

COMPANY AUDIT NOTES

Corporate (Pvts/Pub Ltd Companies) Audit

Statutory Audits: Conducted Interimly & Finalization at year end as per the Companies Act 2013 by CA's- Independent Auditors Reports issued in accordance with Accounting Standards of Auditing issued by ICAI .Report may be clean, qualified, disclaimer, Adverse types of opinions.

KAM- Key Audit Matters on certain areas may be provided in the reports and EOM- Emphasis Over Matters on certain areas may be provided in the reports to provide better information to the users of the Financial Statements (FS). Certain Companies to provide Cash Flow Statement (CFS), CARO 2016, annexure, Report on Internal Financial Controls (IFC) in addition to the Auditors Report.

- Statutory Audit is mainly a Balance Sheet & FS audit, conducted on test check of all important ledger A/c's and A/c heads to ensure BOA(Books Of Accounts) are maintained as per accounting principles , methods in compliance with accounting standards. Guidance notes and proper disclosures are made as per AS & other regulation requirements and adherence to applied laws like companies act / Income Act / GST / labour laws, etc.
- Detailed Audit working papers , documentations , process notes, discussion notes, drafts, audit programs, extracts of A/c's , minutes , resolutions, certificates , reconciliation statements, returns , forms ,confirmations , checklists, query sheets, timesheets are maintained for Peer Review & future use. Permanent & Working files are kept.

INTERNAL / INTERIM / ROUTINE AUDITS

There are detailed transactional audits of entries passed in BOA. Audit Trail, Process / Flow Of Transactions are determined – internal control over each audit , area is determined, tested, weaknesses identified, suggestions made for remedial measures, revenue & other leakages determined authorisation, maker checker, accountability, responsibility fixing, documentation/ suggestions/ internal & external evidences verified. Detailed audit working papers made, reviewed, quality of audit ensured. Basis of checking, selection of samples, Risk approach to audit & control over the audit is ensured. Comparison over previous years figures, variations in period, ratio analysis, ledger sanctioning are conducted. All BOA, Purchase register, sale register, Dr. & Cr. Notes register, cash & bank book , debtors & creditors, general ledgers, journal register, stock register , stock ledger, trial balance are verified.

All departments are under audits- purchase dept, sales dept, bank dept, personnel , stores , accounts , production, security, receivable, payable, compliance, administration, secretarial records are observed & all procedure and std operating procedures & manuals & policies are checked if adhered to.

All audit queries are classified into ABC analysis and quantification is done for audit queries resulting into actual or probable revenue/ income leakages.

INCOME TAX AUDIT

It is audit under section 44AB of IT Act 1961. Audit report is in form 3CA for corporates & form 3CB of all others & statements of particulars in form 3CD (for all) Tax Audit from for all cases where turnover (excluding taxes) exceeds Rs. 1 Crores or gross receipt for professionals exceed Rs. 50 lacs in a financial year. For corporates and those entities which are under statutory audit (like trusts, societies, NGO'S) reliance can be placed on the statutory auditors reports & audited F.S. for non corporate & others not under any statutory audits, this (tax audit) is the only audit conducted (except for GST Audit).

- Purpose of tax audit is to determine the correct, taxable income disclosed by the assessee under the provision of the IT Act.
- Several clauses of the form 3CD are to be reported and verified from the BOA and into complied & presented which is:-
 - Details of depreciation allowable as per IT Act & Additions to F.A.
 - Details of contribution received for employees under various funds.
 - Personal expenses, capital expenses, audit expenses, club expenses, penalties, fines, dr. to P&L.
 - Inadmissible amounts US.40 (a) -payment to NRI/ Residents without TDS.
 - Inadmissible amounts US.40A (3) - incases > Rs 10,000.
 - Payment to person under 40 A (2)(b)- related parties.
 - Payment attracting 43 B provisions made but not paid during the financial year or before filling of IT return.
 - Borrowings attracting S-69 D > 20000 otherwise by clearing & transfer.
 - Borrowings / loan repayments attracting S-26955 > 20000 otherwise by clearing & transfer.
 - Whether TDS provisions adhered /not deducted / not paid.
 - Closing stock details
 - Ratios
 - Demand raised under other laws.

Accounting Standards (AS) Total 32 nos

- Each AS issued by ICAI is with respect to, accounting for transaction in F.S.
- Each AS covers

(1) **RECOGNITION** of transactions & events (T & E) .

(2) **MEASUREMENT** of these transaction &E .

(3) **PRESENTATION** of the T&E.

(4) **DISCLOSURE** requirement in F.S.

- Partial compliance to AS NOT ALLOWED.
- Managements responsibilities to prepare & ensure compliance to AS.
- Auditors to opine & report non-compliance.
- AS applicable to enterprises which are fully or partly commercial.
- AS not applicable to fully non commercial activities.
- AS fully applicable to non corporate level 1 category (listed/ bank/ insurance/FI's/whose turnover >50 Crores / whose borrowing > 10 Crores anytime/holding & sub-entities of above.
- Level 2 enterprises (turnover < 50 Crores / borrowings < 10 Crores) exempted for certain AS mostly from disclosure requirements.
- Level 3 (other than level 1 , level 2) same exception as per level 2 non applicability to level 2 & level 3 entity of the following.
- AS 3 (cash flow statement) ,17(Segment reporting), 18(related party disclosures), 21(consolidated financial statement & accounting for investments in subsidiaries in separate financial statement), 23(accounting for investment in associates), 24(discontinuing operation), 25 (interim financial reporting), 27 (financial reporting of interest in joint ventures), 30,31,32(financial instruments – recognition, measurements, presentation & disclosure, following AS partly applicable AS 19 (leases) , 20(earnings per share),29(provision contingent liabilities ,contingent assets)

Ind AS under companies (Indian accounting std)rule 2015

- For period for 1/4/2015.
- Mandatory for companies (wef 1/4/2016) – listed & having net worth >= 500 Crores or unlisted but NW >= 500 Crores.
- For companies (listed & NW < 500Crores or unlisted & NW>= 250 Crores from 1/04/2017.
- Standard applicable to consolidated financial statement (CFS).
- Once started following standard will continue even if later is not applicable.
- Not compulsory for overseas subsidiary, associate, joint venture of Indian Company.

IND AS 101 to 115 corresponds to IFRS 1 to 15

IND AS 1 to 41 corresponds to IAS 1 to 41

(There is no IND AS nor IAS nos 3,4,5,6,9,11,13,14,15,18,22,25,26,30,31,35)

Standards on Auditing (SAs)

- ICAI is a member of (IFAC) International Federation of Accountants. IFAC has established the (IASB) International Auditing & Assurance Standards Boards.
- ICAI constituted the (APC) Auditing Practices Committee to develop SAP (Standard Auditing Practices).
- APC is now converted into AASB (Auditing & Assurance Standards Board).
- SAP is changed to AASs(Auditing & Assurance Standards).
- For Audits & Reviews of Historical Financial Information. There are SA's (Standards on Auditing) 100-999 & SREs Standards on Review Engagements 2000-2699.
- For Assurance Engagements other than Audits or Reviews of Historical Financial Information there are SAEs (Standards on Assurance Engagements) 3000-3699.
- For Related Services there are (SRSs) Standards on Related Services (4000-4699).
- SQC (Standard on Quality Control) issued by ASSB applied for all services covered by the Engagement Standards.
- Engagements Standards are SAs, SREs, SAEs& SRSs.
- SAs are as under :
 1. SA 200- Overall objectives of Independent Auditor & Conduct of Audit.
 2. SA 210- Agreeing to Terms of Engagement.
 3. SA 220- Quality Control for Audit of FS.
 4. SA 230- Audit Documentation.
 5. SA 240- Auditors Responsibility relating to Fraud in Audit of FS.
 6. SA 250- Consideration of Laws & Regulations in Audit of FS.
 7. SA 260- Communication with those charged with governance
 8. SA 265- Communicating Deficiencies in Internal Control to those charged with governance.
 9. SA 299- Responsibilities of Joint Auditor.
 10. SA 300- Planning an Audit of FS.
 11. SA 315- Identifying & Assessing the Risk of Material Misstatement through Understanding the entity & its environment.
 12. SA 320- Materiality in Planning & Performing Audit.
 13. SA 330- Auditors Response to Assessed Risks.
 14. SA 402- Audit Considerations relating to Entities using Service Organisations.
 15. SA 450- Evaluation of Misstatements identified during the Audits.
 16. SA 500- Audit Evidence.
 17. SA 501- Audit Evidence –Specific Considerations for Selected Items.
 18. SA 505- External Confirmations
 19. SA 510- Initial Audit Engagements.
 20. SA 520- Analytical Procedures (AP).

21. SA 530- Audit Sampling.
22. SA 540- Auditing Accounting Estimates including Fair Value Accounting Estimates & Related Disclosures.
23. SA 550- Related Parties.
24. SA 560- Subsequent Events.
25. SA 570- Going Concern.
26. SA 580- Written Representations.
27. SA 600- Using work of Another Auditor.
28. SA 610- Using the work of Internal Auditor.
29. SA 620- Using the work of An Expert.
30. SA 700- Forming an Opinion & Reporting on FS.
31. SA 705- Modifications to the opinion in the Independent Auditors Report(IAR).
32. SA 706- Emphasis of Matter Paragraphs & Other Matter Paragraphs in the IAR.
33. SA 710- Comparatives,
34. SA 720- Auditors Responsibilities in relation to other information in Documents containing Audited FS.
35. SA 800- Special Considerations – Audit of FS prepared in accordance with Special Purpose Framework.
36. SA 805- Special Considerations – Audit of Single FS & Specific Elements, Accounts or Items of a FS.
37. SA 810- Engagements to Report on Summary FS.
1. SRE 2410- Review of Financial Information performed by Independent Auditor of the Entity.
1. SRS 4400- Engagements to perform Agreed Upon Procedures regarding Financial Information.

COMPANY LAW

- Company is a Company incorporated under co's act 2013 or Previous Acts.
- Corporate veil –Company is Distinct From its Members.
- Company can be a Partner in A Partnership Firm if Provided in MOA
- Company can be a member in Another Companyif Provided in MOA.
- A Subsidiary Company can become member of Holding company in certain cases.
- Company Cannot Acquire Citizenship (Only Individuals Can)
- Cannot Enjoy Fundamental Rights.
- AOP or Partnership having More Than 50 Persons (Unless Formed by professionals) has to be Registered as a company
- **Government company**. Central/ State Govt. Loan >51% of paid up Share Capital Holding.

- **Subsidiary co.** if holding company Controls composition of BOD, Controls >50% of its total Share Capital,
- **Associate Co.** The Other Co. Control $\geq 20\%$ of Total Share Capital or Has Significance Influence Over its Business Decisions
- **Foreign Co.** - Company incorporated outside India, having Business place /business activities In India.
- **Small Company** – Other than Public Company Or Paid up capital <50 LACS OR, T/O < 2 CRORE
- **NPO/ Section 8 Com.** Whose Object is to promote Sports ,Commerce , Art ,Science ,Education, Social Welfare & Prohibits Payment Of Dividends.
- **Pvt.Com**- PUC >1 Lacs ,No. of Member ≤ 200 cannot invite Public by Subscription of its Securities & Restricts Right to transfer of Share
- **Public Com.** NOT A Pvt.Com., Min. PUC >5LACS,
- **One person com** : formed by one person in MOA , not A Minor should Appoint a Nominee ,PUC <50L ,Avg. T/O >2 Crores.
- **Doctrine of ultra vires** :means any activity beyond the powers given under MOA
- **Doctrine of Constructive notice:** Means Person dealing with the company is Presumed to Know the Power of the directors under its AOA , MOA which ARE Public DOC.
- **Doctrine of Indoor Management** :Means Person Dealing With the Com. Can Presume That the internal Proceedings Observed and Complied With
- Issue Of Share at a Discount, is Prohibited Except Sweat Equity Share
- **Share Premium a/c** Can be Utilized Of issuing Bonus Share, writing off Preliminary exp., Expenses Issue Of Share Capital , Premium on Redemption of preference share /Debenture ,Buy Back of own Share.

Bonus Shares Are Allotted out of accumulated Distributable profits, Free Reserves, Share Premium A/c, Capital Redemption a/c.

Revaluation of Fixed Assets Reserve cannot be used . New Company Cannot issue within 3 years of inspection . Max Issue upto 20% of total post issue PUC.

AGM – Only at Regd. Office (R.O.) R.O.is Situated, not a National Holidays between 9.00 am .to 6.00 pm.

EGM –Any day including public Holiday, Any Place within India.

Notice Period: Day Of Serving Notice & Meeting date are Excluded, Can BeSent By Email

Unpaid Dividend (s-124) Dividend to be Paid Within 30Days of Declaration, transfer To Separate Bank a/c “ Unpaid Dividend a/c” within 7 Days To 30 Days. Com To Pay Interest

@12% on amt not so transferred Within 90 Days of Transfer ,Put On Website Details.
Dividends Un paid For 7years From date Of transfer to be Transferred toInvestor Education&
Protection Fund.

AUDITORS PROVISIONS IN COMPANIES ACT 2013

S-141- CA HOLDING COP, LLP

Disqualification - Body Corporate , Employee /Partner Of Company ,Person /Relative (1 lac)
Holding Any Securities. Indebted>5lacs, Given Guarantee>1 lac, Person Having Business
Relationship With Co. whose Relative Is KMP, Who Is Full Time Employment, Else
Where ,Has >20 Pub. Ltd. Com Audits, Persons Associate is Engaged in Consulting & Specialized
Services u/s 44.

Business Relationship Excludes Professional Service Permitted Under CA Act. Or Commercial
Transaction at Arms Length Price

- **Aud. Committee** not needed For Pvt. company & Small Public Ltd. com.(PUC 10, T/o 100, loans 50 CR)
- **Rotation** Of Auditors Not For Pvt. Com.(20, 50 CRS)
- Statutory Auditor Cannot be **Cost** Auditor.
- CSR- All Com.-NW >= 500 crs/T/W>1000 Crs N/p >5CRS.

FS under Co's Act 2013 Sch III

Sch III requirements shall stand modified according to AS Sch III disclosures / additional disclosures are in addition to AS.

- **Current:** Within the company's normal operating cycle/ 12mths held for trading.
- **Fund:** a reserve represented by earmarked investments.P/I Dr bal- shown as negative figure under the head surplus balance of 'Reserves & Surplus' if negative , shall be shown as negative.
- **Long Term/ Short Term Borrowings:** Nature of security shall be specified separately; Terms of Repayments of Terms Loans to be stated. Period & Amount of defaults to be specified.
- **Share application money:** Comes under 'Other Current Liability', if refundable. Share Application money to the extent of Issued Capital & refundable to be shown under 'Equity'.

- **Auditors Payments:** separately disclosed as Auditor, for tax letters, for company law matters, for management services, for other services, for reimbursement of expenses.
- **CARO 2016:** not applicable to OPC, small co , Pvt Ltd (PUC 1, t/o 10, loans 1crs)
Statements annexed compliance to CFS.
- Fixed Assets: Records, physical verification , title deeds, inventory

S 189-Register maintained –loans granted
S 185,186 Loans, investments, guarantees
S 73 to 76- Deposits accepted RBI directors
S 148(1)- Cost records maintenance
- Deposits in regularly undisputed statements Dues PF, ESIC, IT,VAT. Custom wise , arrears >6 mths
- Disputed IT/ VAT/GST/ Excise/ Customs, amounts and name of forums.
- Default in repayment of loans to FI, Brs, Govt Auto period
- Frauds by the co or on the co by officer/ employees noticed or reported nature & amount.
- Managerial remuneration paid S 197
- S 177/188 Transactions with related parties to be disclosed
- S 42- Preferential allotment / Pvt placements of shares end use of funds.
- S 192 Non cash transactions with directors.

IFCFR (Internal Financial Control over Financial Reporting) separate report to be given by the Statutory Auditor of a co.(listed or unlisted) whether the co. has adequate Internal Financial Controls System & the operating effectiveness of these controls as on the B/s date.

- IFCFR not applicable for Interim / Quarterly/ Half yearly Financial Statements.
- Internal Financial Controls are the policies & procedures devised laid down & adopted by the company for ensuring efficient conduct of its business , adherence to policies , safeguarding of the asset, prevention & detection of frauds & errors, accuracy & completeness of its accounting records & timely preparation of reliable financial information.

Corporate Governance means the system by which co's are directed & governed by the mgmt's in the best interests of stakeholders ,for better managements, greater transparency & timely financial reporting.

LODR(Listing Obligations & Disclosures Requirements) Regulations 2015 applicable to listed co's regarding BOD, Audit Committee, nomination & remuneration committee, stakeholders relationships, risk management , vigil mechanism, related party transactions, Independent Directors, Disclosures of Event , Financial results , Annual reports ,CFO/ CEO certification , Reports of Corporate Governance , Compliance Certificate.

Other Laws

- **Payment of Bonus Act** – applicable if employee has >10 employees to employees having less than Rs 10,000 monthly salary – Min Bonus @ 8.33% of salary, Max 20%- (Salary limited to Rs 3500 pm).
- **Provident Fund Act**: applicable if employer has >20 employees applicable to contract or apprentice persons. Employer's contribution @ 10% Employee's Pension Scheme only Employer's contribution @ 8.33% of salary.
- **Payment of Gratuity Act**: applicable if employer has > 10 persons, excludes apprentice. Eligible if 5 yrs continuous service in company. Eligible amount-1/2 months last salary drawn for every completed yr of service or part > 6 mths.
- **MSME** (Micro, Small & Medium Enterprises Development Act 2006) for development & promotion of small enterprises having investments in plants & machinery upto 10 crores. They have to be paid their dues within 45 days.

Professional Tax Act : By each state – Employees max 200 pm/ 2500 pa self employed.

PMLA Prevention of Money laundering Act 2002)

Money Laundering is the Process of Conversion of "proceed of Crime "(Which are Obtained Through Illegal Activities like Drugs ,Smuggling , Extortion, Robbery, bribery , fraud Scheme etc) Called "Dirty Money" Into "legitimate /Legal Money". Duty is Put a Banks, Fin Institutions And Intermediaries to Verify& Identity Accountholders Clients. Property of the Persons Involved Can Be Attached,Seized, confiscated & sold.

"Forensic Audit & Investigation" IS Systems & Critical in depth Examinations of Transactions, BOA, Records To Determine/detect if any Fraud Taken Place or how it has taken place. It is the Process of Gathering Evidence Which Will Stand The test in the court of Law .It Is Undertaken for a Particular Purpose to establish Some thing.

Due Diligence – is a Process of Verification Examination of BOA Records and study of the Situations /Demands and Implementations of Corporate Restructuring Plans Lives Company Internal& external reconstructions, Amalgamations ,Mergers, Demergers, JV's, Acquisition of

Interest, SALE , Purchase offers to detect any Probable Liabilities, litigation, Contravention, Identity Strength ,Weakness ,Opportunities, threats (SWOT) For the Above restructuring Purposes.

IBC (Insolvency Bank code 2016) Is Applicable to Corporates & LLP's for the purpose of aiding Lenders /Financial Creditors & General Operational Creditors Who Have to Recover Their dues from the defaulting companies to persuade The Company to come out With a Resolution Plan With A Fixed Time Frame to Repay Their Dues Through a Committee of Creditors Who Will Manage co's affairs under the Guidance of A Insolvency Professional Appointed or else Start the Liquidation Process of THE Company and realize & Liquidate the companies Assets And Repay the Creditors Claims according to laid down Preference of Payments.