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MODULE 1 | NEW SYLLABUS

June 2024 Attempt

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CHAPTER 08 - CONCEPTS OF VARIOUS AUDITS

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Chapter 8 Concepts of Various Audit

(1) Corporate Governance Audit

↳ conducting affairs of the co in such a way that there is fairness to all stakeholders

Scope: → 1) Financial Dep
2) Non-Financial Dep
3) Risk Mgmt
4) BOD
5) Transparency & Disclosures
6) Right of stakeholders

6) Right of Stakeholder

Audit Committee → Section 177 of Companies Act, 2013 + Regulation 18 SEBI (LODR)

* Applicability

- Listed Co.
- Public Co.
  - PSC — 10 Cr
  - T/O — 100 Cr
  - O/S L&B — 50 Cr

* Composition

→ Min 3 Directors

→ $\frac{2}{3}$ Should be Independent Directors

→ All Members Should be Financially Literate

→ chairperson → ID

→ is → Secretary of AC

3

* Role of Audit Committee

1) Recommendation of appt/ Remuneration/ Terms of appointment

2) Ensure Financial Statements is correct/ sufficient/ credible

3) Reviewing Quarterly Financial Statements

4) Reviewing auditor's independence

5) Approval of RPT

6) Scrutiny of Inter Corporate Loans & Inv

7) Discussion with IA of significant findings

8) Review of the Blower Mechanism

8) Review of the Whistle Blower Mechanism

9) Reviewing performance of Statutory & Internal Auditors

10) Look into Reasons for Substantial defaults

4

Checks

1 Accountability

(1) Seperation of ownership & control

(2) Board accountable to SH

(3) Mgmt accountable to Board

(4) Audit Committee Policies

(5) Independent Directors have power to play their role

2 Transparency

(1) Investors should have info about the rights attached to their shares

(2) Timely & accurate disclosure on Material Matter

(3) Policy for Making Political contributions

(4) Remuneration Policy

(5) Insider Trading

role

(5) Insider Trading disclosure

(5)

(3) Responsibility

- Policy on Stakeholder's rights + Social Responsibility
- Board's responsibility includes plan of action, risk policy, Business plan

(4) Fairness

(1) minorities are treated Equitably

(2) Effective resolution of violations

(3) Company has vigil mechanism policy

(5) Shareholder's Interest

(1) Exercise of ownership rights by all shareholders

(2) Minority protected from abusive actions of Majority

(5)

Shareholder's Interest

(6)

(1) Exercise of ownership rights by all shareholders

(2) Minority protected from abusive actions of Majority

(3) BOD have disclosed their Material interest

(4) Capital structures & arrangements have been disclosed.

(2) Secretarial Audit

↳ audit of non-financial aspects of the company.

↳ applicability → Section 204

(2) Secretarial Audit

↳ audit of non-financial aspects of the company.

↳ applicability → Section 204

- Listed co.
- Public co.
  - T/o 250cr
  - or
  - PSC 50cr
- Every co. O/s L&B 100cr

↳ Reg 24A SEBI (LODR)

Material unlisted Subsidiary → SA Mandatory

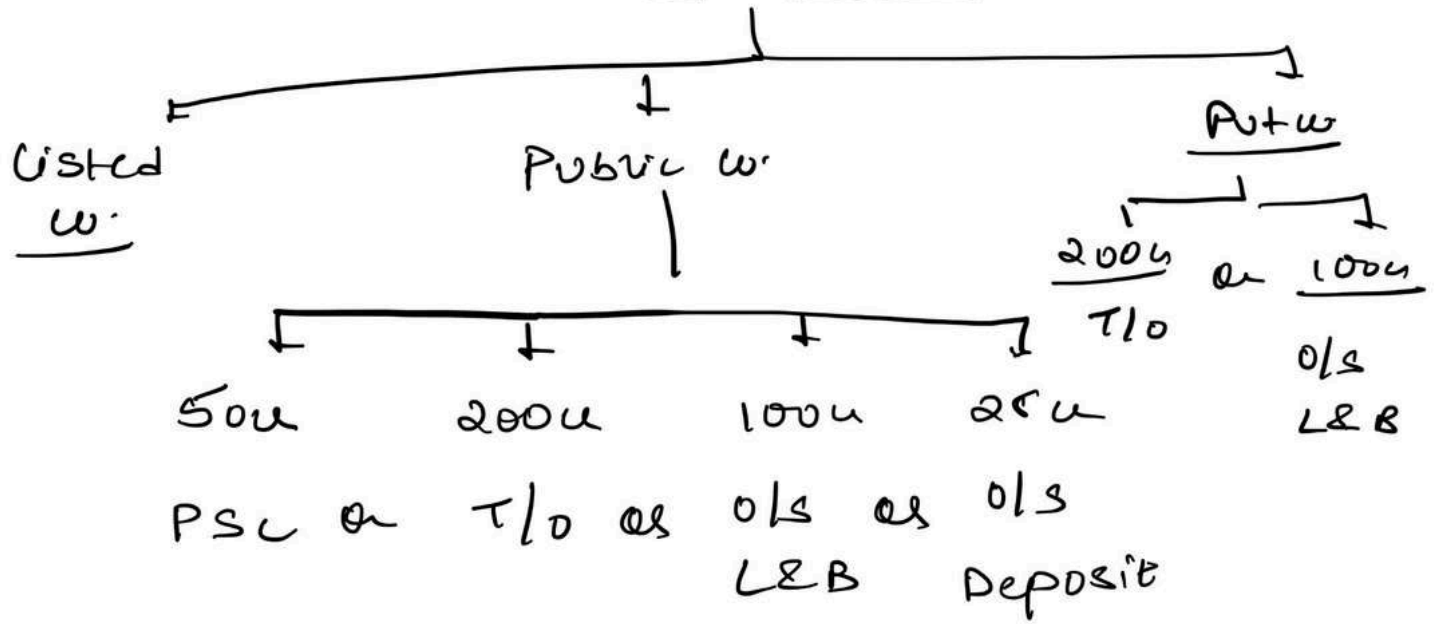
Income > 10% consolidated income of listed

Income > 10% consolidated income of listed company.

(3) Internal Audit

↳ assessment of organisation's internal control

↳ Section 13B → applicability



4 CSR Audit ⟨ Section 135
CSR Rules, 2014

Applicability → Every co. ⟨ 5cr NLP
or
1000cr T/O
or
500cr N/W

↳ Contribute 2% of Avg NLP of 3 Preceding FY

If Contribution Less than 50L
↓
X Mandatory to form a CSR COMMittee

→ 3 Directors out of which one should be ID

Purpose of CSR Audit

1. Compliance with provisions
2. Transparency + Monitoring + Implementation of CSR Policy
3. Assess Project life cycle
4. Evaluate Governance Framework
5. Financial Review of Project to Confirm utilization of Budgets.

5 Insider Trading Audit

1. Appt of compliance officer
2. Code of conduct + Administration of code of conduct

(3) Code of practice for fair disclosure of UPSI

(4) Code is placed on the website

(5) Company follows chinese wall policy & procedure

(6) Compliance Officer has { Reviews + Reviews } → Trading Plan

(7) (Compliance Officer) CO has Notified TP to SE

(8) Co. Received initial Disclosure from { Promoter, Director, KMP } → within 7 WD

(9) Co. Received continual Disclosure { Promoter, Director } → if trans ↑ 10L within 2 WD

(10) They other prevention with respect to Inside Trading adopted by co.

(6) Cyber Audit

↳ avoid cyber Security Risk

↳ Includes ← Protection of Sensitive Data
← Protection of Networks
Responsibility + Accountability of device

Steps → (1) Data Security Policies
(2) Data loss Prevention Measures
(3) Detection / Prevention System
(4) Security control
(5) Incident Response Programme

Dimensions → Mgmt → owns the risk decisions made by the organisation

→ Risk Mgmt → communication of state of risk + ways to address the risk

→ Internal Audit → Internal auditors have key role to play.

Check list

(1) Personnel Security → Staff wear ID Badge → current picture

play.

Check list

1. Personnel Security → Staff wear ID Badge
   - current picture
   - Access level + type
   - Background check
   - cutting off access

2. Physical Security
   - Co. has power to limit on authorised users
   - Co. → Policy → specify Methods to control physical access

access to computing area is controlled

(3) Account & Password Mgmt

↳ policies for Electronic authentication card

↳ only authorized personnel have access to computer

↳ Passwords are secure.

(4) Confidentiality of data

↳ protects sensitive data

↳ to maintain both hard + soft copies

(5) Compliance & Audit

↳ to Reviews + Revises security documents

- Co. Reviews + Revises Security documents
- Co. test disaster plans
- Compliance with Established policies + procedures
- Mgnt regularly Reviews list of individuals with Physical access.

(7) Forensic Audit

- Highly specialised + requires detailed knowledge of Fraud Detection Technique

Two Phases
- Investigation Phase
- Litigation Phase ~~Phase~~ ...t of Interest

Fraud Detection Technique

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Two Phase ⟨ Investigation Phase
Litigation Phase

Purpose ⟨ Corruption ⟨ Conflict of Interest
Bribery
Extortion
Asset Misappropriation
Financial statement Fraud

Procedure → (1) Jump to the investigation
[determines if they have necessary skills to conduct the audit]

→ (2) Planning the Investigation
[Identify signs of fraud + understand goal of audit]

→ (3) Gathering Evidence

- Analytical Procedures
  - Forensic Data Analysis
- Discussion & Interview
  - Reporting
- Substantive Technique
  - Court Proceeding

(8) Social Audit

→ Way of Measuring & Improving Social Performance of organisations

→ Enhances local Governance

→ Enhances local

→ Implications → creates an impact upon Governance

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↳ Enhances local Governance

↳ promotes democracy.

→ Implementation of Social Audit

→ Empowerment of people

→ Proper Documentation

→ Accessibility of Documents

→ Positive Action

(9) Environment Audit

(9) Environment Audit

- Compliance Audit
  - compliance with Env Laws applicable on the company
    - a) Air (Prevention & control of Pollution) Act
    - b) water (" " ") Act
    - c) Factories Act
    - d) Motor vehicles Act
- Management System Audit
  - ISO 14001
    - → Identify + control the Env impact
    - → Improve Env performance continuously
    - → Systematic approach to set objective

e) NGT Act.

Checklist

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Env Policy

1) Co. defined + documented Env Policy

2) Policy has Significant Env Aspects

3) COMMITMENT
   - Pollution prevention
   - compliance
   - improvement

4) Documented

5) available to public

Env Aspects

1) Env Aspects are identified

2) aspects related to Significant Env aspects considered

3) Env Aspect
   - Air
   - water/wastewater
   - Soil

→ Toxic Material

(22)

Legal Requirement

1) Compliance with Law/ Rule/ Reg

2) Procedure to develop & implement legal requirement

3) Licence & approval → (1) Air permit

(2) waste water

(3) dangerous goods

(4) Env fees

(5) Reg at authorities

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CHAPTER 09 - AUDIT ENGAGEMENT

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Chapter 9 → Audit Engagement

1.

Audit Engagement

↳ Contractual Agreement → b/w Auditor & Appointing Authority → about T&C of audit → through AEL (Audit Eng Letter)

CSAS-1

Appointment of Auditor

One to One Basis

1) Risk Assessment → Client accepting
   → Performance
   → Contract
   ↳ Reputation Commercial
2) Communicate willingness
3) Pre-Engagement Meeting
4) Sign Audit Engagement letter

Tendering Process

↳ Pre bid Meeting

↳ Submission of technical Bid

↳ Signing Engagement Letter

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Certificate of Auditor

1. Auditor are within ceiling limit
2. No substantial conflict of interest
3. No restriction to render professional services
4. Not debarred to undertake audit

Pre-conditions of accepting any Audit Engagement

1. access to all information
2. access to additional information
3. access to persons within the company

④ Development of IES/ procedure for Preparation of Non financial Statements

⑤ Preparation of Secretarial/ Non financial statements

Appointing Authority

① Section 139 → Appointment of Auditors → 1 Statutory auditor → BM

→ Subsequent auditors → Members of AGM

[Appt Authority → 1 Auditor → BOD

Subsequent auditor → Members

(2) Tribunal / Official liquidator → Appointing authority → Tribunal / Official liquidator

(3) CIRP → AA → Insolvency Resolution Professional

(4) Depository Participants → LLP → Designated Partner
Co. → Board of Director

(5) Stock Broker / Investment Adviser → LLP → Designated Partner
Co. → Board of Directors

5.

CSAS-1 → Audit Engagement

Applicable on PLS

Not applicable for voluntary Audit

Applicability

1. Secretarial Audit → Section 204
2. Secretarial Audit → 24A SEBI (LODR) Regulation
3. Internal Audit → Section 138
4. Audit of Depository Participants
5. Internal Audit of Stock Broker

6. Internal Audit of Investment Advisers

7. Internal Audit of Credit Rating Agencies

etc

6.

Audit Engagement

- New Audit Engagement
  [Audit conducted for first time]
- Recurring Audit Engagement
  [Audit was conducted for previous period]
- Change in Audit Engagement
  [change in terms of Audit Engagement]

Engagement]

7.

Audit Engagement Letter

→ contains T&C of the Audit

→ helps avoid misunderstandings with respect to terms of engagement

→ includes: a) objective & Scope of audit as

b) Responsibilities of Auditor & Auditee

c) Time period

d) Commercial Terms → Audit Fees & Expenses

e) Limitations

Responsibilities of Auditor

1) Conduct audit as per Audit Engagement Terms
2) Ethics + Professionalism
3) Ensure confidentiality
4) NO trade in Securities with unpublished price sensitive information
5) depute personnel with knowledge

Responsibilities of Auditee

1) ques to premises + Records
2) Management Representations
3) details of previous auditor
4) depute a persona to provide timely information

Communication to Previous Auditor

9.

Duty of Auditor to communicate with the Previous Auditor → wait for reply of Previous Auditor [7 days]

- Take cognizance of reply Received
- Ensure confidentiality

Before following assignments communication is reqd

1) Signing of AOA → MGT 7
2) certification of AOA → MGT-8
3) Secretarial Audit → Section 204

4) Reg 24A SEBI (LODR) → Material unlisted Subsidiaries

5) Reg 40(9) SEBI (LODR) → Issue of Tech certificates

6) Internal Audit of Depository Participants / Stock Brokers

7) Due Diligence of Bank

Limits on Audit Engagement

10 Secretarial Audit +

5 Secretarial Compliance Report +

5

5

→ If Peer Review Certificate.

Conflict of Interest

SEBI → holding more than 2% of PSL / NV of shares 50,000 (WEL)

→ Indebted to amt above 5L

→ Employee of the co less than 2 years ago

Confidentiality → Not use info for personal Advantage

→ Not disclose information

→ Maintain confidentiality within the firm

than 2 years ago

Confidentiality → Not use info for personal Advantage

→ Not disclose information

→ Maintain confidentiality within the firm

→ Take all steps to Ensure confidentiality amongst staff

→ Confidentiality of prospective client

→ Confidentiality in Social Environment

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CHAPTER 10 - AUDIT PRINCIPLES AND TECHNIQUES

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Chapter 10 → Audit Principles & Techniques

* Fundamental Principles Governing Audit

1) I | I | I → Integrity → being honest | Trust worthy
   Independence → freedom from conditions | relationships
   Objectivity → Making decisions fairly | impartially

2) Confidentiality → × share the info unless required by law

3) Skill & competence → aware & updated with new accounting & Auditing Methods

4) Documentation →

5) Planning

6) Evidence

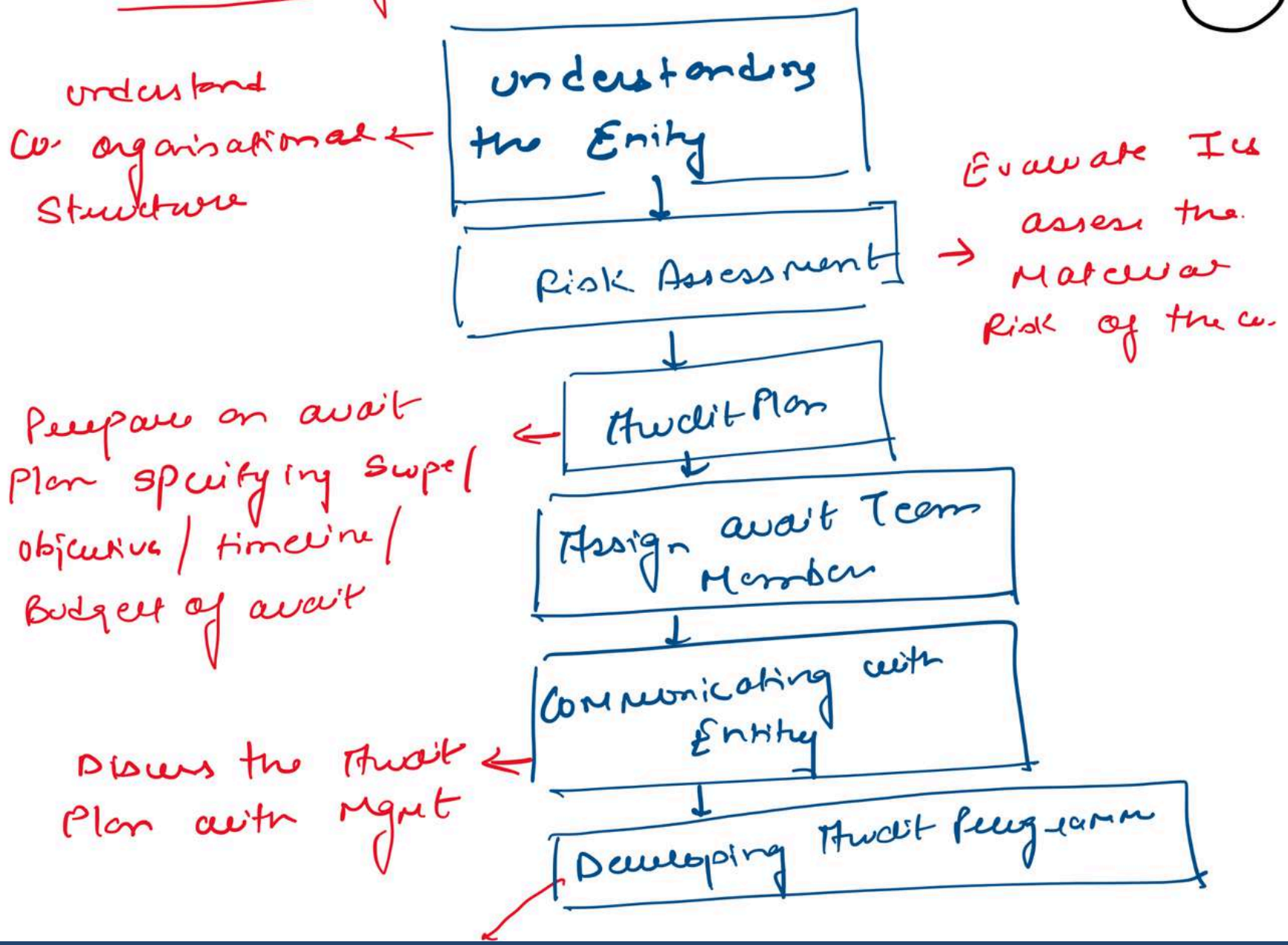
7) Flowchart System + Internal control

8) Audit conclusion & Reporting

* **Audit Techniques**

- Examination of Records
  - Substantive checking
  - Compliance Test
- Inquiry
- Confirmation
  - Computer Techniques
- Sampling
  - Dependence on Experts

* Preliminary Preparation



procedures to be performed during the Audit

* Questionnaire

1) useful tool for auditors to gather information from Auditee

2) comprehensive Series of Questions concerning internal control

3) questions are in Yes / NO format

Yes → denote satisfaction

NO → denotes weakness

How to use a Questionnaire ?

1) Auditor identifies the area of potential risk and accordingly prepare a Questionnaire

Planning the Audit

→ Questionnaire is sent to Auditee with a deadline

2) Administering the Questionnaire

↓

Auditor analyses the response & identifies Risk & area of concern

Auditor conducts follow up interview

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How to use a Questionnaire ?

5

1) Auditor identifies the area of potential risk and accordingly prepare a Questionnaire

Planning the Audit

→ Questionnaire is sent to Auditee with a deadline

2) Administering the Questionnaire

↓

Auditor analyses the response & identifies Risk & area of concern

3) Analysing Response

Auditor conducts follow up interview with key personnel to collect further info.

4) Conducting follow up interview

Summarises the report & findings of audit

5) Reporting Findings

* Interviews

Orientation

→ at this stage auditor does not have deep knowledge of project

→ Less structured

→ Learning process for auditor

→ Exposes specific area/ function

Examination

→ aims at specific issues

→ More focused Examination of an area

→ More structured format.

Confirmation

→ goes together with orientation + Examination

→ Based on information already gathered

→ More structured approach

* Audit Programme

→ Step by Step guide for team Members
→ Prepared on the basis of audit Plan
→ In the form of checklist
→ Documented in working Paper
→ differs from Audit Plan
↳ Lays down the Strategies for conducting Audit

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* Master checklist

1) Entity operations & organisations

1) Object of co.
2) Capital, Structure
3) Promoter & Directors
4) Related party Trans
5) Subsidiaries / Joint Venture
6) Details of KMP
7) Details of Audit Committee
8) Geographical Locatio
9) Material changes
10) Audit observation of Previous Year

2) Financial & Non financial

Financial disclosure
covers accounting policies / accounting Standards / audit techniques
+
Non Financial disclosure
covers eligibility, criteria etc.

3) Legal & Regulatory Requirement

Identifying laws as per Nature / size / status / area of co.

5) Matter of Shareholder & Public Interest

The audit team identifies the Shareholder & Public Interest on the basis of Public deposit, Loans / Dividend / CSR

4) Review of control Environment

1) operating Environment
2) organizational structure
3) Authority & Responsibility
4) Ability of Mgmt to control operation
5) Monitoring

* working Papers

↳ work Performed by the auditors

↳ connecting link b/w Auditor & Auditee's Records

↳ includes evidence gathered by **auditor**

↳ Provid info → audit → Planned
carried out
Supervised
Sufficient Evidence obtained
Review was undertaken

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Standard Working Paper

1) General File → audit object / audit Plan / draft & Final Report

2) Work Paper File → detailed audit Procedure

3) Future Audit consideration → comment for Next Audit

Types of working paper

Permanent File

Current Audit File

Permanent file

Current Audit File

Permanent File

1) Statutory document
   - → MOA
   - → AOA
   - → Incorporation certificate
   - → Reg documents

2) Documents of continuing Imp
   - → Royalty Agreement
   - → Imp Legal documents

3) Address of Registered office

4) Organisation chart

5) History of organisation

Current Audit File

1) Appointment Letter

2) BM

3) Audit Plan / Programme

4) Communication with Previous Auditor

5) Audit Report

6) Responsible person

6) Internal control
7) Associated companies

* Identification of Events & Corporate Action

1) Acquisition
2) Revision in Rating
3) Agreement
4) Fraud by Promoter / KMP
5) Change in Director / KMP
6) Litigation
7) Fraud by Director
8) Change to AOA / MOA

9) Corporate Debt restructuring

10) Changes in Regulatory Framework

* Sampling

↳ Investigative Tool

↳ Helps auditor to Express their opinion without checking all the items.

↳ Types of Sampling

- Statistical
- Non-Statistical

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Types of Sampling

Statistical

auditor uses Statistical Methods → Random Sampling

Non-Statistical

↳ Items are chosen based on the auditor's Judgement.

* Substantive Testing

↳ used to check any Error / Material Misstatement in Record

↳ Who conducts Substantive Testing → Company's Internal Audit Staff + External Auditor

How does Substantive works

Company Make assertions

→ Occurence / Existence

→ Disclosure & Presentation

→ Obligations & Rights

→ Accuracy / valuation

→ Completeness

Auditor creates a plan

(1) Examine physical Adjustments & Journal Entries

(2) Match the Accounting Records

(3) Test different Classes of Account Balances

Auditor shares audit results with Co.

* Audit Trails

* Audit Trails

↳ used to trac Events

↳ Rule 3 of Company Accounts Rules, 2014 → every co. that uses accounting Software shall have a feature of recording Audit Trail

↳ It is a way to ensure that there are no gaps in data & it is possible to determine the cause of Error.

* Benefits of Audit Trail

→ Increased Transparency
→ Improved accuracy

* Benefits of Audit Trail

→ Increased Transparency
→ Improved accuracy
→ accountability
→ Compliance
→ Foolproof

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CHAPTER 11 - AUDIT PROCESS & DOCUMENTATION

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Chapter 11 - Audit Process & Documentation

* Overview of Audit Process

Planning

* Understanding the co.
* Legal Framework
* Risk Assessment
* Materiality
* Audit Plan

Execution

Reporting

* Understanding co.
* Legal Framework
* Risk Assessment
* Materiality
* Audit Plan
* Implementation of

* Audit Plan
* Audit Programme

* Implementation of Audit Plan (Performing audit Procedure)
* Identification of Audit Evidence
* Formation of opinion

(2)

* Audit Planning

- Purpose → to carry out audit Efficiently & Effectively
- documented
- provides detail layout of Audit Procedure/ size/ time etc

Essentials of Audit Planning

* Ensuring Quality of Audit → Efficiency
* Documented audit Plan → should be documented
* Flexibility → flexible for Modifications
* Independent Review of Audit Plan → checked by experienced auditor
* Training & communication to audit staff → staff should know Quality control policies & procedures of the firm

control policies & procedures of the firm

* Risk Assessment

(4)

↳ Process of Evaluating potential Risk

↳ Auditor assess the Risk by assessing

- Underlying Risk detected by Mgmt/ Experts
- Policies & Procedures to Mitigate Risk
- Performance indicator / Internal control Measures

Risk detected by Mgmt/ Experts

Procedures to Mitigate Risk

Indicator/ Internal control Measures

Components of Audit Risk

(5)

- Inherent Risk
- Control Risk
- Detection Risk

Irrespective of ICS, Misstatements will still Exist

Misstatements could not be detected by the Internal control Risk

auditor's procedure will not be able to detect a Misstatement

Risk Assessment Process

Identify key Risk areas → Evaluate Risk → Prioritize identified Risk → Develop & Refine plan for Internal Audit

Gather info wrt:
1) Financials
2) Reorganisation
3) Interviews
4) Past Internal Audit
5) Survey

↓

Rank departments and prioritize Major risks

↓

Prioritise the remaining risk & define the focus of internal audit project based on Risk

↓

Validate Internal Audit Plan (IAP) + Present IAP to Audit committee

* Audit checklist

- are made to verify compliance Requirements
- Ensures no compliance is missed
- provides assistance to audit Process
- provides continuity to audit + Serves as Memory aid

* Collation & Verification of Audit Evidence

techniques used for collation of Audit Evidence:

1) Documents/Records sorting → involves sorting of documents like Board Resolution/ minutes etc

2) Testing, Interviews and Analysis → Interviewing the staff of auditee
Reviewing procedure
Analysing compliance with Laws / Rules / Reg.

3) Questionnaire → [Discussed in chap 10]

4) Third Party Confirmation → Obtaining reply from third party independently by the auditee.

5) Analytical Procedure → Involve comparing data

* Audit Evidence

- gather & Evaluation of Audit Evidence
  - Involves → gathering Evidence by audit procedure
    - → Evaluation of Evidence
    - → Reassessing Risk
  - Should be Relevant & Reliable
  - If AE is conflicting → Auditor shall assess the credibility of Evidence or collect more Evidence to resolve the conflict.

credibility of Evidence or collect more Evidence to resolve the conflict.

* Documentation

(10)

↳ Auditor documents in working Paper, Audit Plan, findings of audit etc.

↳ Should contain sufficient information to enable an auditor, to understand significant findings & conclusions of the Auditor.

Static Audit Documentation

1) MOA/AOA/ Agreements
2) Details of Holding / Subsidiary.
3) Appointment Letter of Auditors
4) Communication with the Previous Auditors
5) Legal Affairs of Auditee

Current Audit Documentation

1) Audit Review Points + Highlights
2) Evidence of Audit Planning Process
3) Evidence → work performed was Reviewed + Supervised
4) Communication with Third Parties
5) Major weakness in IC

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* Record Keeping & Process

↳ Shall be maintained in physical/ Electronic form for → 8 years

Shall be collated for Records within a period of 45 days from date of signing of Audit Report.

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CHAPTER 12 - FORMATION OF OPINION & REPORTING

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Chapter 12 – Formation of opinion & Reporting

CSAS-3 → deals with formation of opinion & Reporting

→ Standard deals with the manner in which the opinion formed by the auditor will be expressed in writing.

* Forms of opinion

1) Unqualified / Modified opinion

↳ compliance with Law + free from misstatement

↳ also called as clean opinion

Compliance

Compliance

In terms of time lines

Compliance with applicable Laws/ rules/ Regulations Made within specified time limit

In terms of process

- Transaction has been Made for compliance with applicable Laws + as per the procedure

(2)

* Modified opinion [Italic/ Bold]

↳ Non compliance

↳ Records are NOT free from Misstatement

↳ Unable to obtain sufficient Audit Evidence

Qualified

Specific instances of Non-compliance are there

Adverse opinion

→ Indicate of Fraud

→ affairs of co' are not in line with objective

Disclaimer of opinion

Unable to ascertain the amount of company.

* Materiality

→ Matter of professional Judgement

→ Inverse relationship b/w Materiality & degree of audit Risk

Risk

→ used both in Planning + Execution stage (4)

→ important while conducting Audit + Forming opinion

* Process of forming opinion

- Completeness
  - all relevant audit Evidence will be considered
- Objectivity
  - Independence
  - Professional Judgement
- Timeliness
  - prepare the Report in given time
- Contradictory Process
  - Seeking Answer of facts

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Threats	Overcoming Threats
1) Self interest	(1) Behave with integrity
2) Self Review	(2) Strong Peer pressure
3) Advocacy	(3) Strong internal Procedure
4) Familiarity	
5) Intimidation	

* Third Party Report / opinion

↳ auditor should adhere to following while forming Third Party opinion:

(1) Indicate Third Party opinion was taken + circumstances Necessitating it

(2) of provided by the Auditee

(3) consider imp findings/ observations of Third Party.

(4) check Reliability of Third Party.

While using the work Auditor should:

(1) consider Independence + objectivity

(2) consider competency

(3) Scope of Third Party's work

(4) cost Effectiveness of using Such work

(5) ... to addressee of Audit

(4) Cost Effectiveness of Audit

(5) Duty of care only to addressee of Audit Report

7

* Evaluation of Audit Evidence & Forming Opinion

(1) Reliability of Documentary Evidence

(2) Evidence on Direct Personal Knowledge

(3) Reliability of visual Evidence

(4) Evidence from External Source

(5) Oral Evidence Least Reliable

(6) Photocopy less Reliable

(7) Tampered Evidence

(6) Photocopy less ...

(7) Accepted Evidence

(8) Gain Increased Assurance.

8

* Different stages of communication

Preliminary Draft → Exit Meeting → Formal Draft / Final Report

* Auditor's Responsibility

Separate section in Audit Report — Auditor's Responsibility → will Express opinion about following:

9

opinion about following

i) Audit conducted as per → AS

2) Auditor obtained Reasonable assurance, Statements are free from mis statement

3) Auditor expressed his opinion on Evidence collected

4) Auditor followed appl Laws / Rules / Reg.

* Pre-Requisit → Accurate
→ objective
→ clear

→ clear
→ concise
→ constructive
→ complete
→ Timely.

10

* Signing of Audit Report

Statutory Audits

1) Act/Rs
2) WP
3) Date
4) Place

PLs firm

Partner's

1) Act/Rs
2) WP
3) Date
4) Place

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* Reporting with Qualification

→ Qualification / Adverse Remarks → Bold / Italics

→ If unable to Express opinion → Mention that

→ Scope of work - restricted → Mention the limitation in Report.

→ Limitations are Material
↳ Auditor unable to express the opinion → unable to report on compliances

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CHAPTER 13 - SECRETARIAL AUDIT

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Chapter 13 – Secretarial Audit

→ audit of non financial aspects of the co.
→ conducted by PCS (Holding CoP)
→ Section 204

Applicability → Listed co.

Public co. PSC → 50Cr or
T/O → 250Cr

Every co. → O/S LOB → 100Cr

Reg 24A SEBI (LODR) Reg, 2015

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Reg 24A SEBI (LODR) Reg, 2015

Uday Kotak Committee Recommended

↳ Audit of unlisted Material Subsidiaries

Income / NW > 10% of consolidated Income / NW of Listed Entity.

Reg 24A shall NOT apply:

Listed w' Paid up Equities & ≤ ₹ 10 Cr → NW ≤ ₹ 25 Cr → Listed on SME

Advantages of SA to Audit Evidence

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Advantages of SA to Audit Evidence

3

- Promoter
- Non Executive / Independent Director
- Government authorities
- Investor
- Other Stakeholders

* Risk of Secretarial Audit

1) Section 204 → 2L
2) Section 143 → LC 5L, ULC 1L
3) 447 → of Amt PNV in Fraud is 10Lac Lx of T/O (WEL)

Dup GM – 104
&
Fine Amt → 3X the Amt involved

Dup → upto 5Yrs
or
Fine → upto 50L
or
Both

4) 448 → False statement

5) 451 → 2 x the Amt of Penalty.

CS Act
- I Schedule
  - → Imprisonment
  - → Removal of Name ↳ 3M
  - ↳ Penalty → 1L
- II Schedule
  - → Imprisonment
  - ↳ Removal of Name permanent
  - ↳ Penalty → 5L

* Scope of Secretarial Audit

* Scope of Secretarial Audit

5

Regulations

1) Companies Act
2) SCRA
3) Depositories Act
4) FEMA

i) SEBI (LODR)
2) SEBI (LCDR)
3) SEBI (SAST)
4) SEBI (PIT)
etc

Secretarial Standards

Listing Agreement

Board composition

Board Power

① BOD duly constituted

② Changes in BOD were in compliance with Law

③ 7 days NOTICE

Secretarial Standards

Listing Agreement

Board composition

Board Process

① ↳ BOD duly constituted

② ↳ Changes in BOD were in compliance with Law

③ ↳ 7 days notice

④ ↳ Majority decision + Recording of dissenting SM

⑤ ↳ Adequate systems & Process in place

* Secretarial Audit → The Process

↓ ③

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7

* Secretarial Audit → The Process

1 → Appt of SA (BM → BR)

2 → Communication to previous Auditor

3 → Acceptance of appointment

4 → Preliminary Discussion
- Interact with personnel involved
+
- Know the Nature of Business of w

5 → Preliminary meeting

6 → Audit Plan & Briefing of Staff

7 → Testing / Interview

8 → working Paper

9 → Audit Summary

(10) Submission of Report

8

*. Board Composition

Companies Act

(1) atleast 01 Director who stays in India for not less than 182 days

(2) Every Listed Public Co. have atleast 1/3 of total Directors as Independent Director

(3) Woman Director — 300cr T/o, 100cr PSU

Reg 17 of SEBI (LODR) Reg

(1) combination of Exe + Non Exe Director with 1 Woman Director + 50% Non Executive Director

(2) Top 500 Listed Co.
1 Independent Woman Director (April 2019)

1 IWD (April, 2020)
↳ Top 1000

(3) Chairperson of BOD is Non Executive Director

→ $\frac{1}{3}$ of BOD should comprise of I.D

X Non Executive chairperson

$\frac{1}{2}$ of BOD → ID

(4) Non Executive chairperson → Promoter or → Related to Promoter

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$\frac{1}{2}$ of BOD → IP

10

(5) Top 1000 [April, 2019]
Top 2000 [April 2020]
atleast
6 Directors

(6) Co. has outstanding Superior Voting Right Equity shares → at least $\frac{1}{2}$ of BOD should be IP

* Detection of Fraud

Section 143 → Duty of Auditor to Report Fraud

↓

If Amt involved in Fraud is

- 1 cr or above 1 cr → CG
- Below 1 cr → Ac/ BOD

Ac/ BOD → Report detection of fraud → CG

- 45 days
- Submit Report
- 15 days

Report Ac/ BOD

1. Nature of Fraud
2. Amt involved
3. Parties

BOD → 45 days → 'Recommendation' → IS → Submit Report → 15 days → CG

(2) Amt inv
(3) Partics

12

Ac/BOD will disclose in their report

(1) Nature
(2) Amt
(3) Partics
(4) Remedial actions taken

Transactions which May involve Fraud

(1) Related Party Transaction
(2) Excessive Managerial Remuneration
(3) Inside Trading
(4) Inter company Transactions
(5) Merger/ Demerger

Who is considered as auditor

(1) CA
(2) CMA — Internal Auditor

(4) Inter company

(5) Merger / demerger

(6) Fraud

(7) IPO

(1) CA

(2) CMA

(3) CS

(4) Brand audits

Internal Auditor & Analysis

13

Consequences of Non complying with Section 143

- Auditor's
  - Willful
    - 1L Penalty
- Listed co
  - 5L Penalty.

Ch 14 - Internal Audit & Performance Audit

Internal Audit:-

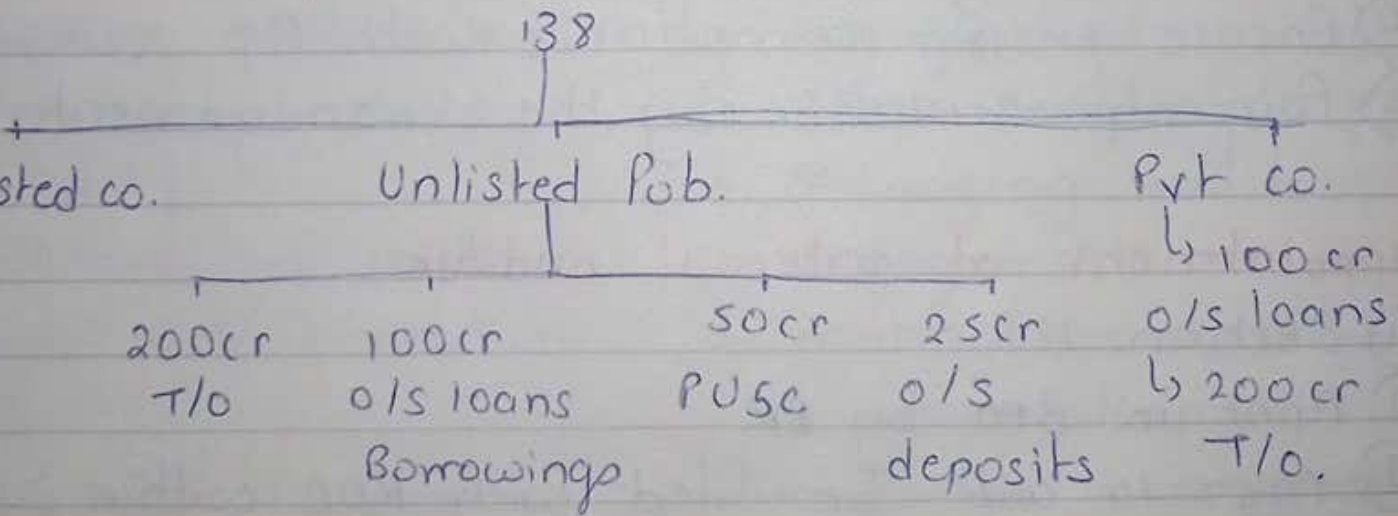
Internal auditor is appointed for:-

1) Check the effectiveness & efficiency of internal control system.
2) Compliance with laws / rules & regulations.
3) Risk assessment

Nature of internal audit:-

1) Management tool
2) Control system
3) Risk management tool
4) Continuous exercise.

Section 138 of CA, 2013:-



M/s Indu Nissan Oxo Chemical Industries Ltd
MCA ordered inquiry u/s 206 of CA, 2013

↓

ROC found a non compliance with sec 138 for non appointment of Internal auditor. Hence,

ROC issued a show cause notice.

↓

Co replied to the sc notice that co. is a sick co.

↓

ROC sent a notice for personal hearing but no representation was made by the co for personal heoring.

↓

ROC passed an ex-parte order imposing penalty

Role of CS as internal auditor:-

1) Ensure compliance with laws, rules & regulations
2) Ensure audit of co's financial statements & Books of accounts.
3) Safeguarding / safely keeping the records of the company.
4) Ensure proper compliance with AS.
5) Fair representation by the management.

Appointment of internal auditor

1) Section 138
2) Appt. in BM by BR
3) MGT 14 will be filed with ROC within 30d of appointment
4) Private co. is exempted.

Terms of Reference

↳ Board + Audit committee
↳ finalise terms of reference.

Contents of terms of reference
↳ also called as audit comm. manual

- → objective
- → scope
- → Roles & responsibilities
- → access to info
- → Accountability to Board & AC
- → Accessibility to Board & AC.

Internal Auditor's skills

General skills

a. Technical standards
b. Positive attitude & interpersonal skills
c. IT skills
d. Interviewing skills
e. Audit documentation
f. Reporting

Specific skills

a. Planning audit engagement
b. Team building
c. Managing audit engagement
d. making professional presentation
e. knowledge management

Scope of IA

i] Review internal control system & procedure
ii] internal auditor shall review effectiveness of internal control system of org. & determine if it is inline with org. structure.

ii) Internal auditor should review & analyse internal controls in terms of cost & benefit.

2) Compliance with laws, rules & regulations.

i) Co & functional heads are supposed to comply with applicable laws, rules & regs & IA should review policies & procedures estd in an org to ensure compliance with laws, rules & regs.

ii) IA examines the adequacy of systems & periodical review of existing policies to evaluate the effectiveness.

3) Reliability & Integrity of financial & operating info

IA should review the reliability & integrity of financial & operating info & methods used to identify & report such info.

4] Economic & efficient utilization of resources

i) IA should verify if norms have been estd for measuring economic & efficient utilization of resources.

ii) IA examines if there is understating/ overstating or under utilization of resources.

5) Review of org - structure

i) IA verifies whether there is clear division of authority & responsibility. There should be a proper balance b/w the control at diff levels.

ii) IA should examine if the org structure is in harmony with the objective of enterprise.

6) Safeguarding assets of the co.

i) IA verifies existence of assets & means used for safeguarding the assets against fire, theft or illegal act.

ii) Auditor reviews the control system for intangible assets.

* Internal audit core principles

1) Integrity
2) Independency
3) Competency
4) Continuous improvement
5) Adequately resourced
6) Effective communication
7) Future focus
8) Promote org improvement
9) Risk based assurance.

Techniques of Internal audit

1] Review of op. environment
- Understand how the co. operates to understand business practices & ethical practices of co.

2] Review control
- Check if co. has internal control system & it is reviewed on regular basis.

3] Test control
- Test the internal control system to review the adequacy & effectiveness of internal control system.

4] Account Details
- Ensures fin. statements of the company are correct & does not give any false info.

Process of Internal audit

1] Identify scope & objective of audit
2] Identification of risk areas under review
3] Risk assessment
4] Sampling, testing if internal control estd.
5] Report issues & challenges
6] Follow up.

* Evaluation of internal audit function by an auditor

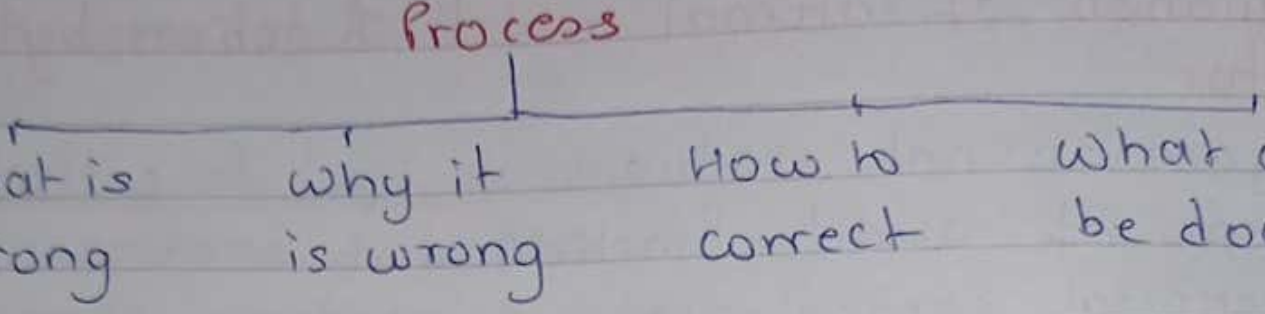
i) Organisational status
ii) Scope of audit function
iii) Technical competence
iv) Due professional care
v) Monitoring of internal control
vi)

Report writing / Reporting

Communicating the findings of internal audit to management

Objective

- Provides details of all significant findings during the audit
- mgmt will understand the issue and will take corrective actions
- Performance will be improved
- follow up will help in progress



* Role of IA in org control mechanism

1] Internal Control (*) Imp

-Internal control means effective policies & procedures are adopted by the company to ensure compliance, manage risk & safeguard assests of the company.

Objective :-

i] Transactions are performed after authorization by the mgmt.
ii] Safeguarding of assests
iii] If there is a diff between recorded asset and exising assests then necessary actions are taken.

Role of IA :-

i] Check the controls are efficient & effective
ii] Recommend new controls
iii] Using control framework
iv] Developing control self assessment.

It is important to maintain an audit committee which will evaluate the internal controls & risk mgmt.
Audit comm. will review the observation of auditor about internal control system before submission to Board.
[Reg 18 of SEBI (LODR) Audit comm.]

2]
* Risk Management
- IA evaluates the organisation's risk mgmt process & verifies if mgmt performs risk assesment activities as a part of ordinary coorse of business.

- IA will evaluate each of the activity performed by mgmt for risk assessment incl budgeting, planning, accounting, credit or lending practices, to report & monitor the risk identified.

3] Corporate Governance
- IA is considered as one of the four pillars of corporate governance
Corporate governance includes ethical practices in a company.

- Primary focus of internal audit is to help the audit comm. & BOD to perform their responsibilities wrt corporate governance effectively.

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CS PROFESSIONAL

MODULE 1 | NEW SYLLABUS

June 2024 Attempt

CMADD

CHAPTER 05 - PEER REVIEW AND QUALITY REVIEW

Handwritten Notes

CS MUSKAN GUPTA

YES ACADEMY CS | LAW

Chapter 5 – Peer Review & Quality Review

→ Review of performance of practising professionals with a view to improving quality / standards.

→ Primary objective → Continuing quality improvement.

* Authority to administrate Peer Review

CS Act 1980 → ICSI

CS Act 1930 → ICSI
↳ function under the supervision of council → Issued guidline for Peer Review

2

Enhance the quality of work of PR

* Scope of Peer Review

(1) MGTB / MGT 7

(2) 204 → Secretarial Audit Report

(3) Reg 24A SEBI(LODR) → Material unlisted Subsidiary

Compliance Report

(3) Reg 24A SEBI ... unlisted Subsidiary

(4) Annual Secretarial compliance Report to listed Entities

(3)

(5) Reg 40(9) of SEBI (LODR) → all certificate have been issued in 30 days of FY

(6) Diligence Reporting of Bank

(7) Internal Audit → Stock Brokers

(8) compliance certificate → Corp Gov certification

(9) Reg 76 SEBI (Depository & Participant) → Reconciliation of share capital Audit

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* Qualifications of Peer Reviewer

(4)

1) Member + 10 year post Qualification Experience as CS
+
have been in practice for continuous period — not less than 5 year

2) COP

3) Training Programme Qualified for Peer Reviewer + certification Programme

Disqualification → X Disciplinary action → during Past 3 year

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(5)

Disqualification → × Disciplinary action → during Past 3 year

→ × guilty of Prof Misconduct

→ Convicted by competent court.

* Validity of Empanelment → 5 years

* Statement of confidentiality →

High integrity needed on Part of Reviewers + Assistants

→ Reviewer + Assistant will Sign the Statement of Confidentiality

Shall preserve Secrecy

Shall not communicate to any other person

Shall not permit any other person to access the record

* Validity of Certificate → 5 years

* Cost of Peer Review → borne by PU
→ Paid in 30 days from date of Receipt of invoice

→ 10,000/-

(7)

* Quality Review Board

→ Constituted by Govt of India

→ Chairperson + 4 Members

(2) Nominated by Council

(2) Nominated by CG

Persons Having Experience in Law/ Economics/ Business/ Finance/ Accountancy.

Functions

→ Make recommendation about Quality of Service

→ Review the Quality of Service

→ Guide the members to improve the Quality of Service

of Saving

+ Reversal of Dispute & Appeal

8

Reviews → Board → 2 Month → Council

2 Months

↓

decide the dispute in 6 months

↓

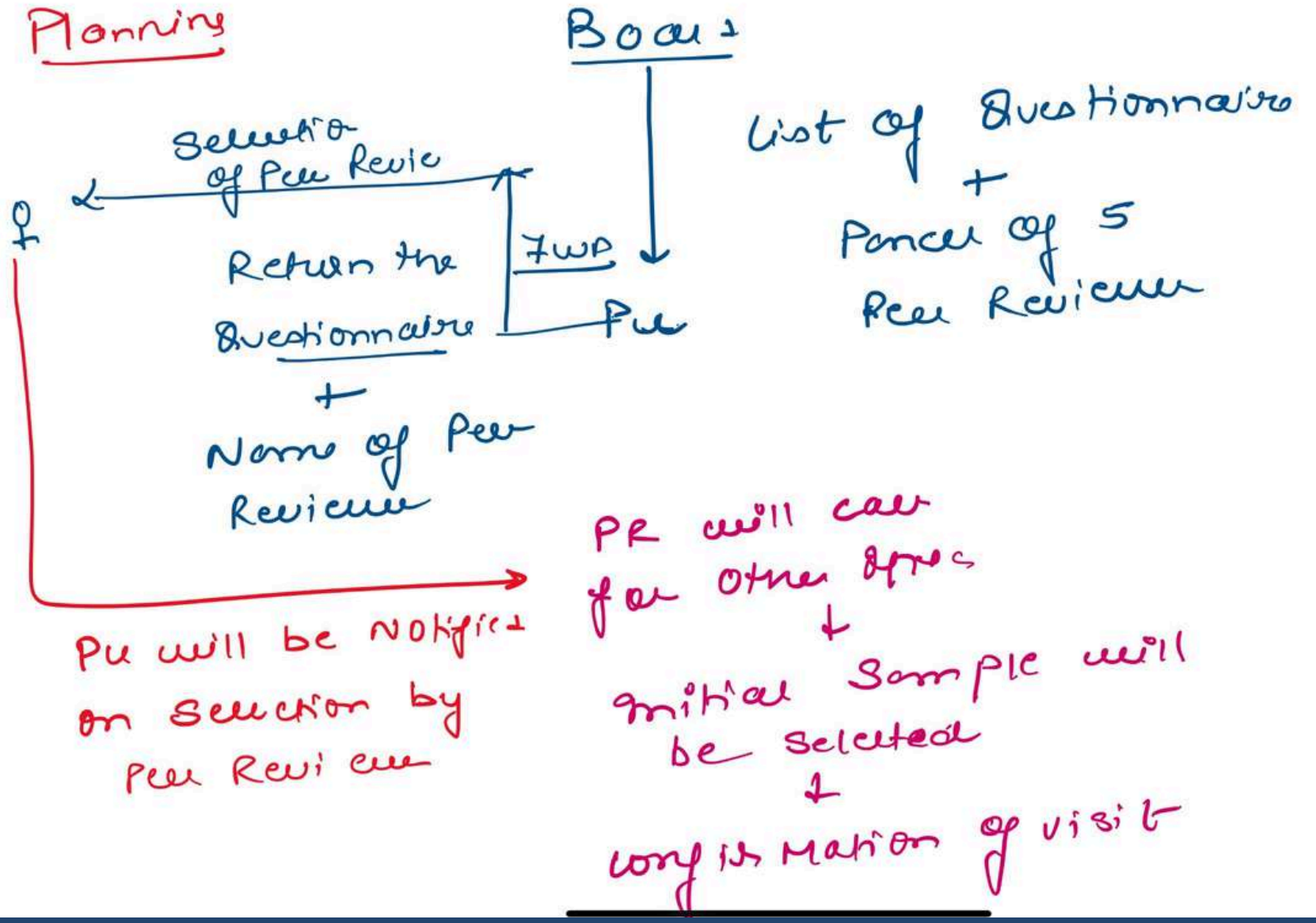
Issue direction + order to comply within 30 days

↓

Send a Report within 15 days of compliance

* Procedure of Peer Review

(9)



Execution

Initial Meeting → Discuss the agenda of Peer visit + Longer the Response in Questionnaire

Compliance Review –

General controls

- Independence
- Professional skill
- Staff Supervision + Developme
- Office Administration
- Outside consultation

Selection of Attestation Services to be Reviewed

Selection of Attestation Services to be Reviewed

↓

Review of Records

- Compliance Approach
  - Proper control Procedures have been Established
- Substantive Approach
  - used when Reviewer does not rely on General control

* Reporting

Peer Reviewer

Reporting

Peer Reviewer

↓

Preliminary Report → PE (7 days) → Representation

↓

Final Report of Reviewer

↓

Board → (d) → Recommendations

↓

Follow up

PRC

Board

PRC ✓ → (α) → Recommendations

↓

Follow up

by Peer Reviewer

↓

Report to Board

✓ ← (α)

PRC Ends

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MODULE 1 | NEW SYLLABUS

June 2024 Attempt

CMADD

CHAPTER 16 - DUE DILIGENCE

Handwritten Notes

CS MUSKAN GUPTA

Chapter 16 - Due Diligence

Investigation into affairs of the company to gather information about target company

Need for DD

1) Identify Significant Matters
2) Discover Threats & weakness
3) Collect Material info
4) Ensures Security in a transaction
5) Good Inv decision
6) Shareholders confidence

Transactions that require DD

(2)

1) Partnership
2) Merger
3) Joint Venture
4) Collaboration
5) Outsourcing Agreement
6) Strategic Alliance

SWOT Analysis

* Carried out as a part of Due Diligence to reveal strengths & weaknesses

↓

Helps Company Eages to

weakness

* Target Co. is always eager to reveal to the other party that it is up for sale & wants to keep this information confidential from competitors & customers.

* Because the info is confidential not all info can be revealed which is why services of Experts are hired.

* Buyer Entes into a conditional agreement with AD clause where Buyer conducts AD in a limited Period of time.

* Buyer Enters into a conditional agreement with SD clause where Buyer conducts DD in a limited Period of time.

↓

* Buyer Requests access to Material Info to conduct investigation + FA Confidentiality Agreement is Signed to protect target business interest.

↓

* Re Negotiation of initial terms + Make a rational decision

(4)

Need for Due Diligence

1) Confirm business is what it appears
2) reduce the risk of post transaction
3) Investigate into affairs of the co.
4) Confirm all Material

Scope of Due Diligence

1) Ensure compliance
2) Penalties applicable on non compliance
3) assess the availability of resources
4) Assets / Intellectual

faults

6) Investigate & Evaluate Business opportunity

6) Discover risks that are deal breakers

7) Evaluate Legal & Financial risk

5) Unpaid taxes

6) Fraud claims

7) Reputation / Goodwill

8) Cross border issues

9) Financial statements

10) Past Business failures

* Factors to be kept in mind while conducting Due Diligence.

* Factors to be kept in mind while conducting Due Diligence.

7

1) Objective & Purpose

- Be clear about Expectation
- Have resources to make business succeed
- Business give you opp to put your Experience
- Learn about industry you are interested in.

2) Planning the Schedule
   - steps to be followed
   - areas to be checked
   - aspects to be checked
   - Date of Material requests from seller

3) Negotiation for time → Negotiation should be made for adequate time to Review crucial Date & Legal aspects

4) Risk Minimisation → Background of Promoter

4) Risk Minimisation
   - Background of Promoter
   - Business Plan
   - Risk Mgmt System
   - optimum utilisation of resource
   - Adequate Infrastructure

5) Information from External Source

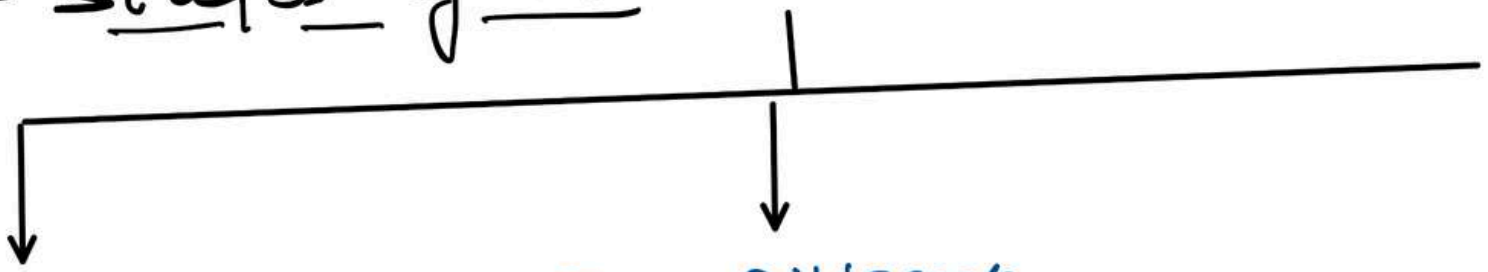
6) Limit the export with natural gas

7) Structure of

7) Structure of Information

10

* Stages of DD



Pre Diligence

1) LOI
2) NDA
3) collation of data
4) Identify Issues
5) Organise Papers

Due Diligence

* Deal Breaker
  ↳ minimal Proceedings + Various Non compliance
* Deal Dilutor
  Quantifiable Penalties eliminishing the value of

Pre Diligence

1) LOI
2) NDA
3) collation of data
4) Identify Issues
5) organise papers
6) Creating a data Room

Due Diligence

* **Deal Breaker**
  - criminal Proceedings + various Non compliance
* **Deal Dilutor**
  - Quantifiable Penalties diminishing the value of co.
* **Deal Cautions**
  - Rectifiable Non compliances
* **Deal Maker**
  - ~~Clean Report~~

* Techniques of Due Diligence & Risk Assessment

12

1) Analyse the objective

2) Know your client → Identify the Risk + Assess how to Manage.

3) Examination of financials of organisation → 1) B/s
2) Revenue / Profit
3) Inventory Schedule
4) Tax form + Documents

13

5) Short + long term debts

↓

4) Inspection of Documents

↓

5) Actions taken to control any risk → 6) Responding to incidents

* Types of Due Diligence

Legal Due Diligence

Covers Legal aspects of business transaction + liabilities of target co + other related issues

(14)

transaction + liabilities
target co. + other related issues

Verify Documents

1) Copy of MOA | AOA
2) Minutes of BM → Last 3 years
3) Minutes of Meeting of SH
4) All Material contracts
5) Copies of loan agreement
6) Organisational chart
7) Search | status Report
8) RPT

8) RPT

9) IPO / FPO / Prospectus

10) Returns filed with ROC.

15

Scope
* Company Law
* Income Tax Law
* Labour Law
* IPR
* Env Law etc.

Due Diligence for M&A

Scope

Due Diligence for M&A

Stages	Buyer	Seller
Preparation stage	1) strategy 2) Potential targets 3) External advisor 4) Short list targets 5) Create DD Team	1) strategy 2) Potential targets 3) External advisor 4) Shortlist Buyers
Pre Diligence	1) Approach targets 2) Negotiate	1) Approach target 2) Negotiate

	2) Negotiate initial terms 3) NDA 4) List of data	2) Negotiate 3) NDA 4) creation of data room
Due Diligence	1) Inspection of Data Room 2) Evaluating Risk	1) Assist in Data ROOm
Negotiation	Negotiation on agreed terms + Final offer	Negotiate + Final offer
		Termination of

Negotiation	Negotiation on agreed terms + Final offer	Negotiate + Final offer
Post Diligence	Adjustments	Termination of data room + ownership Exchange

18

* Due Diligence for Issue of Securities

SEBI → ICDR → Issue

SEBI → LODR → Listing Disclosures

* IPR Due Diligence

1) Schedule of Patent
2) Schedule of copyright / Trade Mark
3) Details of Indian & International Patent
4) Copies of all agreement / Inventions / License
5) Details of threatened claims

* Environment Law

↳ analyses Env risk & liability

* Environment Law

20

↳ analyses Env risk & liability

+

provides acquirer with a detailed assessment of historic / current / potential future Env risk

+

Involves risk identification + Assessment

1) Env permits + license
2) Hazardous substance
3) Litigation / Investigation

4) Env Setting + History of Site (21)

5) Assessment of site conditions

6) Legal compliance with Env Laws

a) Air (Prevention & control of Pollution)

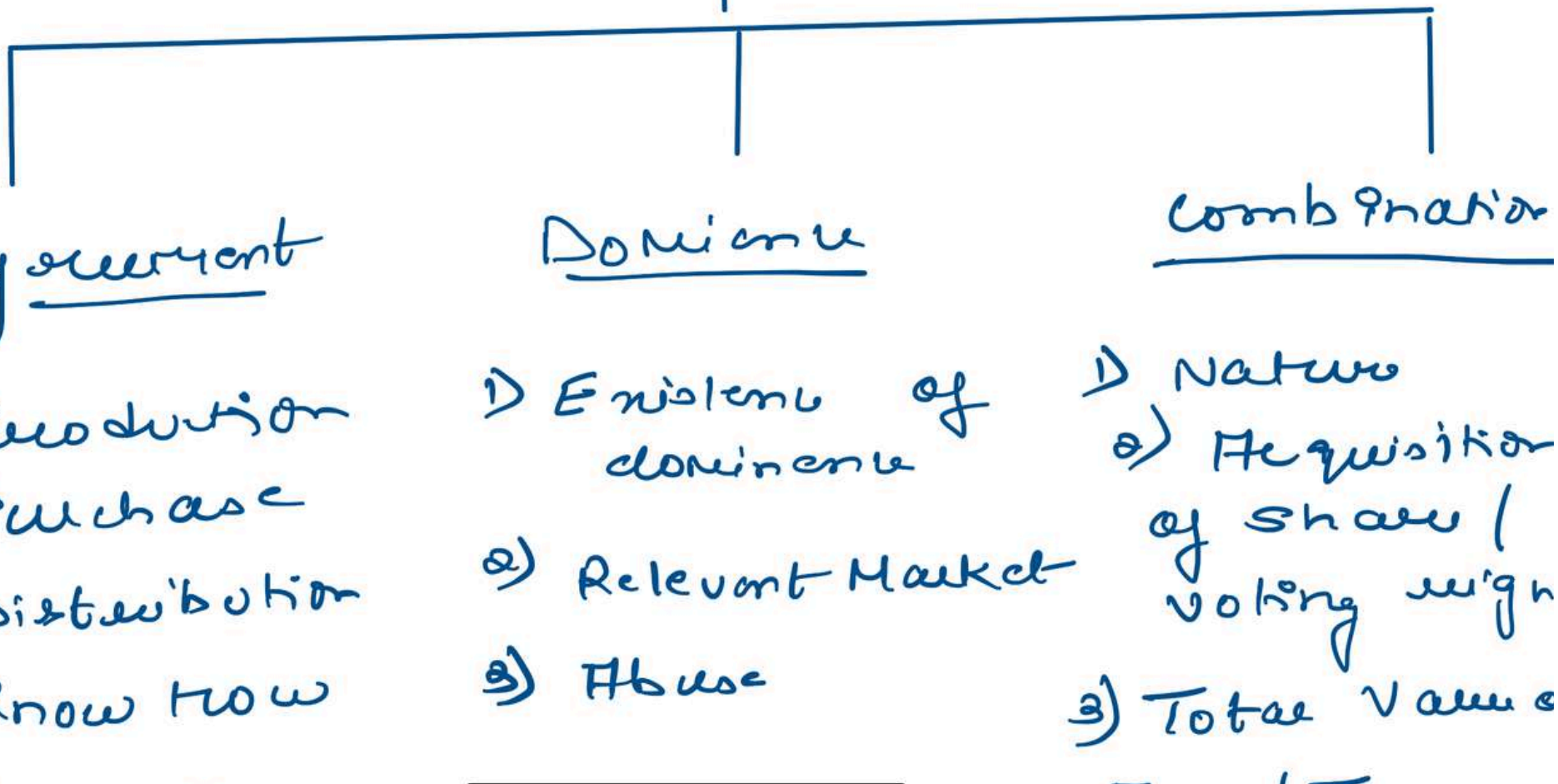
b) Water (Prevention & control of Pollution)

c) National Green Tribunal

d) Env Protection Act

e) Forest conservation

* Competition Law Due Diligence



4) Know How

5) Concession

3) House

3) Total Value of Asset / Turnover

4) Notification to CG

5) Dominance

* FCRA Due Diligence

↳ governs foreign funding received by Non Profit org

Registration → MHA → Validity 5 year

Prior Approval → Before Every transaction

Annual Return → Mandatory → within 6 months from closure of Financial year.

24

* Bank Due Diligence

1) Conducted by PCS

2) on half yearly basis

Should have access to all books / papers / minute / forms / returns]

25

Report with Qualification

Bold / Italics

Professional Responsibility

Companies Act, 2013

448

447

204

LL Act, 1980

I Schedule

II Schedule

* HR Due Diligence

1) Employees → Position

* HR Due Diligence

1) Employees → Position + Salaries

2) Total Employee

3) Current Salaries / Bonus

4) Employee Benefit Scheme

5) Employee Harassment Report

6) Critical Issues

* Non Disclosure Agreement

↳ Protect Sensitive Info.

* Non Disclosure Agreement

↳ Protect Sensitive info

↳ Help the inventor keep patent rights

↳ Outline what info is private

Content
- Definition + Exclusions of confidential info
- Obligations from involved people