

Chapter 8: Concepts of Various Audits

INTRODUCTION:

- An audit is an independent check of a company's records to ensure accuracy and fairness in financial statements.
- The word "audit" comes from the Latin word "audire," meaning "to hear."

Key Laws:

- Audits are governed by the Companies Act, 2013 (Sections 139 to 147) and the Companies (Audit and Auditors) Rules, 2014.
- Section 143(12) applies audit powers and duties to cost accountants (cost audit) and company secretaries (secretarial audit).

Types of Audits:

1. Statutory Audit
2. Internal Audit
3. Secretarial Audit
4. Cost Audit

Audit Categories:

- **Financial Audits:** Statutory, cost, internal audits.
- **Compliance Audits:** Secretarial, CSR, corporate governance, insider trading, etc.

Other Internal Audits:

- Stock, HR, IT, and branch audits, among others, help improve company functions.

Role of Company Secretaries:

- Company secretaries are important in conducting audits like secretarial, CSR, and corporate governance audits.

CORPORATE GOVERNANCE AUDIT:

- Corporate governance ensures ethical and transparent management of a company, benefiting all stakeholders.
- It focuses on fairness, integrity, and accountability in business operations.
- Recent scandals in India highlighted the need for better accountability in both businesses and government.

Legal Framework:

- Corporate governance rules were updated through the Companies Act, 2013 and SEBI's LODR Regulations, 2015.
- These rules align India's practices with global standards and apply to listed companies.

Role of Corporate Governance Audit:

- It checks if governance practices are followed and identifies any gaps.
- It helps stakeholders make informed decisions by assuring that governance norms are met.
- The audit is managed by the Audit Committee and the Auditor.

Need for Corporate Governance Audit (CGA):

- CGA ensures transparency and ethical management by monitoring the Board and management.
- Well-governed companies attract more investment and have higher market value.
- Good corporate governance increases capital flow and broadens the customer base.

Scope of Corporate Governance Audit:

1. Financial and non-financial disclosures.
2. Protection of stakeholder rights.
3. Board composition and independence.
4. Control environment (accounting and audits).
5. Risk management.
6. Transparency in financial reporting and executive pay.
7. Strategic planning and social responsibility.

Role of Audit Committee

- The Audit Committee ensures proper corporate governance by overseeing the audit process.

Requirements (Section 177, Companies Act, 2013):

- The Audit Committee is required for:
 - ✓ Listed public companies.
 - ✓ Public companies with capital of ₹10 crore or more.
 - ✓ Public companies with turnover of ₹100 crore or more.
 - ✓ Public companies with loans, debentures, or deposits over ₹50 crore.
- It must have at least **three directors**, with a majority being independent.
- The **Chairperson** and members should be able to read and understand financial statements.

SEBI (LODR) Regulations, 2015 – Audit Committee Requirements:

- Every listed company must have an independent and qualified Audit Committee.

Key Points:

1. **Minimum Members:** At least **3 directors**.
2. **Independent Directors:** Two-thirds of members must be independent directors. If the company has SR equity shares, the committee must be fully independent.
3. **Financial Literacy:** All members must understand financial matters; at least one should have accounting expertise.

4. **Chairperson:** The chairperson must be independent and attend the **AGM** to answer shareholder questions.
5. **Company Secretary:** The **Company Secretary** acts as the committee's secretary.
6. **Executives:** The committee can invite key executives like the **finance director** and **statutory auditor** to meetings.

Role of Audit Committee w.r.t. corporate governance has been defined under LODR Regulations as follows:

1. Ensuring the accuracy, completeness, and credibility of financial statements.
2. Recommending the appointment, remuneration, and terms for auditors.
3. Approving payments to auditors for additional services.
4. Reviewing the annual financial statements and auditor's report before board approval, focusing on areas like accounting changes, estimates, legal compliance, and related party transactions.
5. Reviewing quarterly financial statements before board approval.
6. Monitoring the use of funds raised through public or rights issues to ensure proper utilization.
7. Ensuring the independence and performance of auditors.
8. Approving related party transactions.
9. Reviewing inter-corporate loans and investments.
10. Assessing the valuation of assets when needed.
11. Evaluating internal financial controls and risk management systems.
12. Reviewing the performance and effectiveness of statutory and internal auditors.
13. Ensuring the internal audit function is adequate, including its structure and staffing.
14. Investigating any significant findings from internal audits, particularly in cases of fraud or control failures.
15. Discussing audit scope and findings with statutory auditors.
16. Investigating reasons for defaults in payments to creditors, shareholders, or debenture holders.
17. Overseeing the whistleblower mechanism.
18. Approving the appointment of the Chief Financial Officer (CFO).
19. Carrying out any additional functions assigned in its terms of reference.
20. Reviewing large loans or investments made by the holding company in subsidiaries.
21. Considering the impact of corporate restructuring activities like mergers or demergers on the company and its shareholders.

CORPORATE GOVERNANCE AUDIT CHECKLIST:

Accountability:

- Ensure ownership and control are separate.
- Check if management is accountable to the Board, and the Board to shareholders.
- Verify the presence of Board/Audit Committee policies.
- Ensure independent directors can do their job.
- Confirm meetings are held regularly and are effective.
- Ensure auditors have full access to information.
- Check if ethical policies are in place.

Fairness:

- Ensure fair treatment of all shareholders, including minorities.
- Verify clear processes for resolving issues.
- Check for fair pricing and market practices.

Transparency:

- Investors should know share rights and voting changes.
- Ensure timely and accurate disclosure of financial and governance matters.
- Check for policies on political contributions and insider trading.
- Ensure shareholders can express views on executive pay.

Responsibility:

- Ensure policies on stakeholders' rights and business sustainability.
- Verify the Board's role in strategy, risk, and performance oversight.

Shareholder Interests:

- Ensure shareholders are involved in key decisions like share issuance and asset sales.
- Disclose any capital structures giving unequal control.
- Protect minority shareholders from unfair actions.
- Board members and executives should disclose personal interests in transactions.

Audit Report:

- The auditor issues a compliance certificate summarizing governance findings, attached to the directors' report as per SEBI regulations.

CORPORATE GOVERNANCE DUE DILIGENCE CHECKLIST:

Board Independence & Governance:

- ✓ Ensure the chairperson's role (executive/non-executive) and independent director composition.
- ✓ Verify **50% independent directors if the chairperson is an executive or related to promoters.**
- ✓ Ensure at least **1/3rd of the board is independent if the chairperson is non-promoter.**
- ✓ Check for **at least one-woman director, and an independent woman director for top 1000 listed entities.**
- ✓ Ensure the **presence of a senior/lead independent director if the chairperson and CEO are the same person.**
- ✓ Verify policies for independent director induction, appointments, and tenure.
- ✓ Ensure training and D&O (Directors & Officers) insurance for directors.

Board Systems & Procedures:

- Check board meeting procedures, including agenda circulation, attendance, and video conferencing.
- Verify compliance with statutory laws and communication of board decisions.
- Ensure policies for succession planning, performance review, and action reports.
- Review directors' and relatives' share dealings.

Board Committees:

- ✓ Check the structure, composition, and terms of reference of board committees (e.g., Audit Committee).
- ✓ Ensure independent directors are involved in the Audit Committee, and verify the risk assessment and related-party transaction reviews.
- ✓ Confirm rotation of auditors and pending investor grievances.

Transparency & Disclosure Compliances:

- Ensure proper disclosures in the annual report, including remuneration, related-party transactions, and pending legal cases.
- Verify compliance with insider trading regulations, secretarial standards, accounting standards, and secretarial audits.
- Check for adverse remarks in audit reports.

Shareholder Value Enhancement:

- ✓ Review net worth growth, dividends, earnings per share (EPS), and public shareholdings.
- ✓ Check for investor satisfaction surveys.

Stakeholder Value Enhancement:

- Review satisfaction surveys for vendors, suppliers, and customers.
- Ensure personnel policies, employee participation, and ESOPs.
- Verify policies on preventing sexual harassment and vendor development.

Corporate Social Responsibility (CSR):

- ✓ Check CSR policy, sustainability report, and energy/water/waste management initiatives.
- ✓ Verify budget allocation for CSR activities.

SECRETARIAL AUDIT:

Key Points:

- ❖ A review of a company's compliance with non-financial laws and regulations.
- ❖ Ensures the company follows all relevant laws, boosting trust with investors, management, and regulators.
- ❖ Checks compliance with the Companies Act, labour laws, environmental laws, and other industry-specific rules.
- ❖ Reduces risks and protects the company's reputation. Improves management and operational effectiveness.
- ❖ Done by a Company Secretary who verifies legal compliance through documents and records.
- ❖ Adds value by ensuring better governance, risk management, and control processes.

Applicability of Secretarial Audit:

- Who needs a secretarial audit?
 - ✓ Every listed company.
 - ✓ Public companies with:
 - **Paid-up capital of ₹50 crore or more.**
 - **Turnover of ₹250 crore or more.**
 - **Loans/borrowings of ₹100 crore or more.**
- Requirements:
 - ✓ Attach a secretarial audit report (Form MR-3) to the Board's report.
 - ✓ Provide necessary help to the company secretary conducting the audit.
 - ✓ Address any issues raised in the audit report in the Board's report.
- Penalty for non-compliance:
 - ✓ ₹2,00,000 fine for non-compliance.

Secretarial Audit and Compliance Report under SEBI (LODR) Regulations:

- **Mandatory Audit:**
 - The Kotak Committee made secretarial audits compulsory for all listed entities and their material unlisted subsidiaries.
 - SEBI confirmed this in 2019, requiring secretarial audits for these entities.
- **Audit and Compliance Report:**
 - The secretarial audit must be attached to the annual report.
 - Entities must also submit a compliance report to stock exchanges within 60 days after the financial year ends.
- **Content:**
 - The audit checks compliance with all relevant laws.
 - The compliance report ensures adherence to SEBI regulations and guidelines.
- **Simplified Process:**
 - Form MR-3 is used for both the audit and compliance report.
 - Companies must provide necessary documents for the audit.

Purpose of Secretarial Audit:

Secretarial Audit ensures a company follows all necessary laws and regulations. It gives confidence to investors, management, and regulators about the company's compliance. **Benefits include:**

- ❖ Early detection of non-compliance and timely corrective actions.
- ❖ Strengthening governance and reducing legal risks.
- ❖ Improving company reputation, loyalty, and market value.

INTERNAL AUDIT:

- Internal auditing is the process of evaluating an organization's internal controls, risk management, and governance.
- Its purpose is to help organizations achieve their goals by providing independent assurance and consulting.
- Key tasks include assessing operations, financial reporting, and compliance, and identifying risks while recommending improvements.
- According to the IIA, internal auditing is an independent activity that adds value by improving risk management, control, and governance through a systematic approach.
- Internal audit is done by professionals who understand the company's culture, systems, and processes.
- It ensures controls reduce risks, governance is effective, and goals are met.
- Tasks include evaluating new technologies, assessing risks, controls, and efficiency.
- Internal auditors provide valuable advice to management and boards to improve governance and controls.

- The scope of internal audit is broader than just financial and operations audits; it covers all company functions.
- It helps improve risk management and governance processes across the organization.
- Internal audit contributes in the following areas:
 - ✓ Reviews and evaluates control systems (financial and operational).
 - ✓ Ensures compliance with policies, procedures, and regulations.
 - ✓ Helps manage and mitigate risks.
 - ✓ Identifies waste, inefficiency, and duplication to save costs.
 - ✓ Protects assets and detects fraud early.
- Under the Companies Act, 2013 (Section 138), certain companies must appoint an internal auditor, who can be a chartered accountant, cost accountant, or another professional chosen by the board.
- Company Secretaries are recognized as eligible to be appointed as internal auditors.

Applicability of Internal Audit:

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* Internal Audit Applicability →

→ mandatory for all listed co. irrespective of any criteria.

unlisted public co.

- PSC → 50 cr or more (during last FY)
- TLO → 200 cr or more (during last FY)
- o/s loans / borrowings from Banks / PFI exceeding 100 cr (at any time in last FY)
- o/s deposit of 25 cr or more (—||—)

Private co.

- TLO → 200 cr or more
- o/s loans from Bank / PFI → exceeding 100 cr or more.

CORPORATE SOCIAL RESPONSIBILITY (CSR) AUDIT:

- CSR (Corporate Social Responsibility): Refers to companies supporting their community, promoting fair work, and being environmentally responsible.
- It helps companies build trust and a good reputation.
- Companies Act, 2013: Made CSR mandatory for certain companies.
- It requires better governance, reporting, and accountability in CSR activities.

CSR Requirements apply to companies with:

- Net worth of ₹500 crore or more.
- Turnover of ₹1000 crore or more.
- Net profit of ₹5 crore or more in the last financial year.

CSR Committee:

- ✓ Must have at least 3 directors, including 1 independent director.
- ✓ If no independent director, at least 2 directors are needed.

CSR Policy: Companies must create a policy to guide CSR activities.

CSR Spending: Companies must spend 2% of average net profits from the last 3 years on CSR.

Objective of CSR Audit:

- Measures social performance against company goals.
- Checks alignment of decisions and actions with social responsibilities.
- Ensures the company meets stakeholder expectations.

Purpose of CSR Audit:

- Ensures compliance with the Companies Act (committee, policy, spending).
- Provides monitoring and guidance for CSR activities.
- Evaluates internal controls and governance.
- Assesses the entire project life cycle.
- Reviews finances to ensure proper use of funds.

Methodology for CSR Audit:

1. Review CSR policy, committee, and governance.
2. Talk to beneficiaries, project teams, and stakeholders.
3. Check beneficiary selection, budgets, and outcomes.
4. Verify CSR spending, project costs, and legitimacy.

Conducting CSR Audit:

- Can be done internally or by external experts.
- Companies must publish CSR reports on their website.
- CSR report must be included in the board's annual report (Companies Act, 2013).

CSR Audit Coverage:

- Focuses on human rights, health & safety, environment, and community development.

CSR Activities (Companies Act, 2013 - Schedule VII):

1. Fighting hunger, promoting healthcare, sanitation, and clean drinking water.
2. Supporting education and vocational skills for underprivileged groups.
3. Empowering women, providing homes for women, orphans, and elderly.
4. Promoting sustainability, conservation, and Clean Ganga Fund.
5. Protecting heritage, restoring historical sites, and promoting traditional arts.
6. Supporting veterans and their families.
7. Promoting rural, national, and Paralympic sports.
8. Contributing to PM CARES or other relief funds.
9. Supporting scientific research and development projects.
10. Funding rural and slum area development.
11. Assisting in disaster relief and rehabilitation.

CSR Checklist under the Companies Act, 2013:

- a) Check if CSR Committee is required.
- b) Ensure CSR Committee has at least 3 directors (1 independent).
- c) Verify CSR policy is approved by the committee.
- d) Confirm CSR projects are within Schedule VII activities.
- e) Check if there is a process to monitor CSR projects.
- f) Ensure CSR Committee's composition is in the board's report.
- g) Verify CSR activities are separate from normal business.
- h) Check if the CSR expenditure is recommended by the committee.
- i) Ensure a transparent monitoring mechanism is in place.
- j) Confirm CSR policy is on the board's report and website.
- k) Ensure the board's report includes a CSR annual report.
- l) If no CSR spending, the reason must be in the board's report.
- m) Verify net profits are calculated as per Section 198.
- n) If internal CSR capacity building, check overheads do not exceed 5%.
- o) Confirm compliance with all CSR rules.

Measures of CSR Audit:

- ❖ How the company tracks community changes from its operations.
- ❖ How the company surveys communities before starting CSR activities.
- ❖ How the company assesses CSR impact on community life.
- ❖ How the company measures the success of CSR activities.

TAKEOVER AUDIT:

Purpose: Ensures compliance with regulations on disclosures, pricing, and open offers under the Companies Act, 2013 and SEBI's Takeover Rules.

Key Areas:

- ❖ **Identify Parties:** Categorize acquirers, promoters, and related parties.
- ❖ **Timely Disclosures:** Ensure proper and timely reporting of acquisitions and transfers.
- ❖ **Monitor Holdings:** Track promoter and PAC holdings and take necessary actions.

- ❖ **Timely Intimations:** Report exempt transfers to stock exchanges.
- ❖ **Compliance Reports:** Ensure timely filing of necessary reports.

Types of Takeover Audits:

- Pre-acquisition: Checks compliance before the deal.
- Post-acquisition: Verifies compliance after the deal.

Objectives:

1. Helps assess the cost-benefit of the deal.
2. Minimizes risks and maximizes opportunities.
3. Ensures the acquirer is well-informed for negotiations.

Consequences of Violating SEBI (SAST) Regulations, 2011:

- i. Sell shares acquired in violation.
- ii. Transfer proceeds to investor protection fund.
- iii. Block share transfers by target company.
- iv. Restrict acquirer from using voting rights on acquired shares.
- v. Ban acquirer from accessing capital markets.
- vi. Force acquirer to make an open offer at a SEBI-determined price.
- vii. Prevent sale of assets unless specified in the offer.
- viii. Charge interest on delayed open offer payments.
- ix. Prevent transactions if open offer payment is not made.
- x. Order acquirer to stop exercising control over the target company.
- xi. Instruct acquirer to reduce shareholding to comply with limits.
- xii. SEBI will follow natural justice in all actions.

INSIDER TRADING AUDIT:

Insider trading audit checks compliance with SEBI regulations, covering:

- Initial disclosures by promoters, key managerial personnel, and directors about their trades.
- Continual disclosures for trades over ₹10 lakh in a quarter, with the company notifying stock exchanges within 2 days.
- Submission of trading plans by insiders.
- Appointment of a compliance officer.

- Pre-clearance required for trading by insiders.
- Codes for fair disclosure and conduct.
- Designated persons' responsibilities in handling insider information.
- Proper management of unpublished price-sensitive information (UPSI).

Illustrative checkpoints for verification of Compliance under the SEBI (Prohibition of Insider Trading) Regulations, 2015 includes whether:

- Check if the company has a compliance officer for insider trading.
- Verify if the company keeps a database of UPSI and involved persons.
- Ensure the database is kept for 8 years or until SEBI investigations end.
- Confirm an officer manages the insider trading code of conduct.
- Check if the Board has a fair disclosure code for UPSI.
- Ensure the code is on the company website and sent to the stock exchange.
- Verify sanctions for violations (e.g., wage freeze) are in place and fines go to SEBI's fund.
- Ensure the company has a senior officer for handling UPSI.
- Verify a code to monitor trading by insiders exists.
- Check if the company has a code for securities trading as per SEBI.
- Ensure code changes are communicated to the stock exchange.
- Verify trading plans are compliant with regulations.
- Ensure KMPs and their relatives disclose their trades.
- Ensure connected persons disclose their holdings and trades regularly.
- Confirm protection for employees reporting insider trading violations.
- Ensure updates to the fair disclosure code are sent to stock exchanges.
- Confirm the Board takes action on violations.
- Ensure the compliance officer reviews and approves trading plans.
- Verify insiders provide necessary declarations for their trades.
- Ensure trading plans are reported to the stock exchange.
- Confirm trading records are kept for at least 5 years.
- Ensure initial disclosures are received from promoters and key personnel.
- Verify timely disclosure when someone becomes a KMP, director, or promoter.
- Ensure continuous disclosure of trades over a set value.
- Ensure disclosures are sent to the stock exchange promptly.
- Confirm regular trading disclosures from connected persons.

- Ensure reports are made to the Audit Committee or Board.
- Verify the company follows “Chinese wall” procedures for information flow.
- Confirm the compliance officer controls the timing of the trading window.
- Ensure pre-clearance procedures exist for trades by designated persons.
- Confirm no "contra trades" are made within 6 months.
- Ensure profits from contra trades are remitted to SEBI.
- Check if SEBI has taken action against the company for violations.
- Verify no person has been convicted by SEBI for insider trading.
- Confirm actions have been taken against those not following the code.
- Check for additional anti-insider trading measures by the company.

INDUSTRIAL AND LABOUR LAW AUDIT:

Purpose:

- i. Ensure compliance with labour laws.
- ii. Identify and correct non-compliance issues to avoid legal penalties.
- iii. Improve relations between employees and employers.

Audit Process:

- Conducted by professionals (e.g., Company Secretary).
- Reviews records and reports compliance status.

Scope:

- ✓ Covers all relevant central, state, and local labour laws.
- ✓ Varies based on business type, size, location, and workforce.

Focus:

- Emphasizes human rights and worker conditions, not just financial aspects.
- Ensures systems are in place for ongoing compliance.

Factories Act, 1948: Quick Checklist

1. Applicability:

- The Act applies to the company.

2. Notification to Authorities:

- Notify Chief Inspector 15 days before using premises as a factory.

3. Registration/License:

- Ensure registration/licensing under Section 6.

4. Appoint Manager/Occupier:

- Appoint manager/occupier and notify authorities.

5. Key Compliance Areas:

- Health, safety, and welfare measures.
- Working hours for adults.
- Employment of young persons.
- Annual leave with wages.

6. Required Records & Returns:

- Registers for workers, leave, accidents, and holidays.
- Half-yearly returns (July & January), monthly accident reports, and annual return by January.

Industrial Disputes Act, 1947: Quick Checklist

1. Act applies to the company.
2. Check for any industrial disputes as per Section 2A.
3. Maintain a muster roll as required by Section 25-D.
4. For 100+ workers, set up a works committee (Section 3).
5. Notify workers 21 days in advance for changes in service (Form E, Section 9A).
6. For 20+ workers, establish a grievance redressal committee (Section 9-C).
7. For public utility services, notify lockouts in Form N (Section 22(3)).
8. Follow rules for retrenchment (Sections 25F, 25N).
9. Compensate workers during layoff as per Section 25C.
10. Compensate workers in case of closure of undertakings (Section 25FFF).

The Payment of Wages Act, 1936: Quick Checklist

- The Payment of Wages Act, 1936 applies to the company.
- Wages are paid on time:
- By the 7th of the next month for fewer than 1000 workers.
- By the 10th of the next month for more than 1000 workers.

- Wage deductions are legal and follow the rules.
- Employees are given notice for damage/loss deductions.
- Employees are heard for unauthorized absence deductions.
- Maintain wage and employee records for 3+ years.
- Display the Act's rules as required.

The Minimum Wages Act, 1948: Quick Checklist

- The company follows the Minimum Wages Act, 1948.
- Minimum wages are paid as per government rules.
- Wages are paid in cash or according to the prescribed process if in kind.
- The company adheres to working hours and days regulations.
- Overtime pay is given as required.
- Required records and registers are maintained.
- Undisbursed wages are handled properly.
- Deductions from wages follow the rules.
- Payments are made within the specified timelines.
- Wage rate notices are displayed at the entrance.

Employees' State Insurance Act, 1948: Quick Checklist

1. The company is covered by the Employees' State Insurance Act, 1948.
2. The company is registered under the Act.
3. Employer and employee contributions are paid on time.
4. Employee register is maintained.
5. Required reports (annual, contributions, accidents, death) are submitted.
6. Employees receive entitled benefits.

The Employees' Provident Fund and Miscellaneous Provisions Act, 1952: Quick Checklist

- The company follows the Employees' Provident Fund Act, 1952.
- Contributions from both employer and employee are made as per the rules.
- Employee declarations are obtained at the time of joining.
- Contribution records (Form 3/3-A) are kept for each employee.

- Required returns (monthly and annual) are submitted to the Commissioner.
- Contribution accounts are properly maintained.
- Ownership details are provided to the Regional Commissioner.
- Annual contribution statement is sent to the Commissioner.
- Contribution cards are forwarded to the Commissioner.
- No legal action for dues recovery against Directors.
- If a trust is created, it provides better benefits than the statutory one.
- Conditions for creating a trust are met.
- Compliant with the Employees' Pension Scheme.
- Compliant with the Employees' Deposit Linked Insurance Scheme.

The Payment of Bonus Act, 1965: Quick Checklist

- a) The Payment of Bonus Act applies to the company.
- b) Bonus calculations are correct.
- c) Any deductions from bonus are in line with the law.
- d) Bonus is paid to eligible employees.
- e) Bonus is within the legal minimum/maximum limits.
- f) Bonus is paid on time (within 1 month for disputes, 8 months for others).
- g) Required registers are maintained.
- h) Annual bonus return is filed on time.

The Payment of Gratuity Act, 1972: Quick Checklist

- The Act applies to the company.
- Employees with 5+ years of service exist.
- Gratuity is paid within 30 days when due.
- Notice of authorized officer is displayed.
- Nomination requirements are followed.
- Employees are heard before gratuity is forfeited.
- Forfeiture is done as per the Act's rules.
- Abstract of the Act is displayed at the entrance.
- Gratuity liability is insured.

The Contract Labour (Regulation and Abolition) Act, 1970: Quick Checklist

1. The Contract Labour Act applies to the company.
2. The principal employer has a valid registration certificate.
3. The government has not prohibited the use of contract labour.
4. Contractors must have a valid license.
5. Contractors renew their licenses on time.
6. Contractors employ workers as per the license.
7. The number of workers matches the license details.
8. Contractors submit half-yearly returns on time.
9. Wage slips are given one day before payment.
10. The principal employer keeps a contractor register.
11. Annual returns are sent to the registering officer.
12. Returns are submitted to the inspector within 15 days of a contract's start or end.
13. Minimum wages are paid to contract labour in the presence of the employer's representative.
14. The employer certifies wages in the register.
15. Contractors deposit ESI and EPF payments and provide proof to HR.
16. Contractors provide required facilities like restrooms, canteens, and first aid.
17. Contract workers get paid leave.
18. Overtime is paid at double the regular rate.
19. Contract workers are covered by the ESI scheme.
20. EPF contribution slips are provided to workers.
21. Wages are paid according to Rule 65.
22. Leave and gate passes are signed by contractors and their agents.
23. Gate passes are signed by company employees.
24. Contractors maintain required records like wage and overtime registers.
25. Compliance includes:
 - ✓ Registration before appointing contractors.
 - ✓ Keeping necessary registers.
 - ✓ Displaying wage rates and the Act.
 - ✓ Submitting half-yearly returns and annual returns on time.

The Maternity Benefit Act, 1961: Quick Checklist

- I. The Maternity Benefit Act applies to the company.
- II. No woman is employed during the six weeks after delivery, miscarriage, or abortion.
- III. Pregnant women are not given heavy tasks or long hours in the month before delivery.
- IV. Eligible women have received maternity benefits, medical bonuses, and nursing breaks.
- V. The employer has displayed the Act's summary at the workplace.
- VI. Required records and registers are maintained.
- VII. The annual return has been submitted as per the law.

The Child and Adolescent Labour (Prohibition and Regulation) Act, 1986: Quick Checklist

- The Act applies to the company.
- The employer notifies the Inspector when a child is employed.
- No child labour in prohibited jobs or processes.
- A register for child workers is maintained.
- A notice of the Act's key sections is displayed.

The Industrial Employment (Standing Orders) Act, 1946: Quick Checklist

- ❖ The Act applies to the company.
- ❖ The company employs 100+ workmen.
- ❖ Draft Standing Orders submitted to the Certifying Officer.
- ❖ Certified Standing Orders are posted in English and local language.
- ❖ Modifications are made with worker agreement.
- ❖ Suspended workmen are investigated for misconduct.
- ❖ Suspended employees receive subsistence allowance.

The Employees' Compensation Act, 1923: Quick Checklist

- The Employees' Compensation Act applies to the company.
- Compensation is paid for work-related injuries as per Section 4.
- A notice book is maintained for reporting accidents.
- Serious accidents are reported to the Commissioner.
- Compensation for death or injury is deposited with the Commissioner.
- A statement (Form D) is submitted when depositing compensation.

- The company provides an annual return on compensation paid.
- Settlement agreements for compensation are registered with the Commissioner.
- Apprenticeship training is provided for SC/ST/OBC in specific trades.
- Apprenticeship contracts are submitted to the advisor for registration within 7 days.

Equal Remuneration Act, 1976: Quick Checklist

1. The Equal Remuneration Act, 1976 applies to the company.
2. The company ensures equal pay for equal work, with no gender discrimination in hiring, promotion, etc.
3. The company keeps the required register (Form No. D).

The Employment Exchange (Compulsory Notification of Vacancies) Act, 1959:

Quick Checklist

- The Employment Exchange Act, 1959 applies to the company.
- The company notifies job vacancies to employment exchanges.
- The company submits required returns to the employment exchange.

CYBER AUDIT:

- A cyber audit checks an organization's cybersecurity.
- It helps prevent risks like loss or damage.
- It reviews areas like data security and training.
- The goal is to find and fix weaknesses.
- Cybersecurity audits focus on:
 1. Protecting sensitive data and intellectual property.
 2. Securing networks connecting multiple information resources.
 3. Ensuring responsibility and accountability for devices and their data.

The scope of a cybersecurity audit includes:

1. Data security policies for networks, databases, and applications.
2. Data loss prevention measures.
3. Network access controls.

4. Detection and prevention systems.
5. Physical and logical security controls.
6. Incident response program.

Dimension of the Cyber Security Audit Process:

A. Management:

- Management makes risk decisions and ensures cybersecurity controls are in place and effective.
- They rely on risk assessments to understand and manage potential risks.

B. Risk Management:

- Cybersecurity officers lead risk assessments to identify and evaluate risks.
- The aim is to communicate the level of risk clearly and find solutions to minimize its impact.
- A strong governance framework is essential for managing current and emerging threats.

C. Internal Audit:

- Internal auditors evaluate cybersecurity controls and report findings to the board.
- They make recommendations to improve controls and help leadership respond to cyber risks.
- External auditors may also provide independent assurance on the effectiveness of controls.

Illustrative checkpoint on the Cyber Security Audit:

Personnel Security:

- ✓ Do staff wear ID badges with photos and access levels?
- ✓ Are contractors' credentials checked?
- ✓ Is there a process to cut off access when someone leaves?

Physical Security:

- Are there policies to control physical access to systems?
- Are locks, security, or monitoring in place?
- Is access to secure areas controlled (e.g., sign-in logs)?

Account and Password Management:

- Are there policies for controlling access to systems?
- Are only authorized people allowed access?
- Are strong, regularly changed passwords enforced?

Data Confidentiality:

- Is sensitive data protected and encrypted?
- Are there policies for data retention?

Compliance and Audit:

- ❖ Are security policies reviewed regularly?
- ❖ Are processes audited for compliance?
- ❖ Are disaster plans tested?
- ❖ Does management review access to sensitive areas?

ENVIRONMENTAL AUDIT:

An environmental audit checks how well an organization follows environmental laws and manages its impact. It looks at resource use, risks, and compliance issues.

Objectives:

- Evaluate resource use and environmental risks.
- Identify management weaknesses and pollution control issues.

Financially, it ensures funds are used efficiently for environmental efforts and focuses on:

- Preventing environmental damage.
- Conserving resources.
- Consequences of breaking environmental laws.

There are two main types of environmental audits:

1. **Compliance Audits:** Focus on checking if a company follows legal requirements, including national, state, and local laws and regulations.
2. **Management Systems Audits:** Assess how well a company's environmental management systems are functioning, aiming to improve processes and compliance.

Environmental compliance audits:

Environmental compliance audits ensure that companies follow laws and regulations related to air, water pollution, radiation, pesticides, and other environmental concerns. These audits focus on a company's operations rather than property contamination.

Key laws covered include:

- **Air Pollution:** Indian Boilers Act, Motor Vehicles Act, Air Pollution Control Act.
- **Water Pollution:** River Boards Act, Water Pollution Control Act.
- **Radiation:** Atomic Energy Act.
- **Pesticides:** Poison Act, Insecticides Act.
- **Miscellaneous:** Indian Forest Act, Wildlife Protection Act, Environment Protection Act, and others.

Environmental Management Systems (EMS) Audit:

An **Environmental Management Systems (EMS) Audit** checks if a company meets ISO 14001 standards, which help organizations:

1. Control environmental impacts.
2. Improve environmental performance.
3. Set and achieve environmental goals.

ISO 14001 is a global standard that helps reduce environmental risks and costs, using a **Plan-Do-Check-Act** approach for ongoing improvement. It applies to any organization working to improve its environmental management.

Process of Environmental Audit:

1. **Pre-audit/Planning:**
 - Gather background information, set audit objectives and scope, form the audit team, and create an audit plan.
2. **On-site Audit:**
 - Communicate objectives, conduct meetings, inspect the site, review documents, and interview staff.
3. **Post-audit Assessment:**
 - Evaluate findings, submit a preliminary report on environmental impact, get management approval, and present findings to the auditees.
4. **Follow-up:**
 - Check if corrective actions have been taken based on audit recommendations.

Checklist on Environment Audit:

A. Environmental Policy

1. Is there a documented environmental policy?
2. Does it align with the company's activities and legal requirements?
3. Does it include commitments to improvement, pollution prevention, and legal compliance?
4. Are environmental goals set and communicated to staff and the public?

B. Environmental Aspects

1. Has the company identified its environmental impacts?
2. Are key aspects like air, water, waste, and materials considered?
3. Are legal and emergency requirements addressed?
4. Are significant environmental aspects identified?

C. Legal and Other Requirements

1. Is there a procedure to identify legal and regulatory requirements?
2. Are necessary documents and permits accessible to staff?
3. Are business and legal agreements included?
4. Are licenses for waste, emissions, and other requirements in place?

INFORMATION SYSTEMS AUDIT:

- ✓ Evaluates system controls.
- ✓ Ensures asset protection and data integrity.
- ✓ Supports organizational goals.
- ✓ Assesses resource efficiency.
- ✓ Combines external and internal audit objectives.

An Information Systems Audit examines key system components, focusing on:

- Systems architecture review
- Business process mapping (system dependency on business processes)
- End user identity management (authentication, passwords, roles)
- Operating system configurations (service hardening)
- Application security controls
- Database access controls (configuration, account access, roles)
- Anti-virus/Anti-malware controls
- Network controls (switch/router configurations, firewall rules)
- Logging and auditing systems
- IT privileged access control (admin/root access)
- IT processes (user reviews, change management)
- Backup/Restore procedures

Objectives of System Auditing:

- Validate organizational and administrative aspects of information services.
- Ensure controls in the system development life cycle.
- Check access controls to systems and resources.
- Automate internal auditing tasks.
- Provide internal training.
- Train information service function department members.

Checklist for Systems Audit:

A. Management Controls:

- Does the organization have a security policy? Is it adequate for the risk?
- Is there a steering committee with a Board member and CIO for security policy implementation?
- Is business continuity planning in place to protect against system breakdowns and threats?
- Are system development processes documented and changes properly tested?

B. Operational Controls:

- Are physical assets monitored regularly and discrepancies addressed promptly?
- Are environmental controls (air-conditioning, power conditioning, cables) reviewed periodically?

C. Organizational Controls:

- Are roles and responsibilities defined for User Departments and IT?
- Does the CIO manage teams for development, security, and IT operations?

D. Application Controls:

- Are proper controls in place for inputs, processing, and outputs for each system? Do processing controls ensure legal compliance?

MANDATORY AUDITS UNDER SEBI:

1. **Annual System Audit, Business Continuity Plan (BCP), and Disaster Recovery (DR)**
 - **Purpose:** Ensure operational continuity and market integrity during disasters.
2. **Annual System Audit of Stock Brokers / Trading Members of National Commodity Derivatives Exchanges**
 - **Purpose:** Ensure system audits for stock brokers as per SEBI's prescribed framework.
3. **System Audit for Mutual Funds / Asset Management Companies (AMCs)**
 - **Purpose:** Standardize and enhance system audits in technology-driven asset management.
4. **Annual System Audit of Market Infrastructure Institutions (MII)**
 - **Purpose:** Ensure compliance with SEBI guidelines, with reports submitted to SEBI and the MII's Governing Board. Includes a declaration from MD/CEO certifying system security.

FORENSIC AUDIT:

- ❖ A forensic audit is a specialized investigation to detect fraud, corruption, and financial crimes.
- ❖ It involves examining financial records to gather evidence that can be used in court.
- ❖ Forensic audits use accounting, auditing, and investigative skills to resolve allegations of fraud or embezzlement.
- ❖ The audit focuses on fraud detection techniques and the legal framework (civil and criminal laws).
- ❖ Forensic auditors need specialized training in legal matters, fraud investigation, and IT tools for data recovery and analysis.
- ❖ The goal is to identify substance over form, looking deeper than just financial figures.

Phases of Forensic Audit:

1. Investigation:

- The auditor examines financial records to detect discrepancies, fraud, or errors.
- Identifies issues and determines the extent of financial misconduct.
- Proposes solutions to address the identified problems.

2. Litigation Support:

- If fraud cannot be resolved internally, legal action is taken.
- Forensic auditors assist lawyers by providing legal advice, supporting documentation, and research.
- They help assess the financial impact and may be called as expert witnesses in court.

Areas of Forensic Audit:

1. **Criminal Investigations:** Detects financial crimes like fraud.
2. **Professional Negligence:** Investigates misconduct by professionals.
3. **Fraud & Risk Reviews:** Identifies fraud and assesses internal controls.
4. **Arbitration:** Provides financial evidence for dispute resolution.
5. **Insurance Claims:** Verifies and assesses insurance claims.
6. **Dispute Settlement:** Assists in resolving financial disputes.

Purpose Of Forensic Audit:

Corruption:

- Conflicts of Interest: Fraudsters use their position for personal gain, like approving fake expenses for personal relationships.
- Bribery: Offering money to influence decisions or situations.
- Extortion: Demanding money to manipulate situations, such as awarding contracts.

Asset Misappropriation:

- Common fraud involving the misuse or theft of company assets like cash, fake invoices, or inventory.

Financial Statement Fraud:

- Companies manipulate financial records to appear more profitable or to meet performance targets. Examples include falsifying transactions or omitting key information from financial reports.

Procedure of Forensic Auditing Investigation:

1. Accepting the Investigation:

- Independent firm assesses its ability to handle the fraud investigation based on skills and expertise.
- Audit is accepted only if the firm is equipped to carry it out properly.

2. Planning the Investigation:

- Identify fraud symptoms (e.g., delayed bank transactions, lifestyle discrepancies, financial irregularities).
- Define the investigation's goal, using appropriate tools. Final report includes:
- Fraud type, duration, and concealment.
- Identification of fraudsters.
- Financial losses and evidence for court.
- Recommendations to prevent future fraud.

3. Gathering Evidence:

- Use audit techniques to identify fraud duration, method, and concealment.
- Maintain evidence custody for court acceptance.
- Techniques include:
- Analytical procedures (compare trends, computer audit).
- Interviews with employees.
- Substantive techniques (reconciliations, cash counts).
- Forensic Data Analysis (FDA) to detect anomalies.

4. Reporting:

- Present findings, evidence, and fraud details.
- Include recommendations to prevent future fraud.

5. Court Proceedings:

- Auditors support legal action, providing clear and objective findings for court understanding.
- Simplify complex issues for legal clarity.

Techniques for Gathering Evidence in Forensic Audit:

a. Analytical Procedures:

- Compare business trends and data over time to identify suspicious changes or patterns.

b. Discussions & Interviews:

- Conduct interviews with employees to uncover insights and inconsistencies.

c. Substantive Techniques:

- Perform reconciliations, cash counts, and review documents to identify discrepancies.

d. Forensic Data Analysis (FDA):

- Use technology to analyse data and spot anomalies indicating fraudulent activities.

Forensic Audit Checklist:

1. Is the fraud by management or employees?
2. What caused the fraud?
3. Are cash transactions and invoices checked regularly?
4. Who checks everything on time?
5. What type of fraud occurred?
6. Are all entries in the balance sheet accurate?
7. Are IT returns filed correctly every year?
8. Are bank reconciliations done regularly?

Fraud Triangle and Risk:

- **Fraud Triangle:**
 1. **Pressure:** Motive for fraud.
 2. **Opportunity:** Chance to commit fraud.
 3. **Rationalization:** Justifying the fraud.
- **Fraud Risk:** Identifying and managing potential fraud risks based on these factors.

Forensic Audit Report: Key Components

1. Executive Summary
2. Origin of the Audit
3. Audit Objective
4. Proposed Outputs
5. Audit Approach
6. Risk Analysis
 - ✓ **Internal Risks:** Customers, competitors, finance, HR, IT, business processes
 - ✓ **External Risks:** Economic, political, legal, technological factors
7. Audit Process Overview
 - ✓ Understanding scope, collecting evidence, conducting interviews, analysing findings
8. Identifying Issues: Conflicts of interest, bribery, theft, fraud, misuse of assets
9. Audit Recommendations
10. Governance & Stakeholder Involvement
11. Budget Considerations

SOCIAL AUDIT:

- Measures and improves an organization's social and ethical performance.
- Focuses on governance, transparency, and accountability.
- Reviews records to ensure reported spending matches actual expenditure.
- Assesses social responsibility efforts like donations, volunteer work, and employee conditions.
- Different from development audits, which include environmental and economic factors.

Implications of Social Audit:

- Enhances governance by valuing voices of all stakeholders, including marginalized groups.
- Strengthens local governance by improving accountability and transparency.
- Ensures decision-makers act with the consent and understanding of all concerned.

Objectives of Social Audit:

1. Improve the effectiveness of local development programs.
2. Review policy decisions based on stakeholder needs, especially for the rural poor.
3. Estimate the cost to stakeholders of delayed access to public services.
4. Provide information to enhance community development programs.
5. Assess gaps between local development needs and available resources.
6. Raise awareness among beneficiaries and providers of local services.

Rights of a Social Auditor:

- Ask the agency about decisions, activities, and expenses.
- Review the agency's current schemes and activities.
- Access relevant documents on development activities.

Key points:

- ✓ Social audits ensure transparency in how agencies make decisions and carry out activities.
- ✓ They assess a company's charity, volunteer work, energy use, and employee welfare.
- ✓ The aim is to understand the social and environmental impact of the company.

Social Audit Coverage:

- A social audit checks how a company's actions impact society, including finances, environment, and transparency.
- The scope can vary from local to global, depending on the company's focus.
- SEBI requires social audits for certain social enterprises under its regulations.

Use of Social Audit Findings:

- Social audit results are voluntary and not mandatory for public release.
- Positive results may be shared, but negative ones are kept internal for improvements.
- Companies can use negative results to improve in areas like community involvement.

Implementation of Social Audit:

1. **Empowerment of People:** Beneficiaries should be involved in the audit. In villages, Gram Sabhas are empowered to conduct audits; in cities, the Right to Information Act allows people to inspect records.
2. **Proper Documentation:** All stages—planning, implementation, and requirements—must be properly documented (e.g., financial statements, worker registers).
3. **Accessibility of Documents:** Documents should be available online for easy access.
4. **Punitive Action:** Legal consequences should be in place for non-compliance with social audit processes to ensure fairness and accountability.

Steps for Social Audit:

1. Define goals and purpose of the local body for the social audit.
2. Include marginalized groups in the process and gather their views on local body performance.
3. Set clear and agreed-upon performance indicators, and track them regularly.
4. Hold meetings to review performance data with all stakeholders.
5. Follow up with actions, addressing recommendations and ensuring changes.
6. Form a trusted group to verify the implementation of decisions.
7. Share the audit results with stakeholders and display key decisions publicly for transparency.

Checklist on Social Audit:

- Does the company have policies for social development, especially for the poor?
- Is policy compliance regularly checked?
- Are resource gaps assessed regularly?
- Are minority shareholders' views considered?
- Are actions taken based on their input?

ICSI SOCIAL AUDIT STANDARDS:

- ICSI has developed Social Audit Standards for Social Enterprises.
- These standards apply to enterprises seeking registration on the Social Stock Exchange (SSE).
- SSE helps connect social enterprises with investors focused on social causes.
- SEBI introduced Social Audits to improve transparency and visibility for stakeholders (investors, government, etc.).

Objectives:

- ✓ Social Audit assesses the impact of a Social Enterprise's activities or projects.
- ✓ It checks if the projects met their goals and identifies any gaps.
- ✓ Key objectives:
 - Measure project impact.
 - Verify project implementation.
 - Identify gaps between goals and results.
 - Evaluate project efficiency and unintended effects.
 - Ensure legal requirements are met.

Scope:

- Social Audit scope depends on the project's issues.
- Auditors decide which social matters to examine.
- Key areas to assess:
 1. Impact on the local community's economy, environment, and social well-being.
 2. Changes in access to resources like water and energy.
 3. Local governance and its ability to handle project effects.
 4. Impact on vulnerable groups (e.g., women, minorities).
 5. Effects on demand for services (education, health).
 6. Population or demographic changes from the project.

These checks help predict and manage social impacts.

Mandatory nature of framework and Standards:

- ❖ Social Audit Standards apply to ICSI-approved auditors.
- ❖ Auditors follow these standards under SEBI rules (2015, 2018).
- ❖ The goal is to assess the impact of Social Enterprises.
- ❖ Standards ensure compliance with SEBI's criteria for social enterprises.

Eligibility Criteria:

1. Eradicate hunger, poverty, and inequality.
2. Promote healthcare, sanitation, and clean water.
3. Support education, employability, and livelihoods.
4. Empower women, LGBTQIA+, and ensure gender equality.
5. Ensure environmental sustainability and climate action.
6. Protect national heritage, culture, and art.
7. Support sports training, including Olympics and Paralympics.
8. Assist incubators for social enterprises.
9. Support non-profit platforms for fundraising and capacity building.
10. Improve livelihoods for the poor, small farmers, and workers.

11. Develop slums, affordable housing, and resilient cities.
12. Engage in disaster relief and rehabilitation.
13. Promote financial inclusion.
14. Facilitate land access for disadvantaged communities.
15. Bridge the digital divide and ensure data protection.
16. Support welfare for migrants and displaced persons.

Social audit records must be kept for 8 years.

Benefits and Advantages of Social Audit:

- a. **Financial Transparency:** Assesses funding sources, utilization, and reporting.
- b. **Encourages Social Performance:** Highlights the impact of activities and motivates better performance.
- c. **Improves Stakeholder Relationships:** Enhances trust with stakeholders by implementing recommendations.
- d. **Activity Comparison:** Provides data to compare the effectiveness of different social welfare programs.
- e. **Enhances Reputation:** Strengthens the organization's image in the public's view.
- f. **Promotes Social Responsibility:** Raises awareness among shareholders and communities about the value of social programs.

List of ICSI Social Audit Standards:

1. Eradicating hunger, poverty, and inequality.
2. Promoting healthcare, sanitation, and safe drinking water.
3. Supporting education, employability, and livelihoods.
4. Advancing gender equality and empowerment of women and LGBTQIA+ communities.
5. Ensuring environmental sustainability and addressing climate change.
6. Protecting national heritage, art, and culture.
7. Promoting sports, including rural, Paralympic, and Olympic sports.
8. Supporting incubators for Social Enterprises.
9. Strengthening non-profit fundraising and capacity building.
10. Enhancing livelihoods for the poor and small farmers.
11. Developing slums, affordable housing, and resilient cities.
12. Disaster management and reconstruction efforts.
13. Promoting financial inclusion.

14. Facilitating land and property access for disadvantaged communities.
15. Bridging the digital divide and ensuring data protection.
16. Supporting the welfare of migrants and displaced persons.

ICSI Auditing Standards – An Overview:

1. **Secretarial Audit:** The Companies Act, 2013 requires larger companies to undergo Secretarial Audits for better governance, compliance, and transparency. A Practising Company Secretary (PCS) conducts these audits.
2. **PCS Responsibilities:** PCS conducts audits and submits a report to the company's members. They are also responsible for detecting and reporting fraud.
3. **ICSI Initiatives:** ICSI developed auditing standards to improve the auditing skills and fraud detection abilities of PCS.
4. **ICSI Auditing Standards (CSAS):**
 - ✓ CSAS-1: Defines auditor's role and engagement process.
 - ✓ CSAS-2: Outlines the audit process and record-keeping duties.
 - ✓ CSAS-3: Explains how auditors form their opinions.
 - ✓ CSAS-4: Details how Secretarial Audits are conducted.
5. **Mandatory Application:** These standards are mandatory for audits from 1st April 2021, and were recommendatory from 1st July 2019.