



Company Audit-a pragmatic approach

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Thrust areas

Powers

Inquiry

Audit Report

Facts Vs Opinion

Fraud Reporting

AEL

WR

Meetings & Timing

Audit Trail

Suggested Approach

Recent Developments

NOCLAR-Noncompliance with Laws & Regulations

Peer Review

Audit Quality Maturity Model

Centre for Audit Quality(CAQ)

FRRB-Financial Reporting Review Board

Audit Trail

Peer Review

Standard of Quality Control(SQC)

NFRA

Important sections / SA at a glance

-Accounting Standards Sec 2(2) r,w Sec 133

-Auditing standards Sec 2(7) r.w Sec 143(10)

-Holding company Sec 2(46)

-Subsidiary company Sec 2(87)

-Associate company Sec 2(6)-Significant Influence

-Books Of accounts Sec 2(13)

-Financial statements Sec 2(40)

-Small company Sec 2(85)-Not Public Co, PuC :50L-10cr & T0-2Cr-100Cr

Sec 129(1) : T & F View

Sec 143 r.w Rules

Important Sections / SA at a glance

SA 210-AEL

SA240-Fraud

SA 580-WR

Sec 125

Sec 134

Sec 164(2)

Sec 447

Powers Sec 143(1)

Shall have right of access

At all times

Books of accounts/vouchers

Information & explanation

Amongst other matters

Inquire into.....

Inquiry 143(1)

Inquiry on certain matters

- a) loans and advances made on the basis of security - properly secured, terms are prejudicial to the interests of **company/members**.
- b) transactions of the company represented merely by book entries are prejudicial to the interests of the **company**.
- c)the company not being an investment or a banking company, whether so much of assets as consist of shares, debentures and other securities have been sold at a **price less than** that at which they were purchased.
- d)loans and advances made have been shown as **deposits**

Inquiry 143(1)

e) **personal expenses** have been charged to revenue account.

f) any shares have been allotted for cash, whether cash has actually been received and if no cash has actually been so received, whether the **position** as stated in the books is **correct, regular and not misleading**.

**Reporting requirement on this clause arises only when the auditor is not satisfied with the inquiry on the above mentioned matters.*

Proviso: Auditor of Co which is a HC shall have access to record of all its subsidiaries & associate cos so far as it relates to consolidation of FS with that of SC/AC

AUDIT REPORT Sec 143(2)

To the members of the co

On every FS

Report shall take into account the provisions of the act

AS & SA

Matters to be included u/s 143(11)-CARO

To the best of information & knowledge

The said **accounts, FS** give **T&F view** of the state of affairs as at the end of F.Y & P&L A/c & Cash Flow for the year & such Other prescribed matters

AR shall also state ...Sec 143(3)

- f) Observations or Comments of Auditors on financial transactions or matters which have any **adverse effect** on the functioning of the Co-F
- g) Director **disqualified** u/s 164(2)-F
- h) **qualification ,reservation or adverse remark** relating to maintenance of accounts & other connected matters-F
- i) Whether co has **adequate IFC** with reference to FS in place and the operating effectiveness of such controls-O
- j) such other prescribed matters-F

Other provisions

143(4): Whether any of the matters required to be included in AR under this section is answered in the **negative or with a qualification**, the report shall state the **reasons** therefor

143(5)/(6)/(7): Government co audit/C&AG power etc

143(8): Branch Audit (Please refer 143(3)(c))

143(9): Every auditor shall comply with SA

143(11):CARO

143(13):Good Faith/Fraud Reporting

Companies(Audit and Auditors) Rules ,2014

Para11

The AR shall also include their views and comments on the following matters,viz,

A) the co has disclosed the impact of **pending litigations** on its financial position in its FS

B)whether the co has made provision ,as required under any law /AS for material foreseeable losses ,on **long term contracts** including derivative contracts

C) delay in transferring amounts to **IEPF(Sec 125)**

D) requisite disclosure in its FS as to holdings as well as dealings in **SBN** during the period from 8th Nov 2016 to 30th Dec 2016,if so whether they are in accordance with BoA

Fraud

143(12): Fraud .**Notwithstanding** anything contained in this section , if the auditor of the co has reason to believe that an offence of fraud involving such amount/s as may be prescribed is being or has been committed **in the co by its officers or employees**, the auditor shall report the matter to CG within the time and manner as prescribed

Proviso: If the fraud involving lesser than specified amount, the auditor shall report the matter to the Audit Committee or Board within the prescribed time & manner

Second Proviso: The Companies whose auditor reported fraud under this subsec to AC/BoD but **not reported to CG**, shall disclose the details about such frauds in the BR in the prescribed manner

143(14);Mutatis mutandis apply to Cost Accountant/CS conducting Cost audit 148/Secretarial Audit 204

143(15) : If any auditor ,cost accountant or CS in practice does not comply with 143(12)-Penalty 5L(listed co)/1L(others)

Fraud

Para 12: The branch auditor shall submit his report to SA. Reporting of fraud shall be applicable to the extent it relates to concerned branch

Para 13: Fraud involving more than **1 cr-report to CG**

The Ar shall report the matter to Board/AC immediately but not later than **2 days** of knowledge of fraud seeking their reply or observations within **45 days**

Ar shall forward reply/observations along with comments to CG within **15 days** of receipt of such comments

Para 12: The branch auditor shall submit his report to SA. Reporting of fraud shall be applicable to the extent it relates to concerned branch

Fraud

In case failed to get reply from AC/BoD, he has to report to CG with a note containing the details of his report that was earlier forwarded to BoD/AC for which he has not received any reply/observations

The report shall be sent to Secretary,MCA in sealed cover by regd post with Ack due or by Speed post followed by an e-mail confirming the same

The report shall be on the letter head of auditor containing postal address, e mail address, contact telephone no/mob no and be signed by auditor with his seal and shall indicate his Membership No

Report shall be in From **ADT-4-location,DIN/PAN/Designation,amount,steps etc**

Fraud

In case of a fraud involving lesser amount, the Ar shall report the matter to AC/BoD immediately but not later than **2 days** specifying the following

- nature of fraud with description
- apprx amt involved
- parties involved

The BR shall **additionally** report the following

- parties involved ,if remedial action not taken
- remedial action taken

What is the due date for holding the Board Meeting for the approval of the Financial Statements?

A company is required to adopt the Financial Statement in the Annual General meeting.

Due date of Annual General Meeting is **6 months** from the end of the financial year i.e. 30th September. (Sec 129 r.w Sec 92)-Rule Of Harmonious Construction

Therefore, one can opine that the due date of holding of the Board Meeting for the approval of the Financial Statement is on or before 30th September in case the financial year ends on March 31.

When to sign?

Date of signing of the Balance sheet shall be **any date** on or after the date of Board Meeting in which the Financial Statements are approved by the Board of Directors

Financial statement shall be first signed by the Directors and then same shall be signed by the Auditors of the Company. However, date of signing of the financial statement by the directors and auditors can be different.

Once the Financial statement of the Company is signed by Directors and the Auditor, it need to be adopted by the shareholders in the Annual General Meeting of the Company

Board Report

Is it mandatory to prepare Board Report?

- Yes, it is mandatory to prepare a Board Report as per **Section 134** of the Companies Act, 2013. A Board Report is prepared for every financial year along with financial results of the company and should be placed in every Annual General Meeting.

What are contents covered in Board Report?

- As per section 134 of The companies Act, 2013,

Who signs a Board Report?

- The Board's report and any annexures shall be signed by its chairperson of the company if he is authorized by the Board and where he is not so authorized, shall be signed by at least two directors, one of whom shall be a managing director, or by the director where there is one director.

Audit Engagement Letter(AEL)

SA 210

Required to confirm

-Audit of FS, consolidated FS etc

-Objective is to express an opinion

-T & F view

-IFC

-Reasonable assurance

-Audit not a guarantee as to detect all material misstatement

-misstatement can arise on account of fraud or error

AEL

Express our responsibility

Mention that we will conduct audit in accordance with SA as specified in Sec 143(10)

Identify and assess the risk of material misstatement of FS

Obtain an understanding Of IFC (Sec 143(3)(i))

Evaluate the appropriateness of accounting policies,reasonableness of acc. estimates etc

Going Concern assumption

Overall presentation, structure & content of FS

Responsibility of Mgmt on FS-preparation of FS,legal compliance

AEL

Pending litigations

Material foreseeable losses

Delay in transferring amounts to IEPF

Director's disqualification u/s 164(2)

Access to records, vouchers, books, internal reporting on fraud(vigil mechanism)

Required support to discharge duties

Written representations/confirmations

Peer review/quality review under CA Act

WRITTEN REPRESENTATIONS

SA 580

Support other audit evidence

Not considered to be SAAE

Include list of bank accounts to avoid off-balance sheet bank accounts

AUDIT TRAIL(AT)

With Effect From April 2023

Chronological sequence of history of a particular transaction, tracking who created /changed a record,what record,what time etc

Help in investigating frauds

Accounting software used by the co has feature of recording audit trail

Audit trail was operational through out the F.Y and not been tampered with

AT retained for period as statutorily prescribed

AT

In relation to a transaction, data would comprise **two** types

Transactional data-amount etc

Data pertaining to recording of transaction-identity of user,time of posting etc

AT should trace when changes made, who made those changes, what data was changed

Management responsibility

Part of IFC

Mere absence of Audit trail may not necessarily imply failure or material weakness of IFC

AT

Ar would be expected to verify the following:

- Whether the trail feature configurable(ie,if it can be modified)?
- whether the feature enabled/operated available through out the year and not tampered with?
- Whether all transactions recorded in the software covered in the AT feature?
- Whether the AT been preserved as per record retention requirements?

Peer Review-Safeguards

Proper understanding of applicable legal framework-CA13/AS/SA

Proper AEL

Proper Representations(MRL)

SAAE

Documentation-KYC/PRL/MRL/communication/evidences etc

Suggested approach

Audit Engagement letter-SA 210

MRL

Complete Exhaustive checklist

Discussion at various levels

Proper training to ourselves & staff

Educating clients

SAAE & documentation

Thank YOU
