

# Concepts of Various Audits

## Lesson 8

### KEY CONCEPTS

- Audit Committee ■ Internal Control ■ Risk Assessment ■ Compliance Office ■ Environmental Control
- Forensic Audit ■ Investigation Services ■ Litigation services ■ Financial Statement Fraud

### Learning Objectives

#### To understand:

- Various fields available for Company Secretaries being multi-disciplinary professional which renders the Auditing services including financial as well as non- financial audits.
- Internal Audit as a mechanism to provide an independent and objective assessment of the effectiveness and efficiency of a company's operations, specifically its internal control structure.
- The requirement of the various audit under various rules, regulations and practices.
- The detailed coverage of each type of Audit.

### Lesson Outline

- Introduction
- Corporate Governance Audit
- Secretarial Audit
- Internal Audit
- CSR Audit
- Takeover Audit
- Insider Trading Audit
- Industrial and Labour Laws Audit
- Cyber Audit
- Environment Audit
- Systems Audit
- Forensic Audit
- Social Audit
- Lesson Round-Up
- Glossary
- Test Yourself
- List of Further Readings
- Other References (Including Websites/Video Links)

## REGULATORY FRAMEWORK

- The Companies Act, 2013 and rules made thereunder
- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- Schedule VII to the Companies Act, 2013
- SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
- SEBI (Prohibition of Insider Trading) Regulations, 2015

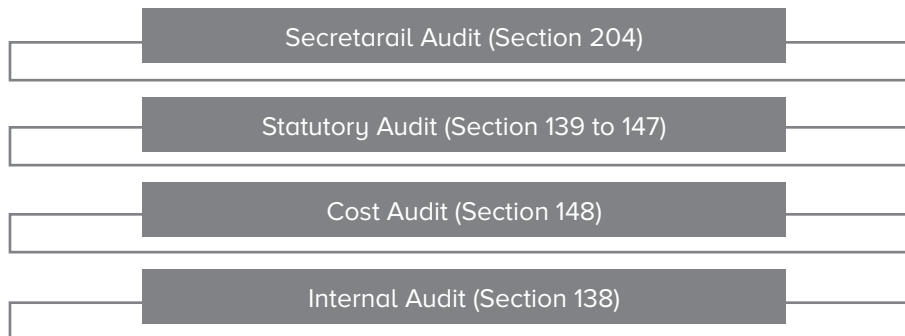
## INTRODUCTION

Audit is an independent and systematic examination of statutory records, books of accounts, documents and vouchers of an organization. This is performed or conducted to ascertain how far the financial statements as well as non-financial disclosures present a true and fair view of the concern as to. Audit provides and significant assurance to the management and other stakeholders on the affairs of the company. The Auditor while conducting audit obtains evidence and formulates an opinion on the basis of his judgment which is communicated through their audit report.

The term audit is derived from the Latin word “audire” which means to hear.

Sections 139 to 147 under chapter X of the Companies Act, 2013 along with the Companies (Audit and Auditors) Rules, 2014 contain provisions regarding audit and auditors covering the appointment, removal, resignation of auditors, eligibility, qualifications and disqualifications of auditors, remuneration of auditors, powers and duties of auditors etc. for the statutory auditors of the company. According to the section 143(14), the provision of the Section 143 i.e. power and duties of the Auditors are mutatis mutandis applicable to the cost accountant conducting cost audit under section 148 and the company secretary in practice conducting secretarial audit under section 204 of the Companies Act, 2013.

The Companies Act, 2013 contains the provisions relating to the following Audits:



Broadly, the audit can be classified in to two type of audit i.e. the Financial Audit and the Compliance Audit, the Financial Audit cover the Statutory Audit, Cost Audit and Internal Audit whereas the Compliance Audit cover the Secretarial Audit, CSR Audit, and Corporate Governance Audit, Takeover Audit, Insider trading Audit, Labour law Audit, Cyber Audit, Systems Audit, Social Audit and Forensic Audit etc. The company as a part of the internal review periodically conduct the audits of other functions of the organization like Stock Audit, HR Audit, Branch Audit, Performance Audit, IT Audit and Environment Audit etc. which helps in the development of the internal function of the company.

The above audits are considered as the emerging areas for the company secretaries and with the expertise in these areas, the company secretaries has proven themselves as the competent professional for conducting such audits. The detailed principles of the various audits are elaborated in this chapter.

## CORPORATE GOVERNANCE AUDIT

Corporate governance is a strategic activity that ensures that all the necessary processes for directing and controlling a business enterprise are implemented effectively. It is about ethical conduct in business. Corporate Governance deals with conducting the affairs of a company in such a way that there is fairness to all stakeholders and that its actions benefit the greatest number of stakeholders. It is about transparency, integrity and accountability.

Recent scandals in Indian Corporates have raised questions not only about the practices adopted by companies to solicit business but also about the standards of accountability in public administration including within the government machinery and institutions.

Corporate Governance provisions under the erstwhile listing agreement popularly known as the Clause 49 requirements have been overhauled by the Companies Act 2013, recent adoptions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“LODR Regulations”). Schedule II of the said regulations have elaborated on the Corporate Governance measures and are applicable to the entities which are listed with recognized stock exchange(s). These have aligned India’s corporate governance regime with the developed countries,

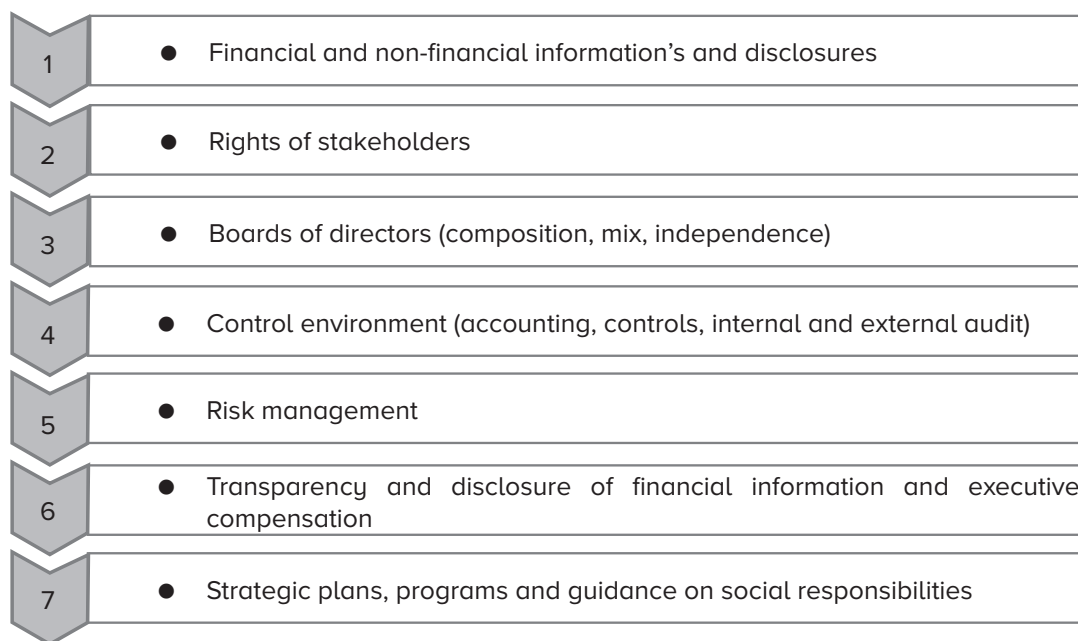
Audit of corporate governance processes provides assurance to the various stakeholders that all the required governance activities have been accomplished along with identifying the governance norms has not been satisfied by the company for assisting stakeholders in making an informed decision. The Stakeholders do not like to receive surprises and audit of corporate governance activities shall ensure and effective check mechanism on the supervisory and managerial layers of a business enterprise. Corporate Governance Audit mechanism works primarily through Audit Committee and the Auditor.

### Need for Corporate Governance Audit (CGA)

The audit serves as a monitoring device and is essential in corporate governance also. The auditors view management as the primary driver of corporate governance and to ensure commitment of the Board in managing the company in a transparent manner.

The history indicates that well-governed companies receive higher market valuations. Improving corporate governance will also increase capital flows to companies; from domestic and global capital; equity and debt; and from public securities markets and private capital sources even the increased customer base.

### Scope of Audit of Corporate Governance Activities



**Role of Audit Committee**

Audit Committee plays a vital role in the corporate governance of an entity. The Companies Act, 2013 and LODR Regulations in respect of the constitution, terms of reference and role & responsibility of the audit committee, underline the importance of audit process and its contribution to the corporate governance process: structure of audit committee with respect to corporate governance has been defined under LODR regulations as follows:

According to Section 177 of Companies Act, 2013, the Board of Directors of the following class of companies shall constitute an Audit Committee:

- (i) every listed public company; or
- (ii) the Public Companies having paid up share capital of ten crore rupees or more; or
- (iii) the Public Companies having turnover of one hundred crore rupees or more; or
- (iv) the Public Companies which have, in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees.

The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority. Provided that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.

Further, regulation 18 of SEBI (LODR) Regulations, 2015 that every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

Minimum No. of Directors	<ul style="list-style-type: none"> <li>● The audit committee shall have minimum three directors as members.</li> </ul>
Requirement of IDs	<ul style="list-style-type: none"> <li>● Two-thirds of the members of audit committee shall be independent directors and in case of a listed entity having outstanding SR equity shares, the audit committee shall only comprise of independent directors.</li> </ul>
Financial Literacy	<ul style="list-style-type: none"> <li>● All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.</li> </ul>
Presence of Chairperson in AGM	<ul style="list-style-type: none"> <li>● The chairperson shall be an independent director and he/she shall be present at the annual general meeting to answer shareholder queries.</li> </ul>
CS as Secretary of Audit Committee	<ul style="list-style-type: none"> <li>● The company secretary shall act as the secretary of the committee.</li> </ul>
Invitation to Executives	<ul style="list-style-type: none"> <li>● The audit committee at its discretion shall invite the finance director or head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee.</li> </ul>

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

1. Oversight of the listed entity's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
2. Recommendation for appointment, remuneration and terms of appointment of auditors of the listed entity;
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors;
4. Reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
  - a. matters required to be included in the director's responsibility statement to be included in the board's report in terms of clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013;
  - b. changes, if any, in accounting policies and practices and reasons for the same;
  - c. major accounting entries involving estimates based on the exercise of judgment by management;
  - d. significant adjustments made in the financial statements arising out of audit findings;
  - e. compliance with listing and other legal requirements relating to financial statements;
  - f. disclosure of any related party transactions;
  - g. modified opinion(s) in the draft audit report.
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval;
6. Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the board to take up steps in this matter;
7. Reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;
8. Approval or any subsequent modification of transactions of the listed entity with related parties;
9. Scrutiny of inter-corporate loans and investments;
10. Valuation of undertakings or assets of the listed entity, wherever it is necessary;
11. Evaluation of internal financial controls and risk management systems;
12. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
13. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
14. Discussion with internal auditors of any significant findings and follow up there on;
15. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;

16. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
17. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
18. To review the functioning of the whistle blower mechanism;
19. Approval of appointment of chief financial officer after assessing the qualifications, experience and background, etc. of the candidate;
20. Carrying out any other function as is mentioned in the terms of reference of the audit committee;
21. Reviewing the utilization of loans and/ or advances from/investment by the holding company in the subsidiary exceeding rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments existing;
22. Consider and comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation etc., on the listed entity and its shareholders.

### **Illustrative Checklist for Auditing Corporate Governance System in a Company**

#### **Accountability**

1. Check there is separation of ownership and control.
2. Check whether executive management is accountable to Board.
3. Check whether board is accountable to shareholders.
4. Check whether there is a board / audit committee charter/ policies.
5. Check whether the independent directors have powers to play their role effectively.
6. Check whether sufficient number of meetings held, and are the meetings of sufficient length and depth to cover the agenda and provide healthy discussion of issues.
7. Check whether the auditors of the company have full access to information and authority to present their view points at board meetings.
8. Check whether the company has policies on ethical marketing practices, bribery and dishonesty, employee and customer privacy, fair employment practices, gifts, entertainment, related party transactions and conflict of interests.

#### **Fairness**

1. Check whether all shareholders, including minorities are treated equitably.
2. Check whether there are defined procedure for effective resolutions of violations.
3. Check whether the company has pricing policy and fair market practice code.

#### **Transparency**

1. Investors should be able to obtain information about the rights attached to all series and classes of shares before they purchase. Any changes in voting rights should be subject to approval by those classes of shares which are negatively affected.
2. Check whether there is a timely, accurate disclosure on all material matters, including financial and non-financial information, performance, ownership, frauds, going concern crisis and governance.
3. Check whether the company has a policy for making political contributions.

4. Check whether the company has comprehensive insider trading disclosure and compliance practices.
5. Check whether shareholders should be able to make their views known on the remuneration policy for board members and key executives. The equity component of compensation schemes for board members and employees should be subject to shareholder approval.
6. Institutional investors acting in a fiduciary capacity should disclose how they manage material conflicts of interest that may affect the exercise of key ownership rights regarding their investments.

### Responsibility

1. Check whether the company has policy on stakeholder's rights, social responsibility and business sustainability requirements.
2. Check whether the board's responsibility includes review and guiding of corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.

### Shareholder Interests

1. Check whether shareholders should have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes such as:
  - (a) amendments to the statutes, or articles of incorporation or similar governing documents of the company;
  - (b) the authorisation of additional shares; and
  - (c) extra-ordinary transactions, including the transfer of all or substantially all assets that in effect result in the sale of the company.
2. Check whether capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.
3. There exists rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets, should be clearly articulated and disclosed so that investors understand their rights and recourse. Transactions should occur at transparent prices and under fair conditions that protect the rights of all shareholders according to their class.
4. The exercise of ownership rights by all shareholders, including institutional investors, should be facilitated.
5. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress.
6. Members of the board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation.

In the Corporate Governance Audit, the auditor issue the compliance certificate and summarizes his opinion and descriptive narration of areas of improvement would be provided as a part of the audit report under Clause (E) of Schedule V of the SEBI (LODR) Regulations, 2015. The Compliance certificate shall be given either the practicing company secretaries or auditors regarding compliance of conditions of corporate governance which shall be annexed with the directors' report.

**CASE LAW****In Re Niraj Cement Structurals Limited (Noticee) Securities and Exchange Board of India, dated March 06, 2024**

**Failure to ensure compliance with mandatory regulatory provisions of SEBI (LODR) Regulations would adversely affect the integrity of securities market and interest of investors.**

**Brief Facts of the Case:**

SEBI examined into the alleged failure of Niraj Cement Structurals Ltd (“Noticee”) to obtain the prior approval of shareholders for material related party transactions (“RPTs”) in accordance with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“LODR Regulations”). Regulation 23(4) of the LODR regulations, 2015 provides that all material RPTs and subsequent material modifications as defined by the audit committee shall require prior approval of the shareholders through resolution.

It was observed by SEBI that the material RPTs carried out by the Noticee with other entities, namely, Niraj Patel JV, Niraj Babulnath JV and Niraj Jandu JV during the Financial Year 2022- 23 exceeded the monetary limit approved by the shareholders of the Company. However, the Noticee allegedly failed to obtain the prior approval of the shareholders as required under regulation 23(4) of LODR regulations, for the transactions in excess to previous approval granted vide resolution dated September 29, 2022. In view of the Noticee’s failure to take prior approval of the shareholders, it was alleged that the Noticee has violated Regulation 23(4) of SEBI (LODR) Regulations, 2015. Noticee in its reply to the Show Cause Notice, admitted that the Noticee failed to obtain prior approval of certain RPTs as mandated by regulation 23(4) of the LODR regulations, 2015 and submitted that the same happened due to the inadvertence on the part of the Noticee and due to the ill-health of its compliance officer.

**SEBI Order:**

Thus, by not obtaining the prior approval of shareholders, the Noticee has violated regulation 23(4) of the SEBI (LODR) regulations, 2015. Accordingly, SEBI has imposed a monetary penalty of Rs. 4 Lakh on the Niraj Cement Structurals Limited.

*For reference: [https://www.sebi.gov.in/enforcement/orders/mar-2024/adjudication-order-in-the-matter-of-niraj-cementstructurals-limited\\_82086.html](https://www.sebi.gov.in/enforcement/orders/mar-2024/adjudication-order-in-the-matter-of-niraj-cementstructurals-limited_82086.html)*

**CORPORATE GOVERNANCE DUE DILIGENCE – COVERAGE**

The following aspects are to be analysed during corporate governance due diligence. The list provided hereunder is not an exhaustive list.

**BOARD INDEPENDENCE & GOVERNANCE**

- (i) Board Composition
  - (a) board of directors shall have an optimum combination of executive and non-executive directors with at least one woman director and not less than fifty per cent. of the board of directors shall comprise of non-executive directors.
  - (b) where the chairperson of the board of directors is a non-executive director, at least one-third of the board of directors shall comprise of independent directors.
  - (c) where the listed entity does not have a regular non-executive chairperson, at least half of the board of directors shall comprise of independent directors.
  - (d) where the regular non-executive chairperson is a promoter of the listed entity or is related to any promoter or person occupying management positions at the level of board of director or at one level below the board of directors, at least half of the board of directors of the listed entity shall consist of independent directors.

- (e) where the listed company has outstanding SR equity shares, at least half of the board of directors shall comprise of independent directors.
- (ii) The proportion of independent directors to total number of directors.
- (iii) The company has at least one woman director.
- (iv) In case of top 1000 listed entities, the Board of directors has at least one independent woman director.
- (v) In case of top 2000 listed entities, the board of directors has not less than six directors.
- (vi) Senior/lead independent director if any, if the offices of chairperson and chief executive officer are not held by different persons.
- (vii) Written policy/ procedure if any for induction of independent directors.
- (viii) Disclosure if any, in the annual report the basis on which independent directors are nominated on the board
- (ix) Letter of appointment of non-executive directors.
- (x) Maximum tenure of independent directors if any specified.
- (xi) Details of separate meetings of independent directors.
- (xii) Details of orientation programme /training of directors.
- (xiii) Details of D&O insurance if any provided.
- (xiv) Gap between resignation and appointment of independent directors.
- (xv) Details of affirmative statement from each of the independent directors that they meet the criteria of independence (annual and at the time of appointment).

#### **BOARD SYSTEMS AND PROCEDURES**

- (i) Details of circulation of agenda.
- (ii) Details of board meetings.
- (iii) Attendance in board meeting.
- (iv) Details of meeting through video conferencing.
- (v) List of applicable laws if any maintained by the company.
- (vi) Information /certificate to the board on statutory compliances.
- (vii) Communication of board decisions to various departments.
- (viii) Details of written code of conduct for directors, senior management and other employees.
- (ix) Policy on succession planning at senior management level (just one level below the board),
- (x) Policy on action taken report
- (xi) Policy on reviewing the effectiveness of board and its members.
- (xii) Share dealings by directors and his relatives.

#### **BOARD COMMITTEES**

- (i) Names of board committees, its terms of reference, composition and meetings.
- (ii) Details of chairperson of board committees.

- (iii) Proportion of independent directors in audit committee.
- (iv) Risk assessment process by audit committee.
- (v) Process of reviewing the related party transactions by the audit committee.
- (vi) Details of financial experts in the audit committee.
- (vii) Communication mechanism between internal auditor, audit committee and CFO.
- (viii) Details of rotation of auditors/audit partners.
- (ix) Details of pending investor grievances.

#### **TRANSPARENCY AND DISCLOSURE COMPLIANCES**

- (i) Details of disclosures in the Annual Report.
- (ii) Disclosure on the details of remuneration paid to Board members.
- (iii) Disclosure on related party transaction.
- (iv) Disclosure on material cases pending against the company.
- (v) Details of directors appointed or proposed to be appointed.
- (vi) Means of communication.
- (vii) Details of filings with Corp filing portal.
- (viii) Disclosures on insider trading.
- (ix) Disclosure of CEO/CFO on compliance under LODR Regulations.
- (x) Compliance of Secretarial Standards issued by ICSI.
- (xi) Compliance of Accounting Standard/Cost Accounting Standard (if applicable).
- (xii) Details of Secretarial Audit if any.
- (xiii) Adverse remarks in Audit Report, Cost Audit Report, Secretarial Audit Report.
- (xiv) Disclosure of director's relationship inter-se.
- (xv) Details of corporate disclosure policy.

#### **CONSISTENT SHAREHOLDER VALUE ENHANCEMENT**

- (i) Growth in net-worth.
- (ii) Details of dividend paid.
- (iii) Dividend policy, if any.
- (iv) EPS
- (v) Details of public shareholdings.
- (vi) Details of investor satisfaction survey, if any.

#### **OTHER STAKEHOLDERS VALUE ENHANCEMENT**

- (i) Details of Vendor/Supplier/Customer Satisfaction surveys.
- (ii) Personnel policy.

- (iii) Policy on employee participation in management.
- (iv) Policy on ESOPs
- (v) Policy on prevention of sexual harassment.
- (vi) Vendor Development policy.

#### **CORPORATE SOCIAL RESPONSIBILITY**

- (i) Policy on CSR, if any.
- (ii) CSR/Sustainability Report, if any.
- (iii) Energy conservation initiatives.
- (iv) Water/ waste management initiatives.
- (v) Budget for CSR activities etc.

#### **SECRETARIAL AUDIT**

The Corporate sector in India is governed by various Acts and the rules, regulations made thereunder and every mode of Business has to abide by plethora of applicable laws, rules, procedures, regulations and the internal regulatory framework. Every Company, while pursuing its business activities, has to comply with the rules and regulations relating to the Companies Act, Securities laws, FEMA, Industry Specific laws and General laws like Labour laws, Competition law and Environmental and Pollution related laws and should also pursue the good governance practices.

The term “Secretarial Audit” refers to the mechanism which is connected with the audit of the non-financial aspects of the company. It gives necessary comfort to the investors, management, regulators and other stakeholders, as to the compliance of all applicable laws by the company and certifies the existence of adequate systems and processes for ensuring compliance of laws in the company.

Secretarial Audit covers non-financial aspects of the business vis-à-vis their impact on the performance of the company and verifies compliances of applicable laws, regulations and guidelines. Nonetheless, this exercise enhances the capabilities of the management and also mitigates business and reputation risk to a great extent. It also evaluates the manner in which the affairs of a company are conducted to a great extent.

In the era of minimum government, maximum governance, the Secretarial Audit postulates for an independent verification of the records, books, papers and documents by a Company Secretary to check the compliance status of the company according to the provisions of various statutes, laws and rules & regulations and also to ensure the compliance of legal and procedural requirements and processes followed by the company.

Secretarial Audit is, therefore, an independent and objective assurance intended to add value and improve operations of a company. It helps to accomplish the organisation’s objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes.

#### **Applicability of Secretarial Audit**

Section 204(1) of the Companies Act, 2013 read with Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 provides that-

- (1) Every listed company and a company belonging to other class of companies as may be prescribed shall annex with its Board’s report made in terms of section 134(3), a secretarial audit report, given by a company secretary in practice, in such form No.MR-3.
- (2) It shall be the duty of the company to give all assistance and facilities to the company secretary in practice, for auditing the secretarial and related records of the company.
- (3) The Board of Directors, in their report made in terms of section 134(3), shall explain in full any qualification or observation or other remarks made by the company secretary in practice in his report under sub-section (1).

- (4) If a company or any officer of the company or the company secretary in practice, contravenes the provisions of this section, the company, every officer of the company or the company secretary in practice, who is in default, shall be liable to a penalty of Rs. 2,00,000.

In terms of Rule 9(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, for the purposes of sub-section (1) of section 204, the other class of companies shall be as under-

- (a) Every Public Company having a paid-up share capital of 50 crore rupees or more; or
- (b) Every Public Company having a turnover of 250 crore rupees or more; or
- (c) Every Company having outstanding loans or borrowings from banks or public financial institutions of 100 crore rupees or more.

Explanation to this sub-rule clarifies that the paid-up share capital, turnover, or outstanding loans or borrowings as the case may be, existing on the last date of latest audited financial statement shall be taken into account.

- (2) The Format of the Secretarial Audit Report shall be in Form No. MR-3.

### **Secretarial Audit and Secretarial Compliance Report under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

In view of the criticality of secretarial functions for ensuring efficient functioning of the Board, the Kotak Committee on Corporate Governance, in its report dated October 05, 2017, recommended that-

- (a) Secretarial Audit to be made compulsory for all listed entities under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Regulations") in line with the provisions of the Companies Act, 2013.
- (b) Secretarial Audit to be extended to all material unlisted Indian subsidiaries in line with the recommendations of the Committee on strengthening group oversight and improving compliance at a group level for listed entities.

Accordingly, SEBI vide circular no. CIR/CFD/CMD1/27/2019 dated February 08, 2019 notified the following provisions to be included in the SEBI (LODR) Regulations, 2015:

Regulation 24A: Secretarial Audit: Every listed entity and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex with its annual report, a secretarial audit report, given by a company secretary in practice, in such form as may be prescribed with effect from the year ended March 31, 2019.

The above provision has been substituted by the SEBI vide amendment dated 13.12.2024 which reads as under:

Every listed entity and its material unlisted subsidiaries incorporated in India shall undertake Secretarial Audit by a Secretarial Auditor who shall be a Peer Reviewed Company Secretary and shall annex a Secretarial Audit Report in such form as specified, with the annual report of the listed entity.

Every listed entity shall submit a secretarial compliance report in such form as specified, to stock exchanges, within 60 days from end of each financial year.

While the Annual Secretarial Audit shall cover a broad check on compliance with all laws applicable to the entity, listed entities shall additionally, on an annual basis, require a check by the Company Secretary in Practice on compliance of all applicable SEBI Regulations and circulars / guidelines issued thereunder, consequent to which, the Company Secretary in Practice shall submit a report to the listed entity. The Annual Secretarial Compliance Report is applicable to all Listed Entities.

### **Purpose of Secretarial Audit**

Secretarial Audit provides an effective mechanism to ensure that compliance of various legislations and regulations including the Companies Act, SEBI Law, Secretarial Standards and other corporate and economic laws applicable to the company has been diligently done. This would give necessary comfort to the Investors, Management, Regulators and Other Stakeholders.

The periodical Secretarial Audit helps to detect the instances of non-compliances and facilitates taking corrective measures well in time to avoid any further risk.

Secretarial Audit facilitates monitoring compliances with the requirements of law through a formal compliance management programme which can produce following positive results to the stakeholders of a company:

- Companies that go the extra mile with their compliance programs lay the foundation for good governance.
- Companies with an effective compliance management programme have lesser chance of being penalised, both monetarily and by way of imprisonment.
- Companies that imbibe business and personal ethics and an effective compliance management programme within their work culture often enjoy employee and customer loyalty and public respect for their brand, which can translate into better market capitalization and shareholder returns.
- Recognition for the company as a good corporate citizen.

## INTERNAL AUDIT

Internal audit is a process of evaluating and assessing an organization's internal controls, risk management procedures, and governance practices. The goal of internal audit is to help organizations achieve their objectives by providing independent, objective assurance and consulting services.

Internal auditors are professionals who are responsible for conducting internal audits within an organization. They assess the effectiveness and efficiency of the organization's operations, the reliability of financial reporting, and compliance with laws and regulations. Internal auditors also identify areas of potential risk and recommend improvements to the organization's internal controls and processes.

### Definition of Internal Auditing:

According to the Definition of Internal Auditing in the IIA's International Professional Practices Framework (IPPF), internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Performed by professionals with an in-depth understanding of the business culture, systems, and processes, the internal audit activity provides assurance that internal controls in place are adequate to mitigate the risks, governance processes are effective and efficient, and organizational goals and objectives are met.

Evaluating emerging technologies. Analyzing opportunities. Examining global issues. Assessing risks, controls, ethics, quality, economy, and efficiency. Assuring that controls in place are adequate to mitigate the risks. Communicating information and opinions with clarity and accuracy. Such diversity gives internal auditors a broad perspective on the organization. And that, in turn, makes internal auditors a valuable resource to executive management and boards of directors in accomplishing overall goals and objectives, as well as in strengthening internal controls and organizational governance.

The terms "functions" and activities" used in sub-section (1) of section 138 of the Companies Act, 2013 connote a much wider scope than "Financial Audit" and "Operations Audit". Therefore, it is clearly evident that the scope of internal audit is very wide and it covers the compliance systems in companies covering all the functions of any company. Internal Audit requires an in depth understanding of the business culture, systems and processes, understanding and improvement of internal controls for effective risk management, understanding the governance structure of the organisation and ability to provide value additions for improvement in governance processes.

The internal audit may contribute in the following areas:

- a) Independent review and appraisal of control systems across the organization (both financial control systems and operational areas where the organization may reap benefits).
- b) Ascertainment of the extent of compliance of policies, procedures, regulations and legislations. Checking compliance management systems of an organization.
- c) Facilitate good practices in management of risk. This requires systems for ascertaining, measuring, managing and where possible mitigation or dispersion of the risk.
- d) Achieve savings by identifying waste, inefficiency and duplication of effort across the organization.
- e) Structuring programs and activities such that company assets are safeguarded and there are internal check systems which minimize the possibility for reducing fraud / early warning signals for identifying fraud.

Class of companies Sub-section (1) of section 138 of the Companies Act, 2013 provides that such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

As per rule 13 of the Companies (Accounts) Rules, 2014, the following companies are required to appoint an internal auditor or a firm of internal auditors:

Criterion	Listed Companies and producer companies	Unlisted Public Company	Every Private Company
Paid-up Capital	Internal audit is mandatory	50 crore rupees or more*	Not Applicable
Turnover	For all listed companies, irrespective of any criterion	200 crore rupees or more*	200 crore rupees or more*
Outstanding loans and borrowing from bank and PFI		exceeding 100 crore rupees or more**	exceeding 100 crore rupees or more**
Outstanding deposits		25 crore rupees or more**	Not Applicable

\* during the preceding financial year

\*\* at any point of time during the preceding financial year.

Section 138 of the Companies Act, 2013 brought the concept of internal audit to the forefront and has widened its scope to a larger extent. Company Secretaries being Governance professionals are aptly suited to perform the role of internal auditors and accordingly recognized to be appointed as internal auditors in the companies under the provisions of Companies Act.

### CORPORATE SOCIAL RESPONSIBILITY (CSR) AUDIT

Corporate Social Responsibility (CSR) includes various social and environmentally responsible guidelines, essential for companies that want to maintain a strong connection to the marketplace. Corporate Social responsibility includes the way a company treats and proactively contributes to its community, promotes fair working conditions and a non-discriminatory environment, conveys transparent and honest accounting reports, and generally earns a reputation of trust and integrity in the society where it serves.

CSR has become a mandatory part of many Companies vide introduction in Companies Act, 2013 and has changed the dynamics of CSR. An increased emphasis on governance, stricter monitoring and reporting obligations require companies to be more accountable, disciplined and strategic in their CSR approach

Applicability of CSR		
Net worth of rupees five hundred crore; or	Turnover of rupees one thousand crore or more; or	Net profit of rupees five crore or more
During the immediately preceding financial year		

Section 135 of the Companies Act, 2013 provides that every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall:

- constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director;
  - In case, where a company is not required to appoint an independent director under sub-section (4) of section 149 of Companies Act, 2013, the company shall have in its Corporate Social Responsibility Committee two or more directors.
- adopt a CSR Policy in order to develop a sustainable CSR road map to help determine both compliance and social relevance with the Act.
- spend, in every financial year, at least 2% of its average net profits made during the three immediately preceding financial years, in pursuance of its CSR policy.

### Objective of CSR Audit

Corporate Social Responsibility (CSR) audit help in measuring the actual social performance against the social objectives set by the Company. It also provides that at what level the decision making, mission statement, guiding principles, and business conduct are aligned with social responsibilities. The audit helps meeting the expectations of stakeholder groups relating to social and environmental responsibilities of the company.

### Purpose of CSR Audit

- To ensure compliance with the provisions of Companies Act, 2013 with respect to constitution of the Committee, adoption of policy and appropriate spending towards CSR activities.
- To facilitate transparent monitoring mechanism and a mentor for the company's CSR activities and implementation of CSR policy.
- To evaluate internal control and governance framework.
- To assess the project life cycle.
- To conduct financial review of projects to confirm the utilization of budgets for achieving desired outcomes.

### Methodology for CSR Audit

1. Review of CSR policy, CSR committee, governance structure, strategy, projects, partner identification and selection process, monitoring, evaluation and reporting.
2. Interact with beneficiaries, project team, management and other stake holders.
3. Review of beneficiary identification and selection process, budget allocation, outcomes monitoring and reporting.
4. Review of CSR expenditure, project's direct expenditure, overheads and administrative expenses, traceability and genuineness of expenditure, per beneficiary cost, reasons for inability to spend 2% of profits.

### Conducting CSR Audit

The CSR audit may be conducted internally by the company or engage external agencies having expertise in CSR projects. However the companies publish periodical report on their social initiatives and through the Website. However, according to provisions of Companies Act, 2013, Companies are required to annex report on the corporate social responsibilities with the board report of the company.

### Coverage of CSR Audit

The CSR audit cover the CSR activities relating to human rights, fundamental human rights, freedom of association and collective bargaining, non-discrimination, forced labor, child labor, health and safety, career development and training, environmental issues and issues relating to community development and social wellbeing. However, Schedule VII of the Companies Act, 2013 provides the list of activities which could be taken by the company as their CSR Activities. These activities cover the following:

- (i) Eradicating hunger, poverty and malnutrition, promoting health care including preventive health care and sanitation including contribution to the Swachh Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water.
- (ii) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.
- (iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
- (iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga.
- (v) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional art and handicrafts.
- (vi) measures for the benefit of armed forces veterans, war widows and their dependents, Central Armed Police Forces (CAPF) and Central Para Military Forces (CPMF) veterans, and their dependents including widows.
- (vii) training to promote rural sports, nationally recognised sports, paralympic sports and olympic sports.
- (viii) contribution to the prime minister's national relief fund or Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund) or any other fund set up by the central govt. for socio economic development and relief and welfare of the schedule caste, tribes, other backward classes, minorities and women;
- (ix)
  - (a) Contribution to incubators or research and development projects in the field of science, technology, engineering and medicine, funded by the Central Government or State Government or Public Sector Undertaking or any agency of the Central Government or State Government; and
  - (b) Contributions to public funded Universities; Indian Institute of Technology (IITs); National Laboratories and autonomous bodies established under Department of Atomic Energy (DAE); Department of Biotechnology (DBT); Department of Science and Technology (DST); Department of Pharmaceuticals; Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH); Ministry of Electronics and Information Technology and other bodies, namely Defense Research and Development Organisation (DRDO); Indian Council of Agricultural Research (ICAR); Indian Council of Medical Research (ICMR) and Council of Scientific and Industrial Research (CSIR), engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs).

- (x) rural development projects.
- (xi) slum area development different.

*Explanation-* For the purposes of this item, the term 'slum area' shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.

- (xii) disaster management, including relief, rehabilitation and reconstruction activities.

#### **Illustrative Checklist for Corporate Social Responsibility provisions under the Companies Act, 2013**

1. Check if the constitution of CSR Committee is applicable to company.
2. If yes, whether the company has constituted CSR committee of the board consisting of three or more directors, out of which at least one director is an independent director.  
  
In case where a company is not required to appoint an independent director under sub-section (4) of 149, it shall have in its CSR Committee two or more directors.
3. Whether the company has CSR policy approved by the CSR Committee.
4. Whether the CSR committee has recommended list of CSR projects or programme within the purview of schedule VII.
5. Whether the monitoring process of such projects or programme has been established by the company.
6. The composition of CSR committee is disclosed in the board's report.
7. Check whether the CSR activities were under taken as per CSR policy and projects, programs or activities excludes activities undertaken in pursuance of its normal course of business
8. Corporate social responsibility committee has recommended the amount of expenditure to be incurred on the activities referred in the Corporate Social Responsibility policy.
9. The company has instituted a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.
10. The company has disclosed the contents of the policy in board's report and at its website, if any.
11. The board's report includes an annual report on CSR containing prescribed particulars.
12. In case the company does not spend the specified amount (i.e. at least two percent of the average net profits made during the three immediately preceding financial years), Board's report specifies the reason for not spending the amount.
13. Check if the net profits of the company are in accordance with the provisions section 198 of the Companies Act, 2013 or not.
14. In case the company has built CSR capacities of their own personnel, check whether the expenditure including expenditure on administrative overheads shall not exceed five percent of total CSR expenditure of the company in one financial year.
15. The company has complied with all other requirement of the CSR Rules.

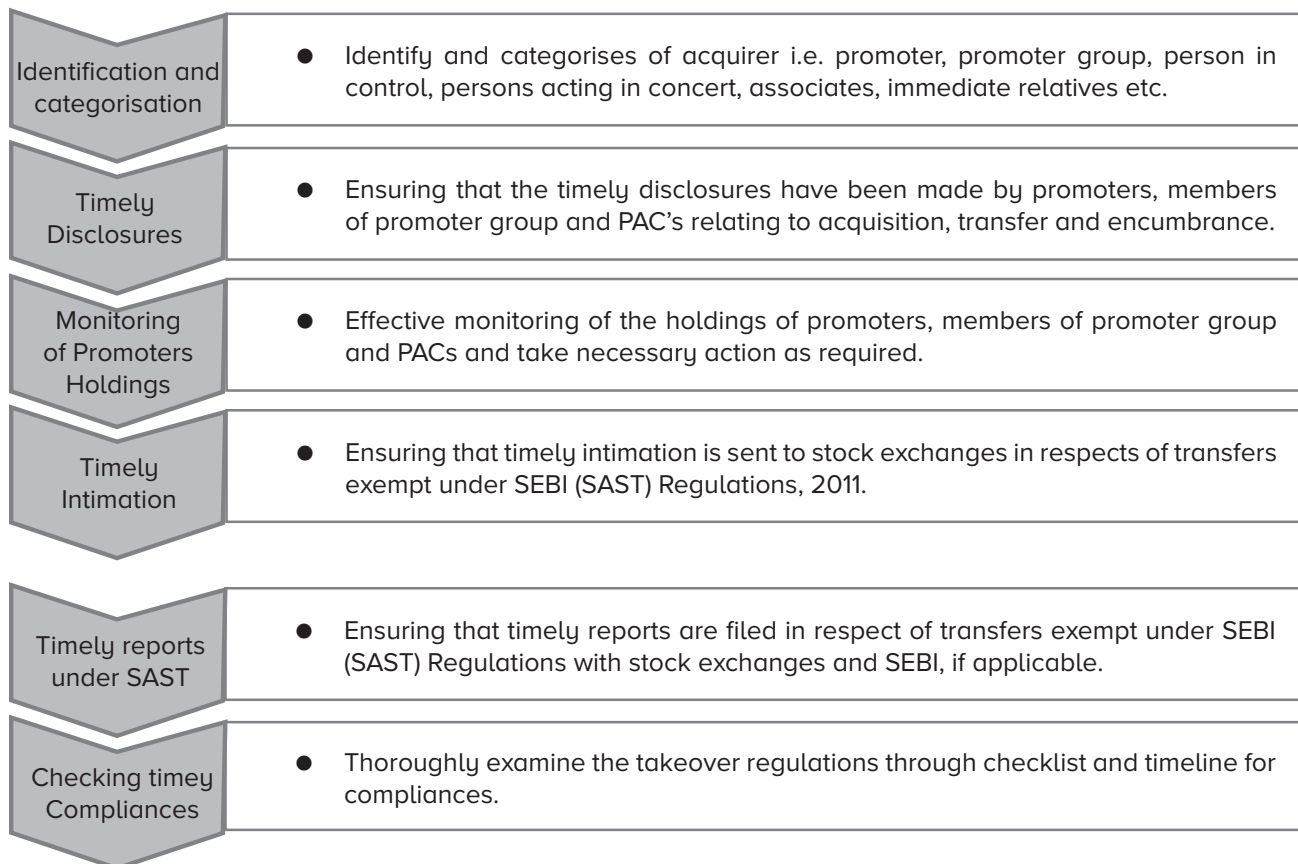
As the CSR audit cover the various direction of the CSR policy of the company which include the planning, execution and the reviews of the CSR activities. This will help to get a clear picture of Corporate Social Responsibility practices adopted by the company. The CSR audit provide an understating of company is position in CSR and also provide an independent assurance on CSR commitment to stakeholders. The different measures of the CSR Audit Includes:

1. How the Company has identified the major socio-economic changes in the key communities caused by its presence/ operations/ major expansion programs.

2. How the company has conducted social surveys before undertaking a particular CSR activity.
3. How the company has identified the possible impact of its CSR activities on the life style of communities.
4. How the company undertakes the Impact assessment of the CSR activities.

### TAKEOVER AUDIT

The Takeover audit includes the compliances relating disclosure requirements(event based /continuous disclosures), Pricing, Open offer and verification of the compliance of various stage of takeover process etc., under the provision of the Companies Act, 2013 and the SEBI (Substantial Acquisition of Shares and Take-overs) Regulations, 2011. However the takeover audit primarily includes:



Takeover audit for a business deal may be done as:

- pre-acquisition;
- post-acquisition.

In order to provide the desired results to investors and to ensure that the business acquisition deal is executed in the most effective manner, the concept of the takeover audit has been evolved; the takeover audit furnishes a cost benefit analysis to suggest a strategic plan for the durable long term investment strategy.

A meticulous takeover audit through due diligence process helps companies take advantage of legitimate new business opportunities, while at the same time helps to minimize the risks.

A strong takeover audit cum due diligence process is censorious to ensure that the acquirer is fully aware of all aspects of the proposed business deal and provides access to vital understanding that is used to negotiate the final price.

### CONSEQUENCES OF VIOLATION OF OBLIGATIONS SEBI (SAST) REGULATIONS, 2011

SEBI (SAST) Regulations, 2011 have laid down the general obligations of acquirer, target company and the manager to the open offer. For failure to carry out these obligations as well as for failure / non-compliance of other provisions of SAST Regulations, penalties have been laid down in the SEBI Act and Regulations made thereunder. These penalties *inter-alia* include:

- directing the divestment of shares acquired;
- directing the transfer of the shares / proceeds of a directed sale of shares to the investor protection and education fund;
- directing the target company / any depository not to give effect to any transfer of shares;
- directing the acquirer not to exercise any voting or other rights attached to shares acquired;
- debarring person(s) from accessing the capital market or dealing in securities;
- directing the acquirer to make an open offer at an offer price determined by SEBI in accordance with the Regulations;
- directing the acquirer not to cause, and the target company not to effect, any disposal of assets of the target company or any of its subsidiaries unless mentioned in the letter of offer;
- directing the acquirer to make an offer and pay interest on the offer price for having failed to make an offer or has delayed an open offer;
- directing the acquirer not to make an open offer or enter into a transaction that would trigger an open offer, if the acquirer has failed to make payment of the open offer consideration;
- directing the acquirer to pay interest of for delayed payment of the open offer consideration;
- directing any person to cease and desist from exercising control acquired over any target company;
- directing divestiture of such number of shares as would result in the shareholding of an acquirer and persons acting in concert with him being limited to the maximum permissible non-public shareholding limit or below.

In any proceedings as mentioned above, SEBI shall comply with principles of natural justice.

### INSIDER TRADING AUDIT

The insider trading audit includes the compliances requirements (event based /continuous disclosures) under the SEBI (Prohibition of Insider Trading) Regulations, 2015 which includes:

- Initial disclosures of trades which is to be made by only the promoters, key managerial personnel, directors internally;
- Continual disclosures which is to be made by every promoter, employee or director in case value of trade exceed monetary threshold of ten lakh rupees over a calendar quarter; company to accordingly notify stock exchanges within 2 trading days;
- Submission of trading plans;
- Appointment of compliance officer;
- Pre-clearance for trading;
- Codes of fair disclosure and conduct;
- Role of the designate person;
- Manner of dealing with UPSI (unpublished price sensitive information).

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

1. The company has appointed a compliance officer.
2. The company has maintained structured digital database containing the nature of unpublished price sensitive information and the names of such persons who have shared the information and also the names of such persons with whom information is shared under this regulation along with the Permanent Account Number or any other identifier authorized by law where Permanent Account Number is not available.
3. The structured digital database is preserved for a period of not less than eight years after completion of the relevant transactions and in the event of receipt of any information from the Board regarding any investigation or enforcement proceedings, the relevant information in the structured digital database shall be preserved till the completion of such proceedings.
4. The company has designated an officer to administer the code of conduct and other requirements under Insider trading regulations. (Regulation 9)
5. The Board of Directors of has formulated a code of practices and procedures for fair disclosure of unpublished price sensitive information as per Schedule A of Insider trading regulations.
6. The Code has been hosted on the website of the company and a copy of the same must be sent to the stock exchange.
7. The code of conduct has stipulated the sanctions and disciplinary actions, including wage freeze, suspension, recovery, clawback etc. and any amount collected has been remitted to the SEBI for credit to the Investor Protection and Education Fund administered by the SEBI under the SEBI Act, 1992.
8. The Company has designated a Chief Investor Relation Officer, who is also a senior officer of the company to deal with dissemination of information and disclosure of unpublished price sensitive information, as per the principles set out in Schedule A of Insider trading regulations.
9. The Company has formulated code of conduct to regulate, monitor and report trading by Designated Persons as per Schedule B of these regulations.
10. The Company has formulated an internal code of conduct for governing dealing in securities as per the minimum standards set out in Schedule B of Insider trading regulations.
11. Every such code of practices and procedure relating to unpublished price sensitive information and every document thereto has been promptly intimated to the stock exchange where the securities are listed.
12. The trading plan has been formulated in compliance with Regulation 5. If yes, whether necessary compliances have been made.
13. The disclosures were taken from the KMPs of the Company and from those relating to trading by such person's immediate relatives, and by any other person for whom such person takes trading decisions.
14. The connected person or class of connected persons have made disclosures of holdings and trading in securities of the company in such form and at such frequency as may be determined by the company in order to monitor compliance with these regulations.
15. Code of Conduct provides for suitable protection against any discharge, termination, demotion, suspension, threats, harassment, directly or indirectly or discrimination against any employee who files a Voluntary Information Disclosure Form, irrespective of whether the information is considered or rejected by the SEBI. (Regulation 7I)
16. Every code of practices and procedures for fair disclosure of unpublished price sensitive information and every amendment thereto has been promptly intimated to the stock exchanges where the securities are listed. (Regulation 8)

17. Any action has been sanctioned by the Board for the violation/ contravention of the provisions these regulations. (Regulation 10)
18. The Compliance officer has reviewed and monitored the trading plans if any, submitted by any insider and approved the trading plan that it has not violated these regulations.
19. The Compliance officer has received undertaking or declaration from insider with respect to the trading plan, as the case may be.
20. The Compliance officer has notified the trading plan to the stock exchange(s), if any.
21. The Company maintains the record of the said disclosures as required for a minimum period of five years.
22. The Company has received the initial disclosure from every promoter, Key Managerial Personnel (KMP) and Directors with respect to the securities held by them in Company.
23. The Company receives disclosure by every person on appointment as KMP or Director or upon becoming a promoter within seven working days of such appointment or becoming promoter.
24. The Company is regular in receiving continual disclosure from the promoter, member of the promoter group, designated person and directors with respect to the number of securities acquired or disposed of within two trading days of such transaction, if such transactions exceed Rs.10,00,000 or such other value as may be specified in a calendar quarter.
25. The Company has notified the particulars of such trading to the stock exchange(s) within two trading days of receipt of the disclosure or from becoming aware of such information.
26. The Company is regular in receiving disclosures of holding & trading of securities of the company by any other connected person or class of connected persons, held or traded by them. The Company has in its discretion require this information & set out the frequency for seeking such information.
27. The Compliance officer has provided reports of trading to the Chairman of Audit Committee, if any or to the Chairman of the Board of Directors as per the frequency stipulated by the Board of Directors.
28. The Company follows Chinese wall procedures & processes as per the norms contained in the code of conduct, wherever applicable.
29. The Compliance officer determines the timing of closure of the trading window and re-opening of the trading window.
30. The Compliance officer has put in place appropriate procedure for pre-clearance of trades for designated persons.
31. The Designated Person have not entered into any contra trade as per the specified period as mentioned in the code of conduct which shall be not less than six months from the date of trade in securities of the Company.
32. The profit arises from the Contra trade, if executed inadvertently or otherwise, has been liable to be disgorged for remittance to SEBI for credit to the Investor Protection and Education Fund administered by the SEBI under the Act.
33. Any action has been initiated by SEBI against the company or any of its promoter, director, Key Managerial Personnel, officer or employee under the PIT regulations in the past or present.
34. The company or any of its promoters, director, Key Managerial Personnel, officer or employee has been convicted by SEBI with respect to Insider Trading in the past or present.
35. Any action taken against persons responsible for non- adherence with respect to formulation of code of conduct.
36. Any other prevention mode with respect to insider trading as adopted by the Company.

## INDUSTRIAL AND LABOUR LAW AUDIT

Industrial and Labour law Audit is an effective tool for compliance management of labour, employment and Industrial laws. Audit helps to detect non-compliances of labour and employment laws applicable to a business and take corrective measures to avoid any unwarranted legal actions by the regulators against the business and its management. Labour Law audit is useful in promoting cordial relations between employees and employers and also lead to better governance and value creation for the business.

Labour Law Audit envisages a systematic scrutiny of records prescribed under labour legislations by a professional like Company Secretary, who shall report to the compliance and non-compliance/extent of compliance and conditions of labour in the Indian industry/business and in any commercial establishments.

### Scope of Industrial and Labour Audit

The Labour Law auditor cover all labour legislations applicable to an Industry/Business or any other commercial establishment, wherein audit is being conducted by the Labour Law Auditor. Scope of labour law audit will certainly differ from business to business which is based on the nature of business, size of business, location of business and number of manpower etc.

Labour laws audit is a unique concept and differs from other compliance/audits in the country. While all other audits are based on financial implications on company/business entity, whereas the labour laws audit consideration of human values, and the rights of the workman. The scope of secretarial audit also includes examining and reporting on whether the adequate systems and processes are in place to monitor and ensure compliance required under the various industrial and labour laws.

Though the Industrial and Labour audit include the various State and Local Laws along with the central laws, However the illustrative list of the compliance requirement under the various central law has been provided below:

### Factories Act, 1948

1. The Factories Act, 1948 is applicable to the company.
2. The occupier has at least fifteen days before occupying or using any premises as a factory, sent to the Chief Inspector a written notice as contained in section 7.
3. The provisions regarding registration / licence as prescribed in section 6 have been complied with.
4. The employer has appointed the manager/ occupier of the factory under the Factories Act, 1948 and sent notice to the competent authority.
5. The company has complied with provisions of:
  - “Health” measures as provided in chapter III;
  - “Safety” measures as provided in chapter IV;
  - Applicable provisions of chapter IV-A – Hazardous Processes;
  - “Welfare” measures as provided in chapter V;
  - “Working Hours” of adults as provided in chapter VI;
  - “Employment of Young Persons” as provided in chapter VII; and
  - “Annual Leave with Wages” as provided in chapter VIII.
6. Under the Factories Act, 1948 Registers, Return & Abstracts:
  - Register of Compensatory Holidays
  - Register of Adult Workers

- Register of Leave with Wage Register
- Muster Roll
- Register of Accident & Dangerous Occurrences
- Inspection Book
- Half yearly returns (Before 15th of July & 15th of January) of every year in duplicate)
- Accident & Dangerous Occurrences (Every Month)
- Combined Annual Returns (Before January every year)
- Notice of Adult workers
- Abstract of Factories Act, 1948.

### Industrial Disputes Act, 1947

1. The Industrial Disputes Act, 1947 is applicable to the company.
2. There is an industrial dispute, as defined under Section 2A of the Act.
3. The company has maintained a muster roll as required under section 25-D of the Act.
4. The Company is an industrial establishment, having one hundred or more workmen. If yes, the company has constituted Works Committee as required under Section 3 of the Act.
5. Any change in the conditions of service applicable to any workman in respect of any matter specified in the fourth schedule of the Act, has been made after giving 21 days' notice to the workmen, of such intention in Form E, as required under Section 9A of the Act, read with Rule 34.
6. The company has twenty or more workmen. If yes, the company has constituted Grievance Redressal Committee as required under Section 9-C of the Act.
7. The Company is a Public Utility Service. If yes, the lockout if any has been carried out after giving sufficient notice in Form N, as required under Section 22(3) of the Act read with rule 73.
8. The Company has complied with the conditions precedent to the retrenchment of workmen, as required under Section 25F and Section 25N, as applicable.
9. The Company maintains a muster roll for its workmen as required under Section 25-D.
10. The Company has compensated for being laid off, the workmen, whose name is in the muster rolls and has completed not less than one year of continuous service. (Section 25C)
11. The company has compensated the workmen in case of closing down of undertakings, as prescribed in section 25FFF.

### The Payment of Wages Act, 1936

1. The Payment of Wages Act, 1936 is applicable to the company.
2. The payment of wages is made before:
  - (a) before the expiry of the 7th day of the following month, when less than 1000 persons are employed.
  - (b) before the expiry of the 10th day of the following month, when more than 1000 workers are employed.
3. The deductions made from the wages of the employee are in accordance with section 7 of the Act.

4. If any deduction has been made on account of damage or loss, show cause notice has been given to the employee.
5. In case any deduction has been made for unauthorized absence, opportunity of being heard is given.
6. The registers and records giving particulars of persons employed, the work performed by them, the wages paid to them, the deductions made from their wages and the receipts given by them are maintained and preserved for a period of 3 years or more.
7. The employer has displayed the abstract of the Act and Rules made thereunder in the manner prescribed under section 25.

### **The Minimum Wages Act, 1948**

1. The Minimum Wages Act, 1948 is applicable to the Company.
2. The company has been paying the minimum wages as notified from time to time by the appropriate Government under the Act.
3. The company has paid wages in cash. If not, the wages in kind has been paid after following the procedure prescribed under section 11 of the Act.
4. The company follows the conditions prescribed with regard to working hours, working day under section 13 of the Act.
5. The company has paid overtime rate as prescribed under section 14 of the Act read with rule 25.
6. The company has maintained all registers and records that are required to be maintained under section 18 of the Act and rule 26.
7. The company has followed the procedure prescribed with respect to payment of undisbursed amounts due to employees, for reasons such as death, whereabouts not known etc.
8. The company has followed the procedure prescribed in rule 21 of the Minimum Wages (Central) Rules, 1950 with respect to deductions made from the wages.
9. The company has followed time and conditions of payments of wages prescribed in rule 21 of the Minimum Wages (Central) Rules, 1950.
10. Notices in prescribed Form, containing the minimum rate of wages has been displayed at the main entrance to the establishment, as specified in rule 22.

### **Employees' State Insurance Act, 1948**

1. The Employees' State Insurance Act, 1948 is applicable to the company.
2. The factory or establishment to which the Act applies has been registered.
3. The rate of contribution of the employer and employee is in accordance with the Act. [Rule 51 of ESI (Central) Rules, 1950.]
4. The manner and time Limit for making payment of contribution is in accordance with the Act.
5. The employer has maintained the register of employees in ç.
6. Submission of returns/reports:
  - (a) Annual return;
  - (b) Return of contributions;
  - (c) Report of accident;
  - (d) Report of death of insured persons.
7. The benefits provided in Chapter V of the Act were made available to the applicable employee.

**The Employees' Provident Fund and Miscellaneous Provisions Act, 1952**

1. The Employees' Provident Fund and Miscellaneous Provisions Act, 1952 is applicable to the company.
2. The contributions made by the employer and the employee and payment thereof are in accordance with para 29 and 30 of the Employees' Provident Funds Scheme, 1952.
3. The employer has obtained declarations from the persons taking up the employment. (Para 34 of the scheme)
4. The employer has prepared the contribution card in Form No. 3 or 3-A as appropriate in respect of every employee in his employment.
5. The employer has sent to the Commissioner:
  - (a) Consolidated return in the form specified by the commissioner.
  - (b) Monthly return in prescribed Form together with declaration.
  - (c) In such form as the commissioner may specify of employees leaving service of the employer during the preceding month.
  - (d) Inspection note book in such form as the commissioner may specify, is maintained.
  - (e) Accounts relating to amount contributed to the fund by the employer and by the employee have been maintained. (Para 36 of scheme)
6. The employer has furnished particulars of ownership to the Regional Commissioner. (Para 36 A of scheme)
7. The employer has forwarded the monthly abstract to the commissioner. [Para 38 (2) of scheme]
8. Consolidated annual contribution statement was sent to the commissioner. [Para 38(3) of scheme]
9. Submission of contribution card to the commissioner with a statement.
10. Any proceedings under the Act have been initiated against the Directors for recovery of dues.
11. If the Employer has created its own trust, whether the terms of trust are more beneficial than those provided under the trust.
12. The conditions imposed by PF Commissioner for the creation of Trust are satisfied.
13. The provisions relating to Employees' Pension Scheme, 1995 have been complied with.
14. The provisions relating to Employees' Deposit Linked Insurance Scheme, 1976 have been complied with.

**The Payment of Bonus Act, 1965**

1. The Payment of Bonus Act, 1965 is applicable to the company.
2. Computation of available surplus, allocable surplus and bonus are correctly arrived at.
3. Any amount has been deducted from bonus and if so, whether they are in accordance with the provisions of section 18.
4. Bonus is paid to the eligible employees.
5. The minimum or maximum amount of bonus paid is in accordance with section 10 or section 11, as the case may be.
6. The company has paid bonus to the employee:

- (a) Where there is a dispute regarding payment of bonus pending before any authority under section 22-within a month from the date on which the award becomes enforceable or the settlement comes into operation, in respect of such dispute;
  - (b) In any other case-within a period of eight months from the close of the accounting year.
7. The company has maintained the registers as provided in rule 4.
  8. The company has submitted the annual return of payment of bonus to the Inspector in Form No. D within thirty days after the expiry of the time limit prescribed in section 19.

### **The Payment of Gratuity Act, 1972**

1. The Payment of Gratuity Act, 1972 is applicable to the company.
2. There are employees who have worked for a continuous period of 5 years or more.
3. Any gratuity has been paid to any employee. If yes, whether it has been paid within 30 days.
4. The employer has displayed a notice as provided in rule 4, specifying the name of the officer with designation who is authorised to receive notice under the Act or the rules made thereunder.
5. The employer has complied with the provisions related to nominations as specified in rule 6.
6. Gratuity of any employee has been forfeited. If yes, whether an opportunity of being heard is given?
7. The gratuity has been forfeited for the reasons as specified in the Act.
8. The employer has displayed the abstract of the Act and rules made thereunder at or near the main entrance of the establishment, as specified in rule 20.
9. The employer has obtained insurance for liability of payment of gratuity as specified in section 4A of the Act.

### **The Contract Labour (Regulation and Abolition) Act, 1970**

1. The Contract Labour (Regulation and Abolition) Act, 1970 is applicable to the company.
2. The principal employer has obtained the certificate of registration for the establishment.
3. The appropriate Government has by a notification prohibited the employment of contract labour under section 10.
4. The contractors have obtained license from the Licensing Authority for contract labour undertaken or executed by them.
5. The contractors have got their license renewed in time.
6. The contractors are employing workmen as per license and registration certificate.
7. The number of workmen actually employed by the contractor's tallies with the number of workmen shown in the license.
8. The contractors are sending half-yearly returns in time.
9. Where the wage period is one week or more, the contractors are issuing wages slips one day prior to the disbursement of wages.
10. The principal employer maintains register of contractors.
11. The principal employer has sent annual return in to the Registering Officer.

12. The principal employer has within fifteen days of commencement or completion of each contract, submitted return to the Inspector.
13. Minimum rate of wages are being paid to the contractor labour in the presence of authorized representative of the principal employer.
14. The authorized representative of the principal employer gives a certificate to this effect at the end of the entries in the register of wage- cum- Muster Roll, as the case may be.
15. The contractors are properly depositing ESI, EPF contributions in respect of their workmen and submitting copies of the challan to the HR Department of the company.
16. The contract labour is provided the facility of rest room, canteen, wash room, first aid and other facilities.
17. The contract labour is granted leave with wages.
18. The contract labour is being paid over time at double rate.
19. The workmen engaged by the contractor are ensured benefits from ESI Scheme including issue of cards, temporary slips and are provided medical facilities.
20. The contract labour is being given contribution slips of EPF issued by the Regional Provident Commissioner.
21. The payment of wages to contract labour is being made in accordance with rule 65.
22. The leave applications and gate passes of the contract labour are being signed by the contractor and his agent.
23. The gate passes to the contract Labour are issued and signed by the company's employees.
24. The contractors are maintaining records as provided in rule 78.
25. Under the Contract Labour (Regulation & Abolition) Act, 1970.
  - Registration Certificate (Before appointing contractor)
  - Register of Contractor
  - Register of Employees employed by Contractor
  - Muster Roll, Wage Register, Over Time Register, Fine Register
  - Deduction Register, Advance Register (contractor)
  - Notice regarding rates of wages
  - Display of the Act & Rules
  - Half yearly return by contractor
  - Annual Return by Principle Employer (before 15th Feb)

### **The Maternity Benefit Act, 1961**

1. The Maternity Benefit Act, 1961 is applicable to the company.
2. The employer has knowingly employed a woman in any establishment during the six weeks immediately following the day of her delivery, miscarriage or medical termination of her pregnancy.
3. Any pregnant woman has made any request not to give her any work which is of an arduous nature or which involves long hours of standing, etc. during the period of one month immediately preceding the period of six weeks, before the date of her expected delivery.

4. Any woman employee is entitled for maternity benefit, medical bonus and nursing break and if yes, whether payment has been made and nursing break was allowed in accordance with the Act.
5. The employer exhibited the abstract of the provisions of the Act and the rules made thereunder in accordance with section 19 of the Act.
6. Whether the employer has maintained muster rolls, registers and records as prescribed, if any, by the appropriate Government.
7. Whether the employer has submitted annual return in the form prescribed, if any, by the appropriate Government.

#### **The Child and Adolescent Labour (Prohibition and Regulation) Act, 1986**

1. The Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 is applicable to the company.
2. The occupier has sent notice to Inspector as per section 9 when a child is employed or permitted to work.
3. The employer has employed any child labour in occupations set forth in Part-A or Process set forth in Part-B of the Schedule to the Act.
4. The employer has maintained the register in Form No. A in respect of children employed or permitted to work as specified in section 11.
5. The occupier has displayed notice containing abstract of sections 3 and 14 as specified in section

#### **The Industrial Employment (Standing Orders) Act, 1946**

1. The Industrial Employment (Standing Orders) Act, 1946 is applicable to the company.
2. One hundred or more workmen are employed, or were employed on any day of the preceding twelve months.
3. The industrial establishment has submitted to the Certifying Officer, five copies of the draft Standing Orders proposed by it for adoption in the establishment.
4. The text of the Standing Orders as finally certified has been prominently posted by the company in English and in the language understood by the majority of workmen on special boards to be maintained for the purpose.
5. The industrial establishment has modified the Standing Orders on agreement between the employer and the workmen or a trade union or other representative body of the workmen.
6. Any workman was suspended by the industrial establishment pending investigation or inquiry into complaints or charges of misconduct.
7. The industrial establishment has paid any subsistence allowance to any suspended employee.

#### **The Employees' Compensation Act, 1923**

1. The Employees' Compensation Act, 1923 is applicable to the company.
2. Any personal injury is caused to an employee by an accident arising out of or in the course of employment. If yes, the company has paid compensation as prescribed under Section 4 of the Act.
3. The company has maintained notice book in its premises, for reporting notice of accidents as prescribed in Section 10(3) of the Act.

4. The company has reported of fatal accident or serious bodily injuries in prescribed Form to the Commissioner, as prescribed in section 10-B read with Rule 11 of the rules.
5. The company has deposited compensation with the Commissioner in respect of the workman whose injury has resulted in death and has furnished statement in Form No. A, OR In other cases company shall furnish statement in Form 'AA', as prescribed in section 8(1) read with rule 6(1). (As Applicable)
6. The company has furnished a statement in Form 'D', while depositing compensation, as required under section 8(2) read with rule 9.
7. The company has sent a return as to compensation paid during the previous year. (As specified by the State Government in respective state law)
8. On settlement of compensation amount in between company and workman, company executed a memorandum of agreement with the workman in Form No. K, L or M, as the case, may be and submitted such agreement along with an application to register it to the Commissioner, as prescribed in rule 48.
9. The provisions for reservation of apprentice training places for SC/ST/OBC have been made in designated trades.
10. The contract of apprenticeship was sent by the employer to the apprenticeship advisor/entered on the port-site within 7 days for verification & registration.

#### Equal Remuneration Act, 1976

1. Equal Remuneration Act, 1976 is applicable to the Company.
2. Payment of equal remuneration has been made to all for same work or work of similar nature and there is no discrimination between men and women while recruiting or subsequent to recruitment, promotion etc. (As per Section 4 read with section 5)
3. The company has maintained register in relation to workers in Form No. D as required under rule 6.

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

1. The Employment Exchange (Compulsory Notification of Vacancies) Act, 1959 is applicable to the company.
2. The company has notified the vacancies to employment exchanges, as prescribed in section 4 of the Act read with rule 5.
3. The company has furnished quarterly returns, biennial return to local employment exchange as prescribed in rule 6.

#### Labour Code

The Government has formulated four Labour Codes, namely, the Code on Wages, 2019, the Industrial Relations Code, 2020, the Code on Social Security, 2020 and the Occupational Safety, Health and Working Conditions Code, 2020. (Yet to be notified)

The four Labour Codes envisage strengthening the protection available to workers, including unorganized workers in terms of statutory minimum wage, social security and healthcare of workers. Some of the important provisions are as follows:-

- A statutory right for minimum wages and timely payment of wages has been made available to all workers to support sustainable growth and inclusive development.
- To avoid multiple interpretations and litigations, uniform definition of 'wages' across all the four Labour Codes has been provided that is simple, coherent and easy to enforce.

- Provision for annual health check-up and medical facilities has also been made which enhances labour productivity and increases life expectancy.
- Statutory provision has been made for the first time to issue appointment letter to every employee of the establishment which leads to formalized contract of employment that increases job security and enables a worker to claim statutory benefits such as minimum wages, social security etc .
- Provision of Re-skilling Fund for skill development of workers.
- The gig worker and the platform worker have been defined for the purpose of formulating schemes to provide social security benefits. Social security schemes can be formulated from the contribution of aggregators and the other sources can include funds from the Central and State Governments.
- A worker engaged under Fixed Term Employment (FTE) is entitled for all the benefits which are available to permanent employees and has also been made eligible for gratuity if he renders service for a period of one year.
- Every worker is entitled to annual leave with wages after working for 180 days in comparison to 240 days at present. Provision for encashment of leave on demand by a worker while in service at the end of calendar year.
- Applicability of Employees' Provident Fund has been extended to all industries as against scheduled industries at present.

## CYBER AUDIT

Cyber security is an attempt to minimising any risk of financial loss, disruption or damage to the reputation of an organisation that may arises from the failure of its information technology systems. The objective of the cyber audit is to provide an assessment of the operating effectiveness of cyber security policies and procedures, identify, protect, detect, respond and recover processes and activities to the board. The Cyber audit program generally covers sub-processes such as asset management, awareness training, data security, resource planning, recover planning and communications, in order to identify internal control and regulatory deficiencies that could put the organization at risk.

The security and control issues which deals under cyber security audits includes:

1. Protection of sensitive data and intellectual property
2. Protection of networks to which multiple information resource are connected
3. Responsibility and accountability for the device and information contained in it.

### Scope of a cyber-security audit includes

- 1 ● Data security policies relating to the network, database and applications in place
- 2 ● Data loss prevention measures deployed
- 3 ● Effective network access controls implemented

4	<ul style="list-style-type: none"><li>● Detection/prevention systems deployed</li></ul>
5	<ul style="list-style-type: none"><li>● Security controls established (physical and logical)</li></ul>
6	<ul style="list-style-type: none"><li>● Incident response program implemented.</li></ul>

### Dimension of the Cyber Security Audit Process

#### Management

Management of the Company ultimately owns the risk decisions made for the organization. Therefore, it has a vested interest in ensuring that cyber security controls exist and are operating effectively. Decisions are typically made based on guidance received during the risk management processes, for taking appropriate decisions.

#### Risk Management

Risk assessments are typically made based on guidance by the Cyber security officer at an organization and enterprise management make decisions, employing risk management processes. The objective in any risk assessment is twofold. First, it is critical to communicate the state of the risk so that it is easy to understand and be clear on the level of risk involved. Secondly and just as significantly the ways in which to address that risk must be identified as well. This provides both problem and solution, and mitigates the negative impact of that risk to an enterprise. The risk landscape is ever-changing. It is important to have defined processes, trained and competent cyber security resources, and a governance framework to ensure that appropriate actions are carried out by enterprise leadership and managed effectively to address current and emerging threats.

#### Internal Audit

Internal auditors and risk management professionals have key roles to play, as does enterprise management. Cyber Auditing is a security measure not an inconvenience. It is critical to protecting an enterprise in today's global digital economy. The internal audit department plays a vital role in cyber security auditing in many organizations, and often has a dotted-line reporting relationship to the audit committee to ensure an independent view is being communicated at the board level of the enterprise. Audit helps enterprises with the challenges of managing cyber threats, by providing an objective evaluation of the controls and making recommendations to improve them as well as assisting the senior management and the board of directors understand and respond to cyber risks. Organizations, especially within the public sector, also contract for the services of external auditors to provide independent assurance of the financial and operational controls primarily to ensure the controls design is effective and the needs of the organization are being met.

### Illustrative checkpoint on the Cyber Security Audit

#### Personnel Security

1. Whether the staff wears ID badges?
2. Whether it is a current picture part of the ID badge?
3. Are authorized access levels and type (employee, contractor, visitor) identified on the Badge?
4. Whether the credentials of external contractors are checked?
5. Whether the company has policies addressing background checks for employees and contractors?
6. Whether the Company has a process for effectively cutting off access to facilities and information systems when an employee/contractor terminates employment?

**Physical Security**

1. Whether the Company has policies and procedures that address allowing authorized and limiting unauthorized physical access to electronic information systems and the facilities in which they are housed?
2. Whether the Company's policies and procedures specify the methods used to control physical access to your secure areas, such as door locks, access control systems, security officers, or video monitoring?
3. Whether the access to the computing area is controlled (single point, reception or security desk, sign-in/ sign-out log, temporary/visitor badges)?

**Account and Password Management**

1. Whether the Company has policies and standards covering electronic authentication, authorization, and access control of personnel and resources to your information systems, applications and data?
2. Whether the Company ensures that only authorized personnel have access to the computers?
3. Whether the Company requires and enforces appropriate passwords?
4. Are your passwords secure (not easy to guess, regularly changed, no use of temporary or default passwords)?

**Confidentiality of Data**

1. Whether the Company is exercising responsibilities to protect sensitive data under their control?
2. Whether the most valuable or sensitive data encrypted?
3. Whether the Company has a policy for identifying the retention of information (both hard and soft copies)?

**Compliance and Audit**

1. Whether the Company reviews and revises the security documents, such as: policies, standards, procedures, and guidelines, on a regular basis?
2. Whether the Company audits the processes and procedures for compliance with established policies and standards?
3. Whether the Company test the disaster plans on a regular basis?
4. Does management regularly review lists of individuals with physical access to sensitive facilities or electronic access to information systems.

**ENVIRONMENTAL AUDIT**

According to Section 2(a) of the Environmental Protection Act, 1986, 'Environment' includes Water, air and land. The inter-relationship which exists among and between, (i) water, air, land, and (ii) human beings, other living creatures, plants, microorganisms and property.

Environmental audit in general term reflect various types of evaluations intended to verify the environmental compliance and management system implementation gaps, along with related corrective actions and it has a wide variety of meanings. Environmental Audit refers to verification and assessment of environmental measures in an organisation.

Objectives of environmental audit are to evaluate the efficacy of the utilization of resources of man, machine, materials, and to identify the areas of environmental risks and liabilities and weaknesses of management

system and problems in compliance of the directives of the regulatory agencies and control the generation of pollutants and / or waste.

An environmental audit from a financial perspective is conducted to ensure that public funds were spent efficiently and for their intended purposes. During an audit of financial statements related to environmental matters, the following issues will merit special attention:

- Initiatives to prevent, abate, or remedy damage to environment;
- Conservation of renewable and non-renewable resources; (Mentioned in Director's Report)
- Consequences of violating environment laws, rules and regulations;
- Consequences of vicarious liability imposed by the government, courts etc.

There are generally two different types of environmental audits: Compliance audits and Management systems audits. As the name implies, these audits are intended to review the site's/company's legal compliance status in an operational context. Compliance audits generally begin with determining the applicable compliance requirements against which the operations will be assessed. This tends to include Central Laws, state laws, and local Laws, Rules and Regulations.

#### 1. Environmental Compliance audits

Compliance audit with respect to environmental issues will relate to providing assurance that governmental and private company's activities are conducted in accordance with the relevant laws, rules, notifications, regulations and standards as also policies and strategies. The audit have limited scope which is pre-defined under various legislations. Further the Audits are also focused on operational aspects of a company/site, rather than the contamination status of the real property. The following law covered under the environmental compliance audit:

##### **Air Pollution**

1. The Indian Boilers Act, 1923.
2. The Motor Vehicles Act, 1988.
3. The Mines and Minerals (Development and Regulation) Act, 1957.
4. The Factories Act, 1948.
5. The Industries (Development and Regulation) Act, 1951.
6. The Air (Prevention and Control of Pollution) Act, 1981.

##### **Water Pollution**

7. The River Boards Act, 1956.
8. The Merchant Shipping (Amendment) Act, 1970.
9. The Water (Prevention and Control of Pollution) Act, 1974.

##### **Radiation**

10. The Atomic Energy Act, 1962.

##### **Pesticides**

11. The Poison Act, 1919.
12. The Factories Act, 1948.
13. The Insecticides Act, 1968.

**Miscellaneous**

14. The Indian Forest Act, 1927.
15. The Ancient Monuments and Archaeological Sites and Remains Act, 1958.
16. The Wildlife (Protection) Act, 1972.
17. The Urban Land (Ceiling and Regulation) Repeal Act, 1999.
18. The Forest (Conservation) Act, 1980.
19. The Environment (Protection) Act, 1986.
20. The Public Liability Insurance Act, 1991.
21. National Green Tribunal Act, 2010
22. Environmental Impact Assessment issued under Environment Protection Act and Rules Made thereunder Environmental Impact Assessment is an important management tool for ensuring optimal user of natural resources for sustainable development.

**2. Environmental Management Systems Audit**

ISO 14001 is a voluntary international standard for environmental management systems (“EMS”). An EMS meeting the requirements of ISO 14001:2015 is a management tool enabling an organization of any size or type to:

1. Identify and control the environmental impact of its activities, products or services;
2. Improve its environmental performance continually, and
3. Implement a systematic approach to setting environmental objectives and targets, to achieving these and to demonstrating that they have been achieved.

ISO 14001 is an environment management system standard published by International Organisation for standardization in the year 1996 and later updated in the year 2005. It provides highly effective, globally accepted framework for establishing and continually improving the effectiveness of environmental management. Implementation of ISO 14001 may bring with it both reductions in environmental risk and environmental costs.

The International Organization of Standardization (ISO) defines an environmental management system as “part of the management system used to manage environmental aspects, fulfil compliance obligations, and address risks and opportunities.” The framework in the ISO 14001 standard can be used within a plan-do-check-act (PDCA) approach to continuous improvement.

ISO 14001:2015 should be used by any organization that wishes to set up, improve, or maintain an environmental management system to conform to its established environmental policy and requirements. The requirements of the standard can be incorporated into any environmental management system, the extent to which is determined by several factors including the organization’s industry, environmental policy, products and service offerings, and location.

**Question:** Which of the following is not “Environment” as per Environmental Protection Act, 1986?

**Options:** (A) Water (B) Human Beings (C) Air (D) Buildings

**Answer:** (B)

At the highest level, ISO 14001:2015 covers the Context of the organization, Leadership, Planning, Support, Operation, Performance evaluation Improvement with regard to environmental management systems:

### Process of Environment Audit

#### 1. Understanding the industrial activity and Pre-audit or planning stage

Collection of background information about the entity, definition of objectives and scope of audit, formation of audit team and development of audit plan and protocols.

#### 2. On-site or Field Audit

Communicate the objectives of the audit to key faculties and schedule necessary meetings and interviews, identify areas of concern, site / facility inspection, evidence / records / document review, staff interviews, initial review of findings.

#### 3. Assessing the impact and post-audit

Final evaluation of findings, submit preliminary report with type and magnitude of impact on the environment, get approval of management, introduce the findings to the auditees, submit final environment audit report along with short/ long term acceptability.

#### 4. Follow up or review

Verify the action taken on audit findings and recommendations.

### Checklist on Environment Audit

#### A. Environment Policy

1. Whether the company have defined and documented its environmental policy.
2. Whether such policy is based on significant environmental aspects and corporate policy.
3. Whether such policy is appropriate to the organization's activities and their potential environmental impacts and regulatory requirements.
4. Does the policy include commitments to:
  - Continual improvement;
  - Prevention of pollution;
  - Comply with environmental legislation and other requirements.
5. Does the policy provide a framework for setting environmental objectives and targets.
6. Is the policy documented, implemented, maintained and communicated to all persons working for or on behalf of the organization.
7. Is the policy available is freely available to public.

#### B. Environment Aspects

1. Whether a procedure been established, implemented and maintained to identify the environmental aspects of its current and relevant past activities.
2. Whether aspects related to potential significant environmental aspects been considered in establishing and implementing the EMS.
3. Whether aspects having legal and/or regulatory reporting, monitoring or operational requirements been identified as "significant" aspects.
4. Are the following environmental aspects considered in sufficient detail:
  - Air emission
  - Wastewater effluent

- Waste management
  - Soil pollution
  - Raw material and natural resource usage
  - Hazardous and toxic material
  - Impact on well-being (e.g. noise, smell, heat, landscape, protection)
  - Utility, energy and resource.
5. Other environmental specific issues on site such as housekeeping, storage, areas, piping.
  6. Are the following operational aspects considered:
    - Normal operating conditions
    - Abnormal operating conditions (e.g. start up and shut down conditions, maintenance, incidents)
    - Development of new or modified processes, products or services.
  7. Actual and potential emergency conditions and accidents.
  8. Have significant aspects been identified.

### C. Legal and Other Requirements

1. Has a procedure been developed and implemented to identify applicable regulatory, legal and other requirements.
2. Are current copies of all applicable regulatory and other requirements accessible to personnel as necessary.
3. Have all further agreements the organization needs to fulfil been integrated in the procedure:
  - Business related agreements
  - Agreements with public authorities.
4. Guideline other than legal requirements (e.g. company policy, industry codes and practices, etc.)
5. Are the following licenses, permits and approvals available to demonstrate full legal compliance:
  - Licenses of waste collectors
  - Air emission permits
  - Wastewater discharge permits
  - Permits and licenses related to dangerous goods
  - Environmental fees, e.g. wastewater discharge fee
  - Registration at authorities (e.g. wastewater discharge, air emission inspection).

## INFORMATION SYSTEMS AUDIT

Information systems auditing or systems audit is an ongoing process of evaluating controls, collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains data integrity, allows organizational goals to be achieved effectively, and uses resources efficiently. Thus, information systems

auditing supports traditional audit objectives; attest objectives (those of the external auditor) that focus on asset safeguarding and data integrity, and management objectives (those of the internal auditor) that encompass not only attest objectives but also effectiveness and efficiency objectives.

An information systems audit performed in an organisation is a comprehensive examination of a given targeted system. The audit consists of an evaluation of the components which comprise that system, with examination and testing in the following areas:

- High-level systems architecture review
- Business process mapping (e.g. determining information systems dependency with respect to user business processes)
- End user identity management (e.g. authentication mechanisms, password standards, roles limiting or granting systems functionality)
- Operating systems configurations (e.g. services hardening)
- Application security controls
- Database access controls (e.g. database configuration, account access to the database, roles defined in the database)
- Anti-virus/Anti-malware controls
- Network controls (e.g. running configurations on switches and routers, use of Access control lists, and firewall rules)
- Logging and auditing systems and processes
- IT privileged access control (e.g. System Administrator or root access)
- IT processes in support of the system (e.g. user account reviews, change management)
- Backup/Restore procedures.

During the System audit, the auditors are required to understand and evaluate the overall control environment. The control environment reflects the overall attitude of, awareness of, and actions by the board of directors, management, and others concerning the importance of internal controls in the enterprise.

General objectives of System Auditing	
1	● Validation of the organizational aspects and administration of the information service function.
2	● Validation of the controls of the system development life cycle.
3	● Validation of access controls to installations, terminals, libraries, etc.
4	● Automation of internal auditing activities.
5	● Internal training.
6	● Training members of the information service function department.

**CHECKLIST ON SYSTEMS AUDIT****A. Management Controls****1. Security Policy and Standards**

1. Whether the organization has a Security Policy?
2. If a security policy exists, it needs to be examined for adequacy in proportion to the risk.

**2. Constitution of Steering Committee**

The formulation and implementation of a sound security policy should be a team effort, brought into effect by a committee in which there is at least one member of the Board of Directors apart from the Chief Information Officer (CIO) and user HoDs.

**3. Business Continuity Planning**

The Auditor should examine all such possibilities by which the availability of Computer Systems is threatened with temporary or permanent breakdown. In sensitive areas, even proofing against mob violence/terrorist strikes should be kept in view.

**4. Systems Development Methodology**

The documentation should be properly cross-indexed. The effect of a change made in the system should be well understood and thorough testing should be done and documented. The System Auditor should get necessary evidence and comment on the lack of proper adherence to procedure.

**B. Operational Controls****1. Monitoring physical assets**

1. Whether monitoring of physical assets are done in regular intervals?
2. Any discrepancy in the data collected and the current data of physical assets are addressed immediately or not?

**2. Ensure adequate environmental controls:**

1. Whether proper facilities of Air-conditioning (dust, temperature & humidity controls), Power Conditioning (Online UPS functioning all the time with backups, proper earthing) are timely reviewed?
2. Whether the cable connections/electronic points are functioning properly or not is reviewed on regular intervals?

**C. Organizational Controls**

1. Whether the roles, responsibilities and duties of User Departments and IT Department are defined?
2. The CIO should have three reportees— one for taking care of the development team, one for ensuring Information System / IT Centre security and another for managing the facilities (i.e., operations and maintenance of hardware), OS, database administration, vendor management, service providers etc.

**D. Application Controls**

Whether each of the Computer Systems and subsystems must have its own set of controls for Inputs, processing & outputs. Processing controls should also ensure checks for legal compliance.

**FEW MANDATORY AUDITS UNDER SEBI**

<b>Circular No. &amp; Date</b>	<b>Particulars</b>	<b>Purpose of Audit</b>
CIR/CDMRD/DEICE/01/2015 dated November 16, 2015	Annual System Audit, Business Continuity Plan (BCP) and Disaster Recovery (DR)	Any events of disaster will disrupt trading systems adversely, thereby impacting the market integrity and the confidence of investors. Exchanges should therefore have robust Business Continuity Plan (BCP) and Disaster Recovery (DR) to ensure continuity of operations.
SEBI/HO/CDMRD/DEICE/ CIR/P/2016/70 August 11, 2016	Annual System Audit of Stock Brokers / Trading Members of National Commodity Derivatives Exchanges	SEBI vide Circular No. CIR/MRD/ DMS/34/2013, dated November 06, 2013, has prescribed stock broker system audit framework and mandated Stock Exchanges to ensure conduct of system audit of its members as per the prescribed framework and monitor the same. It was decided to make the provisions of the aforesaid circular applicable to the Brokers/ Trading Members of the National Commodity Derivatives Exchanges.
SEBI/HO/IMD/DF2 CIR/P/2019/57 dated April 11, 2019	System Audit framework for Mutual Funds / Asset Management Companies (AMCs)	Considering the importance of systems audit in technology driven asset management activity and to enhance and standardize the systems audit
SEBI/HO/MRD1/ICC1/ CIR/P/2020/03 January 07, 2020	Annual System Audit of Market Infrastructure Institutions (MII)	<p>The Systems Audit Report including compliance with SEBI circulars/ guidelines and exceptional observation format along with compliance status of previous year observations shall be placed before the Governing Board of the MII and then the report along with the comments of the Management of the MII shall be communicated to SEBI within a month of completion of audit.</p> <p>Further, along with the audit report, MIIs are advised to submit a declaration from the MD / CEO certifying the security and integrity of their IT Systems.</p>

**FORENSIC AUDIT**

Forensic Audit is a dynamic and strategic tool in combating corruption, financial crimes and frauds through investigations and resolving allegations of fraud and embezzlement. It may be conducted to determine negligence. Forensic is the application of science to crime concerns. Forensic science is science applied to legal matters especially criminal matters.

“Forensic” means suitable for use in the court of law. The examination a company’s financial records to derive evidence which can f used in a court of law is a Forensic Audit. It includes the use of accounting, auditing and investigative skills to assist in the legal matters

Forensic audits are highly specialized, and the work requires detailed knowledge of fraud investigation techniques and the legal framework. Forensic accountants are trained to look beyond the numbers and has necessary skills and experience to accept the work. Highly specialized and the work requires detailed knowledge of fraud investigation techniques and the legal framework (civil, criminal laws and human psychology) and to identify substance over form when dealing with an issue.

A forensic auditor is required to have specialist training so that he can understand the legal framework and also has the knowledge of forensic audit techniques. He should also have the expertise in the use of IT tools and techniques that facilitate data recovery and analysis.

A forensic audit, also known as forensic accounting, refers to the application of accounting methods for detection and gathering evidence of frauds, embezzlement, or any other such white-collar crime. It is the application of accounting skills to legal questions.

Forensic audit is done in two-phases:

1. **Investigation Services** – At first the auditor begins with an investigation; looking into the accounts and statement, and identifying defects in it. It then moves on to find ways to deal with such defects, which is a reactionary function.
2. **Litigation Services** – It is entirely possible the frauds detected be resolved within the company itself. However, there are times when they need to be resolved through legal channels. During such situations, forensic auditors give litigation support to the advocates. Their advice and consultation about the legalities of commercial disputes are very essential. Moreover, they also provide research assistance by giving relevant documents and facts to support a legal claim, and also help decide the extent of damage that is required. They are also called up by the Court as an expert witness for further investigation.

Areas of Forensic Audit					
Criminal investigations	Professional negligence cases	Fraud investigation and risk / control reviews	Arbitration cases	Settlement of insurance claims	Dispute settlement

**PURPOSE OF FORENSIC AUDIT**

**I. Corruption**

In Forensic audit, while investigating fraud, auditor would look out for:

**Conflicts of interest** – When fraudster used his/her influence for personal gains detrimental to company. For example, if a manager allows and approves inaccurate expenses of employee with whom he has personal relations. Even though the manager is not benefitted from this approval but he is likely to receive personal benefits after making such inappropriate approvals.

**Bribery** – As the name suggest offering money to get things done or influence a situation one’s favour would be bribery.

**Extortion** – In above example, if someone demands money so as to award Tender to other party then it would amount to extortion.

## II. Asset Misappropriation

This is the most common and prevalent fraud carried out by fraudsters. Misappropriation of cash, raising fake invoices, payments made to non-existing suppliers or employees, misuse of assets or theft of Inventory are few examples of such asset misappropriation.

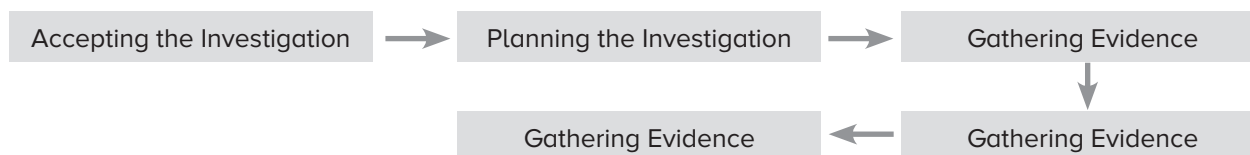
**Example:** A driver uses the office car for his personal holiday trip is said to misappropriate the Asset.

## III. Financial statement fraud

Companies get into such type of frauds so as to show a better performance of the company than what it is actually. This is done so as improve liquidity or ensure top management keep earning the bonuses or due to market pressure on performance.

Some examples of such frauds are – Intentional forgery of accounting records; omitting transactions – either revenue or expense transactions, non-disclosures of relevant details from the financial statements; or not applying the requisite financial reporting standards.

### Procedure of Forensic Auditing Investigation



#### Step 1 – Accepting the Investigation

A forensic audit is always assigned to an independent firm/group of investigators in order to conduct an unbiased and truthful audit and investigation. Thus, when such a firm receives an invitation to conduct an audit, their first step is to understand the business, Identify possible frauds that could exist and determine whether or not they have the necessary tools, skills and expertise to go forward with such an investigation. They need to do an assessment of their own training and knowledge of fraud detection and legal framework. Only when they are satisfied with such considerations, can they go ahead and accept the investigation.

#### Step 2 – Planning the Investigation

Planning the investigation is the key step in a forensic audit. The auditor(s) must carefully ascertain the goal of the audit so being conducted, and to carefully determine the procedure to achieve it, through the use of effective tools and techniques. Before planning the investigation, they should catalog possible fraud symptoms,

#### Symptoms of Fraud

- Delayed submission of returns information etc.;
- Delayed remittances into Bank;
- Delay or non-preparation of Bank reconciliation statements;
- Lifestyle of promoters/directors and key employees ;
- Continued internal control lapses and not following norms of corporate governance.

#### Internal Indicators

- Delay in finalisation of accounts;
- Frequent changes in Accounting Policies;
- Continuing Losses;
- Over drawl of loans or advances;
- Higher cost per unit of production;

- High amount of losses or wastage shown in *books v/s Norms*;
- High investment in group companies;
- Profit not supported by increased cash availability.

**They should also be clear on the final categories of the report, which are as follows,**

- Identifying the type of fraud that has been operating, how long it has been operating for, and how the fraud has been concealed;
- Identifying the fraudster(s) involved;
- Quantifying the financial loss suffered by the client;
- Gathering evidence to be used in court proceedings;
- Providing advice to prevent the recurrence of the fraud.

#### **Illustrative Checklist on Forensic Audit**

- Whether the fraud detected is at the management level or employee level?
- What was the reason or motive behind the fraud?
- How is the internal check on cash transactions, raising of invoices etc.?
- Who is responsible for the checking if all the things are in order in regular intervals?
- What is the nature of fraud – corruption, assets misappropriation or financial misstatement?
- Whether the entries passed are properly reflected in the balance sheet without any omission?
- Whether IT returns are filed every year properly?
- Whether bank entries are reconciled on regular basis? Whether bank statements do not have any discrepancy.

#### **Fraud Triangle and Fraud Risk**

A fraud triangle is a tool used in forensic auditing that explains three interrelated elements that assist the commission of fraud- Pressure (motive), opportunity (ability to carry out the fraud) and rationalization (justification of dishonest intentions). Fraud risk is the vulnerability a company/organisation has to those who are capable of overcoming the three elements in the fraud triangle. Fraud risk assessment is the identification of fraud risks that exist in the company/organisation. The planning involves the formulation of techniques and procedures that align with the fraud risk and fraud risk management.

Planning also includes the identification of the best way/mode to gather evidence. Thus, it is necessary that ample research should be done regarding certain investigative, analytical, and technology-based techniques, and also related legal process, with regard to the outcome of such investigation.

#### **Step 3 – Gathering Evidence**

In forensic auditing specific procedures are carried out in order to produce evidence. Audit techniques and procedures are used to identify and to gather evidence to prove, for example, how long have fraudulent activities existed and carried out in the organization, and how it was conducted and concealed by the perpetrators. In order to continue, it is pertinent that the planning stage has been thoroughly understood by the investigating team, who are skilled in collecting the necessary evidence. It is also important to keep clear sequence of custody until the evidence is presented in court. A logical flow of evidence helps in understanding the fraud and evidence presented in a better manner. If the same is not done then the evidence can be challenged in court, or the court would not admit it.

The investigators can use the following techniques to gather evidence or data about symptoms, testing controls to gather evidence which identifies the weaknesses, which allowed the fraud to be perpetrated.

- **Analytical Procedure:** Using analytical procedures to compare trends over time or to provide comparatives between different segments of the business applying computer-assisted audit techniques, for example, to identify the timing and location of relevant details being altered in the computer system.
- **Discussions and Interviews:** Discussions and interviews with employees.
- **Substantive Techniques:** Substantive techniques such as reconciliations, cash counts and reviews of documentation.
- **Forensic Data Analysis (FDA):** FDA is the technology used to conduct fraud investigations; the process by which evidence is gathered, summarized and compared with existing different sets of data. The aim here is to detect any anomalies in the data and identify the pattern of such anomalies to indicate fraudulent activity.

#### Step 4 – Reporting

The reporting stage is the most obvious element in a forensic audit. After investigating and gathering evidence, the investigating team is expected to give a report of the findings of the investigation, and also the summary of the evidence and conclusion about the loss suffered due to the fraud. It should also include the plan of the fraud itself, and how it unfolded, basically the whole trail of events, and suggestions to prevent such fraud in the future.

#### Step 5 – Court Proceedings

The last stage expands over those audits that lead to legal proceedings. Here the auditors will give litigation support to the Company/Regulators. The auditors are called to Court, and also included in the advocacy process. The understanding here is that they are called in because of their skill and expertise in commercial issues and their legal process. It is important that they lay down the facts and findings in an understandable and objective manner for everyone to comprehend so that the desired action can be taken up. They need to simplify the complex accounting processes and issues for others to understand the evidence and its implications.

### FORENSIC AUDIT REPORT

Forensic Audit Report is statement of observation gathered & considered while proving conclusive evidence. It is a medium through which an auditor expresses his opinion under audit after the forensic audit investigation is completed.

Illustrative table of contents of a Forensic Audit Report include the following points:

1. Executive Summary
2. Origin of the audit
3. Audit Objective
4. Proposed Audit Outputs
5. Audit Implementation approach
6. Risk Analysis
7. Internal Environment Risk: Customers, product and Competitors; Financial Management; Human Resource Management; Information Technology; Business processes
8. External Environment Risk: Economy and market situation; political and legal scenario; Technology in the sector
9. Audit Process
10. Preliminary understanding of scope and incident coverage

11. Collect evidence
12. Conduct Interviews
13. Analyse findings
14. Validate inferences and conclusions
15. Evidence of risk events
16. Conflicts of interest; Bribery; Extortion; Theft; Fraudulent transactions; inventory frauds; misuse of assets; financial statement frauds
17. Audit recommendations
18. Logical framework approach
19. Preconditions and risks
20. Governance on recommendation implementation
21. Stakeholders
22. Budget considerations

**SOCIAL AUDIT**

A social audit is a way of measuring, understanding, reporting and ultimately improving an organization’s social and ethical performance. A social audit helps to narrow gaps between vision/goal and reality, between efficiency and effectiveness. It is a technique to understand, measure, verify, report on and to improve the social performance of the organization.

Social auditing creates an impact upon governance. It values the voice of stakeholders, including marginalized/poor groups whose voices are rarely heard. Social auditing is taken up for the purpose of enhancing local governance, particularly for strengthening accountability and transparency in local bodies.

Social audit is a process of reviewing official records and determining whether state reported expenditures reflect the actual money spent on the ground. A social audit is a formal review of a company’s endeavors in social responsibility.

The key difference between development and social audit is that a social audit focuses on the neglected issue of social impacts, while a development audit has a broader focus including environment and economic issues, such as the efficiency of a project or programme.

A social audit is an official evaluation of an organization’s involvement in social responsibility projects or endeavors. For example, a local family store makes a clothing donation to a local church that has a homeless shelter for women and children. The store makes a similar donation three times a year. This is something that a social audit might uncover. Factors examined by a social audit include records of charitable contributions, volunteer events, efficient utilization of energy, transparency, work environment, and employees’ wages.

Implications of Social Audit		
Social auditing creates an impact upon governance. It values the voice of stakeholders, including marginalized/poor groups whose voices are rarely heard.	Social auditing is taken up for the purpose of enhancing local governance, particularly for strengthening accountability and transparency in local bodies.	Social Audit makes it sure that in democracy, the powers of decision makers should be used as far as possible with the consent and understanding of all concerned.

### Objectives of Social audit

- 1 ● Assessing the physical and financial gaps between needs and resources available for local development.
- 2 ● Creating awareness among beneficiaries and providers of local social and productive services.
- 3 ● Increasing efficacy and effectiveness of local development programmes.
- 4 ● Scrutiny of various policy decisions, keeping in view stakeholder interests and priorities, particularly of rural poor.
- 5 ● Estimation of the opportunity cost for stakeholders of not getting timely access to public services.
- 6 ● Provision of information needed to improve the effectiveness of programs designed to enhance community development.

### Rights of Social Auditor to be effective

- 1 ● seek clarifications from the implementing agency about any decision-making, activity, scheme, income and expenditure incurred by the agency;
- 2 ● consider and scrutinize existing schemes and local activities of the agency; and
- 3 ● access registers and documents relating to all development activities undertaken by the implementing agency or by any other government department.

This requires transparency in the decision-making and activities of the implementing agencies. In a way, social audit includes measures for enhancing transparency by enforcing the right to information in the planning and implementation of local development activities.

A social audit looks at factors such as a company's record of charitable giving, volunteer activity, energy use, transparency, work environment, and worker pay and benefits to evaluate what kind of social and environmental impact a company is having in the locations where it operates.

### SOCIAL AUDIT- COVERAGE

A social audit examines issues regarding internal practices or policies and how they affect the identified society. The activities included tend to pertain to the concepts of social responsibility. This can include activities affecting the financial stability of a region, any environmental impact resulting from standard operations and issues of transparency in reporting.

There is no standard regarding what must be considered as the society during the audit. This allows a business to expand or contract the scope based on its goals. While one company may wish to understand the impact it has on a small-scale society, such as a particular city, others may choose to expand the range to include an entire state, country or the world as a whole.

Regulation 91E of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, mandates Social Audit of Social Enterprise engaged in the activities specified under regulation 292E (2) (a) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. The annual impact report shall be assessed by a Social Impact Assessment Firm employing Social Impact Assessor(s).

### Use of Social Audit Findings

As a social audit is completely voluntary, the results of the audit are not required to be released to the general public or any regulatory agency. While positive results may be voluntarily disclosed, negative results may be kept internal and used to identify potential improvements that can make the results of the next social audit more favorable. For example, if a company found that the examined society did not believe it was adequately involved in charitable activities within the community, the company might choose to increase efforts in this area in the hopes of improving public perception.

### Implementation of Social Audit

1. **Empowerment of people:** Social audit is most effective when the actual beneficiaries of an activity are involved in it. However, people can only get involved in the process when they are given appropriate authority and rights. To this end, the 73rd amendment of the constitution has empowered the Gram Sabha to conduct social audit. This is relevant only in the villages. In the cities, the Right to Information Act empowers the people to inspect public records.
2. **Proper Documentation:** Everything right from the requirement gathering to planning to implementation must be properly documented. Some of the documents that should be made mandatory are:
  - Applications, tenders, and proposals.
  - Financial statements, income - expense statements.
  - Registers of workers.
  - Inspection reports.
3. **Accessibility of Documents:** Merely generating documents is useless if they are not easily accessible. In this information age, all the documents must be put on line.
4. **Punitive Action:** The final and most important provision, about which nothing is being done yet is to have punitive actions for non-conformance of the process of social audit. Unless there is legal punishment, there will be no incentive for the people in authority to implement the processes in a fair manner.

### Steps for Social Audit

- Clarity of purpose and goal of the local elected body.
- Identify stakeholders with a focus on their specific roles and duties. Social auditing aims to ensure a say for all stakeholders. It is particularly important that marginalized social groups, which are normally excluded, have a say on local development issues and activities and have their views on the actual performance of local elected bodies.
- Definition of performance indicators which must be understood and accepted by all. Indicator data must be collected by stakeholders on a regular basis.
- Regular meetings to review and discuss data/information on performance indicators.

- Follow-up of social audit meeting with the panchayat body reviewing stakeholders' actions, activities and viewpoints, making commitments on changes and agreeing on future action as recommended by the stakeholders.
- Establishment of a group of trusted local people including elderly people, teachers and others who are committed and independent, to be involved in the verification and to judge if the decisions based upon social audit have been implemented.
- The findings of the social audit should be shared with all local stakeholders. This encourages transparency and accountability. A report of the social audit meeting should be distributed for Gram Panchayat auditing. In addition, key decisions should be written on walls and boards and communicated orally.

### Checklist on Social Audit

- Whether the company has well defined policies for development of the society especially the poor and rural people?
- Whether on regular basis the scrutiny of fulfillment of the policy is done?
- Whether the physical and financial gaps between needs and resources available for local development are assessed on regular intervals?
- Whether the voice of the minority shareholders are considered?
- Are necessary actions taken over them?

### ICSI SOCIAL AUDIT STANDARDS

The Institute of Company Secretaries of India has approved the ICSI Social Audit Standards covering all the sixteen areas of activities listed by the Regulatory Authorities, where a Social Enterprise can operate to be eligible to register on the Social Stock Exchanges.

The Institute formulated the ICSI Social Audit Standards to provide guidance for conducting a Social Audit of Social Enterprises engaged in any of the activities as enumerated under Regulation 292E(2)(a) of SEBI (ICDR), Regulations, 2018.

The history of Social Stock Exchange (SSE) is not longer than a decade. It's a novel social and economic phenomenon. The object of introduction of SSE is to attract social investors to participate in financing Social Enterprise. SSE serves as a mediator between social enterprises that need funding and investors who are willing to invest their money for social causes. Thus, SSE provides a platform for trading of securities of Social Enterprise. Securities and Exchange Board of India (SEBI) with a view to improve visibility and knowledge, among stakeholders like investors, promoters, directors, officers of the Social Enterprise, regulators, government authorities, financial institutions, banks, creditors and common public, vide regulation 91E of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 introduced the concept of Social Audit.

### Objectives

The main object of Social Audit is to ascertain the impact made by the Social Enterprise through its activities, intervention, programs or projects implemented during the reporting period. It will also analyse whether the implemented activities, intervention, programs or projects has addressed the challenges set at the implementation stage or those mentioned in the fund-raising documents. The impact report aims to highlight the positive impact made to the target area, unintended negative impact and gap between desired object and actual impact made by the Social Enterprise during the reporting period. The main objects of Social Audit are as follows:

- Assessing the impact made by the Social Enterprise through implementation of activities, intervention, programs or projects;

- Verifying the authenticity and validity of implementation of projects;
- To identify and report the gap between desired object and actual impact made by the Social Enterprise;
- Assessing the nature, intensity and duration of impact of the project;
- Evaluating the cost and efficiency of the projects/ interventions being carried out by the Social Enterprise;
- Evaluating the unintended effects and how to use the experience from the running projects to improve the design of future projects;
- Verifying whether all the statutory requirements are fulfilled or not.

### Scope

Different projects may have a very different list of social issues. The Social Auditor is to exercise his own technical judgement to determine which issues should be subject to inquiry. The minimum issues which must be addressed by the Social Auditor are enumerated as under:

- Will the project significantly impact the economic, environment and social condition of the local community?
- Will there be a significant change in the general access that the communities have to natural resources, such as drinking water and energy?
- Does the local community have effective governance mechanisms to deal with the long-term effects of the project?
- Are there groups (indigenous groups, women, ethnic minorities, LGBTQIA+ and so on) who will be differentially impacted by the project?
- Will the project increase or decrease the demand for services, such as education or health?
- Will the project produce any population or demographic movement, such as the change in size of the communities affected by the project?

Above questions can help the auditor and the Enterprise to determine the extent of the impact, as well as any unmanageable social obstacles ahead of the project. This allows for the anticipation of any adverse significant social effects of the infrastructure and for avoiding, minimizing, or offsetting them.

### Mandatory nature of framework and Standards

These Social Audit Standards are applicable to all Social Auditors empanelled with the ICSI Institute of Social Auditors who undertake the Social Audit assignment as per the relevant provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 and other relevant provisions notified from time to time. The Standards are formulated for the effective assessment of impact made by the Social Enterprises through the projects identified and the eligibility criteria as notified by SEBI vide Regulation 292E (2) (a) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

SEBI vide issuing SEBI (Listing Obligations and Disclosure Requirements) (Seventh Amendment) Regulations, 2023 dated 21.12.2023 has amended the regulation 91(E), as per the amendment, the annual impact report shall be assessed by a Social Impact Assessment Firm employing Social Impact Assessor. Accordingly, Social Auditors shall be referred to as Social Impact Assessors and Social Audit firm shall be referred to Social Impact Assessment Entities.

### Eligibility Criteria

As per Regulation 292E (2) (a) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, in order to establish the primacy of its social intent, such Social Enterprise shall meet the following eligibility criteria: -

- i. Eradicating hunger, poverty, malnutrition and inequality;
- ii. Promoting health care including mental healthcare, sanitation and making available safe drinking water;
- iii. Promoting education, employability and livelihoods;
- iv. Promoting gender equality, empowerment of women and LGBTQIA+ communities;
- v. Ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation;
- vi. Protection of national heritage, art and culture;
- vii. Training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports;
- viii. Supporting incubators of Social Enterprises;
- ix. Supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building;
- x. Promoting livelihoods for rural and urban poor including enhancing income of small and marginal farmers and workers in the non-farm sector;
- xi. Slum area development, affordable housing and other interventions to build sustainable and resilient cities;
- xii. Disaster management, including relief, rehabilitation and reconstruction activities;
- xiii. Promotion of financial inclusion;
- xiv. Facilitating access to land and property assets for disadvantaged communities;
- xv. Bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection;
- xvi. Promoting welfare of migrants and displaced persons.

Social Audit Standards for other items, if any, identified by the SEBI or Government of India from time to time, will be notified as and when the items are notified by the SEBI or Government of India.

The Social Auditors empanelled under IISA shall maintain and preserve the records and evidences collected in the course of Social Audit for a minimum period of eight (8) years from the date of the respective Social Impact Assessment Report.

### **Benefits and Advantages of Social Audit**

- *Financial data on social activities/ programs/ interventions:* Social Audit assesses the source of funding, its utilisation and appropriate reporting to the Governing Body of the Social Enterprise.
- *Encourage for social performance:* Social Audit assesses the impact of the activities undertaken and brings the social point of view to the attention of the management, and thus encourages the Social Enterprise to perform better.
- *Improve relationships with Stakeholders:* By Implementing the auditors' recommended improvements, it helps the Social Enterprise to meet stakeholder expectations, enabling it to build a good relationship with them in the long term.
- *Comparison of different activities:* The Social Audit provides data for comparing effectiveness of different types of social welfare programmes undertaken and this further enables to assess which activity has better social impact.

- *Enhances Social Reputation:* Social Audit helps the organization to build up the image and reputation of the organization in the minds of the public.
- *Sense of Social Responsibility among Shareholders and Community as a whole:* Social Audit helps shareholders as well as other stakeholders realize the importance of socially beneficial programmes and extend their cooperation to the Social Enterprise's programmes of social welfare and development.

### List of ICSI Social Audit Standards.

Sl. No.	Social Audit Standards
1	Social Audit Standard on eradicating hunger, poverty, malnutrition and inequality (ICSI SAS-01)
2	Social Audit Standard on promoting health care including mental healthcare, sanitation and making available safe drinking water (ICSI SAS-02)
3	Social Audit Standard on promoting education, employability and livelihoods (ICSI SAS-03)
4	Social Audit Standard on promoting gender equality, empowerment of women and LGBTQIA+ communities (ICSI SAS-04)
5	Social Audit Standard on ensuring environmental sustainability, addressing climate change including mitigation and adaptation, forest and wildlife conservation (ICSI SAS-05)
6	Social Audit Standard on protection of national heritage, art and culture (ICSI SAS-06)
7	Social Audit Standard on training to promote rural sports, nationally recognised sports, Paralympic sports and Olympic sports (ICSI SAS- 07)
8	Social Audit Standard on supporting incubators of Social Enterprises (ICSI SAS-08)
9	Social Audit Standard on supporting other platforms that strengthen the non-profit ecosystem in fundraising and capacity building (ICSI SAS-09)
10	Social Audit Standard on promoting livelihoods for rural and urban poor including enhancing income of small and marginal farmers and workers in the non-farm sector (ICSI SAS-10)
11	Social Audit Standard on slum area development, affordable housing and other interventions to build sustainable and resilient cities (ICSI SAS-11)
12	Social Audit Standard on disaster management, including relief, rehabilitation and reconstruction activities (ICSI SAS-12)
13	Social Audit Standard on promotion of financial inclusion (ICSI SAS- 13)
14	Social Audit Standard on facilitating access to land and property assets for disadvantaged communities (ICSI SAS-14)
15	Social Audit Standard on bridging the digital divide in internet and mobile phone access, addressing issues of misinformation and data protection (ICSI SAS-15)
16	Social Audit Standard on promoting welfare of migrants and displaced persons (ICSI SAS-16)

(The details of the standards are available at [https://www.icsi.edu/media/webmodules/ICSI\\_Social\\_Audit\\_Standards.pdf](https://www.icsi.edu/media/webmodules/ICSI_Social_Audit_Standards.pdf))

### ICSI AUDITING STANDARDS – AN OVERVIEW

The Companies Act, 2013 has introduced the concept of Secretarial Audit (Audit) for Bigger Companies in order to have third party professional assurance in the areas of governance, compliances and disclosures by the companies. A Practising Company Secretary (PCS) who is holding Certificate of Practice (CoP) have been casted an exclusive responsibility to undertake such audit of companies.

Company Secretaries have been authorized first time undertake and perform Auditing function under the Companies Act. PCS is required to provide his “Secretarial Audit Report” (Audit Report) in form MR-3 pursuant

to the provisions of Section 204(1) of Companies Act, 2013 and Rule 9 of the Companies (Appointment & Remuneration Personnel) Rules 2014 to the members of the Company.

PCS has also been casted a duty to detect and report the frauds in the Companies while performing the duties as Auditor. Initially, a lot of challenges was there in conducting audits and in developing auditing acumen and undertaking the function of detection of frauds.

Accordingly, ICSI has taken initiatives in the area of Auditing and to strengthen the auditing acumen and detection abilities of PCS it was decided to develop the auditing techniques and tools to undertake secretarial audits of other companies.

The ICSI has setup an Auditing Standards Board for laying down the foundations of Company Secretaries Auditing Standards (CSAS) in India and for inculcation of best auditing practices among its members, and issued CSAS-1 to CSAS-4 effective from it 1st April, 2021.

Observance of ICSI auditing for standards by PCS, will lead to good governance, compliance and transparency among the companies. It will also help the PCS to comply with its important function of detection and reporting of frauds.

The Council of the Institute of Company Secretaries of India (ICSI) has approved the issuance of four ICSI Auditing Standards. The Standards are required to be observed by the Company Secretaries undertaking Audits. The Standards seek to promote best auditing practices, uniformity and consistency while conducting audits. The four Standards namely:

CSAS-1: Auditing Standard on Audit Engagement which lays down the Auditor's role and responsibilities with respect to an Audit Engagement and the process of entering into an understanding/agreement with the Appointing Authority for the purpose of audit.

CSAS-2: Auditing Standard on Audit Process and Documentation which lays down the responsibilities and duties of the Auditor with respect to Audit Process in conducting audit and maintaining proper audit records.

CSAS-3: Auditing Standard on Forming of Opinion covers the basis and manner for forming Auditor's opinion on subject matter of the audit.

CSAS-4: Auditing Standard on Secretarial Audit covers the basis and manner for carrying out the Secretarial Audit.

However, the developments arising due to the spread of Covid-19 pandemic, the mandatory applicability of ICSI Auditing Standards CSAS-1 to CSAS-4 is extended for Audit Engagements accepted by the Auditor on or after 1st April, 2021.

These Standards are effective and recommendatory for Audit Engagements accepted by the Auditor on or after 1st July, 2019 and mandatory for Audit Engagements accepted by the Auditor on or after 1st April, 2021. Upcoming lessons are focusing on the CSAS-1 to CSAS-4.

#### LESSON ROUND-UP

- Audit of corporate governance processes provides assurance to the various stakeholders that all the required governance activities have been accomplished and which governance norms has not been satisfied by the company for assisting stakeholders in making an informed decision.
- Corporate Social Responsibility (CSR) audit help in measuring the actual social performance against the social objectives set by the Company.
- According to Section 2(a) of the Environmental Protection Act, 1986, 'Environment' includes a) Water, air and land b) The inter-relationship which exists among and between, (i) water, air, land, and (ii) human beings, other living creatures, plants, microorganisms and property.
- Forensic Audit is a dynamic and strategic tool in combating corruption, financial crimes and frauds through investigations and resolving allegations of fraud and embezzlement.

- A fraud triangle is a tool used in forensic auditing that explains three interrelated elements that assist the commission of fraud- Pressure (motive), opportunity (ability to carry out the fraud) and rationalization (justification of dishonest intentions).
- A social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. A social audit helps to narrow gaps between vision/ goal and reality, between efficiency and effectiveness.
- The audit can be classified in to two type of audit i.e. the Financial Audit and the Compliance Audit, the Financial Audit cover the Statutory Audit, Cost Audit and Internal Audit whereas the Compliance Audit cover the Secretarial Audit, CSR Audit, and Corporate Governance Audit, Take over Audit, Insider trading Audit, Labour law Audit, Cyber Audit, System Audit, Social Audit and Forensic Audit, Related Party Audit etc.
- Internal Audit is performed by professionals with an in-depth understanding of the business culture, systems, and processes. Internal audit activity provides assurance that internal controls in place are adequate to mitigate the risks, governance processes are effective and efficient, and organizational goals and objectives are met.
- Internal audit play a very important role in risk management, corporate governance and internal control.

### GLOSSARY

**Forensic Audit :** Forensic Audit is a dynamic and strategic tool in combating corruption, financial crimes and frauds through investigations and resolving allegations of fraud and embezzlement.

**Social Audit :** A social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance.

**Investor Protection and Education Fund :** Investor Protection and Education Fund administered by the SEBI under the SEBI Act, 1992.

**Industrial Dispute :** Means any dispute or difference between employers and employees, or between employers and workmen, or between workmen and workmen, which is connected with the employment or non-employment or the terms of employment or with the conditions of labour, of any person.

**ISO 14001 :** ISO 14001 is a voluntary international standard for environmental management systems ("EMS").

**Forensic auditing :** As new area of auditing to detect the frauds in companies that suspected fraudulent transactions.

**CSAS :** The Council of the Institute of Company Secretaries of India (ICSI) has approved the issuance of four ICSI Auditing Standards. The Standards are required to be observed by the Company Secretaries undertaking Audits. They are called CSAS.

### TEST YOURSELF

*(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation)*

1. Comment on the close relationship between Corporate Governance and SEBI (LODR) Regulations & Companies Act, 2013.
2. What is the purpose of CSR Audit?
3. Discuss the scope of Takeover Audit.

4. Discuss the scope and benefits of Industrial and Labour Audit.
5. What is Cyber Audit and write down its objectives?
6. Discuss the current scenario of Environment Laws in India.
7. Describe the System audit controls evaluation process
8. Forensic audit is unlike other audits. Comment.
9. What do you understand by Social Audit? State the implications of Social Audit.
10. Explain internal audit and its, objectives and scope.
11. Explain the role of internal audit in corporate governance, risk management and internal control.
12. The object of forensic auditing is to relate the findings of audit by examining and gathering legally
13. Rahul has recently started as a Company Secretary in Practice. He has got an assignment of internal audit. Advise Rahul about internal audit and its stepwise approach.
14. The Board of Directors of ABC Ltd. has received a letter from a whistle blow alleging insider trading by few members amongst the Senior Management. The Board has appointed you to perform the insider trading audit. Explain the essential factors enabling review and reporting of insider trading audit.
15. How monitoring and evaluation of effectiveness of the Organisation's Risk Management Process is carried out through internal audit ? Describe.
16. "Audit as a monitoring device is essential in corporate governance also". Substantiate the statement.

#### LIST OF FURTHER READINGS

- The Companies Act, 2013 rules made there under.
- SEBI Manual
- ICSI Manual on Secretarial Audit
- ICSI Guidance Note on Secretarial Audit
- Regulations, Circulars, Notifications etc. Issued by SEBI
- Handbook on Internal Audit of Operations of Depository Participants.
- ICSI Social Audit Standards

#### OTHER REFERENCES (Including Websites / Video Links)

- <https://www.mca.gov.in/content/mca/global/en/home.html>
- <https://www.sebi.gov.in>
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