

June 2024  
Attempt

# CMADD

CHAPTER 08 – CONCEPTS OF VARIOUS AUDITS

*Handwritten Notes*

**CS MUSKAN GUPTA**

① Corporate Governance Theories



conducting affairs of the company  
such a way that there is fairness  
to all stakeholders

Scope

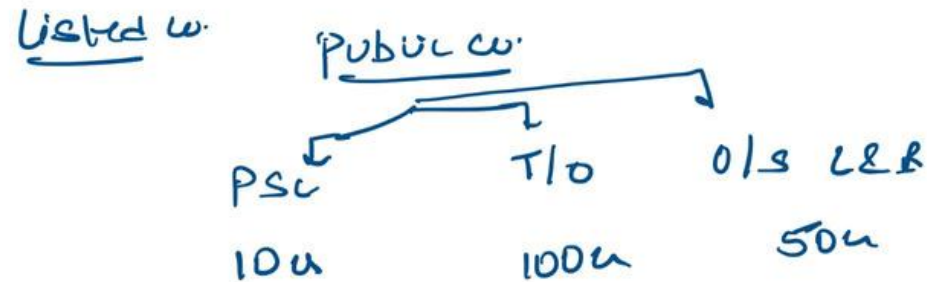
- 1) Financial Mgt
- 2) Non-Financial Mgt
- 3) Risk Mgmt
- 4) BOD
- 5) Transparency & Disclosures
- 6) Right of Stakeholder

c) Right of Stakeholder

(2)

Audit Committee → Section 177  
of Companies Act,  
2013 + Regulation  
18 SEAL  
(LOOK)

\* Applicability



\* 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) Sewting of inter corporate loans & Inv
- 7) Discussion with IA of significant findings
- 8) Review whistle Blower Mechanism

- 8) Review of the Blower Mechanism
- 9) Reviewing performance of Statutory + Internal Auditors
- 10) Look into reasons for substantial defaults

4

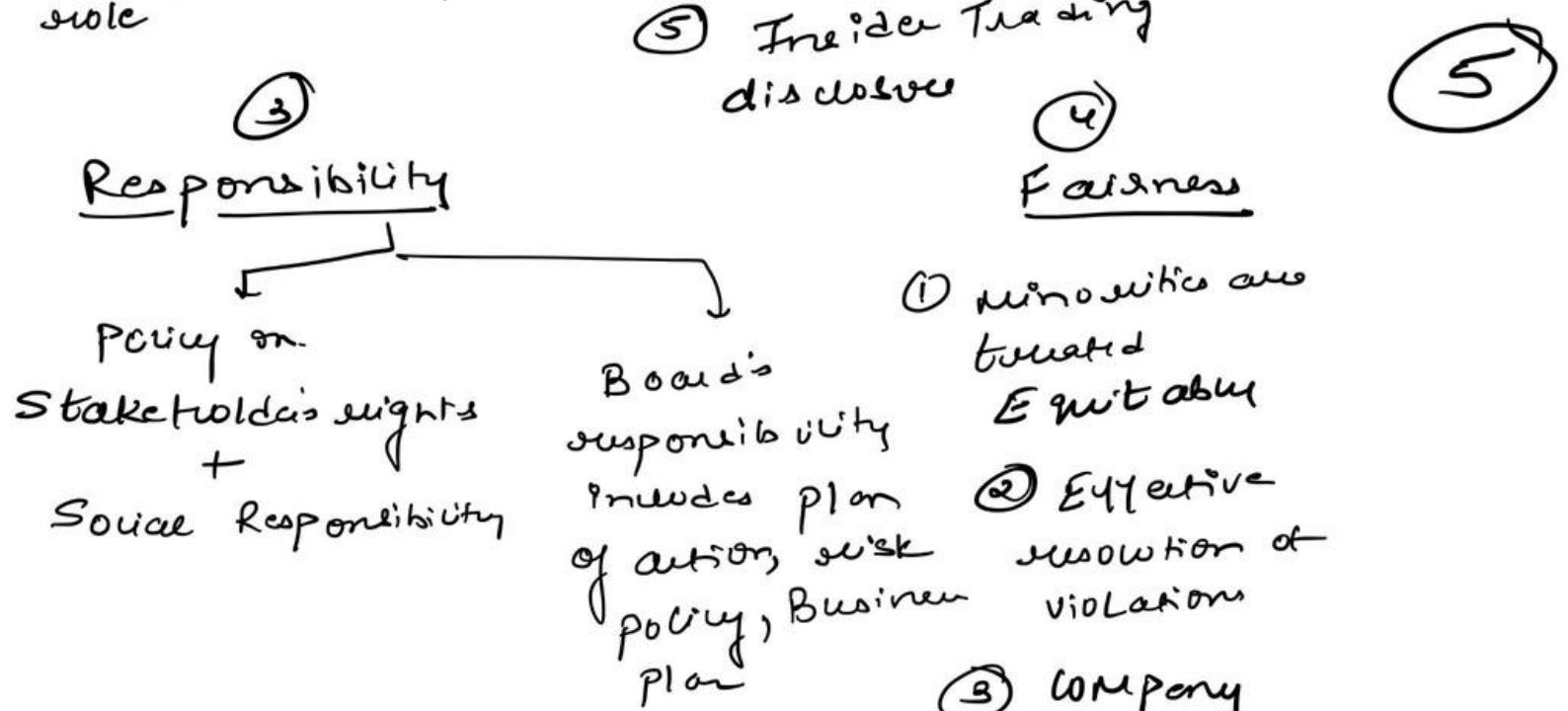
### Checklist

#### ① Accountability

- ① Separation 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 Matters
- ③ Policy for Making Political Contributions
- ④ Remuneration Policy
- ⑤ Insider Trading



⑤ Shareholder's Interest

- ① Erosion 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 structure & arrangements have been disclosed.

## ② Secretarial Audit

↳ audit of non-financial aspects of the company.

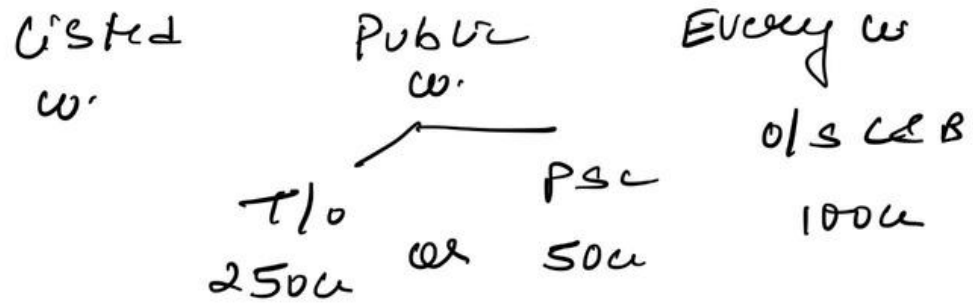
↳ applicability → Section 204

## ② Secretarial Audit

⑦

↳ audit of non-financial aspects of the company.

↳ applicability → Section 204



↳ Reg 24A SEBI (LODR)

Material or listed Subsidiary → SA Mandatory

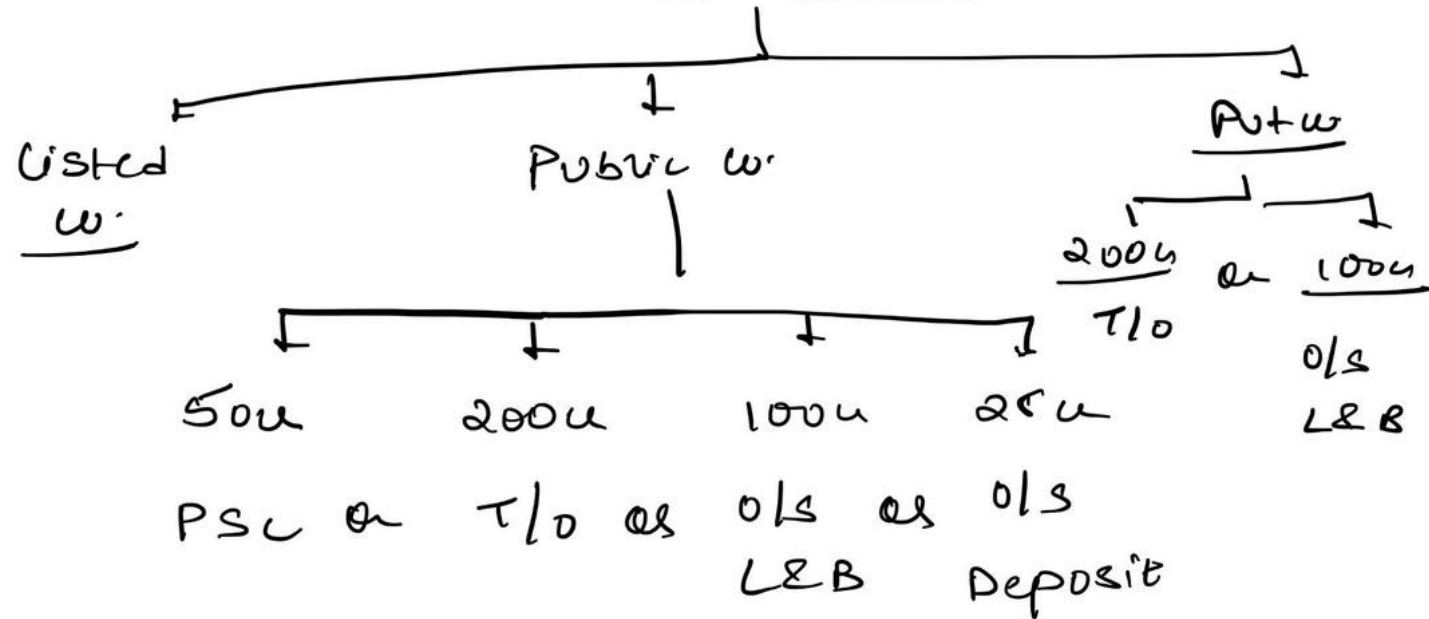
Income > 10% consolidated income of listed

Income > 10% consolidated  
income of listed  
company.

8

3) Internal Audit

- ↳ assessment of organisation's internal control
- ↳ Section 138 → applicability



④ CR Audit

Section 135  
CR Rules, 2014

⑨

Applicability → Every w.  $\left\{ \begin{array}{l} \text{50000 N/P} \\ \text{10000 T/O} \\ \text{5000 N/W} \end{array} \right.$

if Contribution less than 50L  
↓  
X Mandatory to form a CR committee  
→ 3 directors out of which one should be IA

Contribute  
27. of Aug N/P of 3  
Preceding FY

## ↳ Purpose of CR Audit

10

- ① Compliance with provisions
- ② Transparency + Implementation  
Monitoring of CR 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  
UPST

11

④ Code is placed on the website

⑤ Company follows diverse well power &  
procedure

⑥ Compliance officer has  $\left\{ \begin{array}{l} \text{Revised} \\ + \\ \text{Reviews} \end{array} \right.$   $\rightarrow$  Trading  
Plan

⑦ (Compliance officer)  
CO has notified TP to SE

⑧ Co. Received initial  
disclosure from  $\left\{ \begin{array}{l} \text{Promoter} \\ \text{Director} \\ \text{KMP} \end{array} \right.$   $\rightarrow$  within  
7WP

⑨ Co. Received continual  
disclosure  $\left\{ \begin{array}{l} \text{Promoter} \\ \text{Director} \end{array} \right.$   $\rightarrow$  of terms  
 $\uparrow$  10k  
within 2WP

(10) Any other prevention with  
suspect to insider trading adopted by co.

12

## (6) Cyber Audit

- ↳ avoid cyber security risk
- ↳ includes
  - ↳ Protection of Sensitive Data
  - ↳ Protection of Networks
  - ↳ Responsibility + Accountability of device

- Scope →
- 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

check list

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

- ② Physical Security
  - ↳ co. has policies to limit on authorized users
  - ↳ co. → Policy → specify methods to control physical users

access to computing area is controlled

(3) Account & Password Mgmt

(15)

↳ policies for Electronic authentication

↳ only authorized personnel have access to computers

↳ Passwords are secure.

(4) Confidentiality of data

↳ protect sensitive data

↳ to retrieve both hard + soft copies

(5) Compliance & Audit

↳ w. Reviews + Revises Security documents

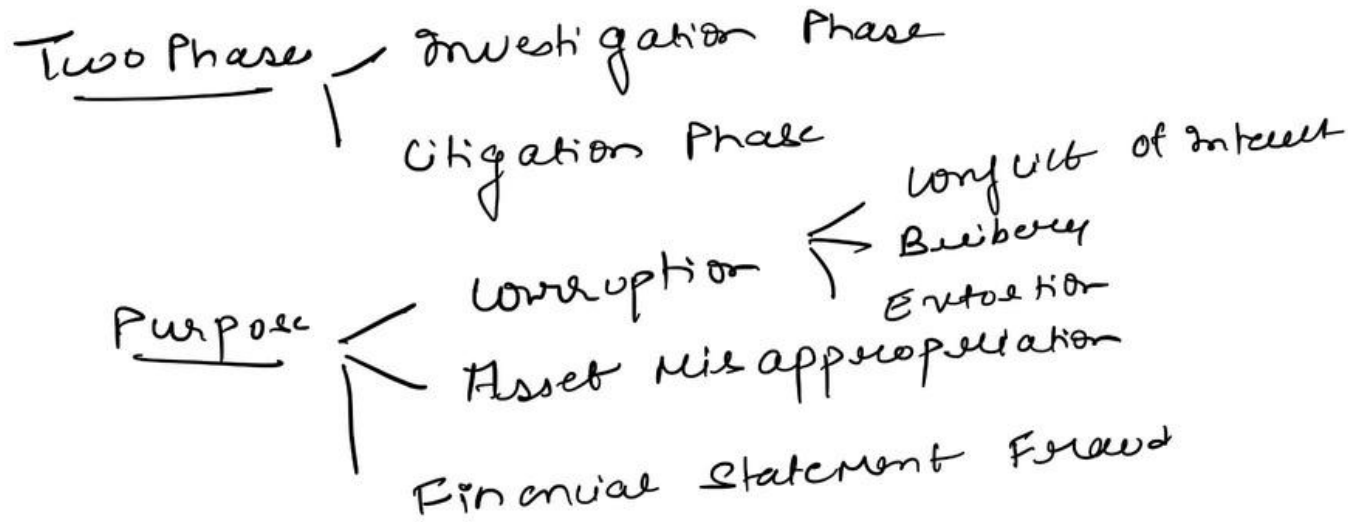
- ↳ w. Reviews + Revises Security documents
- ↳ w. best disaster plans
- ↳ compliance with Established policies + procedures
- ↳ Mgmt regulatory Reviews list of individuals with physical access.

## ⑦ Forensic Audit

↳ highly specialised + requires detail + knowledge of Fraud Detection Technique

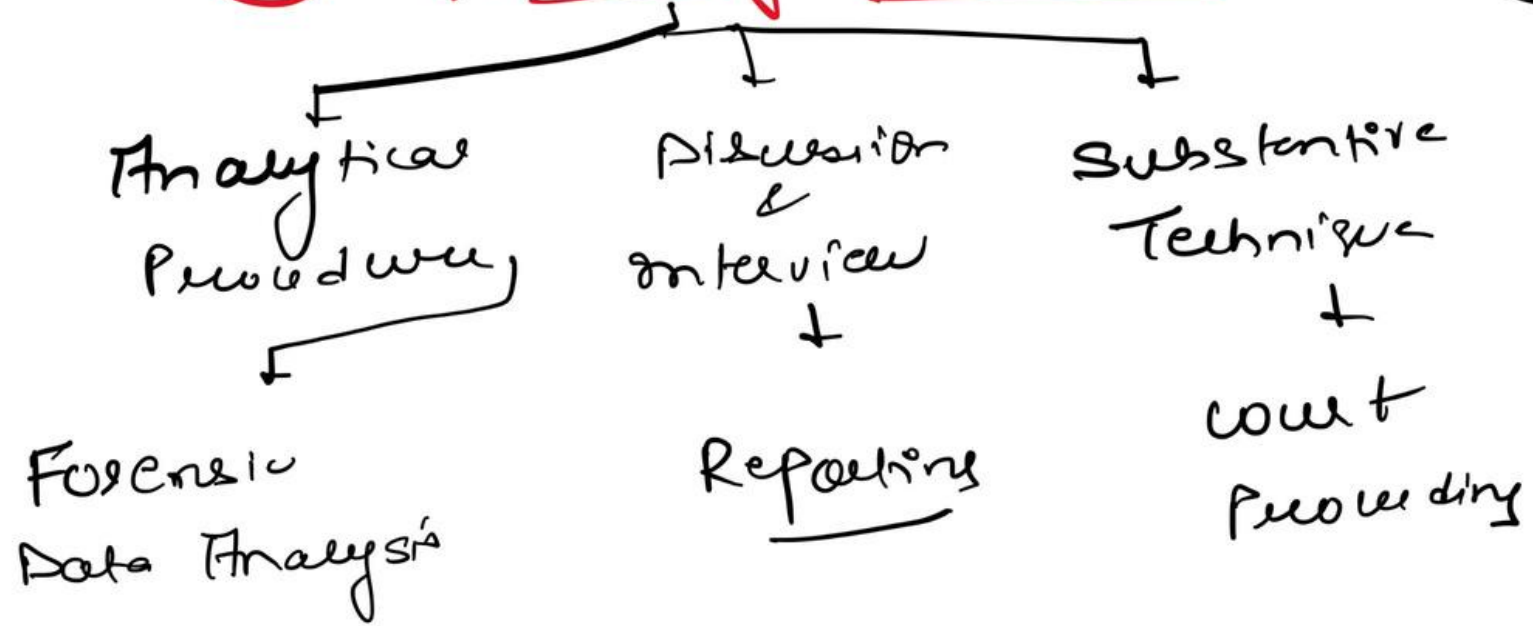
Two Phase — Investigation Phase

Litigation Phase — of interest



- Procedure → ① Jump to the investigation  
[determines if they have  
necessary skills to conduct  
the audit]
- ② Planning the investigation  
[Identify signs of fraud  
+ goal of audit]  
understand

## → ③ Gathering Evidence



## ⑧ Social Audit

→ Way of Measuring & Improving  
organisations Social Performance

→ Enhances local Governance

impact upon

→ Enhances local

→ Implications

creates an impact upon  
Governance

19

↳ 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

20

Compliance Audit

Management System 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

ISO 14001

→ identify +  
control the Env  
Impact

→ improve Env  
performance continuously

→ systematic approach  
to set objective

e) NAT etc.

checklist

(21)



Env Policy

Env Aspects

1) Co. defined + documented  
Env Policy

2) Policy has significant  
Env Aspects

3) Commitment → governments  
Permit  
Pollution  
compliance

4) Documented

5) available to public

① Env Aspects are  
identified

② aspects related  
to significant Env  
aspects considered

③ Env Aspect  
- Air  
→ wastewater  
→ Soil

22

→ Tonic Material

## Legal Requirement

- 1) Compliance with Law/Rule/Reg
- 2) Procedure to develop & implement legal requirement
- 3) License & approval →
  - ① Air permit
  - ② waste water
  - ③ dangerous goods
  - ④ Env fees
  - ⑤ Reg at authorities

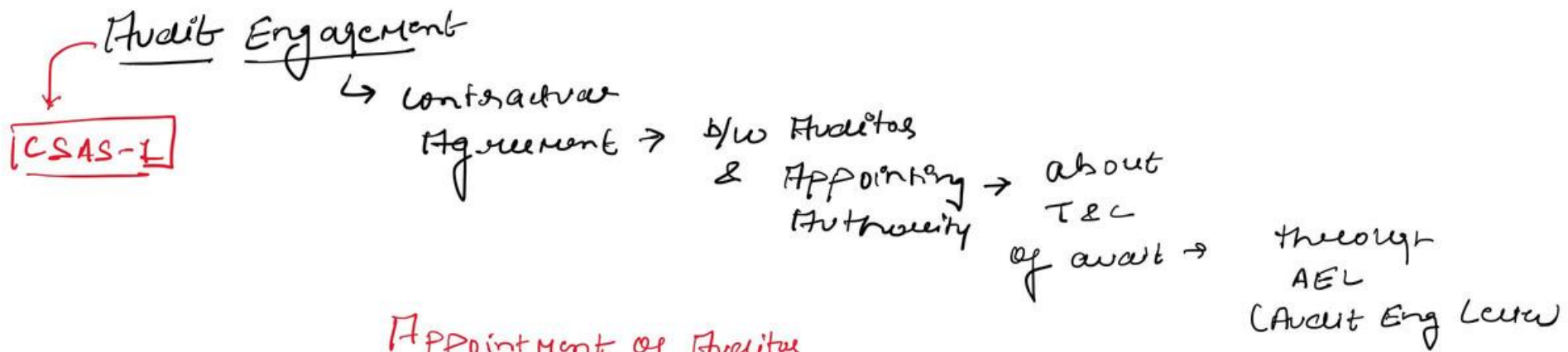


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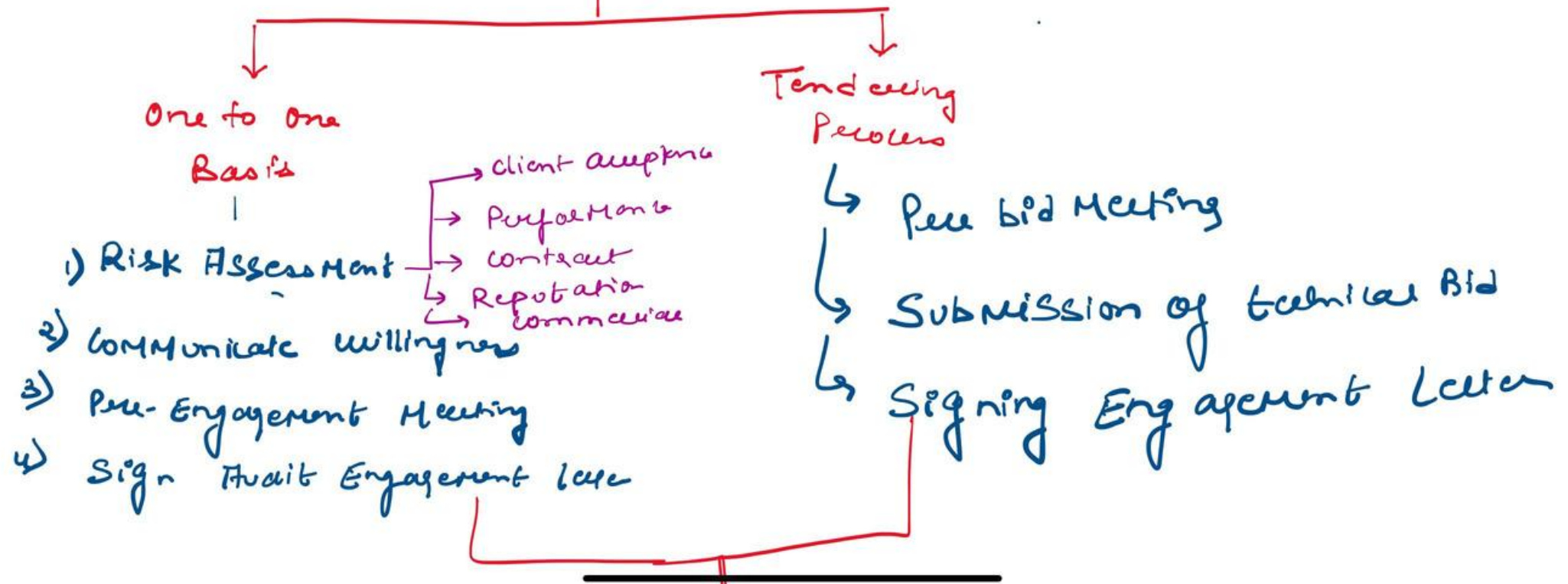
## CHAPTER 09 - AUDIT ENGAGEMENT

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## Appointment of Auditor



## Certificate of Auditor

2.

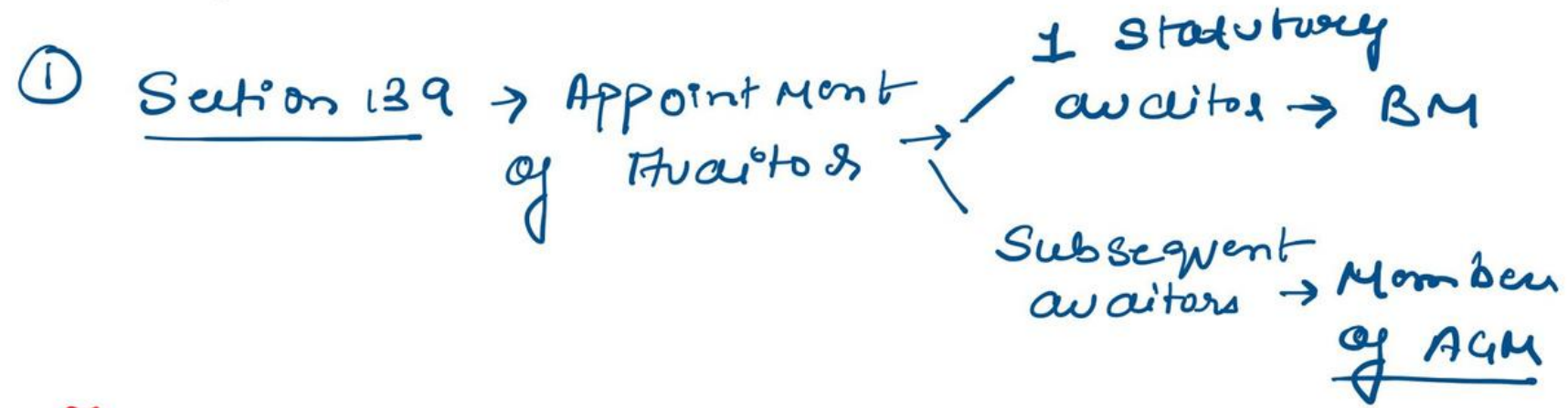
- ① Audits are within ceiling limit
- ② No substantial conflict of interest
- ③ No restriction to render professional services
- ④ Not debarred to undertake audit

## 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 ICS/ procedure for Preparation of Non financial statements
- ⑤ Preparation of Secretarial/ Non financial statements

Appointing Authority



[ Appt Authority → ↓ Auditor → BOD

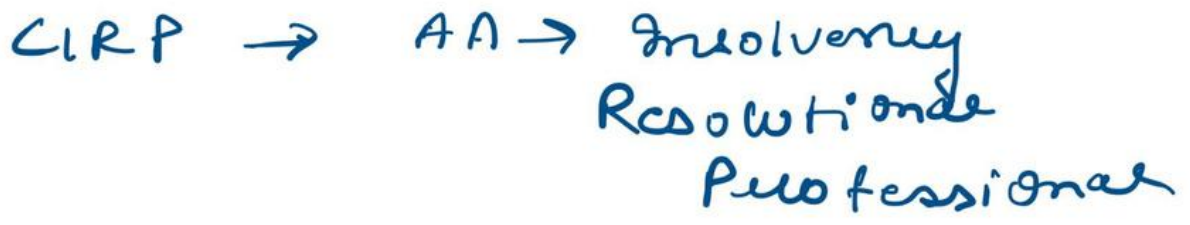
Subsequent auditors → Members



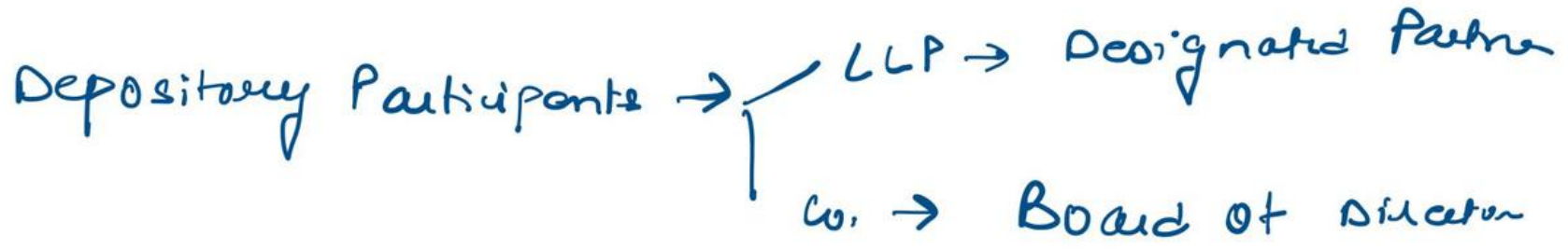
②



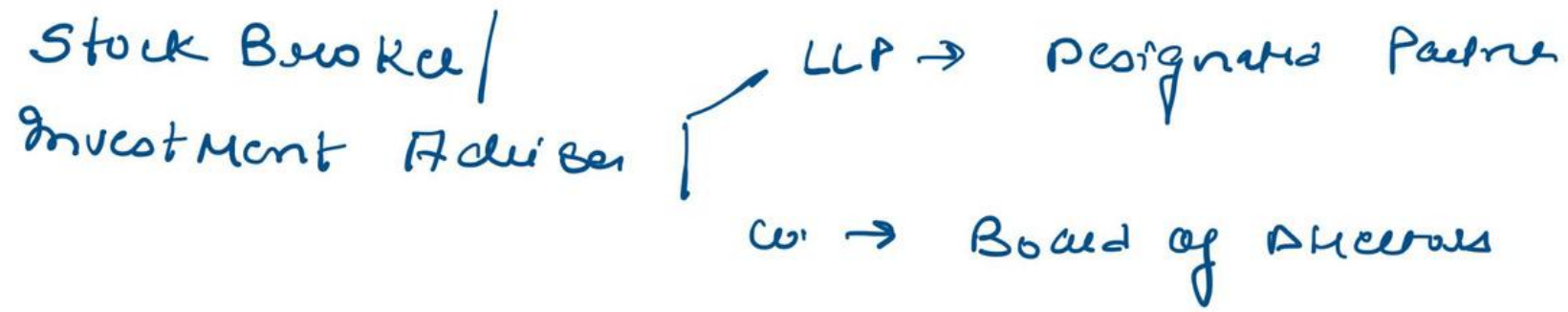
③



④



⑤

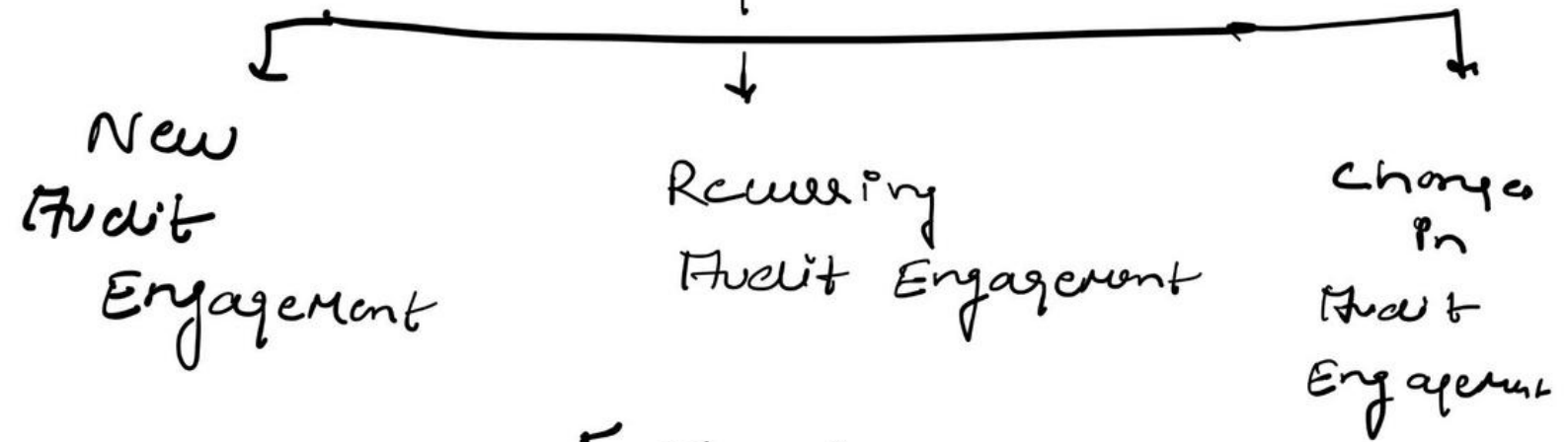




- ⑥ Internal Audit of Investment Adviser
- ⑦ Internal Audit of Credit Rating Agencies etc.

6.

Audit Engagement



[Audit conducted for first time]

[Audit was conducted for previous period]

[change in terms of Audit Engagement]

## Audit Engagement Letter

- contains T&C of the Audit
- helps avoid misunderstandings with respect to terms of engagement
- includes:
  - a) objective + scope of audit
  - 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) access to premises + Records
- 2) Management Representations
- 3) Details of前任 auditor
- 4) depute a personnel to provide timely information

# Communication to Previous Auditors

9.

duty of Auditors  
to communicate  
with the Previous  
Auditors

→ wait for  
supply of  
Previous Auditors  
[7 days]

Take  
cognizance of  
Info Received  
Enforce  
Confidentiality

Before following assignments communication is due

- 1) Signing of A/R → MAT 7
- 2) Verification of A/R → MAT - 8
- 3) Secretarial Audit → Section 204

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

10.

5) Reg 40(9) SEBI (LODR) → Issue of Tray Certificates

6) Internal Audit of Depository Participants / Stock Broker

7) Due Diligence of Bank

## Limits on Audit Engagement

10 Statutory Audit + 5  
5 Statutory Compliance Report + 5  
→ of Peer Review Certificate.

## Conflict of interest

11.

SWI

- 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

12.

- Confidentiality
- Not use info for personal Advantage
  - Not disclose information
  - Maintain confidentiality within the firm
  - Take all steps to Renew 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

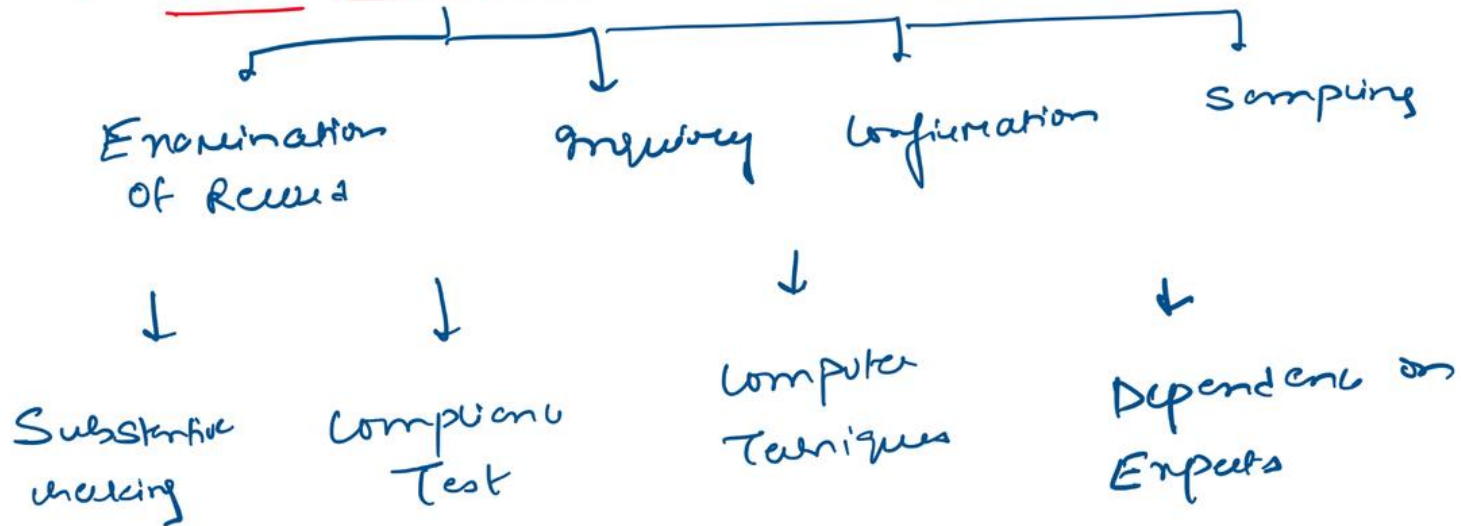
1) I/I/I → integrity → <sup>being</sup> honest / Trust worthy  
independence → free from conditional relationships  
objectivity → making decisions fairly / impartially

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

3) Skill & competence → aware & updated with new accounting & auditing methods

- 4) Documentation →
- 5) Planning
- 6) Evidence
- 7) Networking System + Interface Control
- 8) Audit conclusion & Reporting

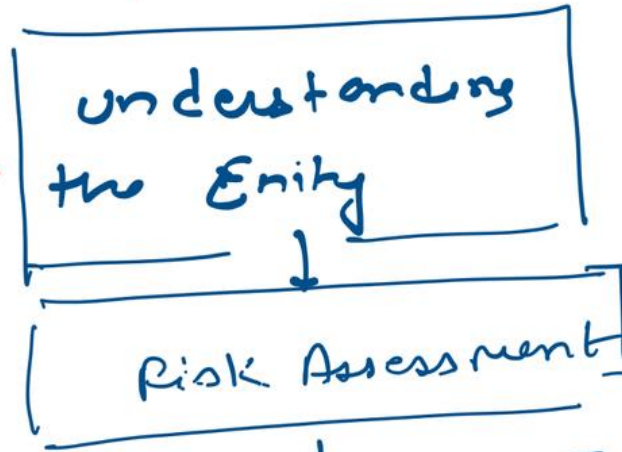
\* Audit Techniques



# \* Preliminary Preparation

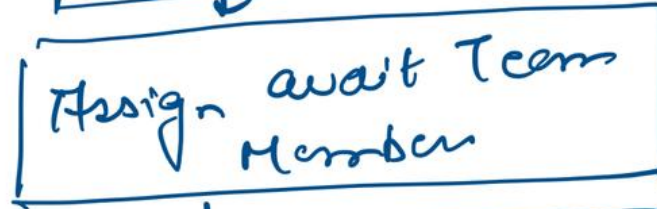
3

understand  
Co. organisational  
Structure



Evaluate ICS  
→ assess the  
Material  
Risk of the Co.

Prepare an audit  
Plan specifying scope/  
objective / timeline /  
Budget of audit



Discusses the Audit  
Plan with mgmt



Procedure was to  
be performed during  
the Audit

4

### \* 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  
denote satisfaction  
denotes weakness

# How to use a Questionnaire ?

(5)

1) Auditor identifies  
the area of potential  
risk and accordingly  
prepares a questionnaire

---

Planning the Audit

Auditor conducts  
follow up interview

---



Questionnaire is  
sent to Auditor  
with a deadline

---

2) Administering the  
questionnaire



Auditor analyses  
the response + identifies  
Risk & area  
of concern

# How to use a Questionnaire ?

(5)

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

---

Planning the Audit

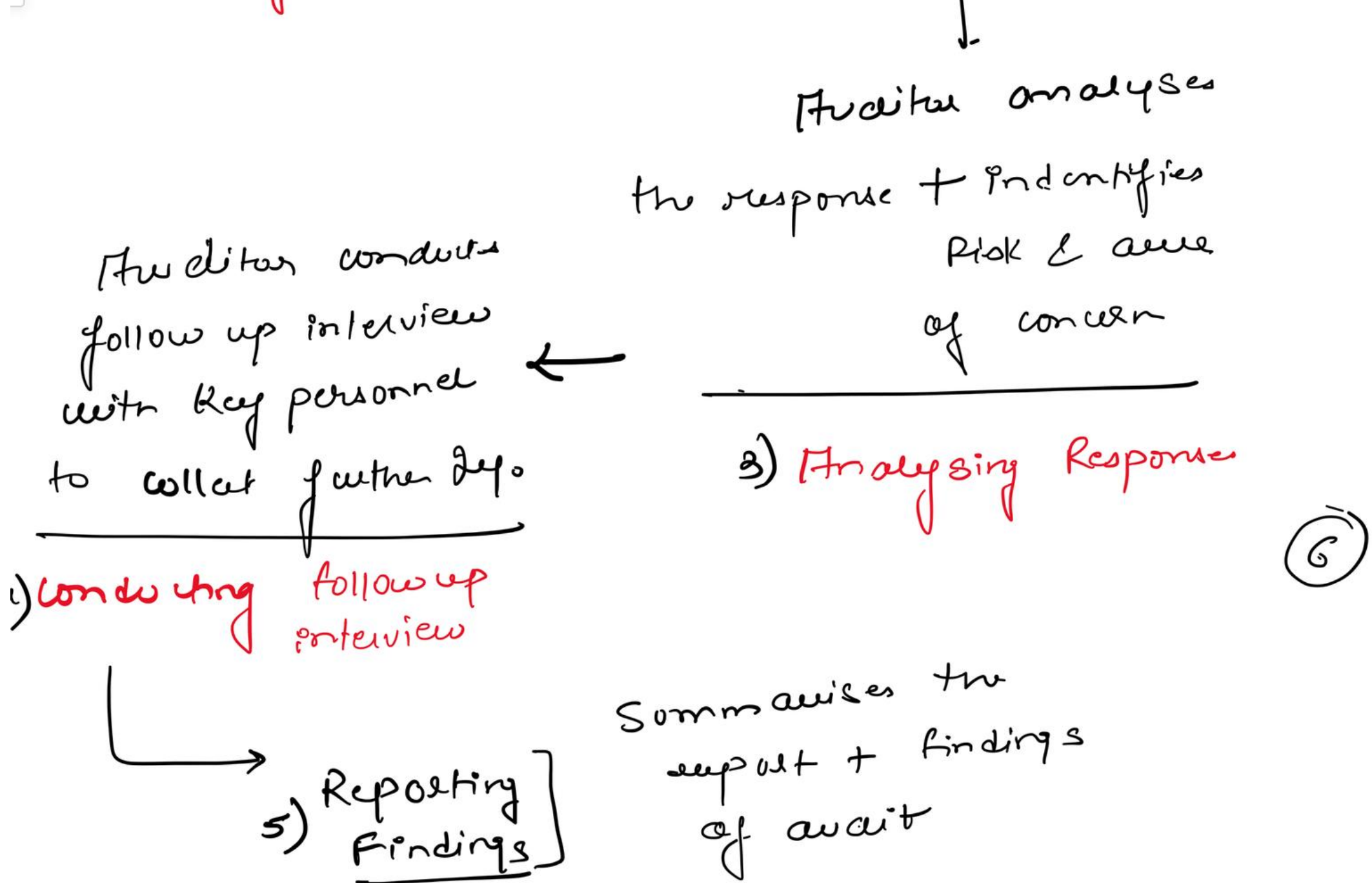


Questionnaire is  
Sent to Auditee  
with a deadline

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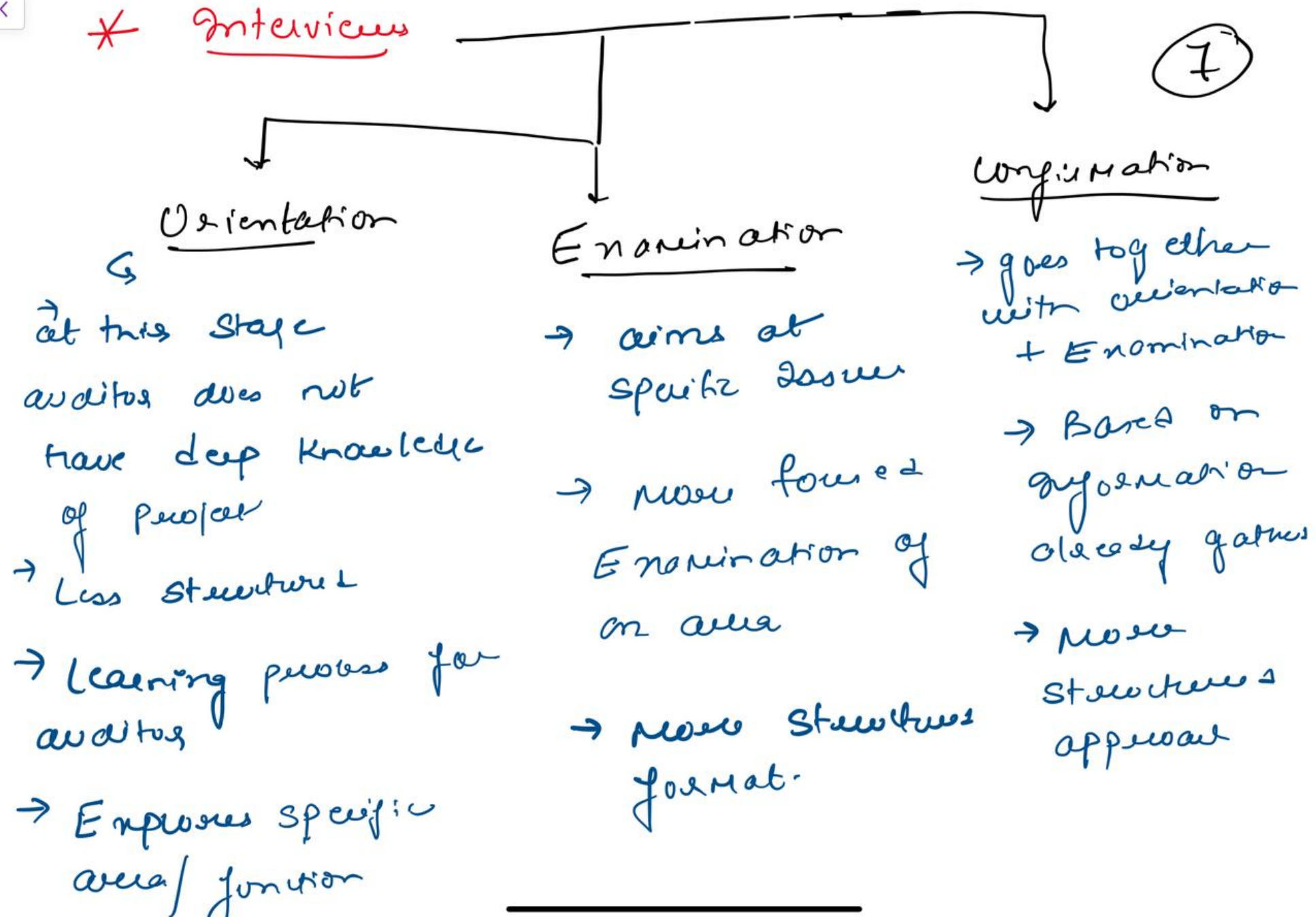
2) Administering the  
Questionnaire







# \* Interviews



①

## \* 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

## \* Master checklist

### 1) Entity operations & organizations

- 1) Object of co.
- 2) Capital structure
- 3) Promoters & Directors
- 4) Related party Transactions
- 5) Subsidiaries / Joint Ventures
- 6) Details of KMP
- 7) Details of Audit Committee
- 8) Geographical location
- 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 Requirements

Identifying cases as  
per Nature / size /  
status / age 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) Introspection & Responsibility
- 4) Ability of Mgmt to Control operation
- 5) Monitoring

107

## \* working Papers

(11)

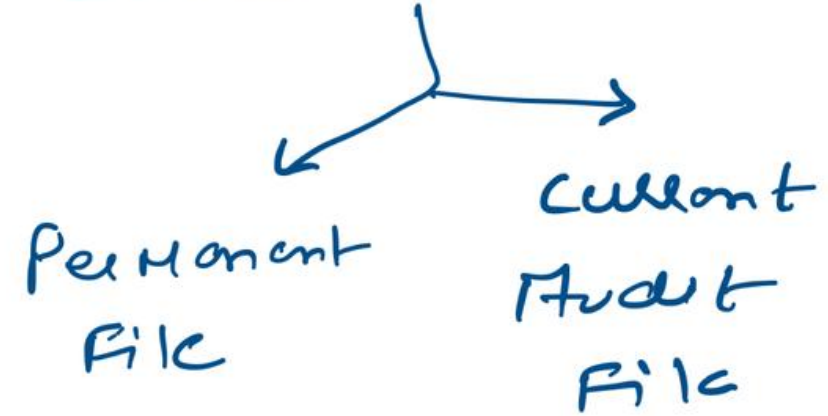
- ↳ work performed by the auditor
- ↳ connecting link b/w Auditor & Auditee's Records
- ↳ includes evidence gathered by auditor
- ↳ Provide info → audit → Planned & carried out  
Supervised  
Sufficient Evidence obtained  
Review was undertaken

## 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

Permanent File

## Types of working Paper



Current Audit File

13

## Permanent File

- 1) Statutory documents
  - 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 controls
- 7) Associated companies

141

## \* Identification of Events & Corporate Matters

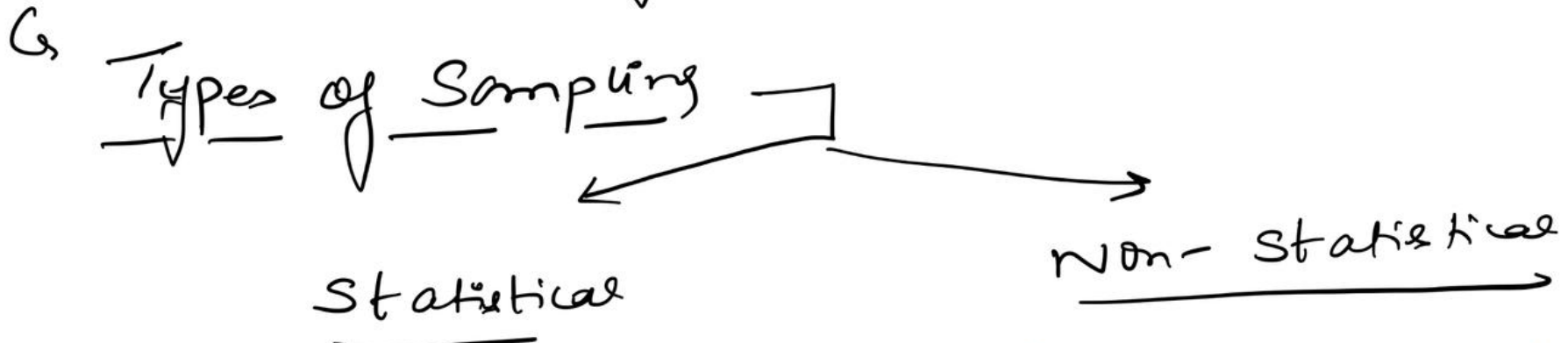
- 1) Acquisition
- 2) Revision in Rating
- 3) Agreement
- 4) Fraud by Promoter / KMP
- 5) Change in Director / KMP
- 6) Litigation
- 7) ~~is~~ issued by Directors
- 8) Change to AOA / MOA

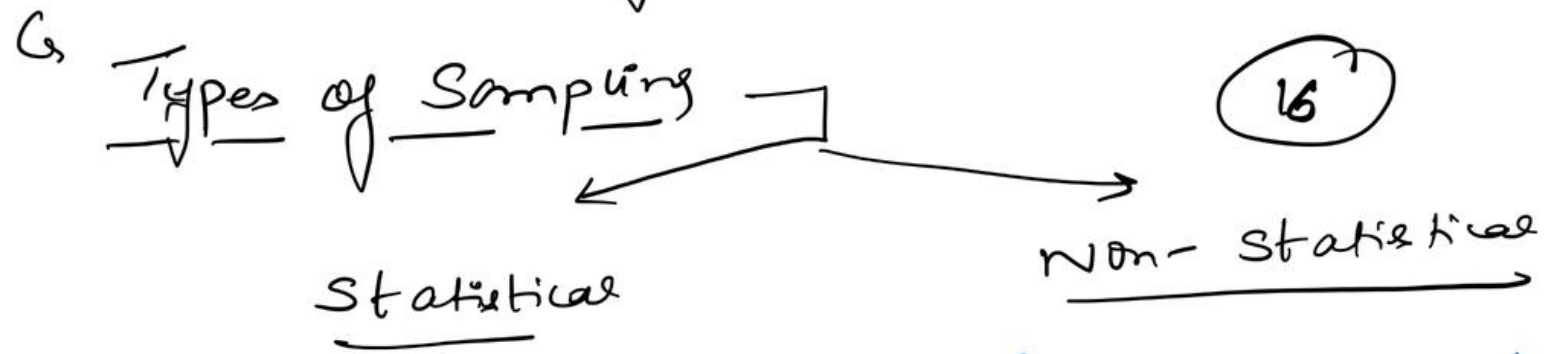
- 8) Change to Debt restructuring
- a) Corporate
- 10) changes in Regulatory Framework

15

## \* Sampling

- ↳ Investigative Tool
- ↳ Helps auditors to Express their opinion without checking all the items.





auditor uses statistical  
Methods → Random Sampling

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

### \* Substantive Testing

↳ used to check any Error / Material  
Misstatement on Record

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

## How does Substantive works

Company make assertions

- Accuracy / 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.

## X Await Trails

## \* Audit Trails

18

- ↳ used to trace Events
- ↳ Rule 3 of Company Accounts Rules, 2014 → every co. that uses accounting software should 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

19

- Increased Transparency
- Improved accuracy
- accountability
- compliance
- foolproof

————— x x x x —————

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CHAPTER 11 – AUDIT PROCESS & DOCUMENTATION

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# Chapter 11 - Audit Process & Documentation



## \* Overview of Audit Process



\* Audit Plan

\* Audit Programme

\* Implementation of  
Audit Plan  
( Performing audit  
Procedure)

(2)

\* Identification of  
Audit Evidence

\* Formation of opinion

## \* Audit Planning

- ↳ Purpose → to carry out audit Efficiently + Effectively
- ↳ documented
- ↳ provides detail layout of Audit Procedure / Size / Time etc

## Essentials of Audit Planning

(3)

- \* Ensuring quality of Audit → Efficiency
- \* Documented audit Plan → should be documented
- \* Flexibility → flexible for modifications
- \* Independent Review of Audit Plan → checked by experienced auditors
- \* Training & communication to audit staff → staff should know quality control policies & procedures of the firm

control policies & procedure  
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

Indicators/  
Internal  
Control  
Measures



Components of Audit Risk

(5)

Inherent  
Risk

Control  
Risk

Detection  
Risk

In spite of  
ICS, Misstatements  
will still exist

Misstatements  
could not be  
detected by  
the internal  
control risk

Auditor's  
procedures will  
not be able  
to detect a  
misstatement



# Risk Assessment Process

6

Identify Key Risk areas →

- Gather Info w.r.t:
- 1) Financials
  - 2) Reorganization
  - 3) Interviews
  - 4) Past Internal Audit
  - 5) Survey

Evaluate Risk →

Identify departments and prioritize major risks

Prioritize Identified Risk →

Prioritize the remaining risks & define the focus of internal audit project based on risk

Develop & Refine Plan for Internal Audit

↓  
Validate Internal Audit Plan (IAP) +

Present IAP to Audit Committee

## \* Audit Checklist

(7)

- ↳ 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:

- ↳ Documents/ Records scrutiny → involves scrutiny of documents like Board Resolution, minutes etc

2) Testing, Interviews  
and Analysis →

Interviewing the staff of auditee  
Reviewing procedure  
Analyzing compliance with Laws / Rules / Reg.

8

3) Questionnaire → [Discussed in chap 10]

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

5) Analytical Procedure → involve comparing data

# \* Audit Evidence

9

- ↳ 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 aspects of Auditors

Current  
Audit Documentation

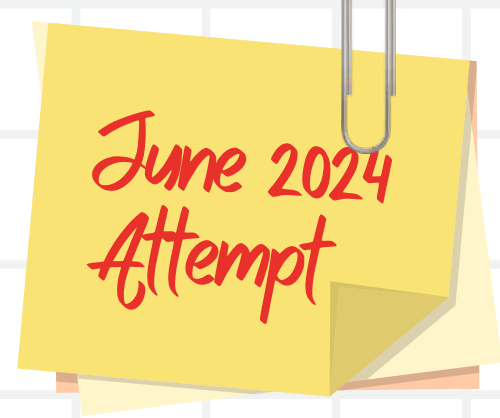
- 1) Audit Review Points + highlights
- 2) Evidence of Audit Planning Papers
- 3) Evidence → work performed was reviewed + supervised
- 4) Communication with Third Parties
- 5) Major weakness in IIR

## \* Record Keeping & Powers

(12)

→ 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.



# CMADD

CHAPTER 12 - FORMATION OF  
OPINION & REPORTING

*Handwritten Notes*

**CS MUSKAN GUPTA**

## 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

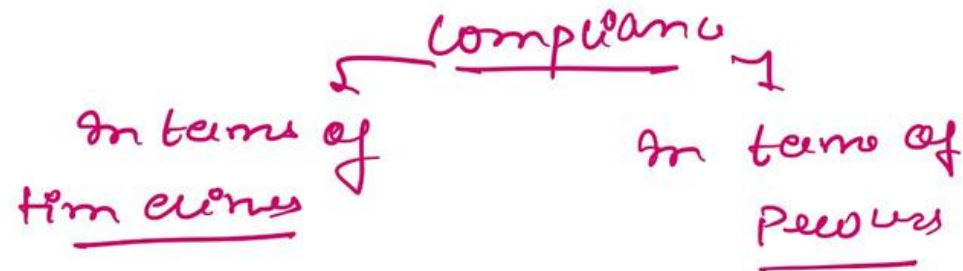
1) Unqualified / modified opinion

↳ compliance with Law + free from  
misstatement

↳ also called as clean opinion



compliance



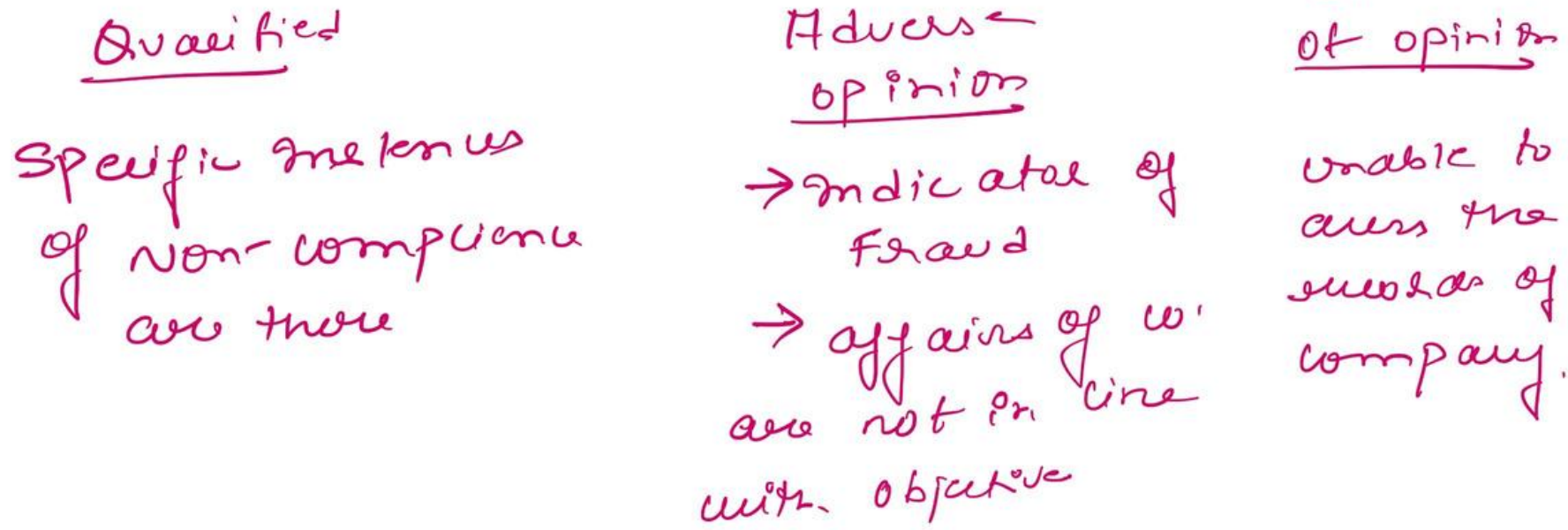
②

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

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

\* Modified opinion [Staic/Bold]

- ↳ Non compliance
- ↳ Records are not  
free from Misstatement
- ↳ unable to obtain sufficient Audit  
Evidence

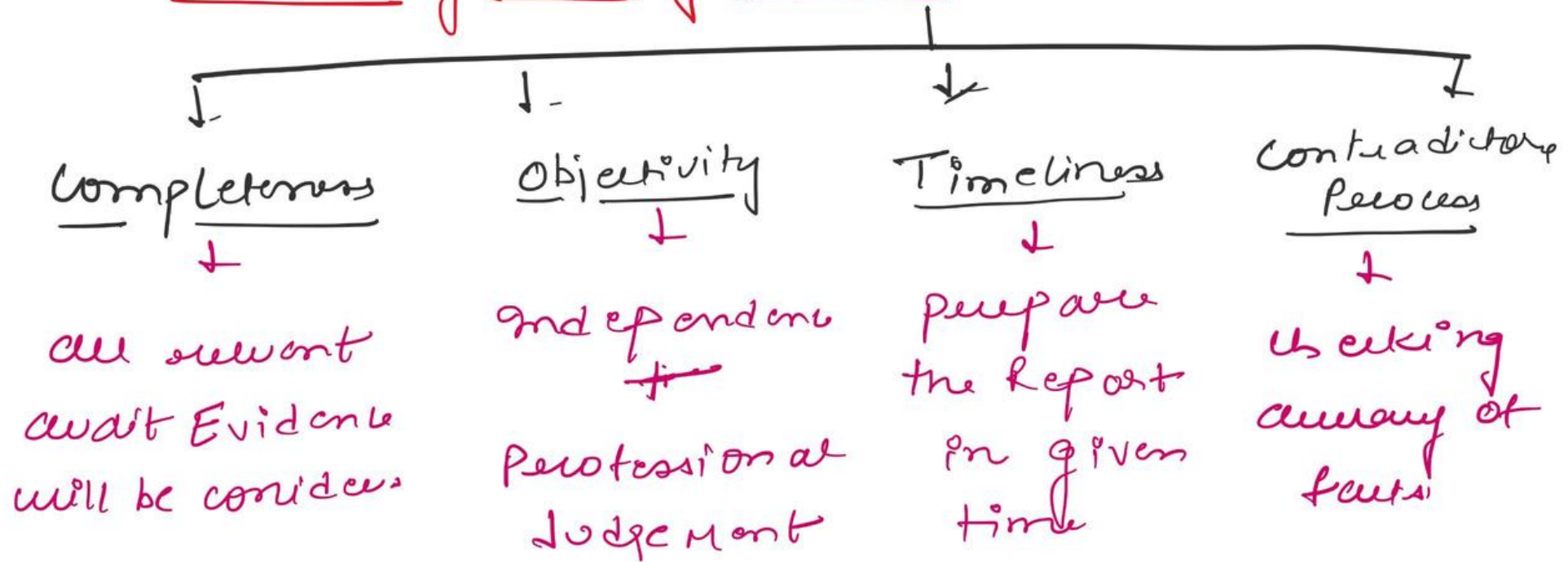


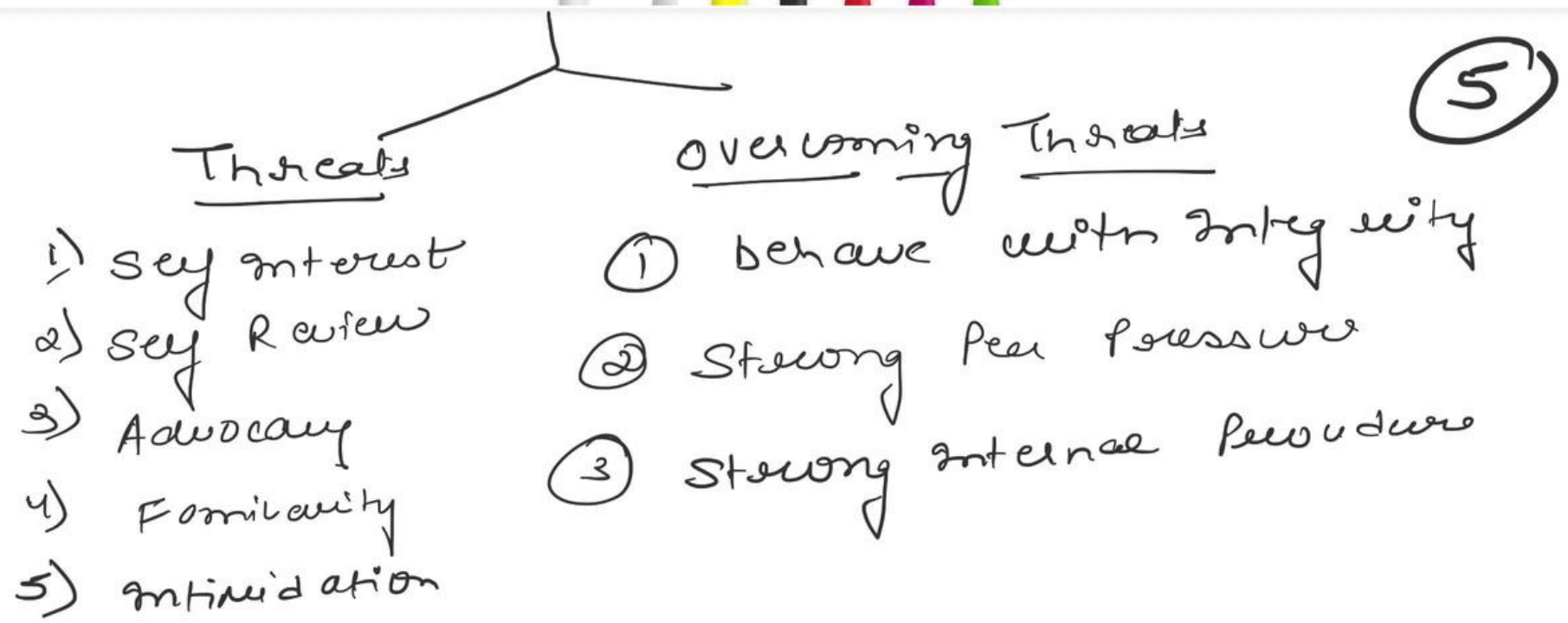
\* Materiality

- Matter of professional judgement
- inverse relationship b/w Materiality + degree of audit Risk

- used both in Planning + Execution stage (4)
- important while conducting Audit + Forming opinion

### \* Process of forming opinion





### \* 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 If provided by the Auditor
- ③ Consider any findings/ observations of Third Party.
- ④ Check Reliability of Third Party,

6

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 Reliability of work to addressee of Audit

(4) Cost Effectiveness of

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

(7)

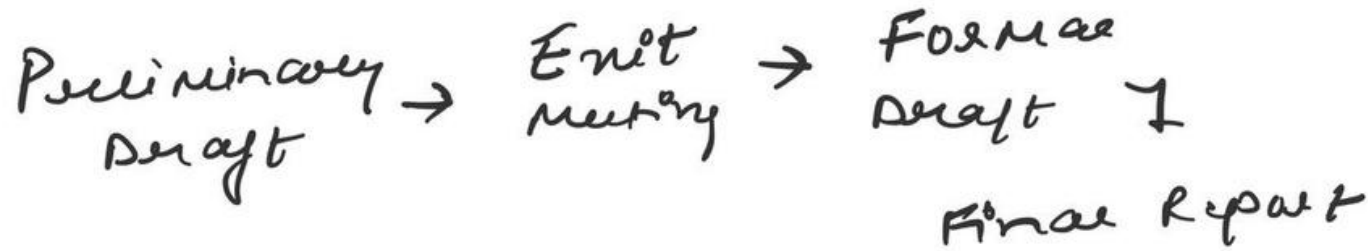
### \* Evaluation of Audit Evidence & Forming Opinion

- (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) Accepted Evidence

- ⑥ Photocopy less
- ⑦ Accepted Evidence
- ⑧ Gain increased Assurance.

⑧

\* Different stages of communication



\* Auditor's Responsibility

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

⑨

Opinion about following

9

- 1) Audit conducted as per → AS
- 2) Auditor obtained reasonable assurance, statements are free from misstatements
- 3) Auditor expressed his opinion on Evidence collected
- 4) Auditor followed appl Law / Rule / Reg.

\* Pre-Requisite → Accurate  
→ objective  
→ clear

- clear
- concise
- constructive
- complete
- Timely.

10

## \* Signing of Audit Report

Sentential  
Audit to

PLS firm

Partner's

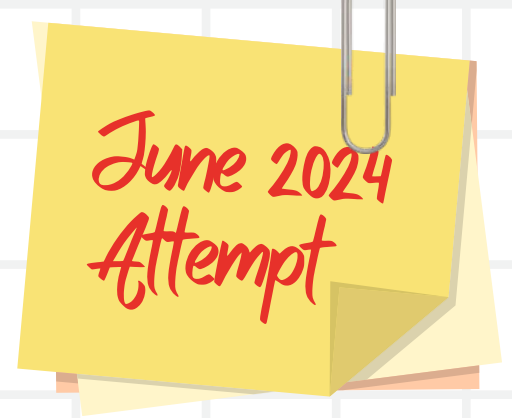
- 1) Au/PLS
- 2) WP
- 3) Date
- 4) Place

- 1) Au/PLS
- 2) WP
- 3) Date
- 4) Place

## \* Reporting with Qualification

11

- Qualification/ Adverse Remarks → Bold/ Italic
- 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 compliance



# CMADD

## CHAPTER 13 - SECRETARIAL AUDIT

*Handwritten Notes*

**CS MUSKAN GUPTA**

## Chapter 13 - Scrutiny audit

①

- audit of non financial aspects of the co.
- conducted by Pr (holding COP)
- section 204

Applicability →

listed co.

Public co. PSL → 500  
or  
T/o → 2500

Every co. → O/S C&B → 1000

Reg 24A SERBI (LODR) Reg, 2015

# Reg 24A SEBI (LODR) Reg, 2015

2

Uday Kotak Committee Recommended

Audit of Material  
unlisted subsidiaries

more / nw > 10% of consolidated  
group / nw of  
listed Entity.

Reg 24A Share Not applic:

listed w/  
Paid up Equities &  
SE X ↑ 10% → NW  
X ↑ 25% listed  
on  
SME

Advantages of SA to Audit Evidence

## Advantages of SA to Audit Evidence

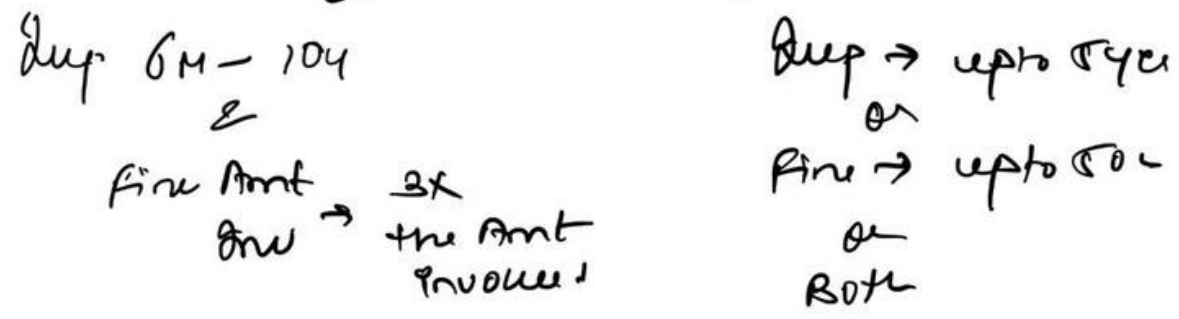
3

- ↳ Promote
- ↳ Non Executive!
- ↳ Independent Directors
- ↳ Government authorities
- ↳ Investor
- ↳ Other stakeholders

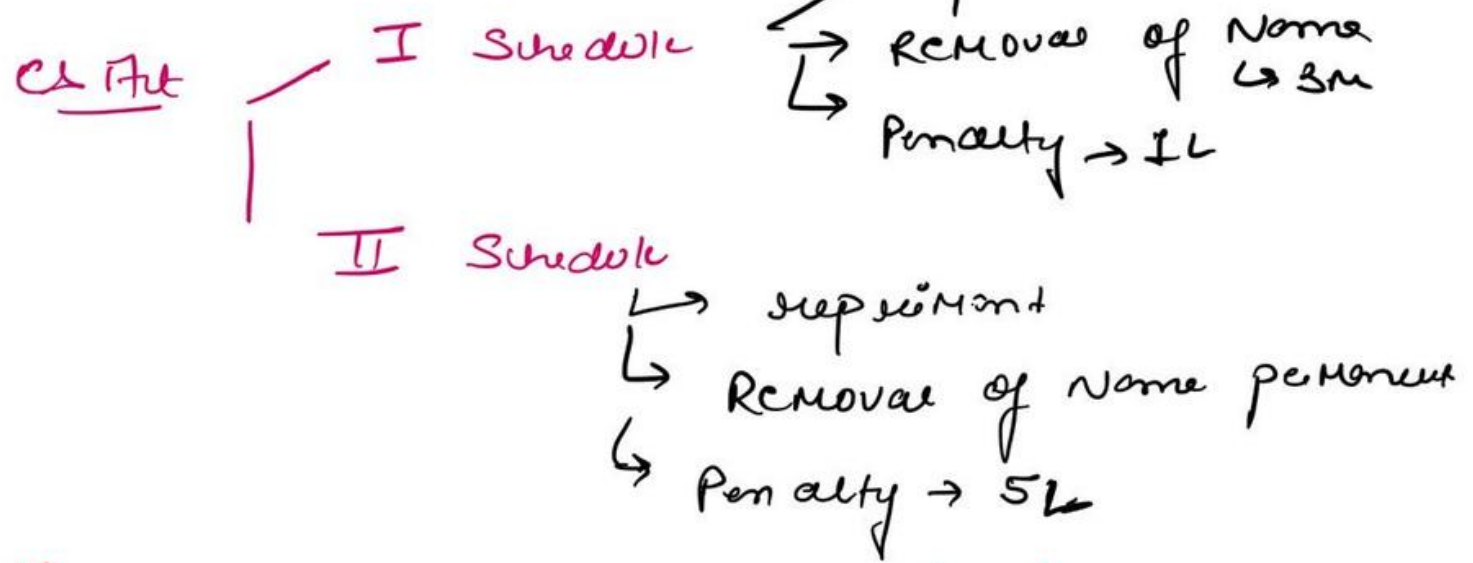
## \* Risk of Structural Audits

- 1) Section 204 → 2L
- 2) Section 143 →
  - LL SL
  - ULL LL

- 3) 447 →
  - of Amt pvd in
  - fraud is 10L
  - Lt of 1/0 (WEL)



- 4) 448 → False statement
- 5) 451 → 2x the Amt of Penalty.



\* Scope of Statutory Audit

# \* Scope of Statutory Audit

5

## Regulations

- 1) Companies Act
- 2) SRA
- 3) Depositories Act
- 4) FEMA

- 1) SEBI (LODR)
- 2) SEBI (LLDR)
- 3) SEBI (SAST)
- 4) SEBI (PIT)  
etc

Statutory  
Standards

existing  
Agreement

Board  
Composition

Board  
Process

- ① Board duty constituted
- ② Change in Board were  
in compliance with Law
- ③ 7 days notice



←  
Sectarian  
Standards

Existing  
Agreement

←  
Board  
Composition

Board  
Person

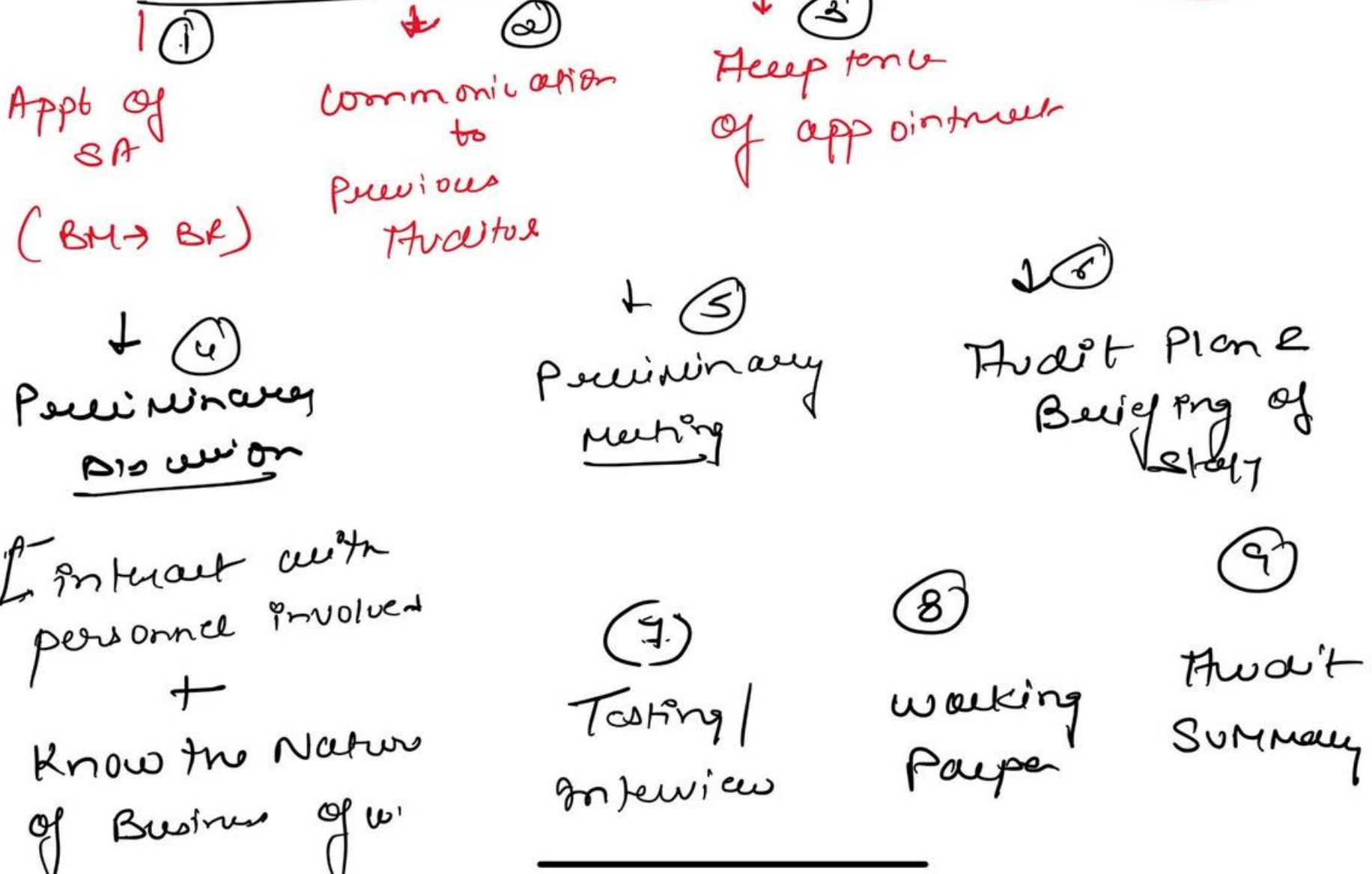
⑥

- ① → BOB duty conditions
- ② → Change in BOB were in compliance with Law
- ③ → 7 days notice
- ④ → Majority decision + Resolving of dissenting SM
- ⑤ → Adequate Systems & Powers in place

\* Sectarian Trust → The Person  
 | ① ↓ ② | ↓ ③ |

\* Sequential Audit → The Process

7



## \* Board Composition

### Companies Act

- ① at least 01 Director who stays in India for not less than 182 days
- ② Every listed Public Co. have at least  $\frac{1}{3}$  of total Directors as independent Directors
- ③ Woman Director  $\begin{cases} 3000 \text{ T/O} \\ 1000 \text{ PSU} \end{cases}$

### Reg 17 of SEBI (CORP) Reg

- ① combination of Exec + Non Exec Director with  $\geq$  1 woman Director + 50% non Executive Director
- ② Top 500 listed Co.  $\geq$  1 independent woman Director (April 2019)  
 $\geq$  IWD (April, 2020)  
 $\hookrightarrow$  Top 1000



③ Chairperson of BOD  
is Non Executive Director

9

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

X Non Executive Chairperson

$\frac{1}{2}$  of BOD  $\rightarrow$  I.D

④ Non Executive  
Chairperson — Promote  
as  
↳ Related  
to Promoter

$\frac{1}{2}$  of BOD  $\rightarrow$  IA

10

5) Top 1000 [April, 2019]  
Top 2000 [April 2020]  
at least  
6 Directors

6) Co. has outstanding  
Superior voting Right  
Equity shares  $\rightarrow$  at least  
 $\frac{1}{2}$  of BOD  
should be IA

# \* Detection of Fraud

11

Section 143 → Duty of Auditor to Report Fraud

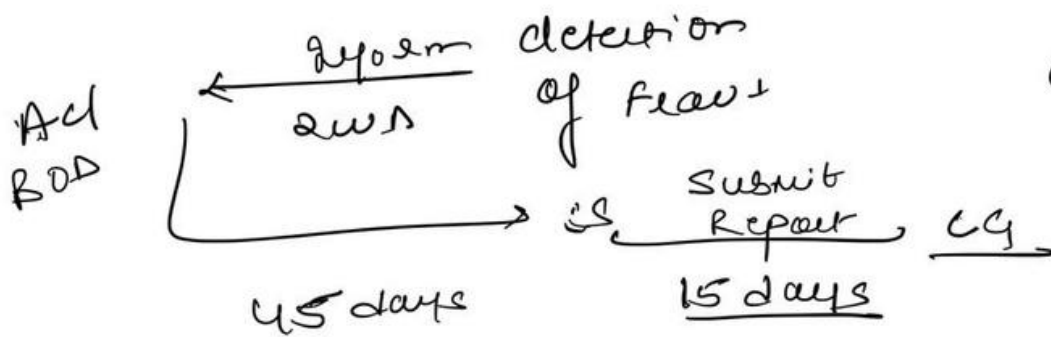
↓  
of Amt Inv in Fraud is

10 or above 10  
↓  
CG

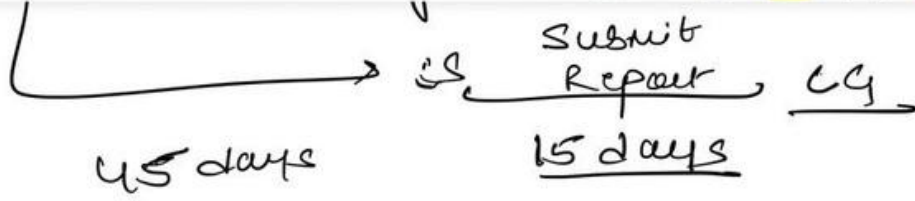
Below 10  
↓  
Act BOD

Inform Act BOD

- ① Nature of Fraud
- ② Amt Inv
- ③ Parties



< BOD



- ② Amt Inv
- ③ Parties

⑫

↳ Recommendation

Ac/BOD will disclose in their report

Transactions which may involve fraud

- ① Related Party Transaction
- ② Excessive Managerial Remuneration
- ③ Insider Trading
- ④ Inter company Transactions
- ⑤ Merger/Acquisition

- ① Nature
- ② Amt
- ③ Parties
- ④ Remedial actions taken

Who is considered as auditor

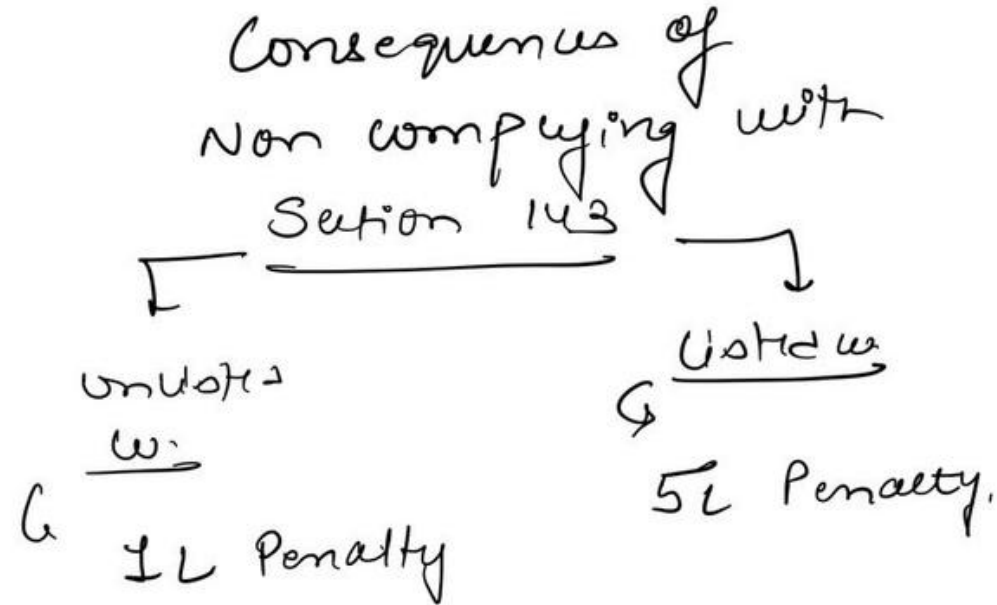
- ① CA
  - ② CMA
- Intense Auditor

- ④ Inter company
- ⑤ Merger/ Demerger
- ⑥ Fraud
- ⑦ IPO

- ① CA
- ② CMA
- ③ CS
- ④ Branch audits

Internal Auditor  
Knowledge

13



# Ch 14 - Internal Audit & Performance Audit

## Internal Audit:-

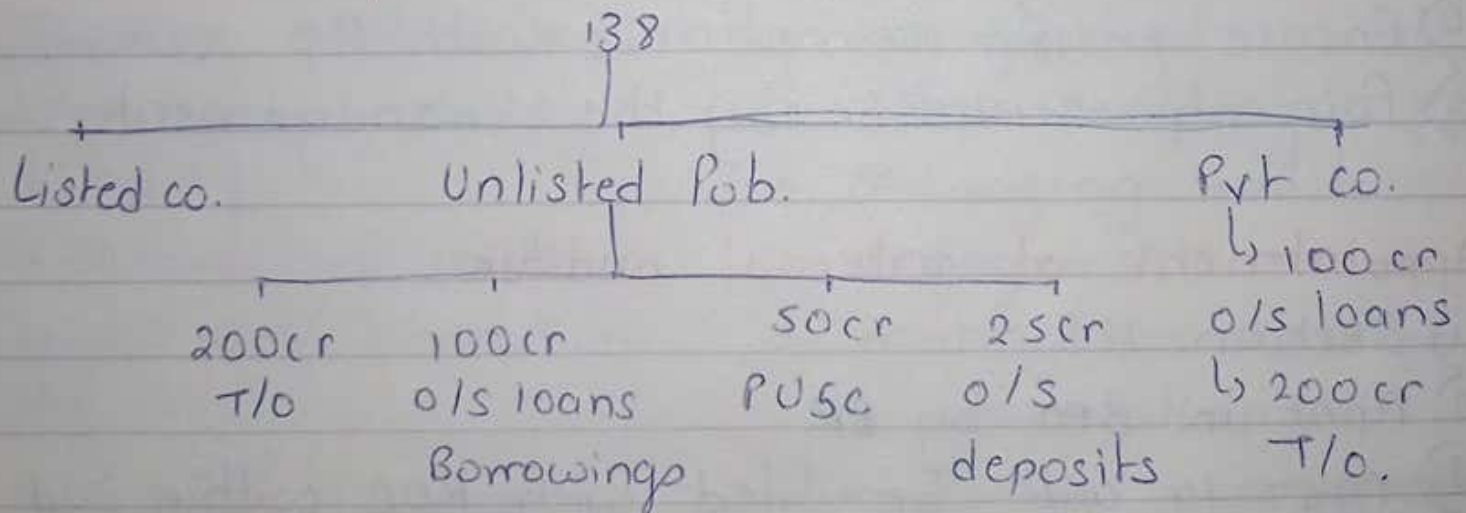
Internal auditor is appointed for: #

- 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 hearing.



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 → objective

→ scope

↳ also called as

→ Roles & responsibilities

audit comm. manual → 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.

i) 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

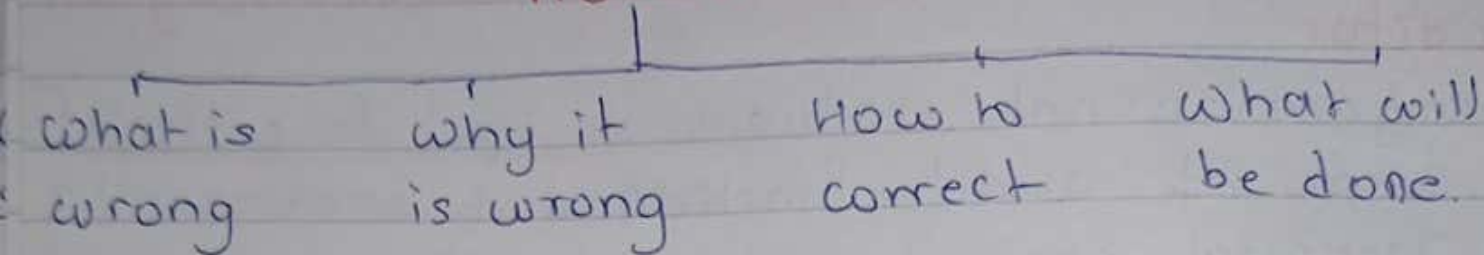
Provides details of all significant findings during the audit

mgmt will understand the issue and will take corrective actions

Performance will be improved

follow up will help in progress

## Process



## \* Role of IA in org control mechanism

### i] Internal Control \* Imp

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

### Objective :-

- i] Transactions are performed after authorization by the mgmt.
- ii] Safeguarding of assets
- iii] If there is a diff between recorded asset and existing assets 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 assessment activities as a part of ordinary course 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.

June 2024  
Attempt

# CMADD

CHAPTER 05 – PEER REVIEW AND QUALITY REVIEW

*Handwritten Notes*

**CS MUSKAN GUPTA**

## Chapter 5 -

### Peer Review & Quality Review

①

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

→ Primary objective → Controlling quality improvement.

\* Authority to administer Peer Review

CS Act 1980 → 168I

CS Act 1980 → ICSI

↳ function under  
the supervision

of Council

→ Issued guideline  
for Peer Review

Enhance the  
quality of work  
of PR

②

\* Sup of Peer Review

- ① MAT 8 / MAT 7
- ② 204 → Statutory Audit Report
- ③ Reg 24A SEBI (LODR) → Material  
unrelated Subsidiary  
compliance Report

Reg 24A SEBI

unlisted subsidiary

3

4 Annual Statutory compliance Report to listed Entities

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

6 Diligent Reporting of Banks

7 Internal Audit → Stock Broker

8 Compliance certificate → Corp Gov Certification

9 Reg 76 SEBI (Depositories & Participant) → Reconciliation of Share Capital Audit

## \* Qualifications of Peer Reviewer

4

- 1) Member + 10 years post qualification  
Experience as a  
+  
trainee in practice  
for continuous period -  
not less than 5 years
- 2) COP
- 3) Training Programme Qualification  
for Peer Reviewer + Certification  
Programme

Disqualification → X Disiplinary → during  
action Past 3  
years

Disqualification → X Disiplinary → during  
action Past 3  
year

(5)

→ X guilty of Prof misconduct  
→ convicted by competent courts

\* Validity of Empanelment → 5 years

\* Statement of  
Confidentiality → High integrity needed on  
Part of Reviewers + Assistants  
→ Reviewer + Assistant will  
sign the Statement of  
Confidentiality

Shaw  
preserve  
Secrecy

Shaw x  
communicate to  
any other person

Shaw x  
permit any  
other person  
to access the  
document

\* Validity of Certificate → 5 years

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

## \* Quality Review Board

- Constituted by Govt of India
- Chairman + 4 Members

② Nominated by Council

② Nominated by Cg

Persons Having

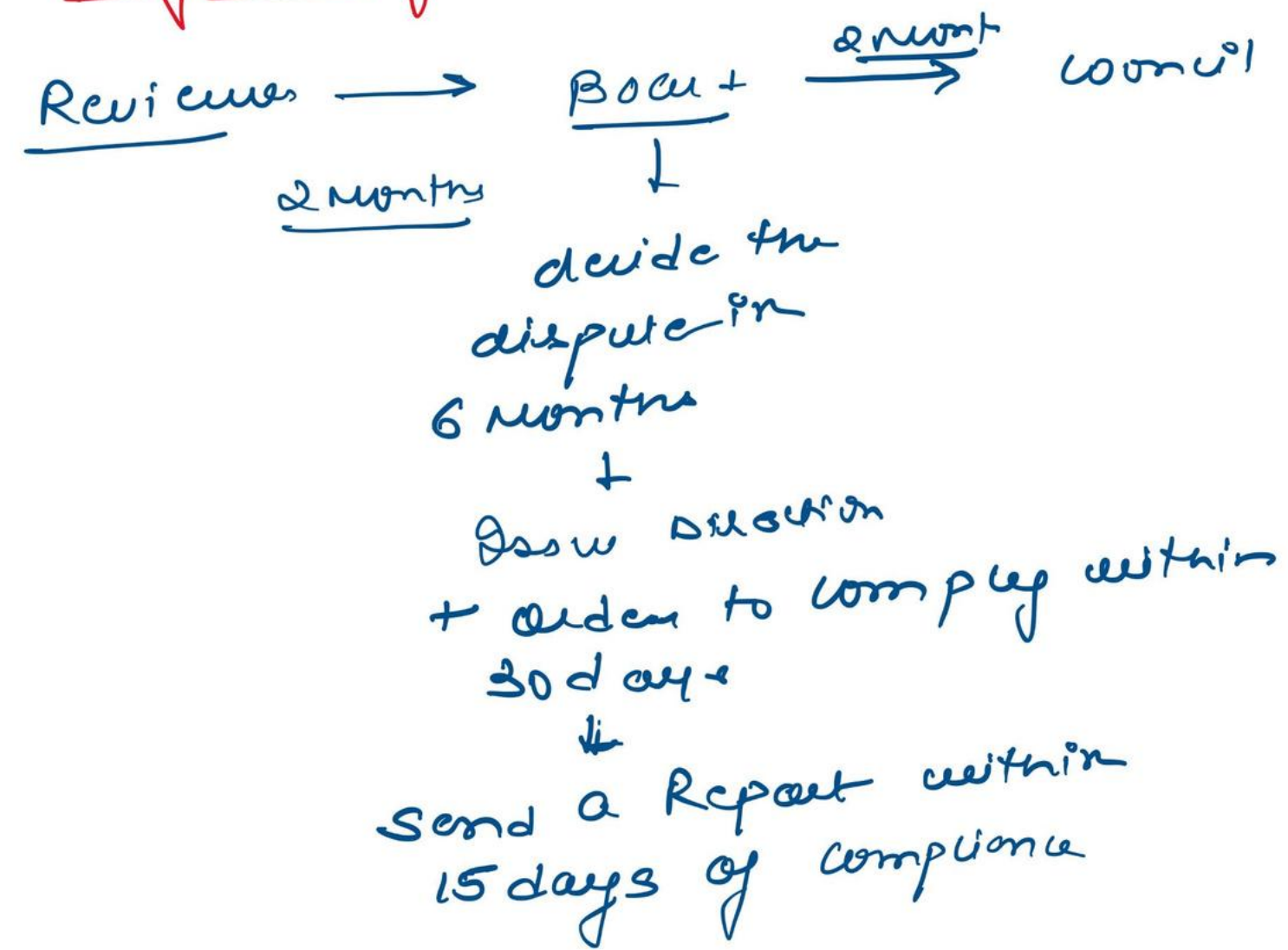
Experience in Law/  
Economics / Business /  
Finance / Accountancy.

## Functions

- Make recommendation about quality of service
- Review the quality of service
- Guide the members to improve the quality of service

of service

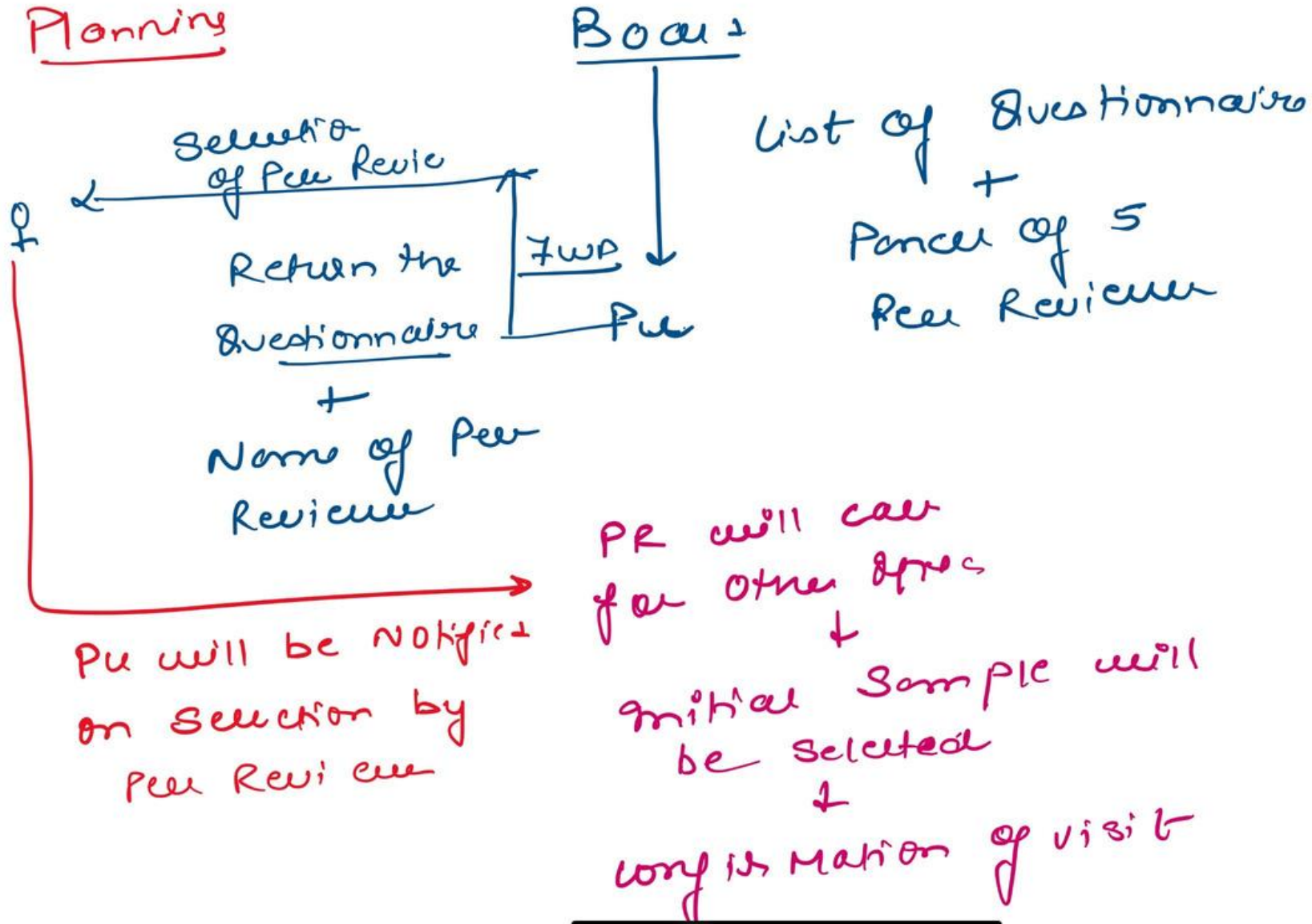
# \* Reversal of Dispute & Appeal (8)



# \* Procedure of Peer Review

9

## Planning



Enrollment

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

(10)

Compliance Review -  
General Controls

- ↳ Independence
- ↳ Professional Skill
- ↳ Staff Supervision + Developer
- ↳ Office Administration
- ↳ Outside Consultation

Selection of Attestation  
Services to be Reviewed

Selection of Attestation  
Services to be Reviewed

11

Review of Records

Compliance  
Approach

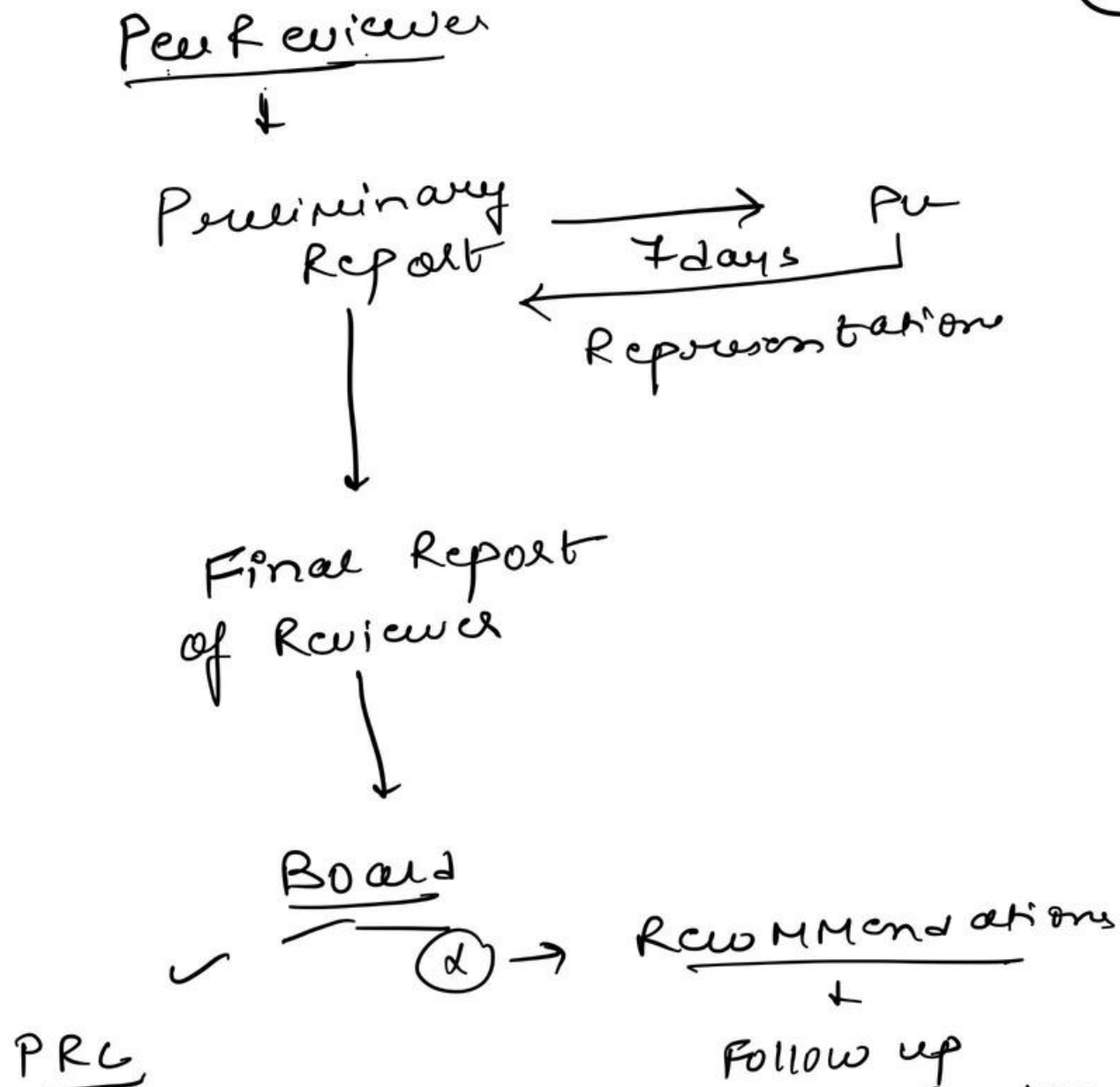
Substantive  
Approach

Proper controls  
Procedures have been  
Established

used when  
Reviewer does not  
rely on general  
controls

\* Reporting

Peer reviewer





PRG



Recommendations



Follow up  
by Peer Reviewer



Report to Board



PRU

Ends

(13)

————— AR —————

June 2024  
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# 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 Scrutiny in a transaction
- 5) Good and decision
- 6) Shareholder's confidence



Transactions that supervise 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

↓  
\* Target is rarely eager to





Weakness ↓

3

\* Target Co. is rarely 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 Enters into a conditional agreement with AD clause when Buyer conducts AD in a limited period of time.





\* Buyer Enters into a Conditional agreement with AD clause when Buyer conducts AD in a limited Period of time. (4)

\* Buyer Requests access to Matrices info to conduct investigation + A conf identiality Agreement is signed to protect target business' interest.

\* Re Negotiation of initial terms + Make a rational decision



Need for Due Diligence

Scope of Due Diligence

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

- 1) Ensure compliance
- 2) Penalties applicable in non compliance
- 3) assess the availability of resources
- 4) Assets / <sup>real</sup> Intellectual

6) facts

5) 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

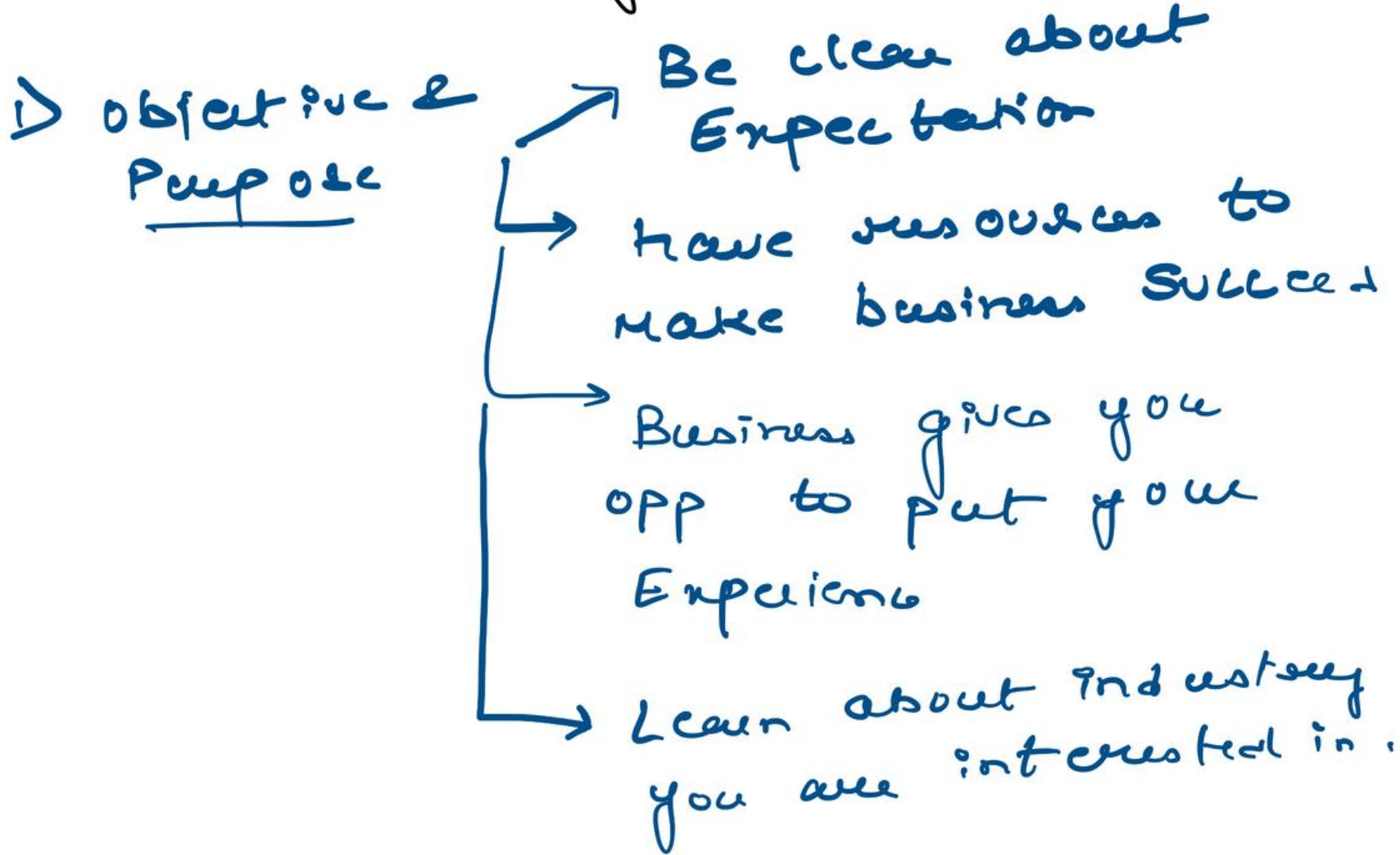
9) Financial  
Statements

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



2) Planning Schedule

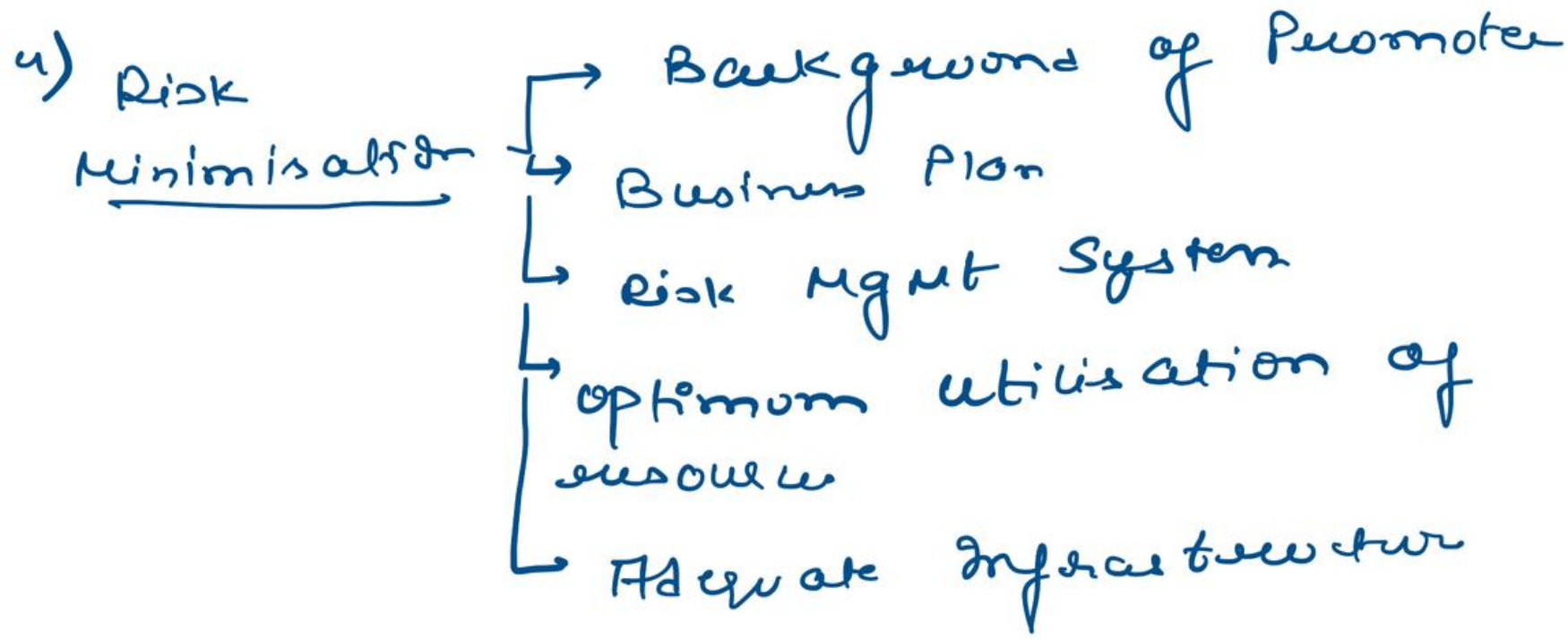
- steps to be followed
- ↳ areas to be checked
- ↳ aspects to be checked
- ↳ Dept + Marcial aspects from seller

3) Negotiation for time

→ Negotiation should be made for adequate time to review crucial Dept & legal aspects

4) Risk

↳ Background of Promoter



5) Information from External sources

6) Limit the impact with natural factors

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) Memorandum

### Due Diligence

#### \* Deal Breaker

↳ material weaknesses + various non-compliance

#### \* Deal Driver

quantifiable Penalties  
diminishing the value of

## Pre Diligence

- 1) LOI
- 2) NDA
- 3) collation of data
- 4) identify issues
- 5) organise paper
- 6) creating a data room

## Due Diligence

### \* Deal Breaker

↳ minimal + various  
Penalties + Non compliance

### \* Deal Driver

Quantifiable Penalties  
diminishing the value of  
co.

### \* Deal Cautioner

Rectifiable Non compliance

### \* 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 forms +  
Documents

13

5) Short + long term debts



4) Inspection of Documents



5) Actions taken to control any risk

→ Responding to incidents

\* Types of Due Diligence

Legal Due Diligence

Covers legal aspects of business transaction + liabilities of transact + other related issues



14

transaction + liabilities  
target w. + 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) secured / status Report
- 8) RPT



8) RPT

15

9) IPO / FPO / Prospectus

10) Returns filed with ROC.

- Scope :
- \* Company Law
  - \* Income Tax Law
  - \* Labour Law
  - \* IPR
  - \* Env Law etc.

Due Diligence for M&A

\_\_\_\_\_

\_\_\_\_\_

Seller



# Due Diligence for M&A

16

stages

Buyer

Seller

Preparation stage

- 1) strategy
- 2) potential targets
- 3) External advisor
- 4) Short list targets
- 5) create AA Team

- 1) strategy
- 2) potential targets
- 3) External advisor
- 4) Shortlist Buyer

Post Diligence

- 1) Approve targets
- 2) negotiate

- 1) Approve target
- 2) Negotiate



2) Negotiate initial terms

3) NDA

4) List of data

2) Negotiate =

3) NDA (17)

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



<p>&lt;</p> <p>Negotiation</p>	<p>Negotiation on agreed terms + Final offer</p>	<p>Negotiate + Final offer</p> <p>18</p>
<p>Post Diligence</p>	<p>Adjustments</p>	<p>Termination of data swap + ownership Enhance</p>

\* Due Diligence for Issue of Securities

SEBI → ICAR → Issue

SEBI → LODR → Listing Disclosures

# \* IPR Due Diligence

- 1) Schedule of Patent
- 2) Schedule of Copyright / Trademarks
- 3) Details of Indian & International Patent
- 4) Copies of all agreement / Inventions / Licenses
- 5) Details of threatened claims

# \* Environment Law

↳ analyses Env risk & liability



# \* Environement Law

20


↳ analyses Env risk & liability  
+

Provide 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

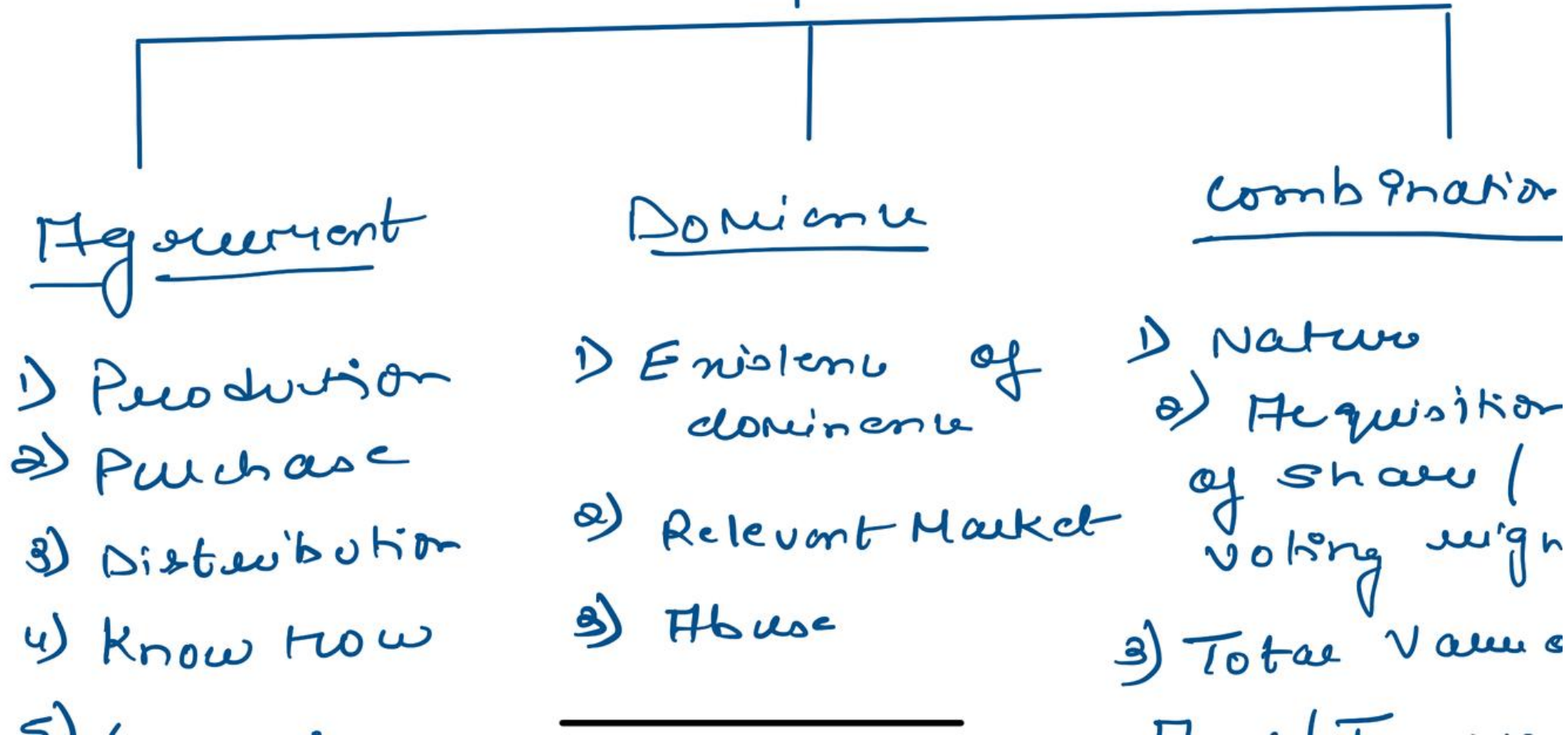
- Organization and
- 4) Env Setting + history of site (21)
  - 5) Assessment of site conditions
  - 6) Legal compliance with Env Law

- 
- a) Air (Prevention & control of Pollution)
  - b) water (Prevention & control of Pollution)
  - c) National Green Tribunal
  - d) Env Protection Act

e) Forest conservation

22

## \* Competition Law Due Diligence



- 3) Disturbance
- 4) Know how
- 5) Commission

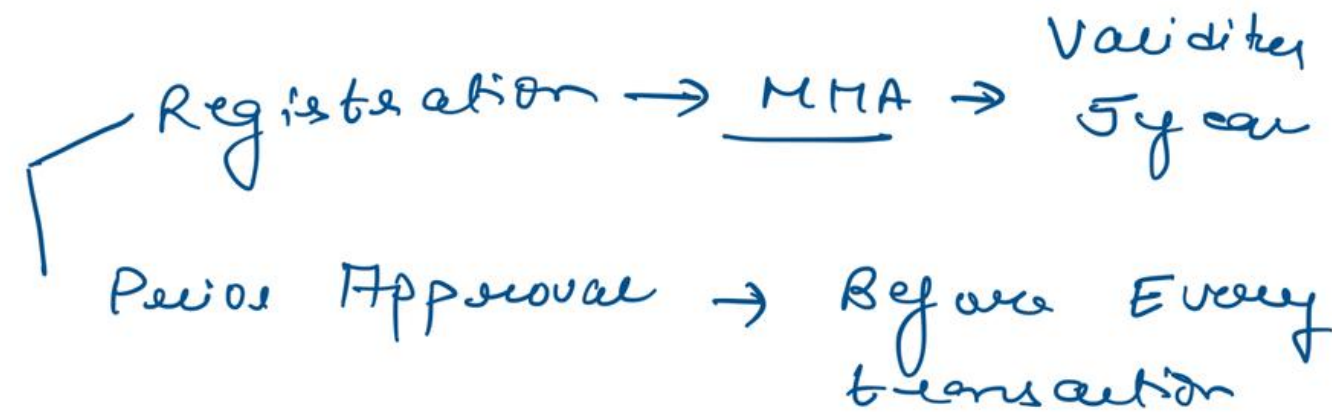
3) Abuse

(23)

- 3) Total Value of Assets / Turnover
- 4) Notification to ICI
- 5) Residence

\* FCRA Due Diligence

↳ governs foreign funding received by Non Profit org



Annual Return → Mandatory → within 9 Months from closure of Financial year.

\* Bank Due Diligence

↳ conducted by Pr  
 ↳ on half yearly basis

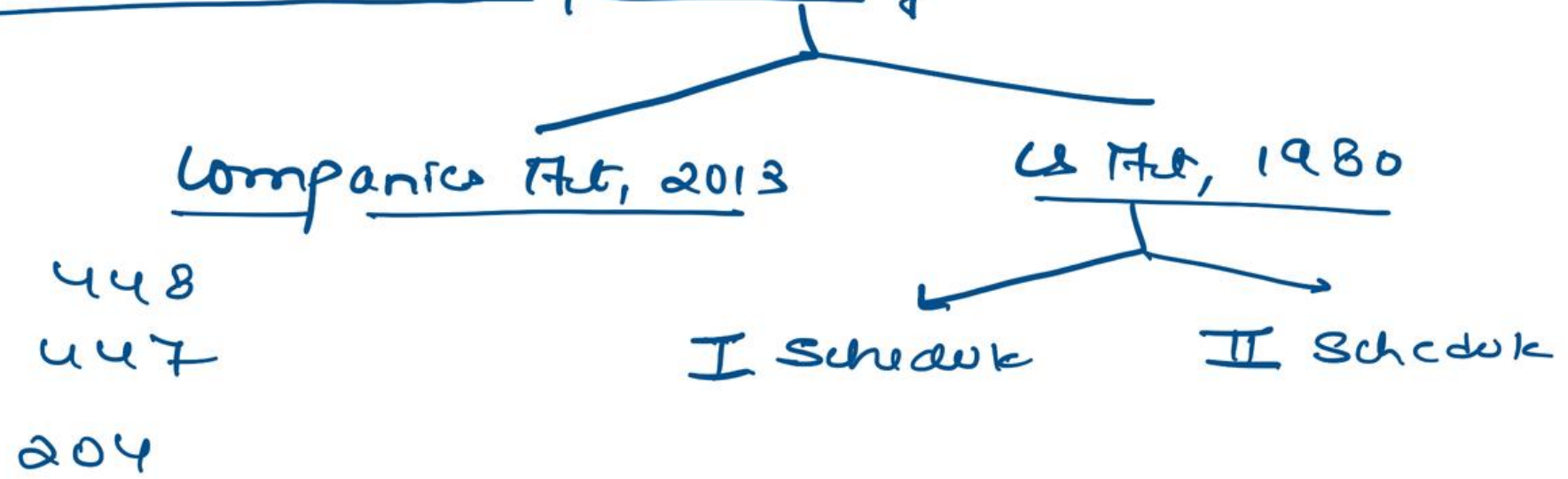
Should have  
 access to all books /  
 papers / minute / journal /  
 returns ↓

25

Report with Qualification  
↓

Bold/ Status

Professional Responsibility



\* HR Due Diligence

↳ Employees → Position



\* HR Due Diligence

26

- 1) Employees → Position + Salaries
- 2) Total Employee
- 3) Current Salaries / Bonus
- 4) Employee Benefit Scheme
- 5) Employee Harassment Report
- 6) Litigation Issues

\* Non Disclosure Agreement

↳ Protect Sensitive Info



# \* Non Disclosure Agreement

- ↳ Protect Sensitive Info
- ↳ Keep the Invention Keep Patent rights
- ↳ Outline what info is private

## Content

- Definition + Exclusions of Confidential Info
- Obligations of each involved people

