed of issuing an annual (or sometimes more frequent) report summarising the various individual reports issued, and describing the range of their content. E.g Report to BOD and Audit Committee</p>
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Note 1:



Note 2:

Organisation of the Written Report –

Format – Though it is difficult to lay down a format applicable to all situations, yet the following general guidelines may be observed:

- (i) **Title** - The management audit report should have a short but descriptive title so that its subject matter can be easily identified.
- (ii) **Objectives** - The management auditor may describe the objectives of the audit assignment.
- (iii) **Scope** - The management auditor may give a brief description of the activities audited by him.
- (iv) **Findings, conclusions and opinions** - These may be given either department wise or in the order of importance. All the facts and data pertaining to the, situation should be assembled, classified and analysed. Each finding should be discussed comprehensively and correlated with other findings. Conclusions and opinions should normally follow the findings. Tables or graphs may be used for the presentation of statistical data in appendices.

- (v) **Recommendations** - A management audit report may include recommendations for potential improvements.
- (vi) **Auditee’s views** - The auditee’s views about audit conclusions or recommendations may also be included in the audit report in appropriate circumstances.
- (vii) **Summary** - A summary of conclusions and recommendations may be given at the end. This is particularly useful in long reports.

OPERATIONAL AUDIT

S.N	Particulars	Content
1	Meaning	Operational auditing is a systematic process of evaluating an organisation’s effectiveness, efficiency and economy of operations under management’s control and reporting to appropriate persons the results of the evaluation along with recommendations for improvement
2	Types	<p>1. Functional Audits - Functions are a means of categorizing the activities of a business, such as the billing function or production function. There are many ways to categorize and subdivide functions.</p> <p>2. Organizational Audits - An operational audit of an organization deals with an entire organizational unit, such as a department, branch, or subsidiary. An organizational audit emphasizes how efficiently and effectively functions interact.</p> <p>3. Special Assignments - In operational auditing, special assignments arise at the request of management. There are a wide variety of such audits. Examples include determining the cause of an ineffective IT system, investigating the possibility of fraud in a division, and making recommendations for reducing the cost of a manufactured product.</p>
3	Objectives	<p>1. Appraisal of controls – if controls are weak or breaking down, however well-equipped or well-manned the organisation may be, it will fail to operate effectively</p> <p>2. Appraisal of performance – In the task of performance evaluation, an operational auditor is heavily dependent upon availability of acceptable standards.</p> <p>3. Appraisal of objectives and plans- He prepares his evaluation programme in such a manner that it will show how well or how poorly the department has fared by reference to applicable standards, procedures, rules, policies and plans.</p> <p>4. Appraisal of organisational structure – Organisational structure provides the line of relationships and delegation of authority and tasks. This is an important element of the internal control design.</p>
4	Relationship with Internal Audit	1. Internal auditing is an independent appraisal activity within an organisation for the review of operations as a service to organisation. Naturally, when an auditor is concerned with the appraisal of operations, he becomes an operational auditor

		2. There probably may not be much of difference in viewing operational audit as a review and appraisal of operations of an organisation carried on by a competent independent person. Operational audit also involves appraisal of controls as one of its primary objective
5	Relationship with Management Audit	<p>1. Management audit is concerned with the “Quality of managing”, whereas operational audit focuses on the “Quality of operations”.</p> <p>2. Management audit is the “Audit of management” while operational audit is the “Audit for the management”.</p> <p>3. The basic difference between the two audits, then, is not in method, but in the level of appraisal. In management audit, the auditor is to make his tests to the level of top management, its formulation of objectives, plans and policies and its decision making. It is not that he just verifies the operations of control and procedures and fulfilment of plans in conformity with the prescribed policies.</p> <p>4. It is safe to conclude that management audit includes the coverage of operational audit. The Two Audits are Complementary and Supplementary to One Another</p>

AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

S. No	Particulars	Content
1	Sec 129 of Companies Act, 2013	Refer Company Law
2	AS 21 + IND AS 110	Refer Accounts Subject
3	SA 600	Refer SA notes
4	Current Period Consolidation Adjustments	Adjustments that are made in the accounting period for which the consolidation of financial statements is done e.g elimination of intra group indebtedness, unrealised intra-group profits etc.
5.	Permanent Consolidation Adjustments	Adjustments that are made only on the first occasion or subsequent occasion in which there is a change in shareholding of a particular entity which is consolidated e.g determination of goodwill/capital reserve and equity attributable to minority interest
8	Reporting	
A	When the parent’s auditor is also the auditor of all its components	- issue audit report after considering applicable financial reporting framework
B	When parent’s auditor is not the auditor of all its components	Refer reporting considerations in SA 600
C	Component auditor reports on FS under an accounting framework different than that of the parent	- Request for conversion into INDIAN GAAP and audit of conversion adjustments should be done.

D	Component auditor reports on FS under an auditing framework different than that of the parent	- Audit the FS under Indian Auditing framework
E	When Components are unaudited	- Modify opinion because evidence not obtained

AUDIT UNDER FISCAL LAWS

Direct Tax Audit form Income tax subject

GST audit from IDT subject

Questions to be solved from the Practice Manual + RTP + Mock Test Papers

Audit under Automated Environment

Old Course Students- This topic is done with ISCA

New Course Students- Read Final CA old Course practice Manual answers

Audit Committee and Corporate Governance

Read with Company Law

SARBANES OXLEY ACT, 2002.

Q.1. "Corporate accountability and civil and criminal penalties for white collar crimes." Comment on the major provisions of Sarbanes Oxley Act.

Major provisions of Sarbanes Oxley Act: The Sarbanes Oxley Act of 2002 established corporate accountability and civil and criminal penalties for white – collar crimes. This act also known as the Public Company Accounting Reform and Investor Protection Act of 2002 and commonly called SOX or Sarbox; is a United States federal law passed in response to a number of major corporate and accounting scandals including those affecting Enron, Tyco International, and WorldCom. These scandals resulted in a decline of public trust in accounting and reporting practices.

This Act provides regulatory bodies and courts to take various actions –civil and criminal proceedings in connection of misstatements amounting to accounting scandals and fraudulent financial reports, other frauds on securities matters, obstruction of justice and retaliating against corporate whistleblowers. The Act also enforce tougher civil and criminal penalties for

fraud and accounting scandals, securities fraud and certain other forms of obstruction of justice.

Q.2. State briefly eight provisions of the Sarbanes-Oxley Act of 2002, which shall, if enacted in India to Indian Corporates, get fruitful results.

Following are some provisions of the Sarbanes-Oxley Act of 2002, which, if enacted in India may be fruitful is respect of Indian corporate:

- (i) More independence be given to Audit Committee and auditor.
- (ii) Ban on personal loan to Directors / Executive Officers of a Company.
- (iii) Strict reporting by an auditor on insider trading.
- (iv) Additional disclosures imposed on financial reporting.
- (v) If there is any conflict between company and its auditor, the Audit Committee should be empowered to resolve the same.
- (vi) Higher penalties and criminal prosecution on financial frauds.
- (vii) To include effectiveness of Internal Control System in the financial reporting.
- (viii) More responsibilities must be imposed on managerial personal with higher penalties and prosecutions on the breach.
- (ix) Strict action against white collar crime.
- (x) Disclosure of the % of shareholdings by Directors, Executive Officers and principal shareholders.