

June 2024
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CHAPTER 08 – CONCEPTS OF VARIOUS AUDITS

Handwritten Notes

CS MUSKAN GUPTA

① Corporate Governance Theories

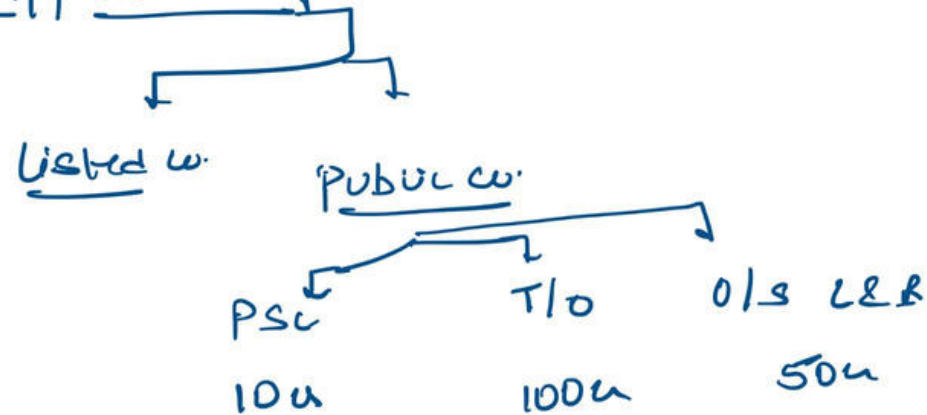


conducting affairs of the company
such a way that there is fairness
to all stakeholders

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

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

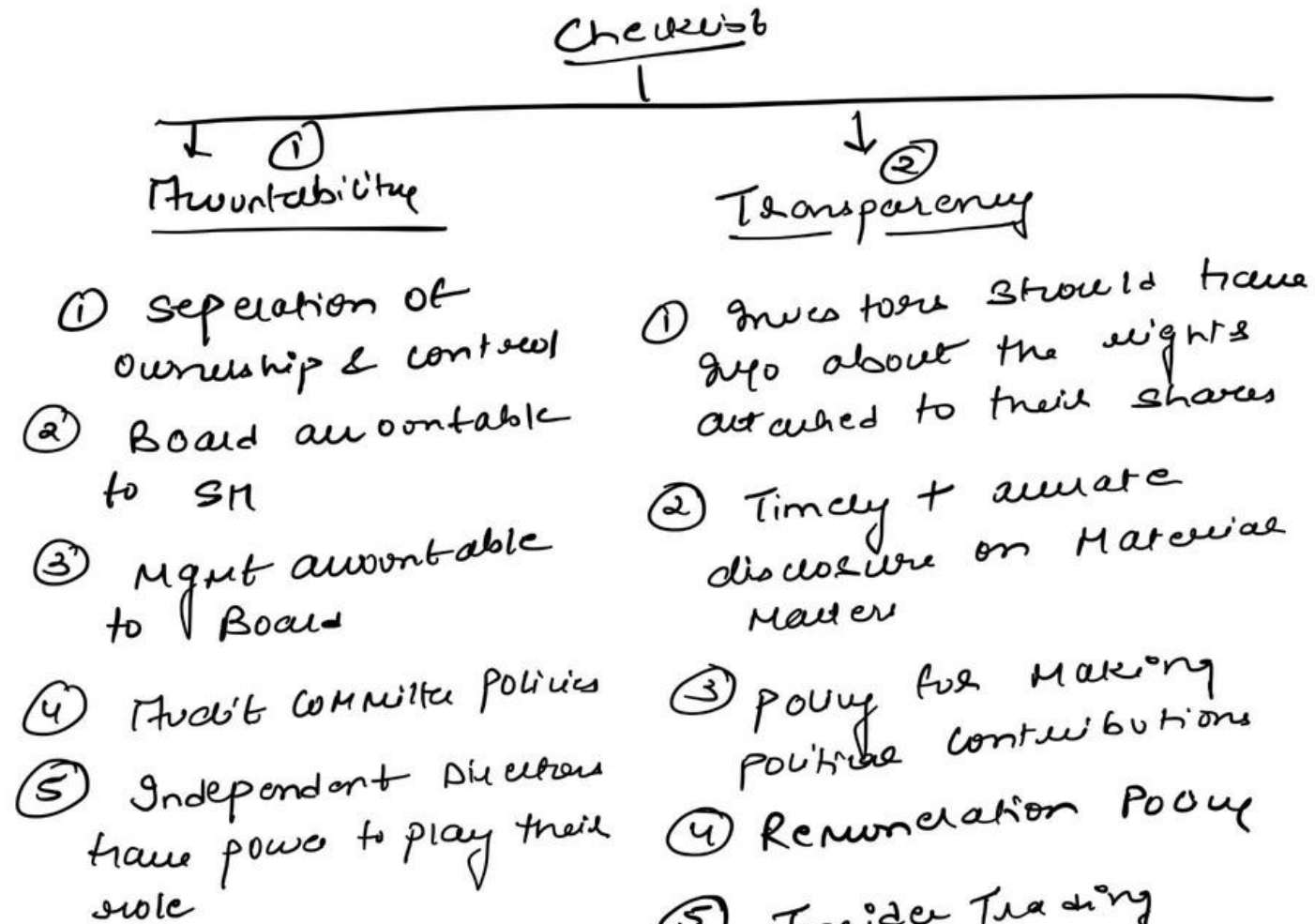
③

* 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) Scrutiny of inter corporate loans & Inv
- 7) Discussion with IA of significant findings
- 8) Review Whistle Blower Mechanism

- 8) Review Whistle Blower Mechanism
- 9) Reviewing performance of Statutory + Internal Auditors
- 10) Look into Reasons for Substantial defaults

4

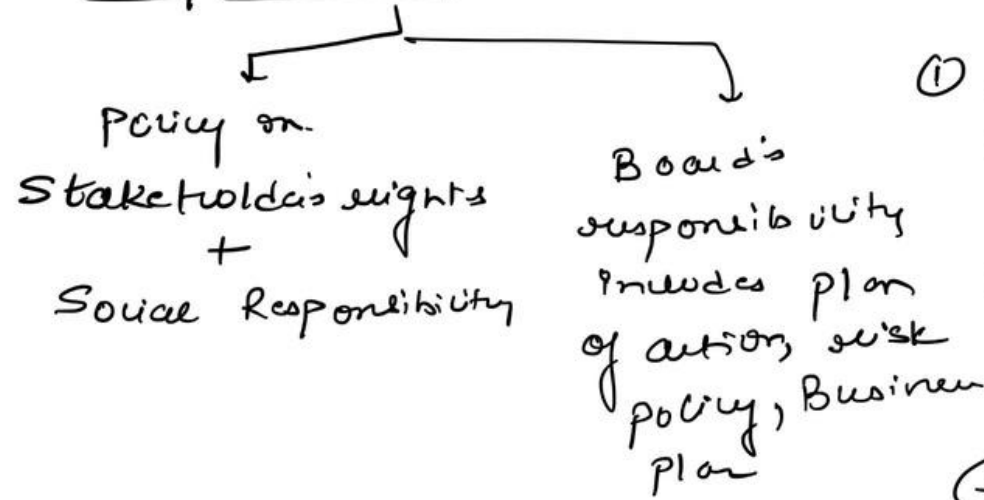


sole

⑤ Insider Trading
disclosure

⑤

③ Responsibility



④ Fairness

- ① minorities are treated Equitably
- ② Effective resolution of violations
- ③ Company has policy

⑤

Shareholder's Interest

- ① Enforce 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

↳ audit of non-financial aspects of the company.

⑦

↳ applicability → Section 204

Listed
co.

Public
co.

Every co

o/s C&B

100u

T/o
250u

or

PSC
50u

↳ Reg 24A SEBI (LODR)

Material on listed Subsidiary → SA Mandatory

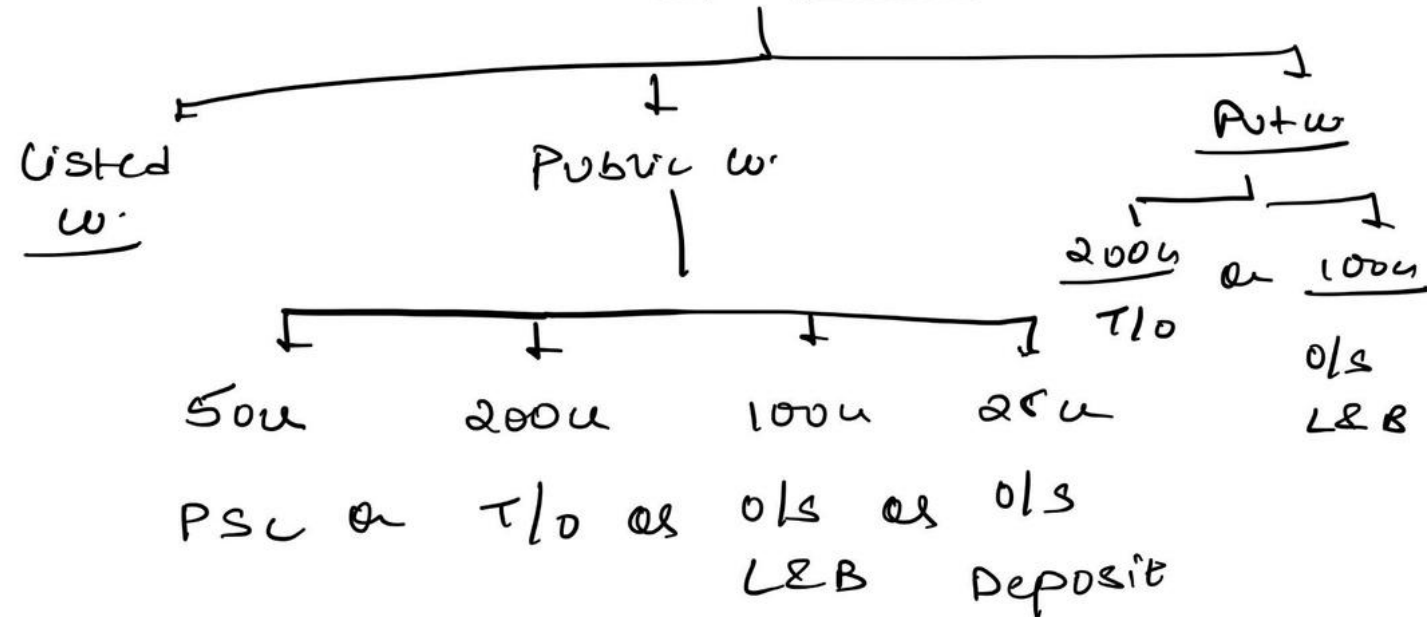
Income > 10% consolidated
income of listed

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. $\left\{ \begin{array}{l} \text{50000 NLP} \\ \text{10000 T/O} \\ \text{5000 N/W} \end{array} \right.$

If
Contribution
Less than 50L
↓

Contribute
27. of Aug NLP of 3
Preceding FY

X Mandatory
to form a CR
Committee

→ 3 directors out
of which one should
be ID

→ 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 Inside 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 director's will power & procedure

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

⑦ (Compliance officer)
CO has notified TP to SE

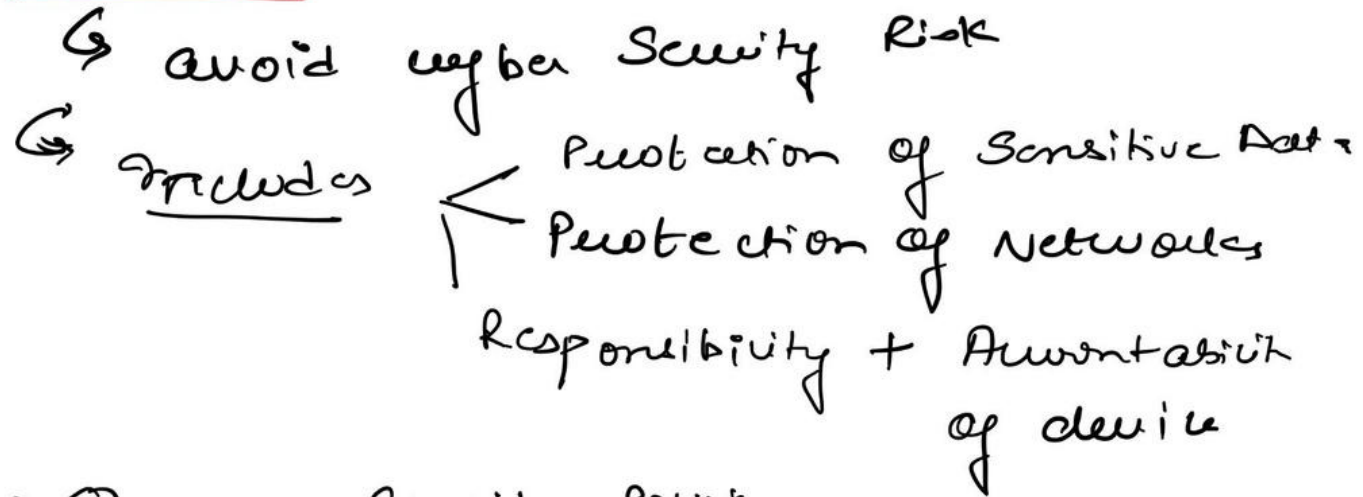
⑧ Co. Received initial
Disclosure from $\left\{ \begin{array}{l} \text{Promoter} \\ \text{Director} \\ \text{KMP} \end{array} \right\} \rightarrow \text{within 7WP}$

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

(10) Any other prevention with
suspect to Insider Trading adopted by co.

12

⑥ Cyber Audit



Scope →

- ① Data Security Policies
- ② Data Loss Prevention Measures
- ③ Detection / Prevention System
- ④ Security Controls
- ⑤ Incident Response Programme

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

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→ 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
 - ↳ turning off access

② Physical Security

- ↳ co. has policies to limit on authorised access
- ↳ co. → Policy → specify Methods to control physical access

③ Account & Password Mgmt

↳ policies for Electronic authentication

↳ only authorized personnel have access to computer

↳ Passwords are secure.

④ Confidentiality of data

↳ protect sensitive data

↳ to maintain both hard + soft copies

⑤ Compliance & Audit

↳ to Review + Revises security documents

15

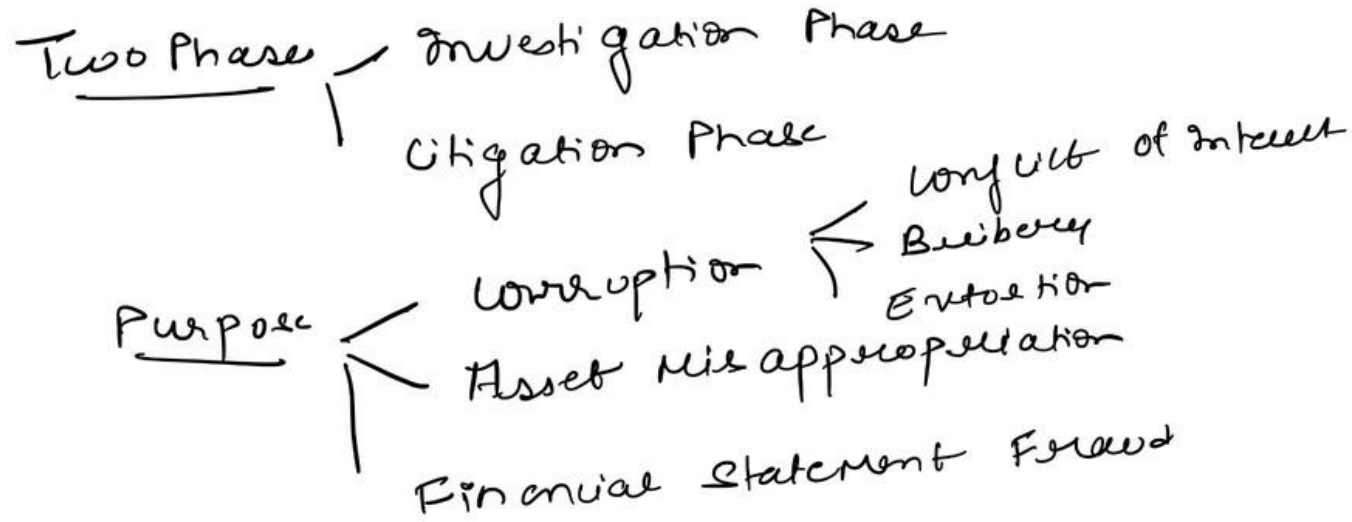
- ↳ Co. Reviews + Revises Security documents
- ↳ Co. best disaster plans
- ↳ Compliance with Established policies + procedures
- ↳ Mgmt regulatory Reviews list of individuals with Physical access.

⑦ Forensic Audit

- ↳ Highly specialised + requires detail + knowledge of Fraud Detection Technique

Two Phase — Investigation Phase

Litigation Phase — of interest

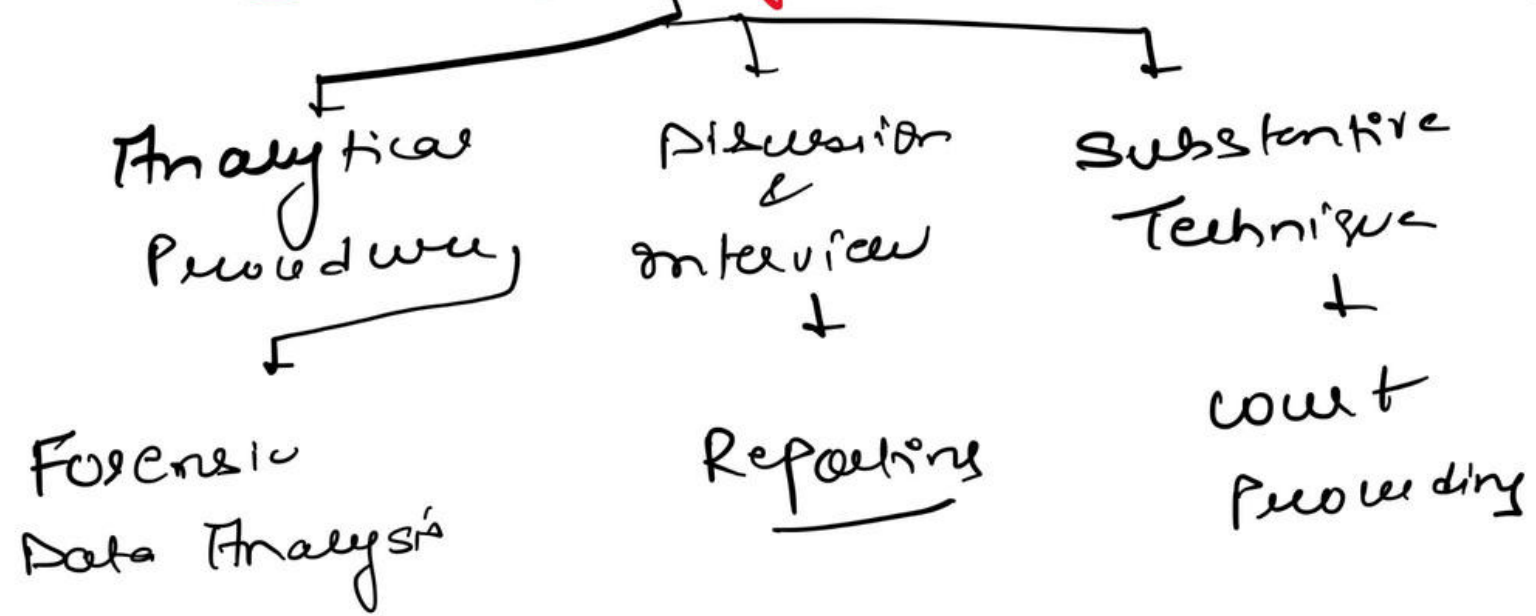


Procedure → ① Jump to the investigation
[determines if they have
necessary skills to conduct
the audit]

→ ② Planning the investigation
[Identify signs of fraud
+ goals of audit]
understand

→ ③ Gathering Evidence

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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 Document
- 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

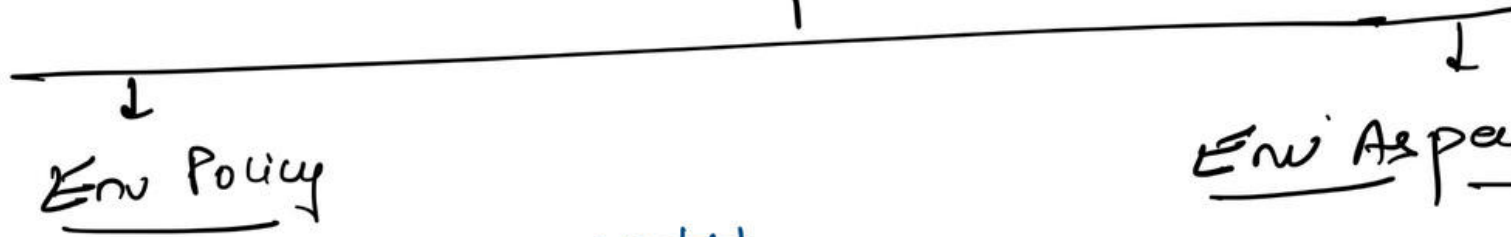
→ Improve Env
performance continuously

→ Systematic approach
to set objective

e) NAT ch.

checklist

(21)



- 1) co. defined + documented
Env Policy
- 2) Policy has Significant
Env Aspects
- 3) commitment
 - ↳ High level government
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)

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

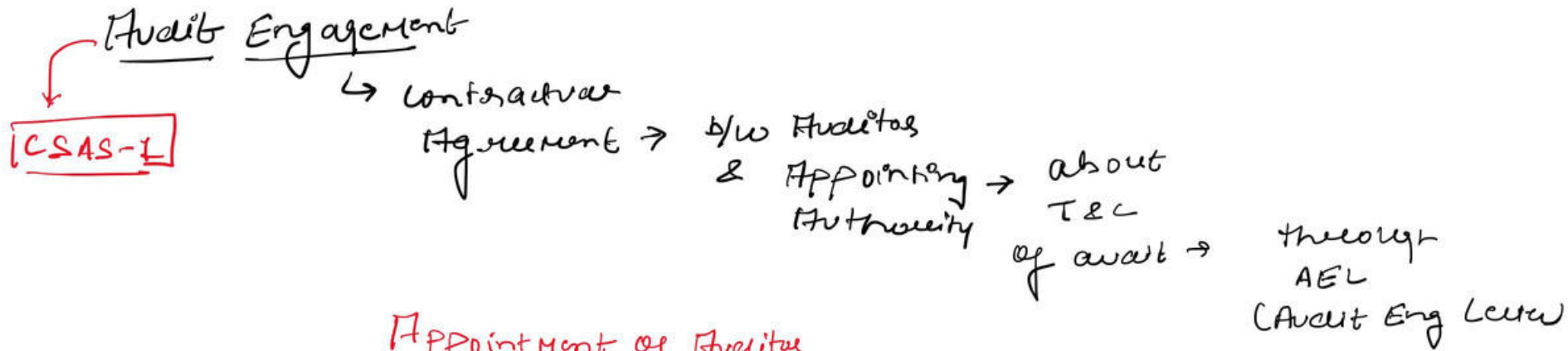
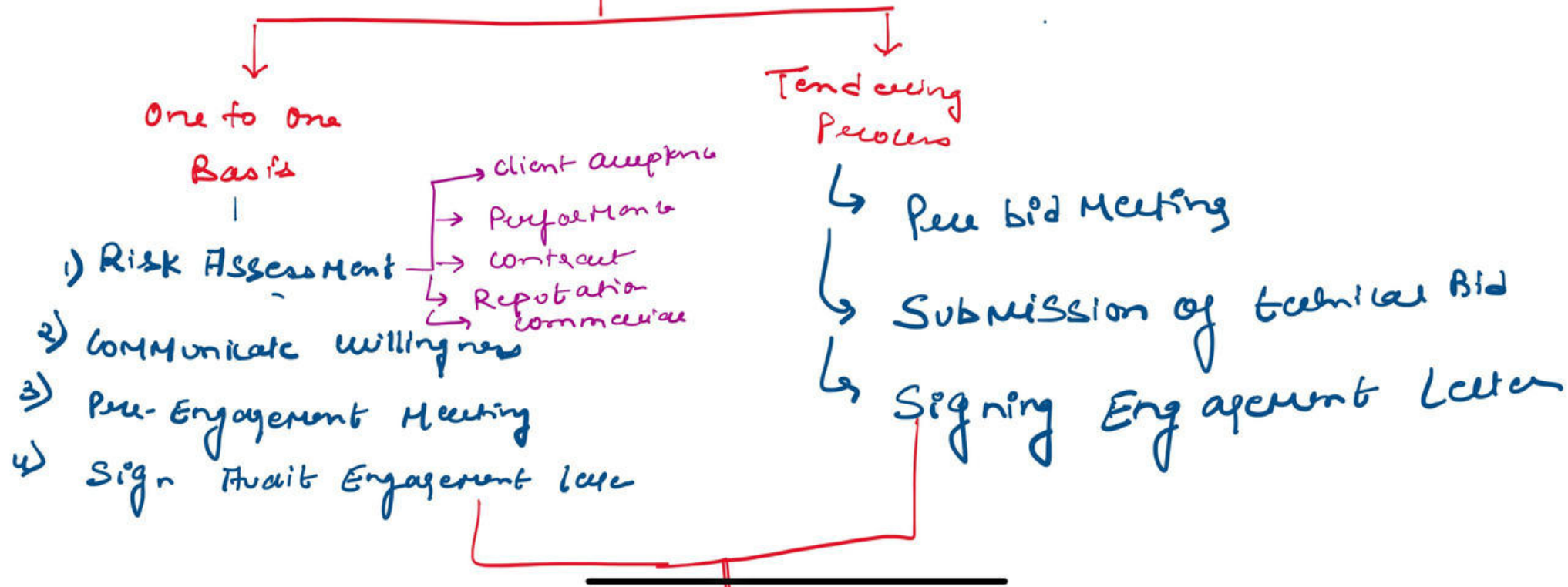
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CHAPTER 09 – AUDIT ENGAGEMENT

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Appointment of Auditor

Certificate of Auditor

2.

- ① Audits are within carrying 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 ILS/ procedure for Preparation of Non financial Statements
- ⑤ Preparation of Secretarial/ Non financial Statements

Appointing Authority

- ① Section 139 → Appointment of Auditors
 - ↳ Statutory auditors → BM
 - ↳ Subsequent auditors → Members of AGM

[Appt Authority → 1 Auditor → BOD

Subsequent auditors → Members

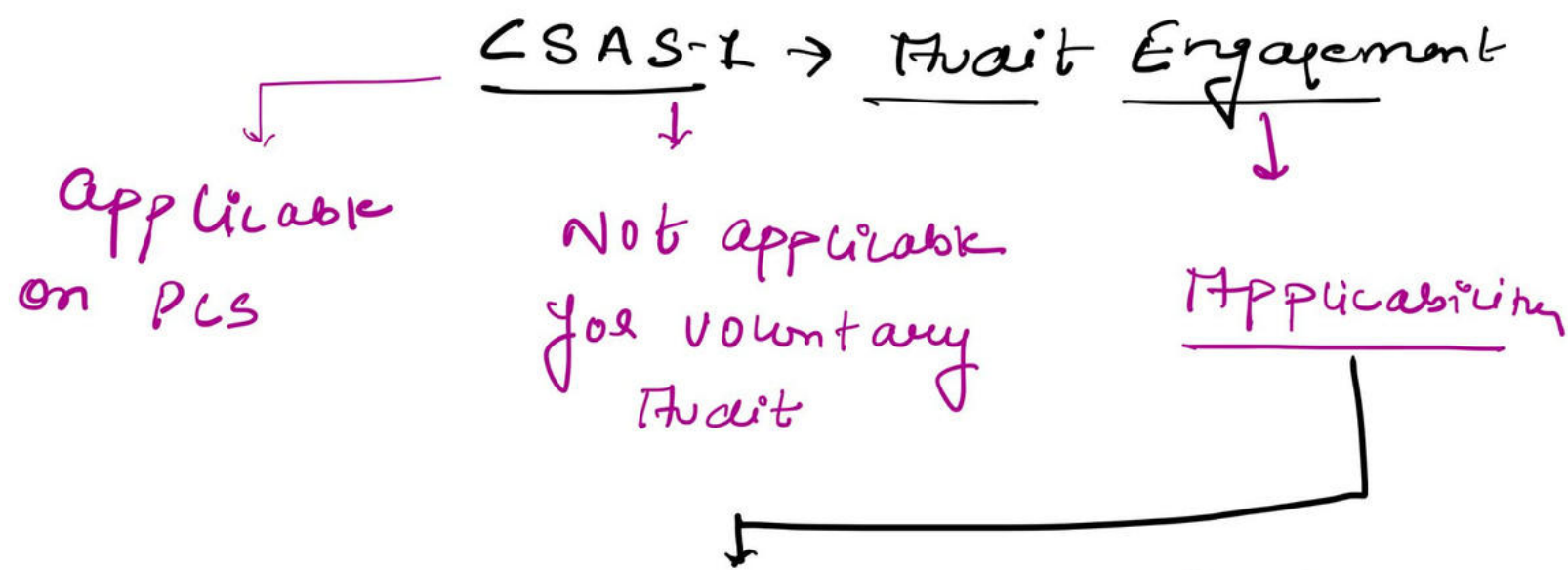
② Tribunal/
Official Liquidator → Appointing
authority → Tribunal/
Official
Liquidator

③ CIRP → AA → Insolvency
Resolution
Professional

④ Depository Participants → LLP → Designated Partner
Co. → Board of Directors

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

5.



① Statutory Audit → Section 204

② Statutory Audit → 24A SEBI (LODR) Regulation

③ Internal Audit → Section 138

④ Audit of Depository Participants

⑤ Internal Audit of Stock Broker

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

6.

Audit Engagement

New
Audit
Engagement

[Audit conducted
for first time]

Recurring
Audit Engagement

[Audit was
conducted for
previous period]

Change
in
Audit
Engagement

[change in
terms of
Audit
Engagement]

1.

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) deploy personnel with knowledge

Responsibilities of Auditee

- 1) access to premises + Records
- 2) Management Representations
- 3) Details of Previous auditor
- 4) deploy 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 sup

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

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

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 Sensitise Audit + 5
5 Sensitise Compliance Report + 5
→ of Peer Review Certificate.

10.

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



then 2 years ago

12.

- Confidentiality
- Not use info for personal Advantage
 - Not disclose information
 - Maintain confidentiality within the firm
 - Take all steps to Ensure confidentiality amongst staff
 - Confidentiality of prospective client
 - Confidentiality in Social Environment

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CHAPTER 10 – AUDIT PRINCIPLES AND TECHNIQUES

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Chapter 10 → Audit Principles & Techniques



* Fundamental Principles Governing Audit

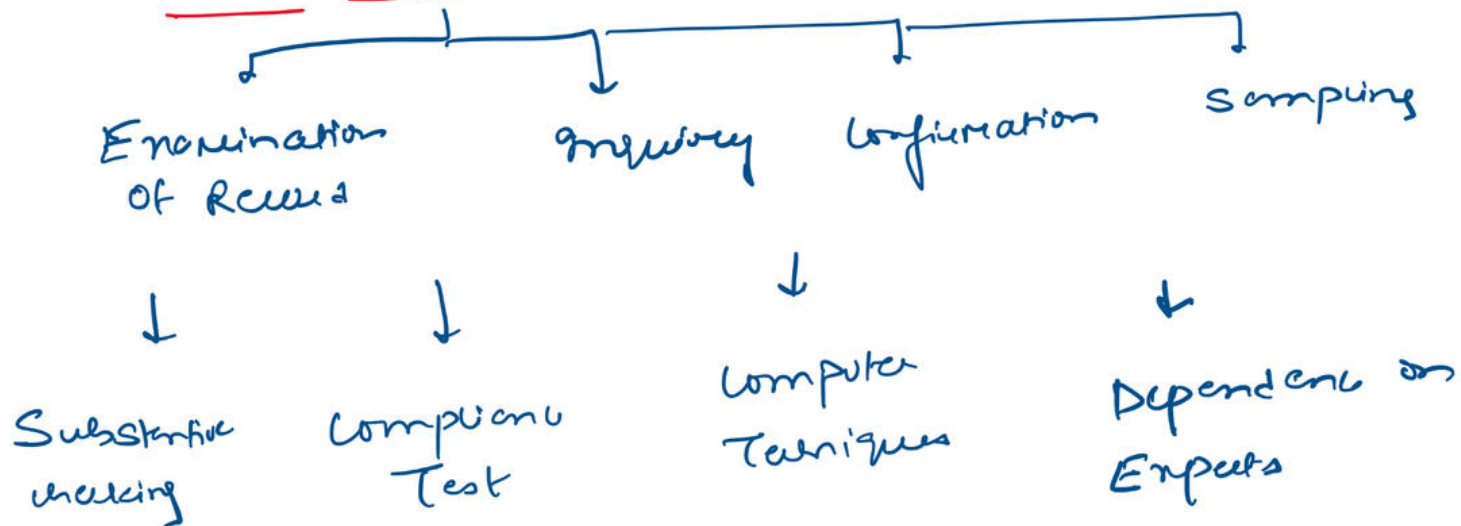
1) I/I/I → integrity → ^{being} honest / Trust worthy
independence → free from conditions / relationships
objectivity → making decisions fairly / impartially

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

understanding
the Entity

Risk Assessment

Evaluate IIS
→ assess the
Material
Risk of the Co.

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

Audit Plan

Assign audit Team
Members

Communicating with
Entity

Discusses the Audit
Plan with mgmt

Developing Audit Programme

period 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 denotes
 satisfaction weakness

How to use a Questionnaire ?

(5)

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

Planning the Audit



Questionnaire is
Sent to Auditee
with a deadline

2) Administering the
Questionnaire



Auditee analyses
the response + identifies
Risk & area
of concern

Auditor conducts
follow up interview

How to use a Questionnaire ?

(5)

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

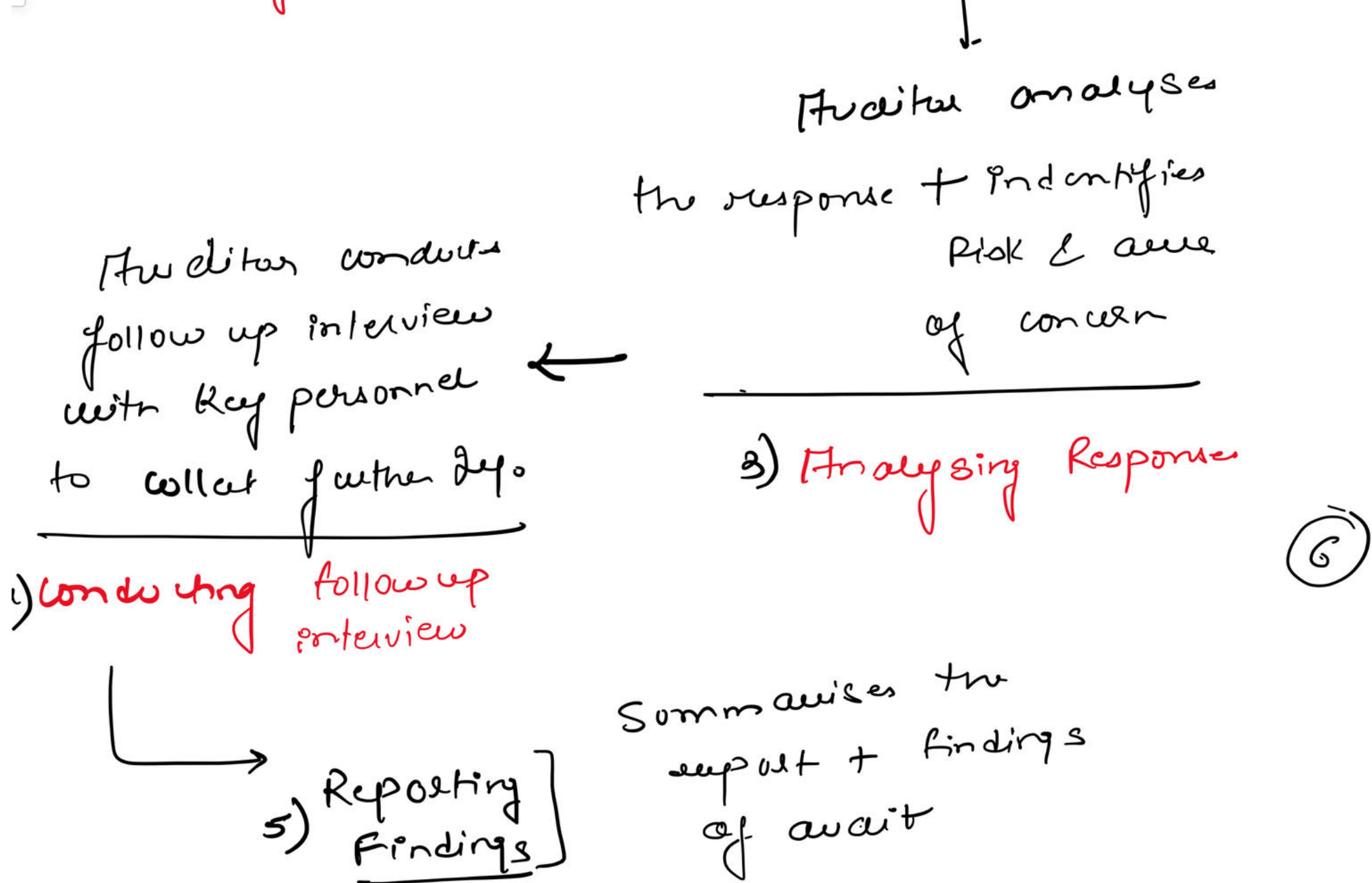


Questionnaire is
Sent to Auditee
with a deadline

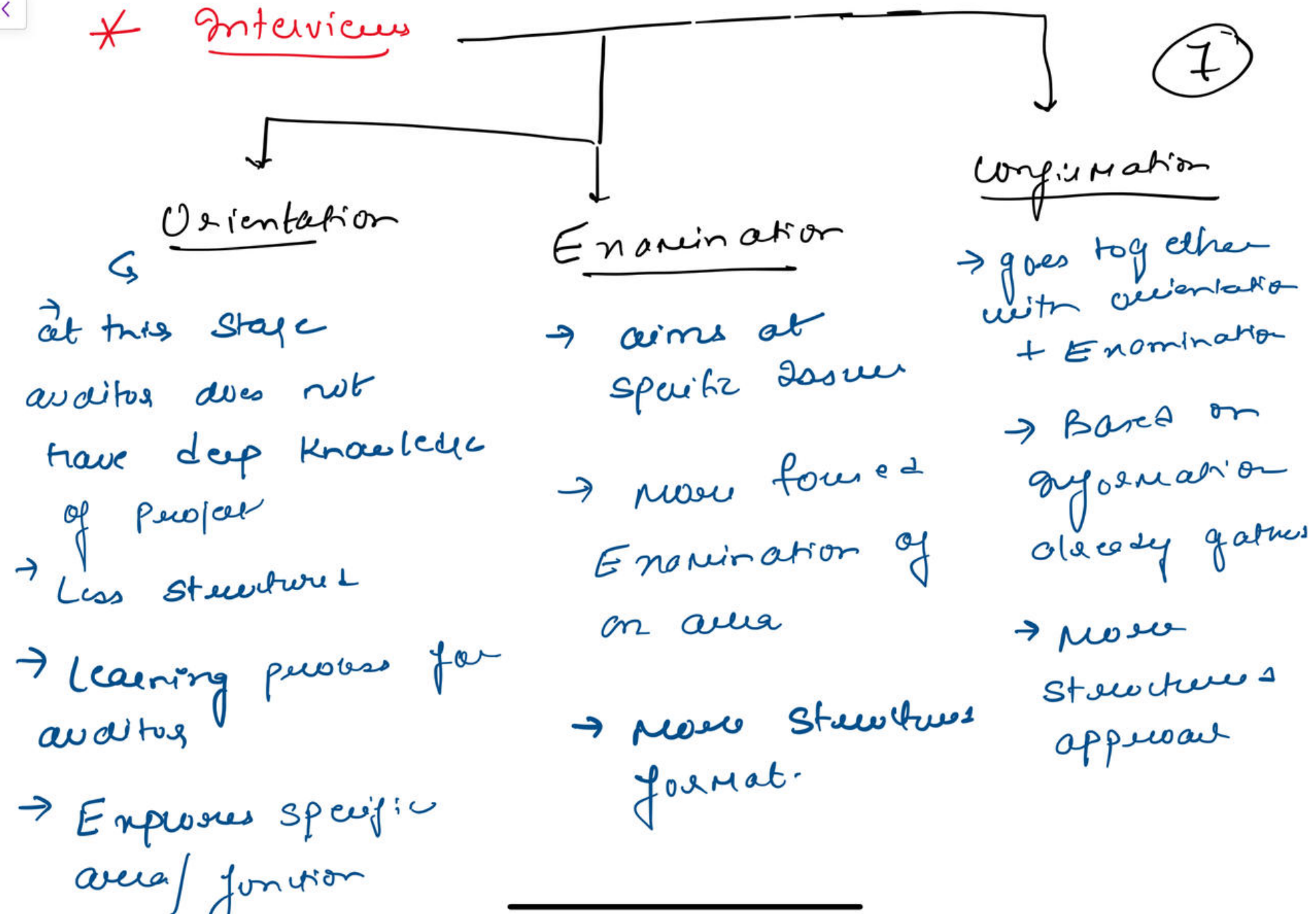
2) Administering the
Questionnaire



Planning the Audit



* Interviews



* 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 & organisations

- 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 laws as
per Nature / size /
status / age of co.

5) Manner 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

10

1) operating Environ
Ment

2) Org organizational
structure

3) Introspectivity &
Responsibility

4) Ability of Mgmt
to Control operation

5) Monitoring

* working Paper

(11)

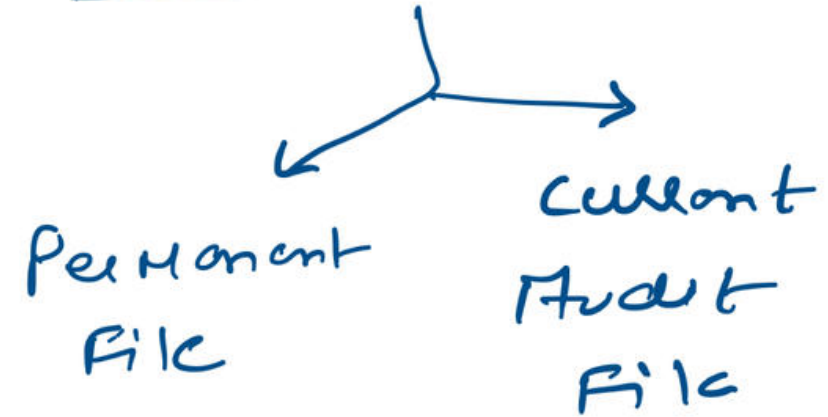
- ↳ work performed by the auditor
- ↳ connecting link b/w Auditor & Auditee's Records
- ↳ includes evidence gathered by auditor
- ↳ Provide info → audit → Planne & carried out
Supervised
Sufficient Evidence obtained
Review was undertaken

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

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* Identification of Events & Corporate Motion

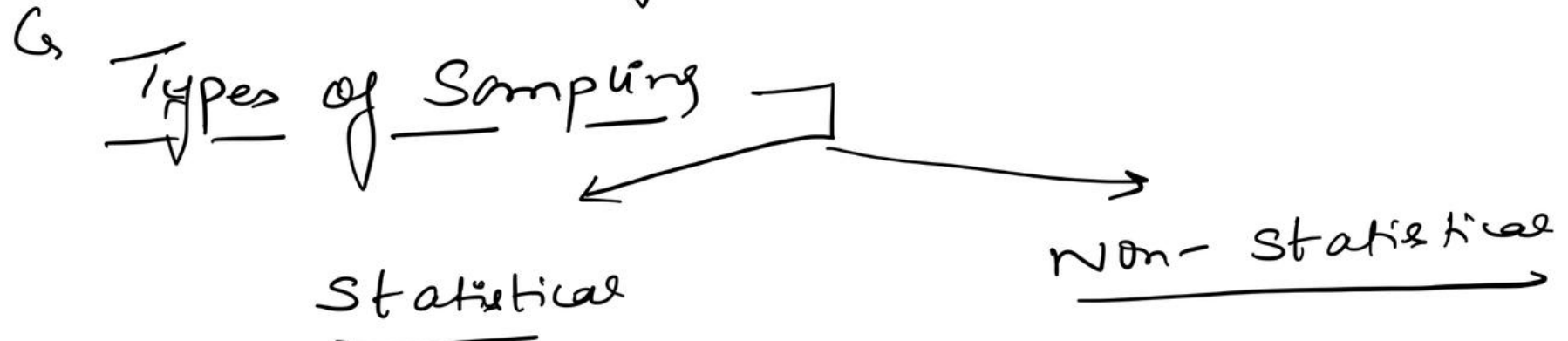
- 1) Acquisition
- 2) Revision in Rating
- 3) Agreement
- 4) Fraud by Promoter / KMP
- 5) Change in Director / KMP
- 6) Litigation
- 7) ~~is~~ issued by Directors
- 8) Change to AoA / MOA

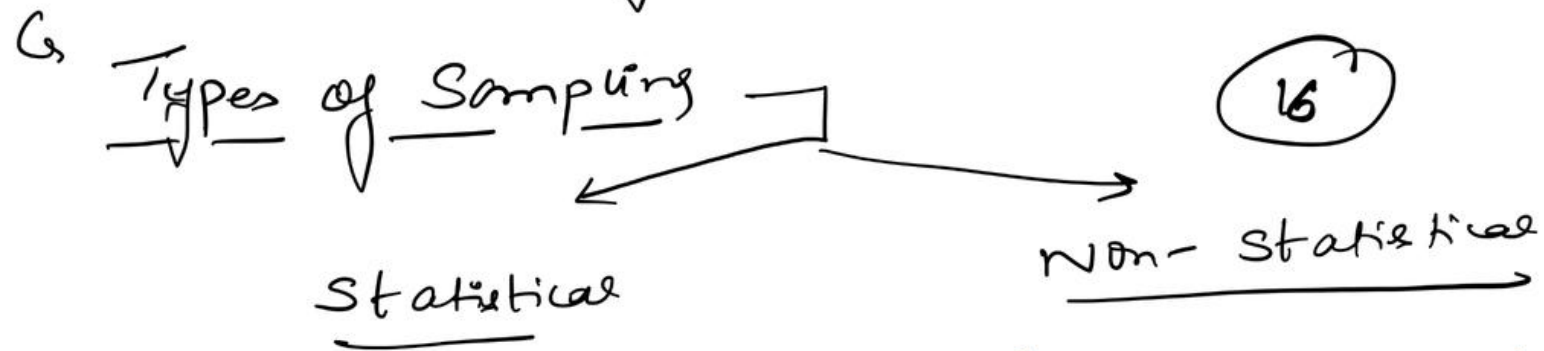
- 8) Change to
- a) Corporate Debt restructuring
- 10) changes in Regulatory Framework

15

* Sampling

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





auditor uses statistical
Method → 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

(17)

How does Substantive works

Company make
assertions

- Ownership / Existence
- Disclosure & Presentation
- Obligations & Rights
- Accuracy / valuation
- Completeness

Auditor
creates a plan

- ① Enquire Physical Adjustments & Journal Entries
- ② Match the Accounting Records
- ③ Test different classes of Account Balances

Auditor
Shares audit
results with Co.

X Audit Trails

(18)

* 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

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

————— x x x x —————

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CHAPTER 11 – AUDIT PROCESS & DOCUMENTATION

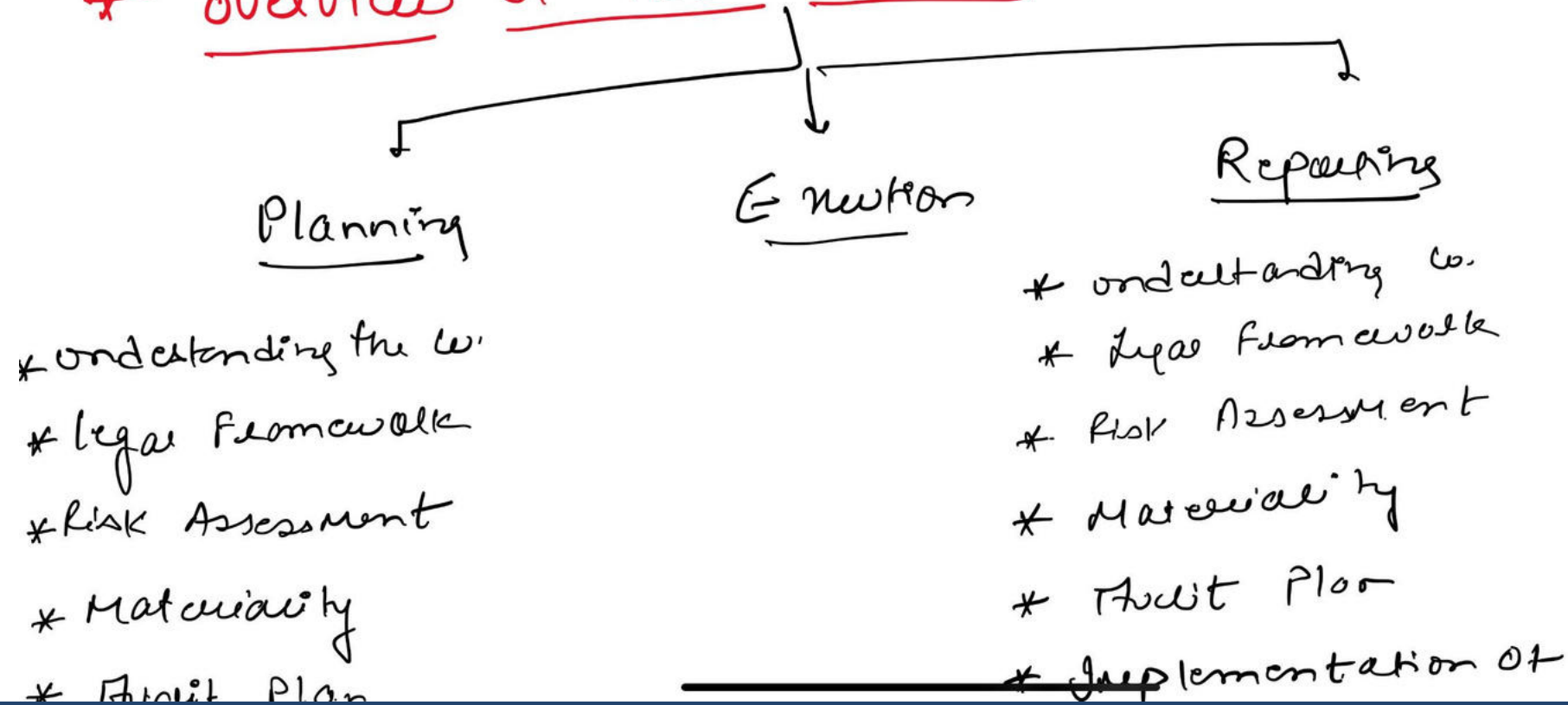
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Chapter 11 - Audit Process & Documentation

①

* 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

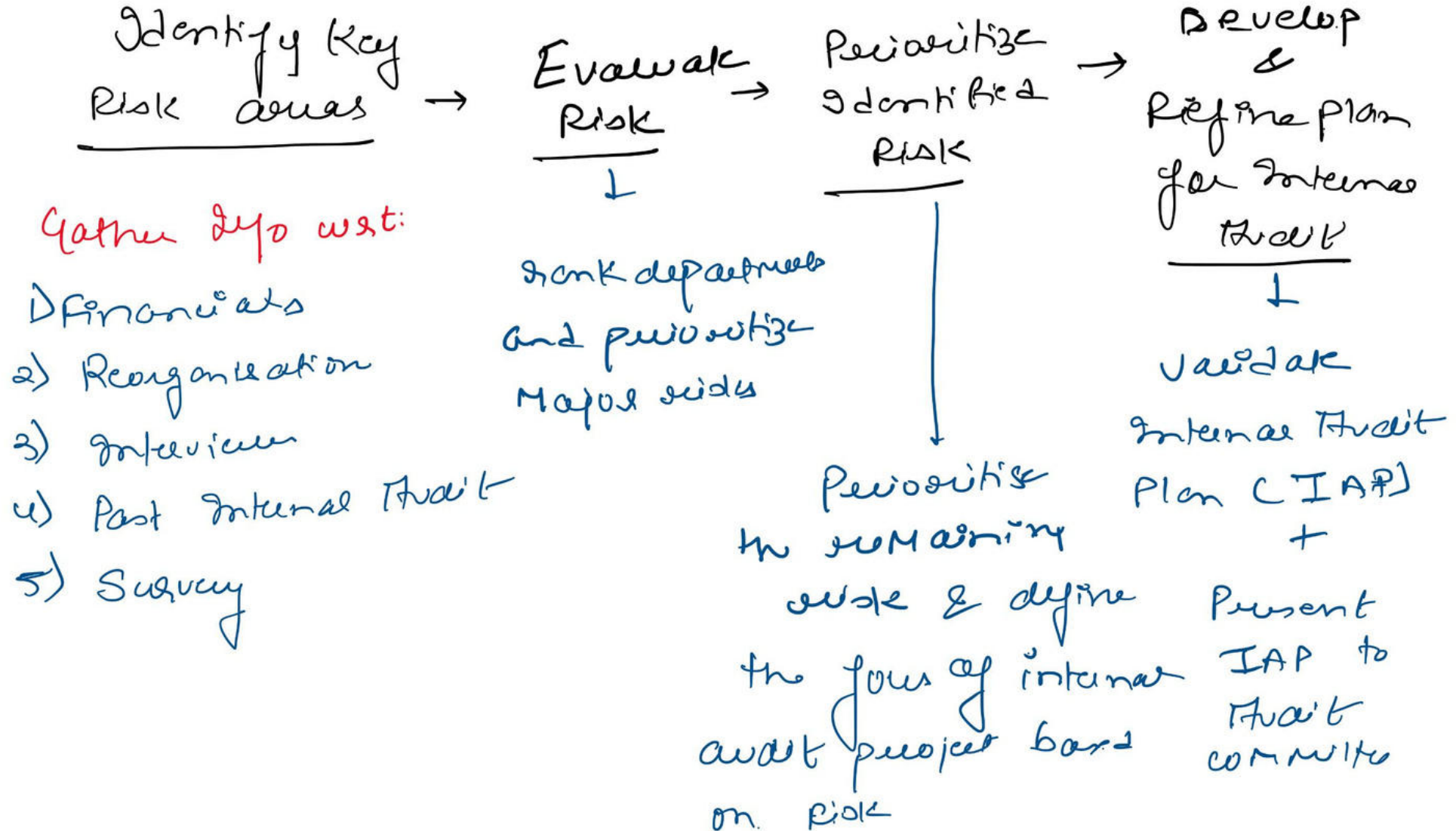
Misstatements
could not be
detected by
the internal
control risk

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



Risk Assessment Process

6



* 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 procedures
Analysing 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 Procedures → involve comparing data

* Audit Evidence

9

- ↳ Gathering & 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 as
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/Agreement
- 2) Details of Holding / Subsidiary.
- 3) Appointment letter of Auditor
- 4) Communication with the Previous Auditors
- 5) Legal Aspects of Auditing

Current
Audit Documentation

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

* Record Keeping & Periods

(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.

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CHAPTER 12 – FORMATION OF OPINION & REPORTING

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Chapter 12 - Formation of opinion & Reporting

①

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

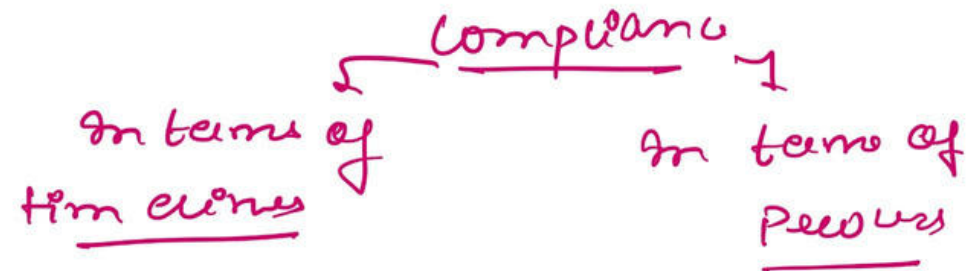
1) unqualified / modified opinion

↳ 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

Qualified

Specific instances
of non-compliance
are there

Adverse opinion

→ indicator of
fraud
→ affairs of co.
are not in line
with objective

Disclaimer of opinion

unable to
assess the
sueholders of
company.

* Materiality

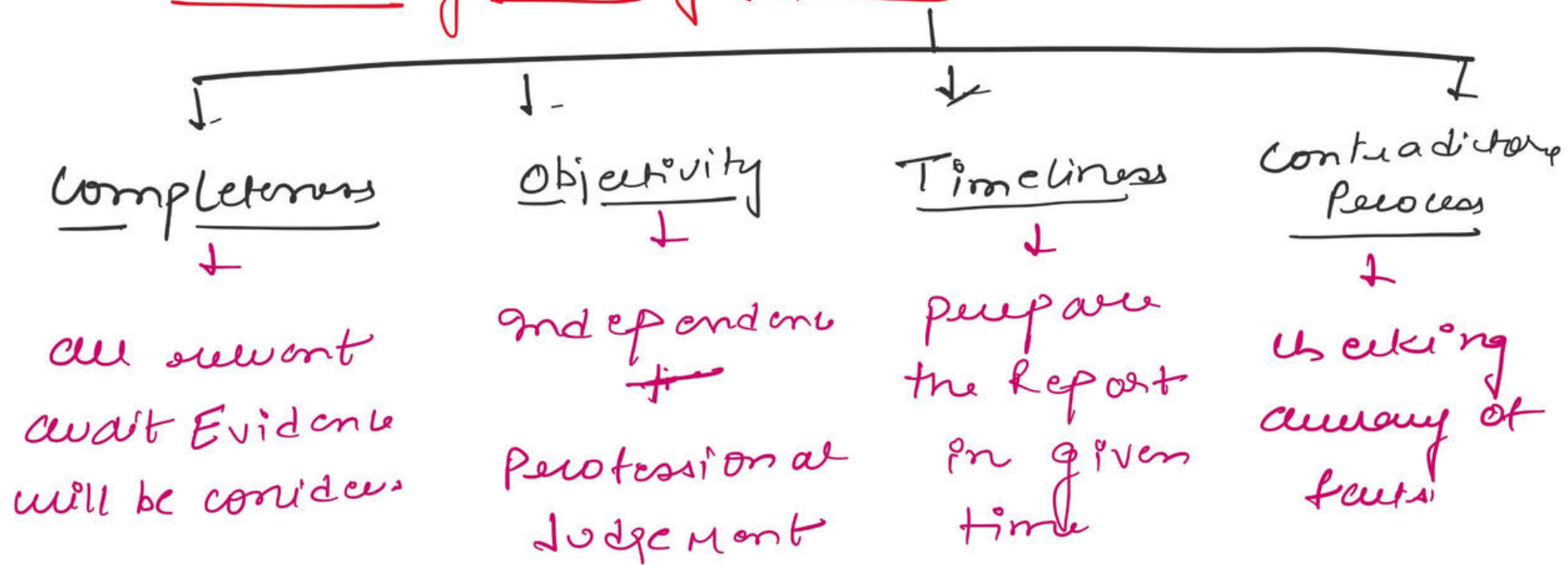
- Matter of professional judgement
- inverse relationship b/w Materiality +
degree of audit
Risk

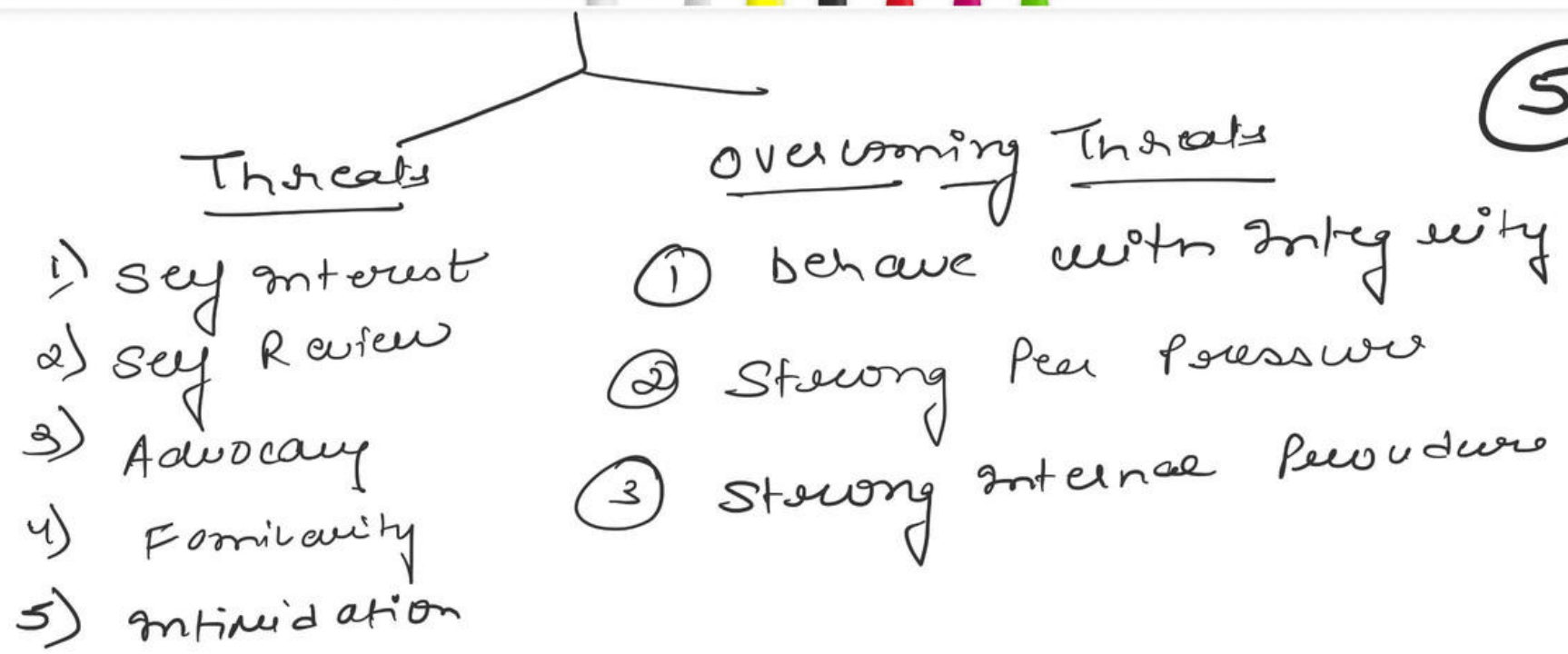
→ used both in Planning + Execution stage

(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

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 than
- ⑦ Accepted Evidence
- ⑧ Gain Increased Assurance.

⑧

* Different Stages of Communication

Preliminary Draft → Interim Draft → Formal Draft & Final Report

* 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

Sent annual
Audit to

Part firm

Partner's

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

- 1) Au/PA
- 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 is unable to express the opinion → unable to report on compliance

June 2024
Attempt

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CHAPTER 13 – SECRETARIAL AUDIT

Handwritten Notes

CS MUSKAN GUPTA

Chapter 13 - Scrutiny

①

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

Applicability →

listed co.

Public co. PSL → 50%
T/o → 2500

Every co. → O/S L&B → 100%

Reg 24A SEBI (LODR) Reg, 2015

Reg 24A SEBI (LODR) Reg, 2015

(2)

Uday Kotak Committee Recommended

→ Audit of Material
on listed Subsidiaries

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

Reg 24A shall not apply:

listed w/
Paid up Equity &
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 IL

- 3) 447 →
 - of Amt pvd in
 - Form is 10L
 - Lx of T/O (WEL)

4

Dep 6M - 104
2

Fin Amt
Inv → 2x
the Amt
Invoked

Dep → upto 540
or

Fin → upto 500
or
Both

4) 448 → False statement

5) 451 → 2x the Amt of Penalty.

CS Act

I Schedule

supersession
Removal of Name
→ 3M
Penalty → 1L

II Schedule

supersession
Removal of Name permanent
Penalty → 5L

* Scope of Statutory Audit

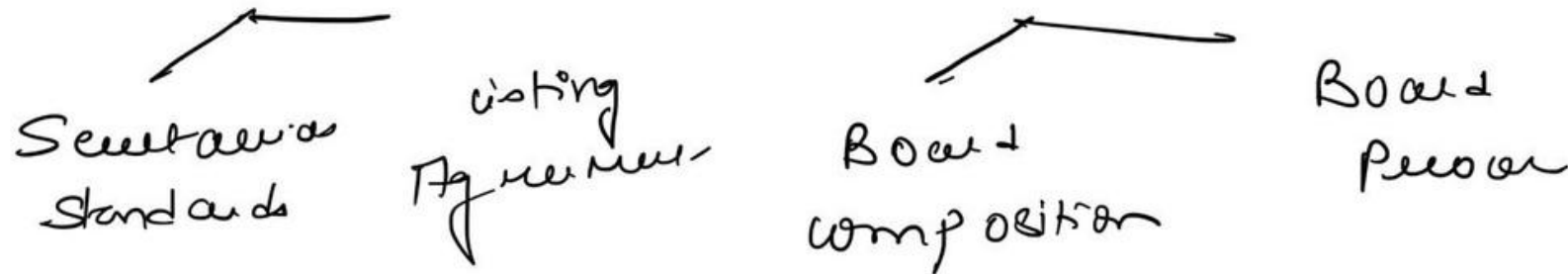
* Scope of Sentences Audit

5

Regulations

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

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



① Board duty constituted

② Change in Board were in compliance with Law

③ 7 days notice

←
Sentential
Standards

isting
Agreement

←
Board
composition

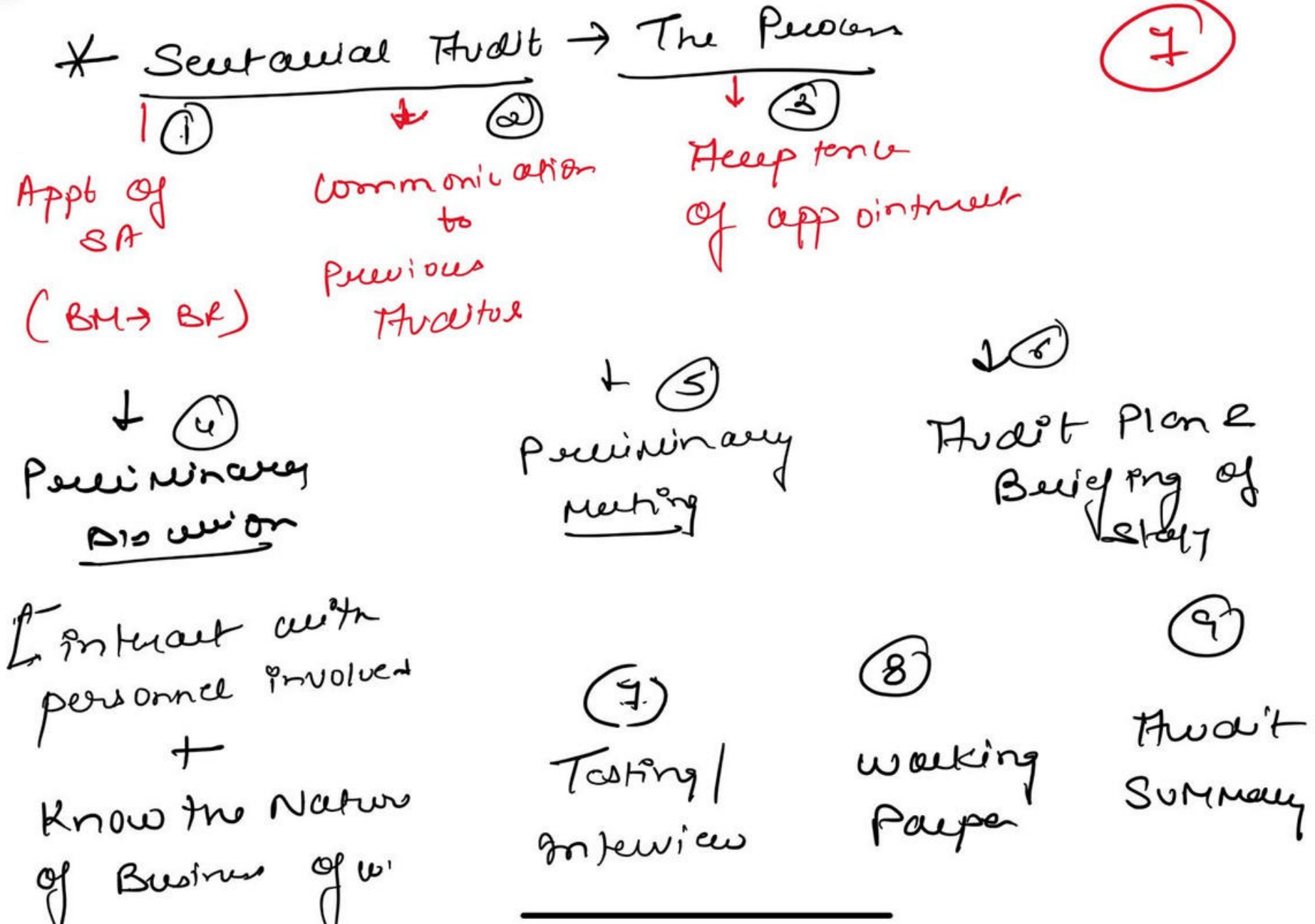
Board
Person

⑥

- ① → Bod duly constituted
- ② → Change in Bod were in compliance with Law
- ③ → 7 days notice
- ④ → Majority decision + Recording of dissenting SM
- ⑤ → Adequate Systems & Powers in place

* Sentential Fault → The Person

① ↓ ②



* 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 atleast $\frac{1}{3}$ of total Directors as independent Directors
- ③ Woman Director $\begin{cases} 3000 \text{ T/o} \\ 1000 \text{ psc} \end{cases}$

Reg 17 of SEBI (CORP) Reg

- ① Combination of Exec + Non Exec Directors with ≥ 1 Woman Director + 50% Non Executive Directors
- ② Top 500 Listed Co.
 ≥ 1 independent woman Director (April 2019)
 ≥ 1 IWD (April, 2020)
 $\hookrightarrow$ Top 1000

③ chairperson of BOD
is Non Executive Director

↳ $\frac{1}{3}$ of BOD should
comprise of ID

X Non Executive chairperson

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

④ Non Executive
chairperson $\rightarrow$ Promote
as
↳ Related
to Promoter

9

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

10

⑤ Top 100 [April, 2019]
Top 200 [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

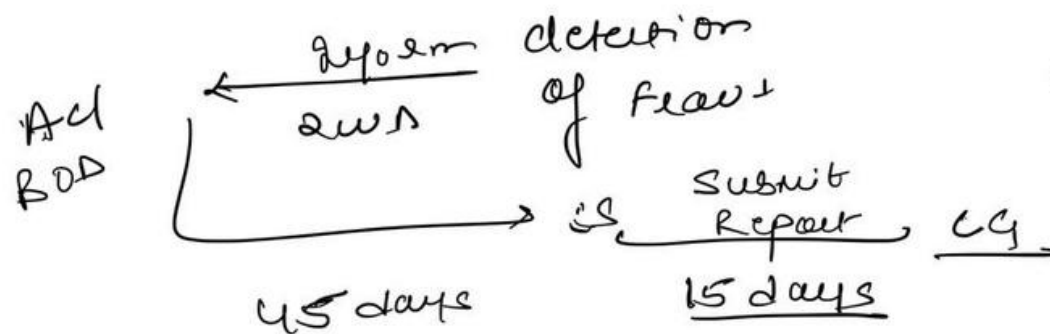
↓
of Amt inv in
Fraud is

1 cr or above
1 cr
↓
CG

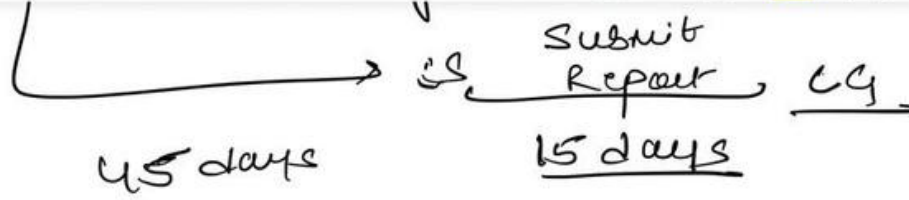
Below 1 cr
↓
Acl BOD

Inform Acl BOD

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



< BOD



- ② Amt Inv
- ③ Particulars

12

Recommendation:

Ac/BOD will
disclose in their
support

Transactions which
may involve fraud

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

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

Who is considered
as auditor

- ① CA
 - ② CMA
- Internal Auditor

4) Inter company transactions

5) Merger/ Demerger

6) Fraud

7) IPO

1) CA

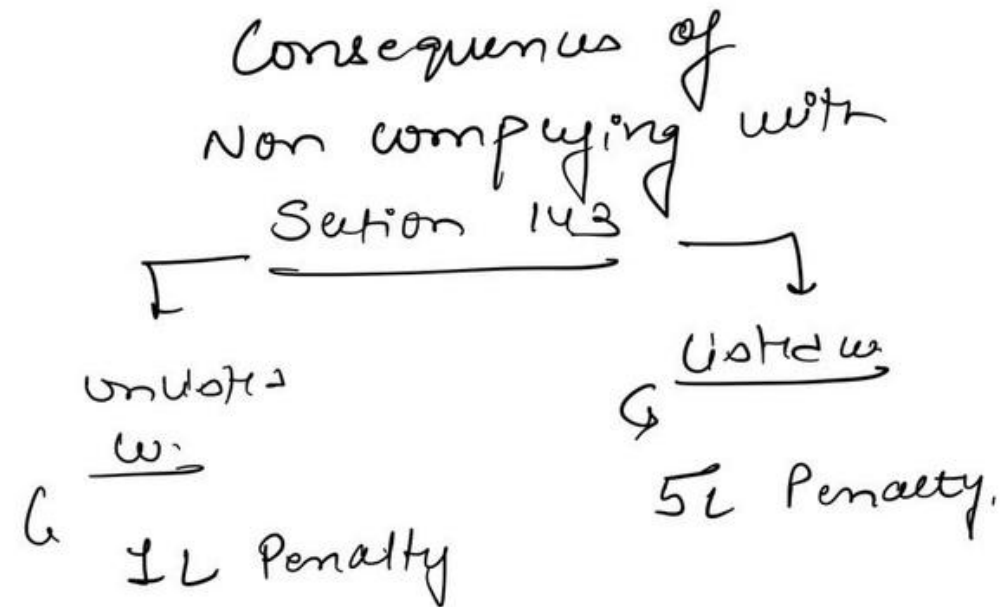
2) CMA

3) CS

4) Branch
audits

Internal
Auditor
Knowledge

13



Ch 14 - Internal Audit & Performance Audit

Internal Audit:-

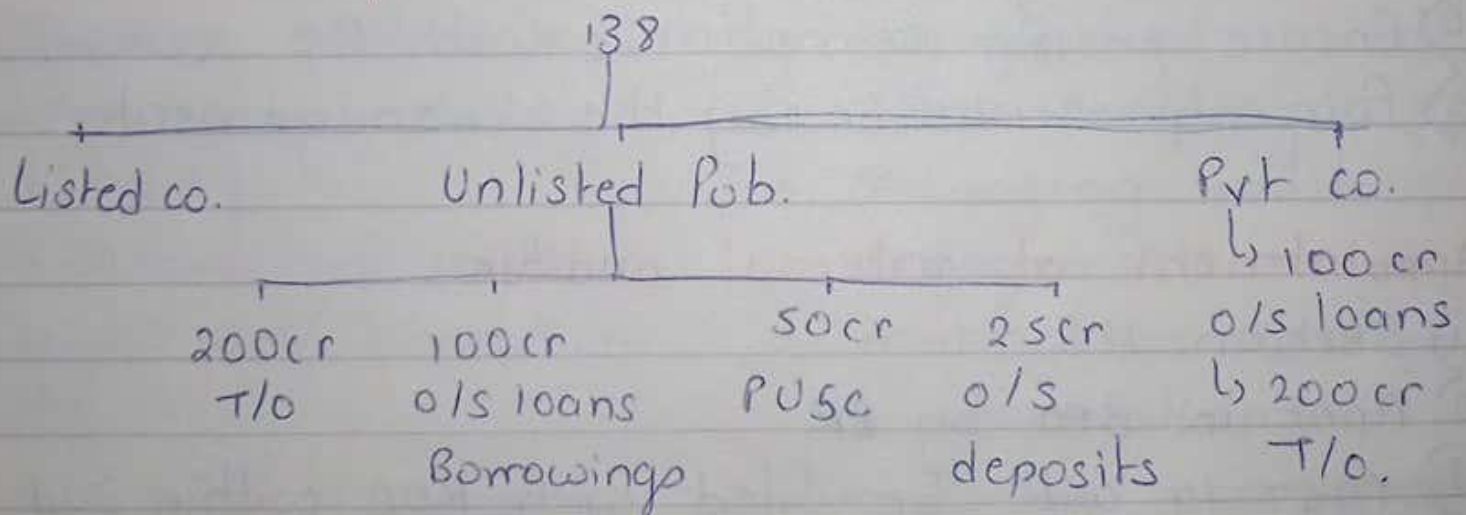
Internal auditor is appointed for:-

- 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

- Technical standards
- Positive attitude & interpersonal skills
- IT skills
- Interviewing skills
- Audit documentation
- Reporting

Specific skills

- Planning audit engagement
- Team building
- Managing audit engagement
- making professional presentation
- knowledge management

Scope of IA

- Review internal control system & procedure
- 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

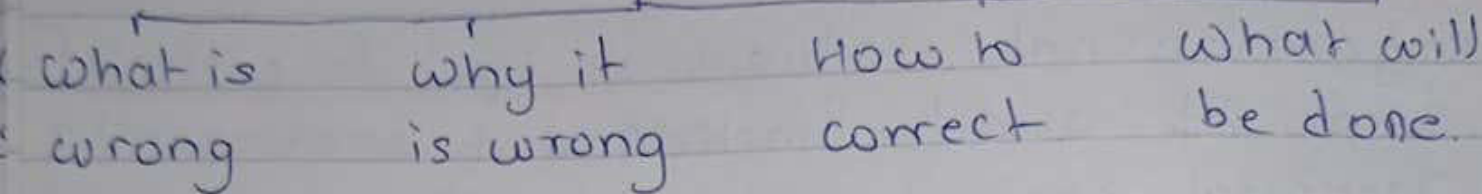
Provides details of all significant findings during the audit

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.

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CHAPTER 05 – PEER REVIEW AND QUALITY REVIEW

Handwritten Notes

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Chapter 5-

Peer Review & Quality Review

①

- Review of performance of practising professionals with a view to improving quality / standards.
- Primary objective → Continuing Quality Improvement.

* Authority to administer Peer Review

Cs Act 1980 → 168I

CA Act 1980 → ICSI

↳ function under
the supervision

of Council

→ Issued guideline
for Peer Review

Enhance the
quality of work
of P.R.

* Sup of Peer Review

① MAT 8 / MAT 7

② 204 → Statutory Audit Report

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

④ Compliance Report

③ 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 Try

⑥ Diligent Reporting of Bank

⑦ Internal Audit → Stock Broker

⑧ Compliance certificate → Comp 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 Disciplinary → during
action Past 3
years

Disqualification → X Disiplinary action → during Past 3 years

⑤

→ X guilty of Past misconduct
→ convicted by competent courts

* Validity of Empanelment → 5 years

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

Shall
preserve
Secrecy

Shall &
communicate to
any other person

Shall &
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
- Chairperson + 4 Members

②
Nominated by
Council

②
Nominated by
Cg

Persons Having

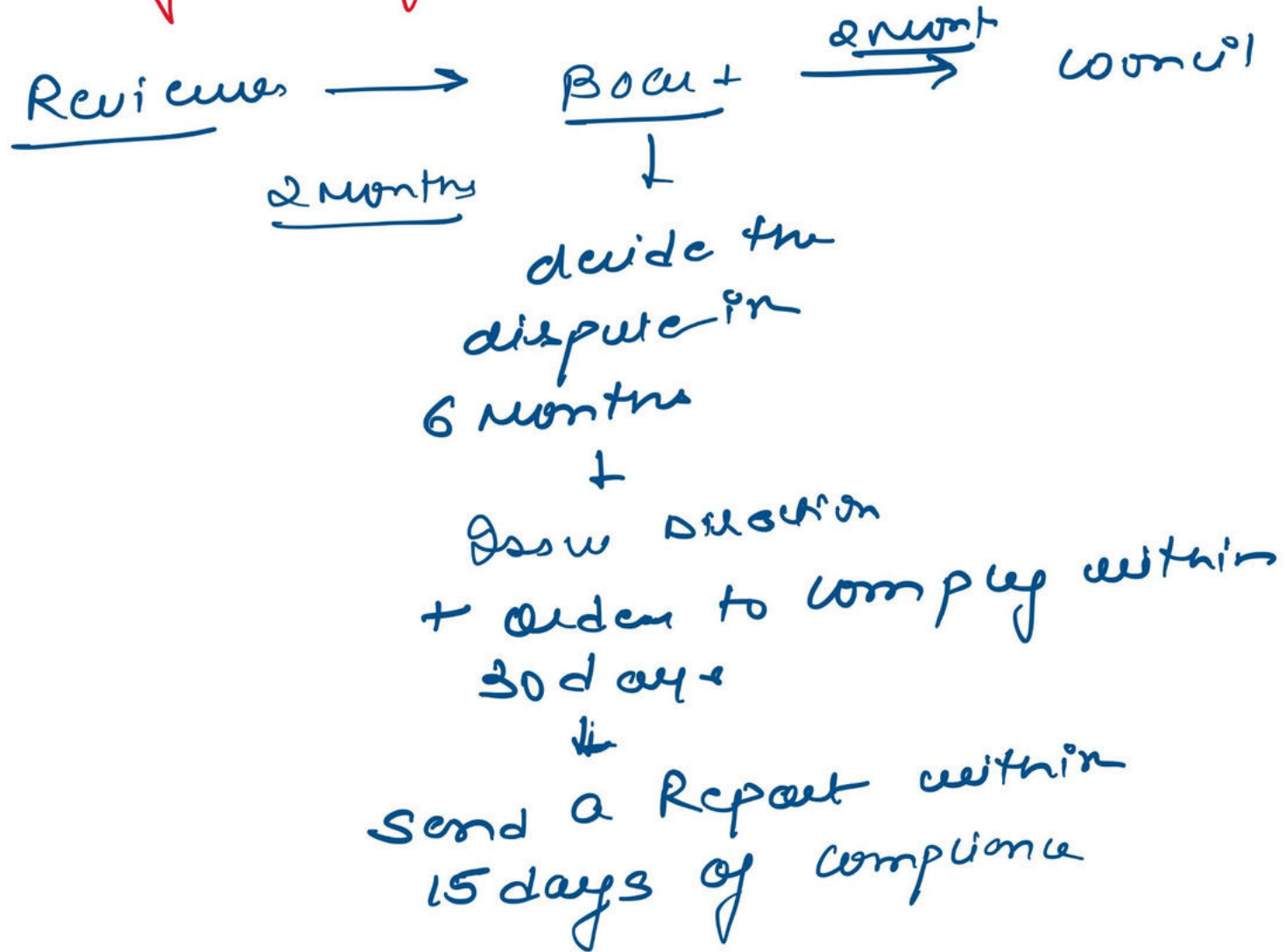
Experience in Law/
Economics / Business /
Finance / Accountancy.

Functions

- Make recommendation about Quality of Service
- Review the Quality of Service
- Guide the members to improve the Quality of Service

of service

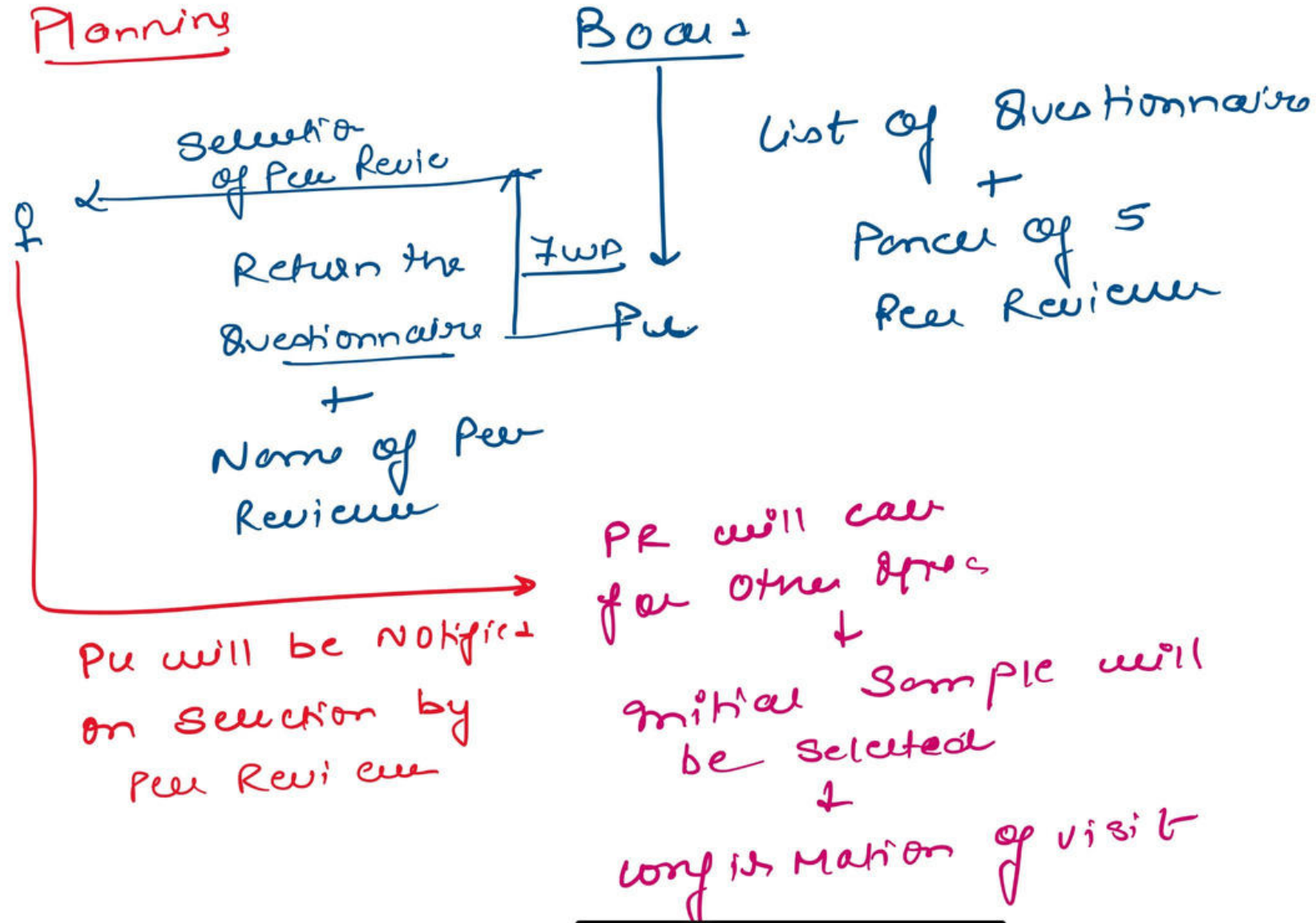
* Rejection of Dispute & Appeal (8)



* Procedure of Peer Review

9

Planning



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

(10)

Compliance Review -
General Controls

- ↳ Independence
- ↳ Professional Skill
- ↳ Staff Supervision + Development
- ↳ 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

Peer reviewer



Preliminary
Report



Final Report
of Reviewer



Board



Recommendations



Follow up

PRG

PRG



Recommendations

↓
Follow up
by Peer Reviewer

↓
Report to Board

✓ (α)
PRU Ends

(13)

————— AA —————

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CHAPTER 16 – DUE DILIGENCE

Handwritten Notes

CS MUSKAN GUPTA

Chapter 16 - Due Diligence

①

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) Merge
- 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 clearly eager to

Weakness

* Target Co. is already 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 where Buyer conducts AD in a limited period of time.

(3)

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

↓
* Buyer Reports cause to Matruwa go to conduct investigation + A long confidentiality 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) Confirm business is what it appears
- 2) reduce the risk of post transaction
- 3) Investigate into affairs of the co.
- 4) Confirm all material

- 1) Ensure compliance
- 2) Penalties applicable in non compliance
- 3) assess the availability of resources
- 4) Assets / Liabilities / Intellectual Property / Taxes

⑥ factors

5) Investigate & Evaluate business opportunity

6) Discover risks that are deal breakers

7) Evaluate Legal Financial risk

8) Unpaid taxes

9) Fraud claims

10) Reputation / Goodwill

11) Cross border issues

12) Financial statements

13) Past Business failures

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

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

7

1) Objective &
Purpose

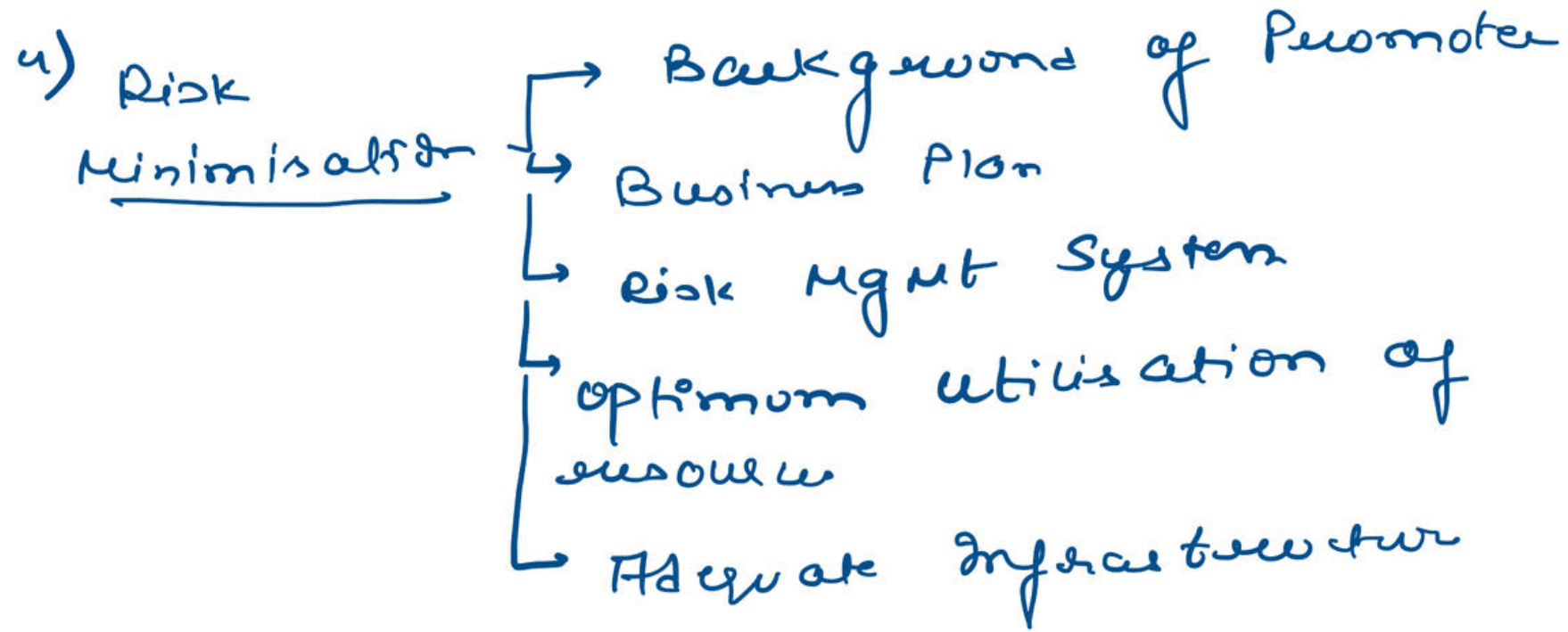
- Be clear about Expectation
- have resources to make business succeed
- Business gives you opp to put your Experience
- Learn about industry you are interested in.

2) Planning the Schedule → steps to be followed
→ areas to be checked
→ aspects to be checked
→ Info + Material
→ request from seller

8)

3) Negotiation for time → Negotiation should be made for adequate time to review crucial info & legal aspects

4) Risk Minimisation → Background of Promoter



5) Information from External Source

6) Limit the impact with natural facts

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 of Understanding

Due Diligence

* Deal Breaker

↳ criminal Recordings + various Non compliance

* Deal Destroyer

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

↳ Unimonaal
Redundings + Various
Non compliance

* Deal Deter

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 form + Documents

(13)

5) Short + long term debts

↓

4) Inspection of Documents

↓

5) Actions taken to control any risk

→

6) Responding to incidents

* Types of Due DiligenceLegal Due Diligence

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

14

transaction + liabilities of
target co. + other related issues

Verify Documents

- 1) copy of MOA / AOA
- 2) Minutes of BM → Last 3 years
- 3) Minutes of Meeting of SH
- 4) All Material contracts
- 5) Copies of loan agreement
- 6) Organisational chart
- 7) 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

Seller

stages

Buyer

Preparation
stage

- 1) Strategic
- 2) Potential targets
- 3) External advisor
- 4) Short list targets
- 5) Create AA Team

- 1) Strategic
- 2) Potential targets
- 3) External advisor
- 4) Shortlist Buyers

Post Diligence

- 1) Approach targets
- 2) Negotiate

- 1) Approach target
- 2) Negotiate

	2) Negotiate initial terms 3) NDA 4) Use 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

< Negotiation	Negotiation on agreed terms + Final offer	Negotiate + Final offer 18
Post Diligence	Adjustments	Termination of data room + ownership Enhance

* Due Diligence for Issue of Securities

SEBI → ICAR → Issue

SEBI → LODR → Listing Disclosures

* IPR Due Diligence

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

* Environment Law

↳ analyse 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

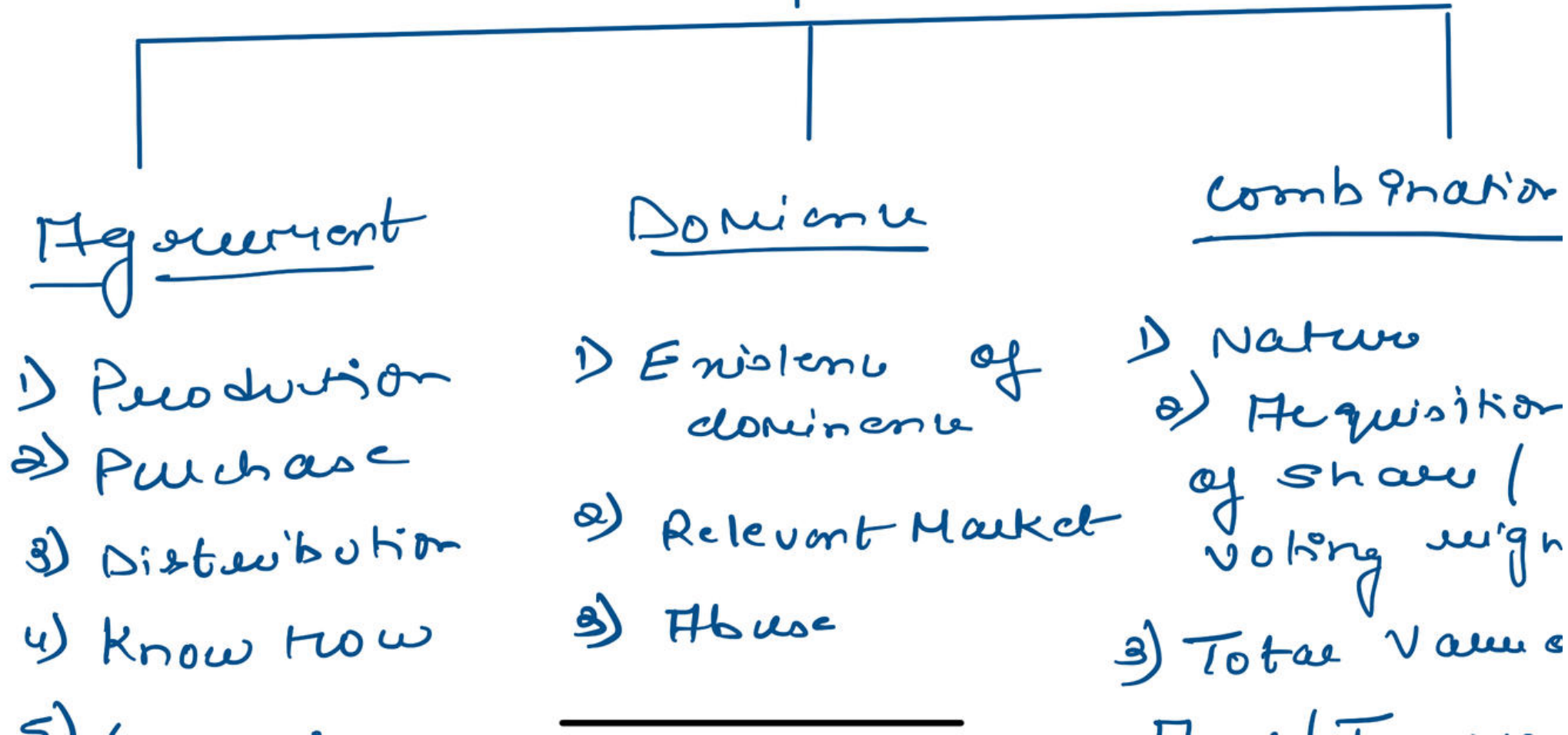
- 4) Env Setting + history of site (21)
- 5) Assessment of site conditions
- 6) Legal compliance with Env Law

- 
- 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) Distribution
- 4) Know how
- 5) Commission

3) Abuse

3) Total Value of
Asset / Turnover

4) Notification
to ICI

5) Donor

(23)

* FCRA Due Diligence

↳ governs foreign funding
received by Non Profit org

Registration → MHA → Validity
5 year

Prior Approval → Before Every
transaction

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

* Bank Due Diligence

1) conducted by Pr
2) on half yearly basis

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

(25)

Report with Qualification
↓

Bold/Italic

Professional Responsibility

Companies Act, 2013

448
447
204

CA Act, 1980

I Schedule

II Schedule

* 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

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

