

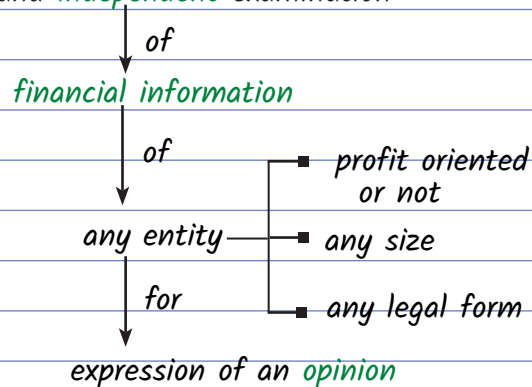
NATURE, SCOPE AND SIGNIFICANCE OF AUDITING

MEANING

→ Derived from latin word *audire* ⇒ to listen

→ SA 200

→ Systematic and independent examination



FEATURES

- Evaluation and verification of RRA of Audit evidence
- Analytical, critical and investigative review
- Financial and non-financial information
- Standards for evaluation of information
- Competent, qualified and independent auditor
- Ensures reliability of information and assertions

EVOLUTION

Statutory Audit ⇒ 1913

Cost Audit ⇒ 1965

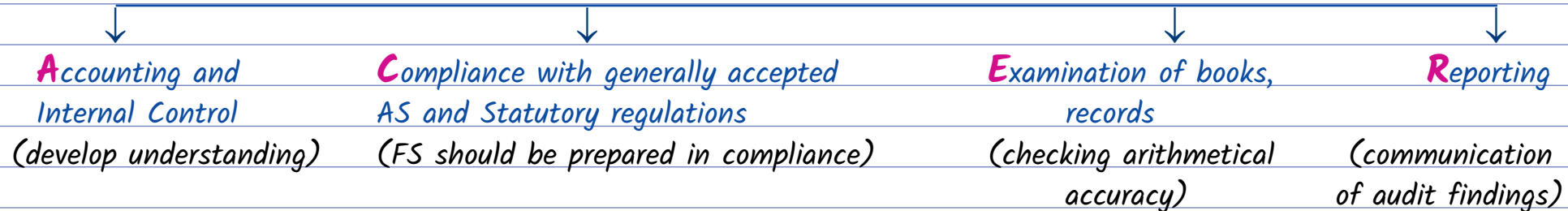
Tax Audit ⇒ 1984

SCOPE

Determined by-

- Terms of engagement
- Relevant legislation
- Pronouncements of ICAI

ASPECTS TO BE COVERED IN AUDITING [ACER] 😊



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OBJECTIVES OF AUDITING

SA 200

- To obtain reasonable assurance
- whether FS are free from MMS
- FS prepared as per AFRF
- Report on FS
- Communicate as per SAs

Objectives

Primary

Secondary

Opinion on True and Fair view Detailed checking if MS is suspected

QUALITIES OF AN AUDITOR

[DIL Se Human and Honest] 😊

- Sound knowledge of various Disciplines (law, economics, mathematics, finance etc.)
- Integrity, Objectivity and Independence
- Knowledge of general principles of Law (Eg., Companies Act, GST, Labour laws etc.)
- Basic Human qualities (Eg., Discipline, Trustworthy etc.)
- Honesty
- Special features of entity (Eg., Co-operative society, Insurance company etc.)

INHERENT LIMITATIONS OF AUDIT

- Test Nature of audit
- Persuasive Audit Evidence
- Inherent limitations of Internal Control
- Use of Materiality

SIGNIFICANCE OF AUDIT

point of view

Legal

- Filing of ITR
- Borrowing externally
- Insurance claim statement
- Sales Tax Payment
- Action against bankruptcy

Internal Control

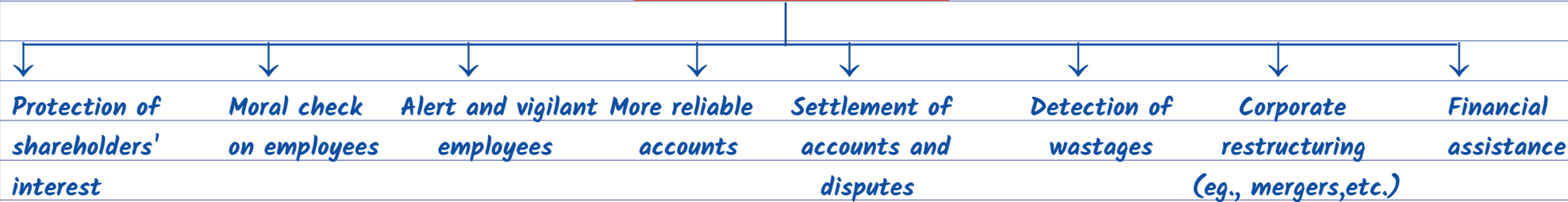
- Discovering Errors and Frauds
- Moral check
- Advice to management
- Uniformity in accounts

External Affairs

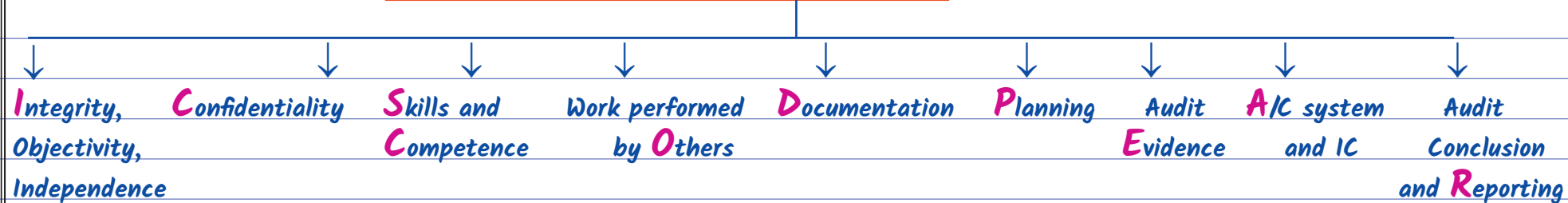
- Settlement of accounts
- Valuation of goodwill
- Future Trends

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ADVANTAGES OF AUDIT



BASIC PRINCIPLES GOVERNING AN AUDIT [APIC SCORED] 😊




AUDIT V/S INVESTIGATION

BASIS	AUDIT	INVESTIGATION
Meaning	Independent examination <i>to ascertain</i> → True and Fair View	Independent examination <i>to ascertain</i> → any fact for special purpose
Scope	Wide	Narrow
Evidence	Persuasive	Conclusive
Periodicity	Routine (normally annually)	Non-routine
Approach	Non-suspicious	Suspicious
Procedures	Generally accepted audit procedures	Extended audit procedures

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ACCOUNTING AND AUDITING

RELATIONSHIP		DIFFERENCE		
Accounting 	Auditing ✓	Basis	Accounting	Auditing
Analyze <i>events and transactions</i>	⇒ Review client's <i>IC System</i>	Meaning	Collection, classification and summarization	Analytical and Critical examination
<i>Record and Summarize</i>	⇒ Evaluate and <i>obtain evidence</i>	Timing	<i>On Occurence</i>	<i>After occurence(postmortem)</i>
<i>Make FS Assertions</i>	⇒ Determine <i>Fairness</i>	Measure	Monetary	<i>Opinion</i>
<i>Prepare FS To Shareholders</i>	⇒ Prepare <i>Audit Report To Client</i>	Responsibility	Management	<i>Independent Person</i>
<i>Accounting is first</i>	⇒ <i>Auditing follows</i>	End Product	<i>Compilation of records For/under management</i>	<i>Audit Report Independent</i>
		Statndards	<i>Accounting standards (AS, Ind AS)</i>	<i>Standards on Auditing (SAs)</i>

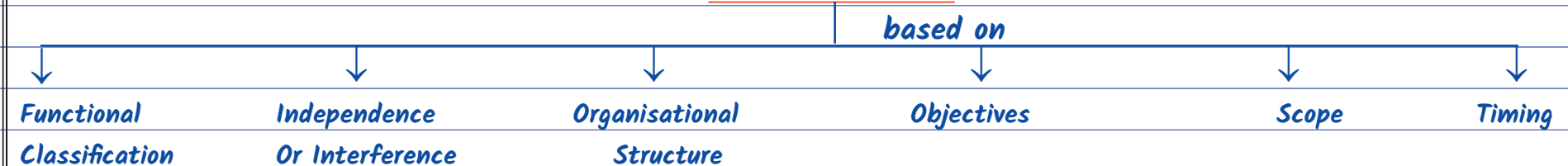
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TYPES OF AUDITS

EXTERNAL V/S INTERNAL AUDIT

BASIS	EXTERNAL AUDIT	INTERNAL AUDIT
Appointing authority	Owners i.e., shareholders	Management
Scope of work	Determined by particular statute	Defined by management
Concerned with	Truthness and fairness of F.S.	Compliance with policies and procedures
Reporting to outsiders	Yes	No

TYPES OF AUDITS



AS PER FUNCTIONAL CLASSIFICATION

Statutory Audit of Companies or LLPs

→ of financial information

Statutory Cost Audit

→ of cost records, statements etc.

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AS PER INDEPENDENCE/ INTERFERENCEStatutory Special Audits

- Appointed by *Government/ regulatory authorities*
- To report on *specific issues*
- Report to *appropriate authorities*
- Generally of *Investigative nature*
- *Least interference of clients*

Statutory Audits

- Appointed by *Company / BOD/ Owners*
- Matters to be reported *determined by statute*
- Reporting authority- *as per statute*
- *Statutory financial audits, Cost audits, Tax audits etc.*
- *High degree of interference*

Internal Audit

- Appointed by *Management*
- Defined by *mutual agreement*
- Reporting authority- *Management*
- *Highest level of client interference*

AS PER SCOPEComplete Audit

- Scope *not confined to specific limits*
- Check *all possible aspects*
- Covers *accounting, operational administrative and all other areas*

Partial Audit

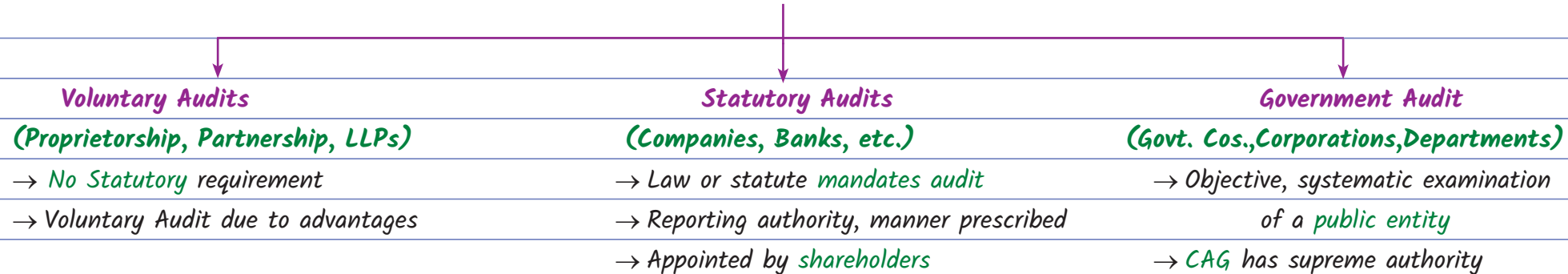
- Scope *restricted to specific aspects*
- *Not allowed to obtain other info.*
- Example- To check *Cash Sales during Diwali*

Detailed Audit

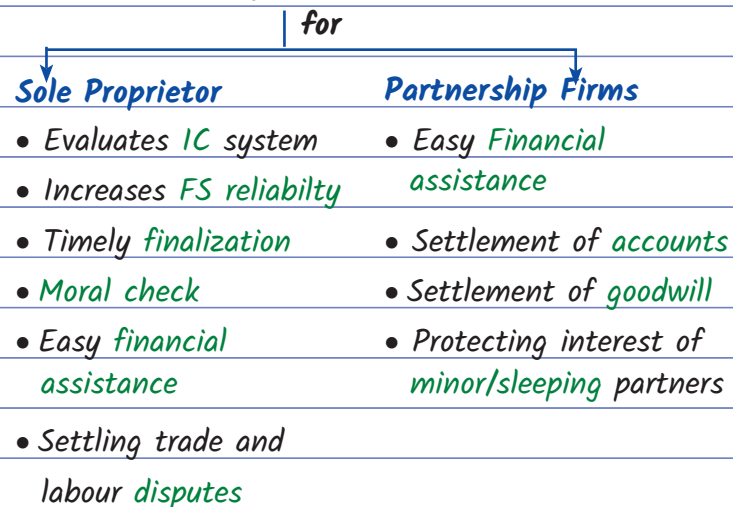
- *Audit in depth*
- Checking *selected transactions in depth*
- *From recording till disposal (all stages)*

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AS PER ORGANISATIONAL STRUCTURE



Advantages of Audit

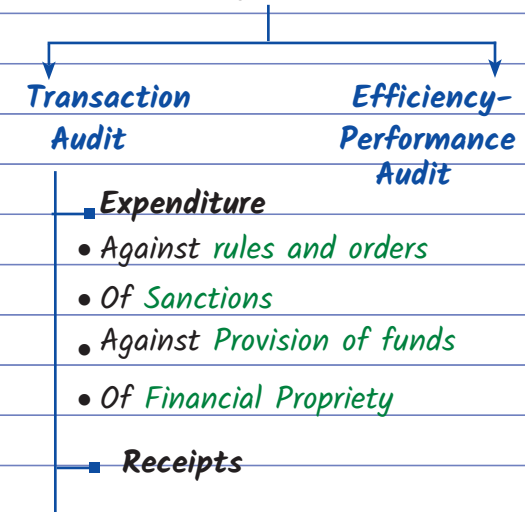


Companies ⇒ Companies Act, 2013
Insurance Companies ⇒ IRDA Guidelines
Banks ⇒ RBI Guidelines, Banking Regulation Act, 1949

Advantages

- Timely tax assessment
- Settlement of disputes
- Financial assistance
- Sale consideration
- Valuation of business
- Proper distribution of profits
- Statutory compliances

Types



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VOLUNTARY V/S STATUTORY AUDIT

BASIS	VOLUNTARY AUDIT	STATUTORY AUDIT
<i>Appointing authority</i>	<i>Management</i>	<i>Prescribed by law</i>
<i>Object</i>	<i>Review of IC</i>	<i>Truthness and Fairness</i>
<i>Approach</i>	<i>Proprietary</i>	<i>Compliance</i>
<i>Scope decided by</i>	<i>Management</i>	<i>Statute</i>
<i>Report to</i>	<i>Management</i>	<i>Shareholders</i>

STATUTORY V/S GOVERNMENT AUDIT

BASIS	STATUTORY AUDIT	GOVERNMENT AUDIT
<i>Applicability</i>	<i>Companies, Co-operatives, Banks etc.</i>	<i>Government Cos., Departments, Corporations</i>
<i>Appointing authority</i>	<i>Shareholders, Management Managing Committee</i>	<i>CAG</i>
<i>Report to</i>	<i>Owners or Management</i>	<i>CAG</i>

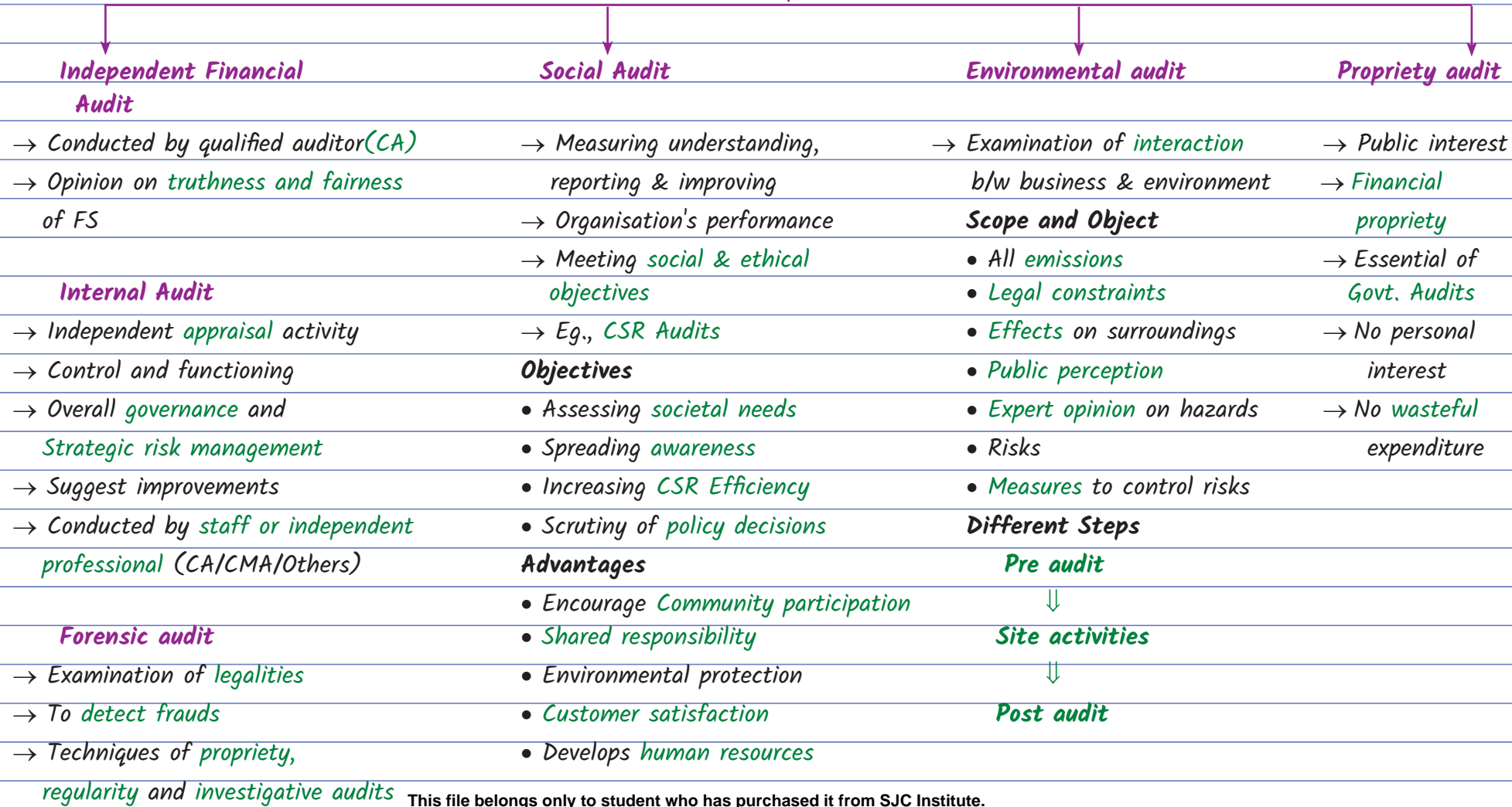
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AS PER TIMING

Continuous Audit	Annual Audit	Detailed Audit	Balance Sheet Audit
→ On going Audit	→ At the end of accounting year	→ Between two annual audits	→ Reviews and critically examines FS
→ 100% transactions	→ After accounts are closed	→ Specific objective	→ Verifying original entries
Features	Procedure/ Advantages	Use of Interim Audit	Objectives
<ul style="list-style-type: none"> • Throughout the year • Regular or irregular intervals • 100% testing • Technology • Surprise checks • Advance notice about errors 	<ul style="list-style-type: none"> • No interruption with regular functioning • One session in continuity • Statistical sampling • Low Possibility of tampering accounts 	<ul style="list-style-type: none"> • Early detection of errors & frauds • Publishing interim records • Moral check • Timely completion of records 	<ul style="list-style-type: none"> • May rely on IC • IC strong/ weak
Necessity	Limitations/ Precautions/Demerits		Procedure
<ul style="list-style-type: none"> • Inadequate IC • Many transactions • Management interested in periodic statements 	<ul style="list-style-type: none"> • Errors found at year end • Delayed presentation of FS • Reduced possibility to detect frauds and errors 		<ul style="list-style-type: none"> • Areas of sampling • Compliance & Substantive • Analytical Review • Evaluation of IC • Scrutiny of books • Compliance with laws
Advantages			Advantages
<ul style="list-style-type: none"> • Early detection of frauds and errors • Timely completion of finalization • Quick rectification • Guidance of client • Moral check • Relieves statutory auditor 			<ul style="list-style-type: none"> • No changes in accounts • No interruption • No loose links • Cost effectiveness

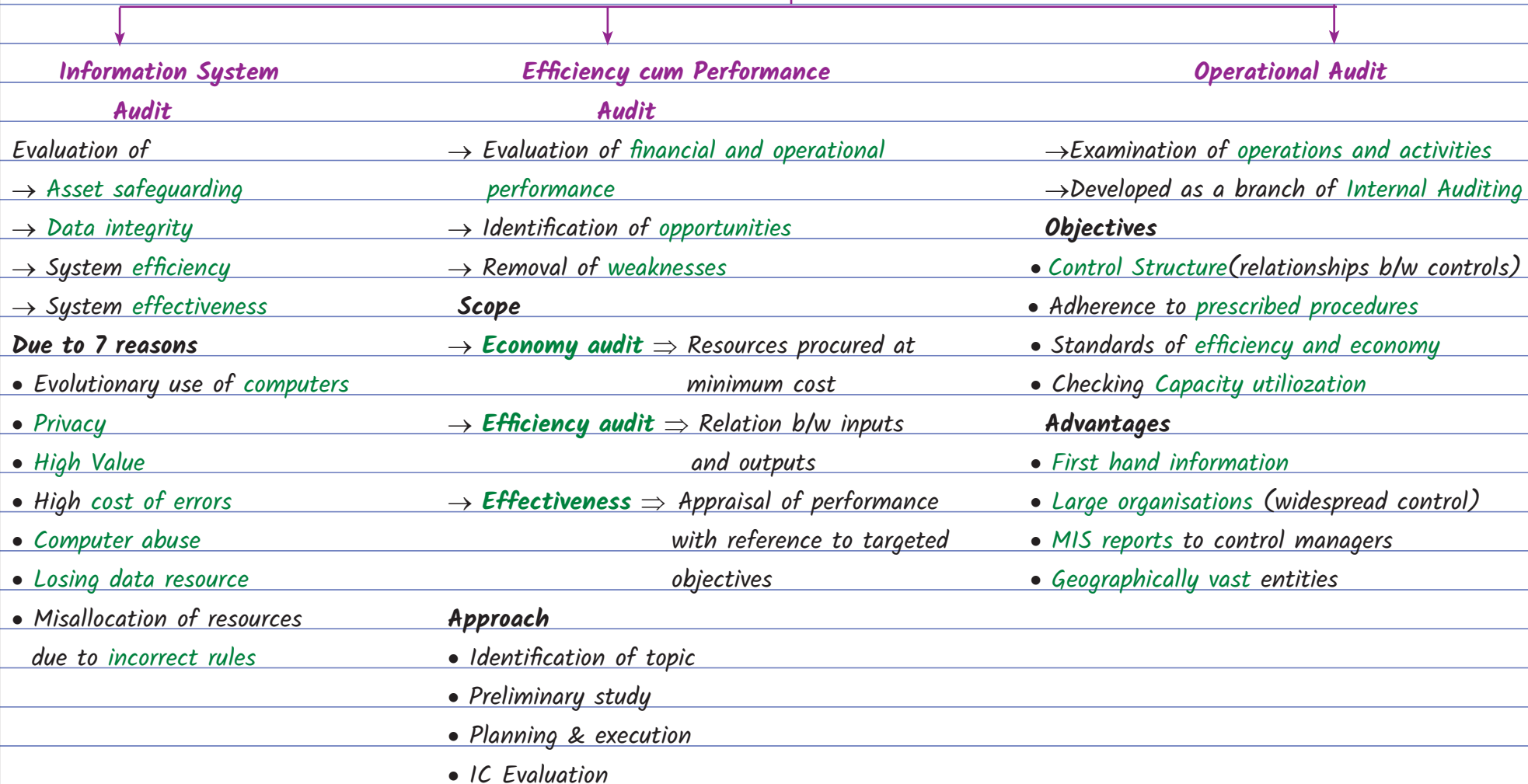
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AS PER OBJECTIVES



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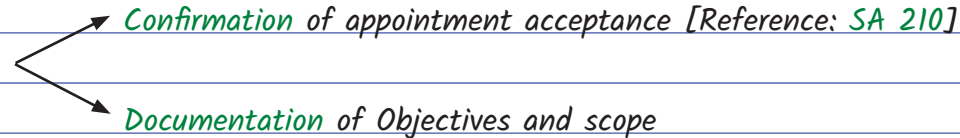
AS PER OBJECTIVES (CONTD.)



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AUDIT ENGAGEMENT, AUDIT DOCUMENTATION AND REPORT

AUDIT ENGAGEMENT LETTER - Signifies

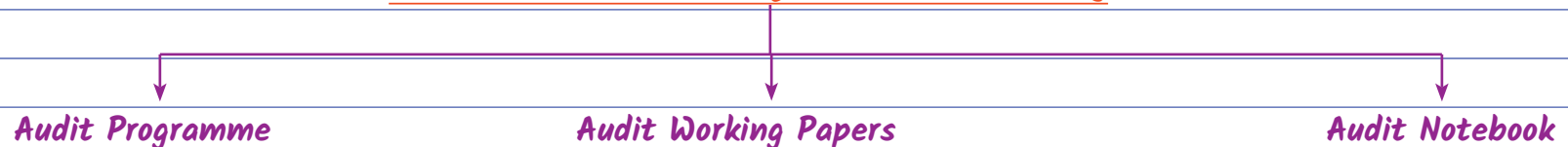


Form and Content

- Restriction of auditor's liability
- Inherent limitations of audit
- Management Responsibility
- Objective & Scope
- Management Confirmation
- Use of experts and internal auditors
- Form of audit report
- Fees and billing arrangements

😊 Auditor's liability ko limit karne ke lie management responsibility ka Scope badhaya, Confirmation liya, Experts ko use kiya, finally Report banake Fees collect kiya.

AUDIT DOCUMENTATION [REFERENCE: SA 230]



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👉 AUDIT PROGRAMME

- Detailed written plan
- Exact details of
- Audit procedures to be performed for
- Verification of FS items
- Estimated time required

Advantages 😊 [SCARCE FUND]

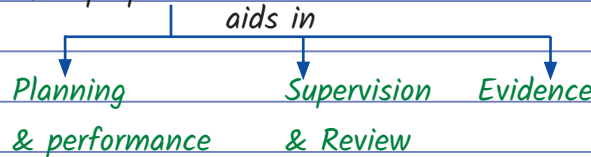
- **S**upervision and **C**ontrol
- Proper **A**llocation of resources
- Fixing individual **R**esponsibilities
- Ready **C**hecklist
- **E**vidence in event of charge
- **F**ollowing year plan
- **U**niformity of work
- No **N**egligence proved
- **D**elegation of Authority

Disadvantages 😊 [DRUM]

- **D**efence by inefficient staff
- **R**igid programmes
- **U**nnecessary
- **M**echanical

👉 AUDIT WORKING PAPERS

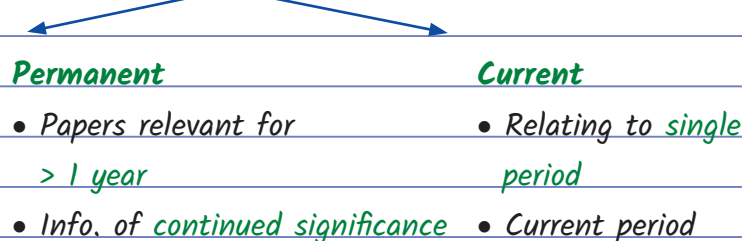
- Records of
- Planning and Execution
- Prepared by/for and retained by auditor
- 3 purposes



Form and Content depends on:

- Nature of engagement (internal/tax/cost audit)
- Nature of business(IT, FMCG etc.)
- Nature of records(manual, computerized)
- Form of Audit Report (LFAR, SA 700)
- Reliance on IC (strong,weak)
- Supervision of work

Types



👉 AUDIT NOTEBOOK

- Bound book
- Large variety of matters observed during audit
- Permanent record

Contents

- Entity's name
- Organisation structure
- Key Managerial Personnel (KMPs)
- MOA and AOA provisions
- Errors and frauds
- Special points
- Matters requiring explanation
- Management representations
- List of books
- Accounting methods

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PERMANENT AUDIT FILE	CURRENT AUDIT FILE
<ul style="list-style-type: none"> • Legal and organizational structure- MOA, AOA • Agreements, Deeds • Evaluation of Internal Controls • Ratio and trend analysis • Previous year audited FS • Significant accounting policies 	<ul style="list-style-type: none"> • Extracts of minutes of BMs • Appointment acceptance letter • Management Representation letters • Analysis of transactions and balances • Audit Programmes • Audit conclusions

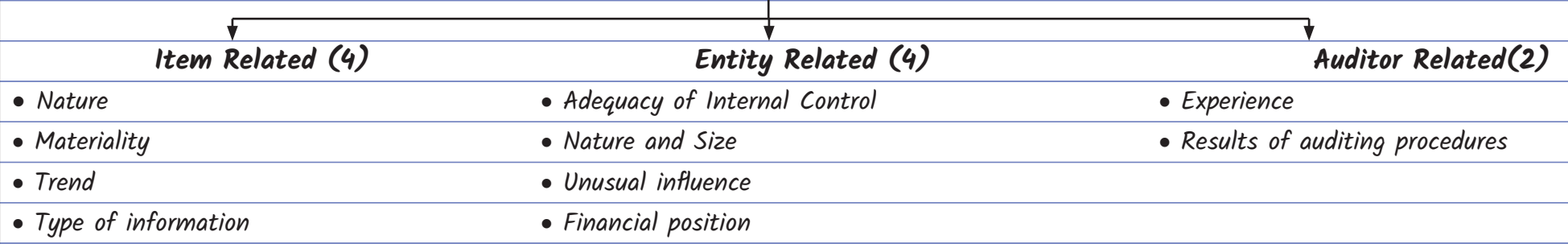
Note-
 Working papers are *auditor's property*
 Extracts can be provided at auditor's *discretion*
 Or when *legal or professional obligation*

AUDIT EVIDENCE [REFERENCE: SA 500]

- Facts and reasons (information)
- used by auditor
- to evaluate assertions
- to enable expression of
- Opinion



Factors influencing auditors judgment while obtaining audit evidence

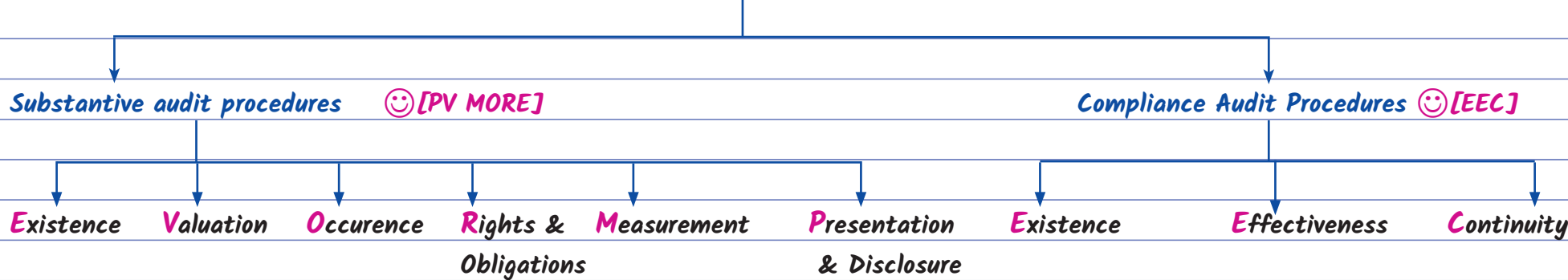


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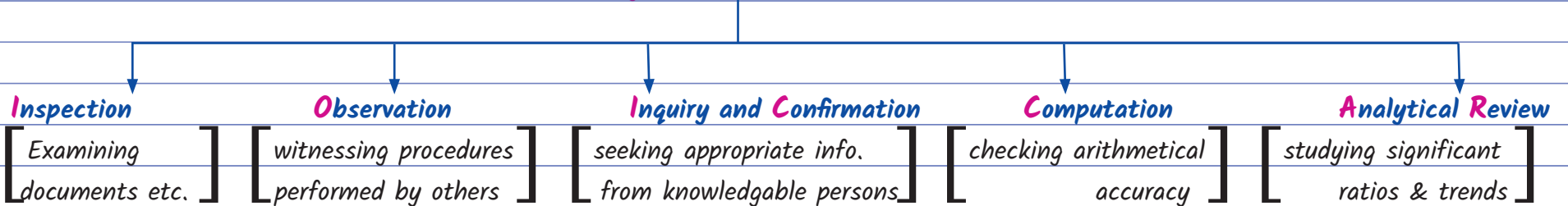
Need of audit evidence

- Audit evidence provides the auditor with a *reasonable assurance* about *assertions*
- While performing audit procedures we come across assertions made by management

Assertions by management

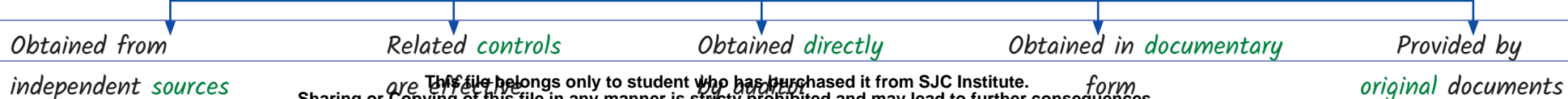


Methods of obtaining Audit Evidence ☺ [10- ICAR]



Reliability of Audit Evidence

increases when

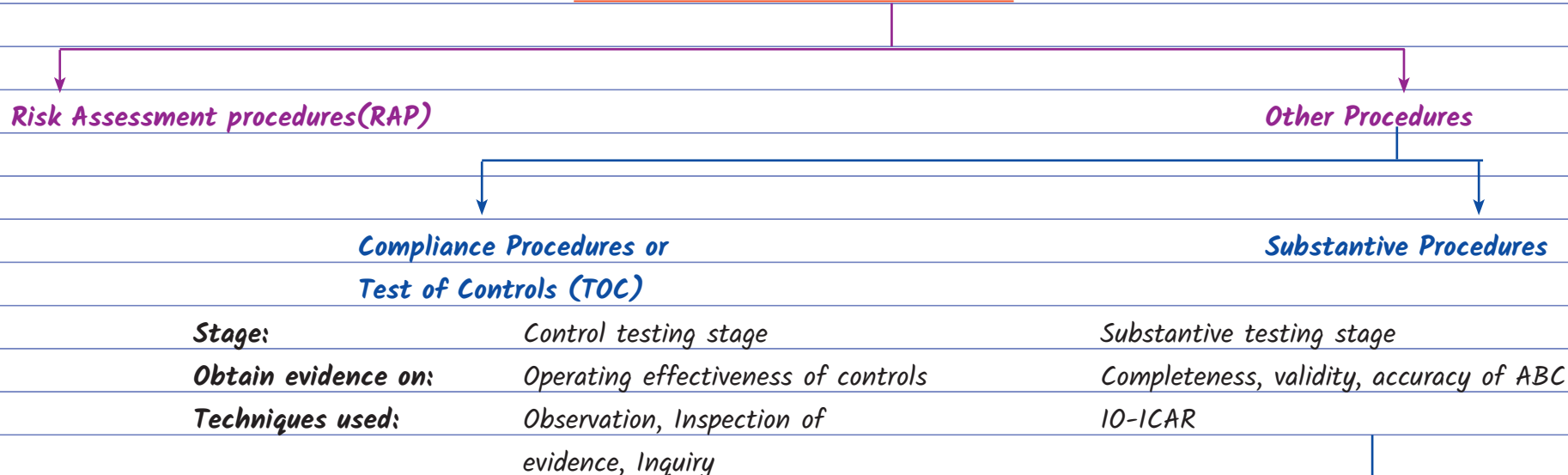


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AUDIT PROCEDURES

→ Procedures (combination of various methods and techniques) used by auditor to obtain audit evidence.

TYPES OF AUDIT PROCEDURES



Stage:	Control testing stage	Substantive testing stage
Obtain evidence on:	Operating effectiveness of controls	Completeness, validity, accuracy of ABC
Techniques used:	Observation, Inspection of evidence, Inquiry	IO-ICAR

<p>Vouching (classes of transactions)</p> <p>→ Examination of P/L assertions</p>	<p>Verification (Account Balances)</p> <p>→ Examination of B/S assertions</p>	<p>Analytical Procedures → Study of relationships between financial or non-financial variables Eg., Ratio Analysis, Trend Analysis etc.</p>
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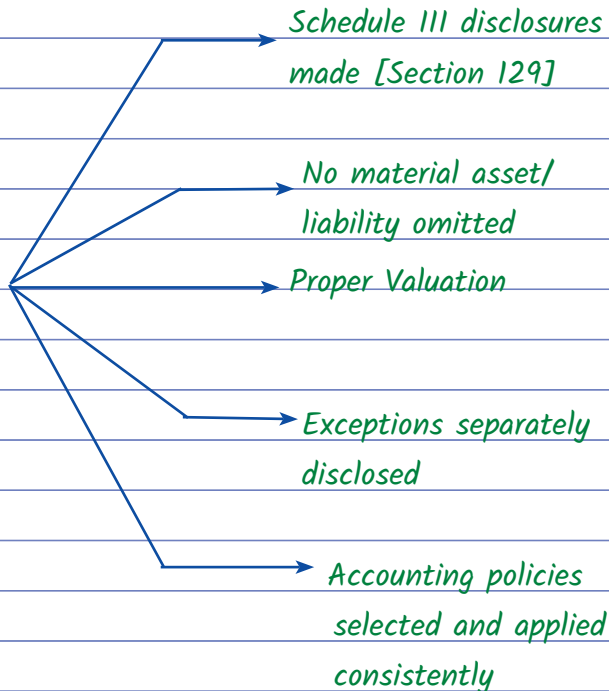
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SOME IMPORTANT CONCEPTS

TRUE AND FAIR VIEW

- Fundamental concept in auditing
- Whether results and affairs of entity truly and fairly presented
- Subjective matter
- Depends on Auditor's professional judgment

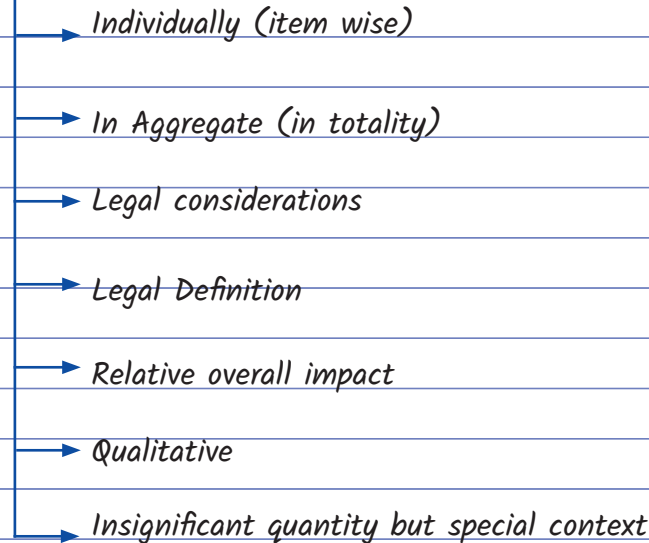
True and Fair View



MATERIALITY

- SA 320
- Planning
- Performing
- Materiality of an item influences economic decision of the user
- Relative term
- No item is material in all circumstances

Factors to be concerned for determining materiality-



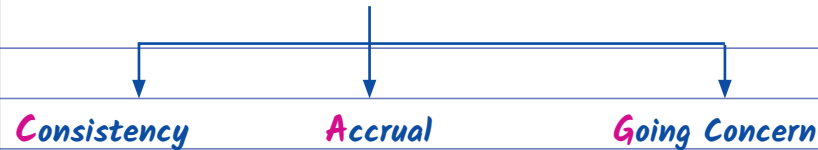
SURPRISE CHECKS

- Moral check on employees
- Deterrent effect
- Improves effectiveness
- Once in every audit
- Cash, Inventories, Investments
- Results communicate with management
- Adequate action
- Include in audit report if material

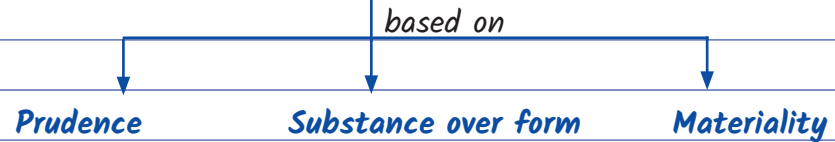
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DISCLOSURE OF ACCOUNTING POLICIES

- Specific accounting principles and methods
- Eg., SLM or WDV depreciation
- Fundamental Accounting assumptions [CAG]

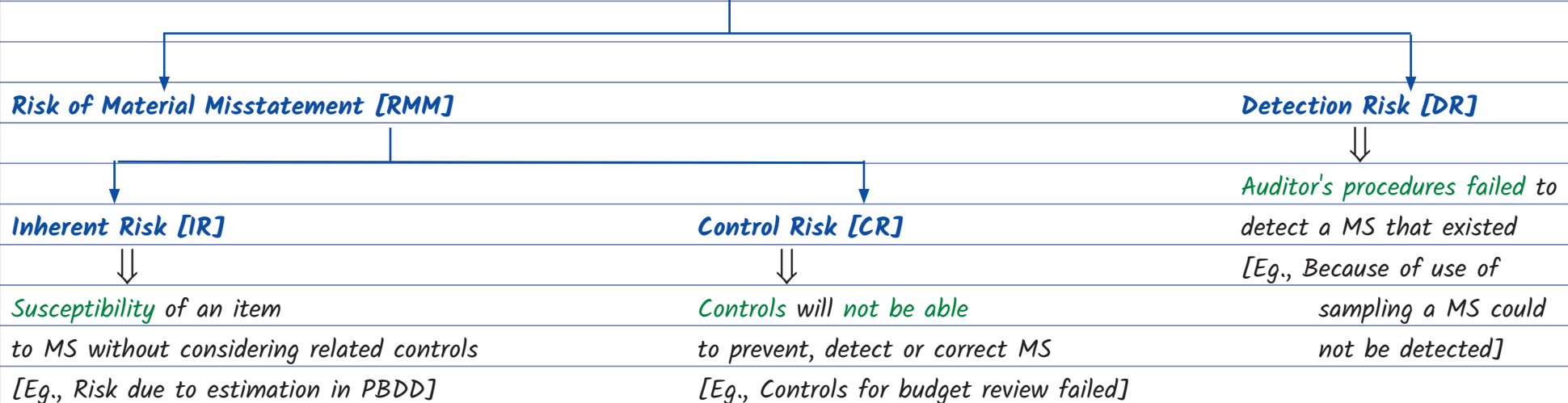


→ Selection of Accounting policies



AUDIT RISK [AR]

Risk that auditor expresses an inappropriate audit opinion when FS are materially misstated



👉 $AR = RMM \times DR$

📝 Note: RMM and DR are inversely related

$\therefore AR = IR \times CR \times DR$

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INTERNAL CHECK, INTERNAL CONTROL & INTERNAL AUDIT

Internal Control (Super System)

Internal Check
(Sub System)

Internal Audit
(Sub System)

PART A : INTERNAL CHECK

Meaning

- ▶ Arrangement of Staff duties
- ▶ No one employee has exclusive right over a transaction
- ▶ No collusion between employees
- ▶ Fraud is prevented

Example : Encashing a self cheque- attending clerk, Clerk for Verification, Cashier

Aims

- ▶ Fix Responsibility
- ▶ Facts confirmation
- ▶ Routine procedures breakdown
- ▶ Reduced frauds & errors

Internal Check/ Control Questionnaire

- ▶ List of systematically & logically prepared questions
- ▶ Effectiveness of internal check (adequacy & reasonableness)
- ▶ Meant for employees of organisation
- ▶ Issued at any time
- ▶ Collect information to evaluate weakness

Sample questionnaire for Cash & Bank receipts

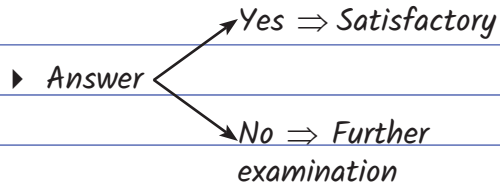
(Note : Questions to be framed as - Is there , Are there?)

- ▶ Detailed record
- ▶ Counterfoil of deposit slips
- ▶ Comparison of counterfoils with cash receipt records
- ▶ Reconciliation
- ▶ Authorisation for opening new bank account
- ▶ Separate accounts for branches
- ▶ Physical cash verification
- ▶ Rotation of duties (Cashier's duty taken by others)
- ▶ Fair Cash book and Rough Cash book

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Checklist

- ▶ Questionnaire set
- ▶ Important aspects of Internal check
- ▶ For audit staff

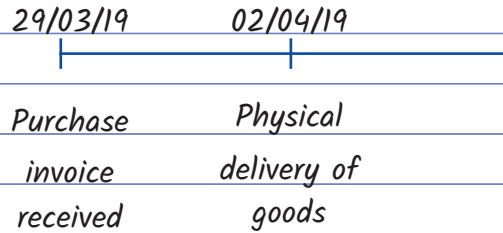


- ▶ Instructions for audit staff
- ▶ Issued at commencement of audit
- ▶ Serves as a guideline

Cut-off Procedures

▶ **Definition** : Need for specific demarcation between transactions of two different periods.

▶ **Example** :

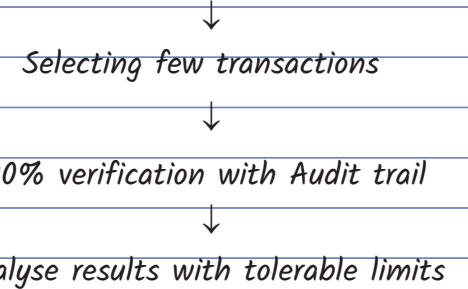


When should purchase be recognised as an expense 2018-19 or 2019-20? ⇒ 2018-19

- ▶ **Areas of Concern** : Accounts, payable, Accounts receivable, inventories, sales, purchases.
- ▶ **Cut-off points** : Serial numbers in documents

Examination in depth :

- ▶ Walkthrough Test
- ▶ **Process** : Fixation of tolerable limit



Test Checking v/s Statistical Sampling (Ref: SA 530- Audit Sampling)

Basis of distinction	Test Checking	Statistical Sampling
Selection	Selective Transactions	Sample from large population
Technique	No specific technique	Scientific techniques, Random selection etc.
Subjective	Depends on auditor's choice	Depends on technique applied
Risk & Methods	More risk	Lesser risk

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PART B - INTERNAL CONTROL

Meaning

- ▶ Policies, Procedures & Methods
- ▶ Designed, implemented and maintained by Management & TCWG
- ▶ To achieve entity's objectives w.r.t -
 - ▲ Safeguarding of assets
 - ▲ Prevention & detection of frauds & errors
 - ▲ Adherence of Management policies
 - ▲ Reliability of financial reporting
 - ▲ Efficiency & effectiveness of operations
 - ▲ Compliance with laws & regulations

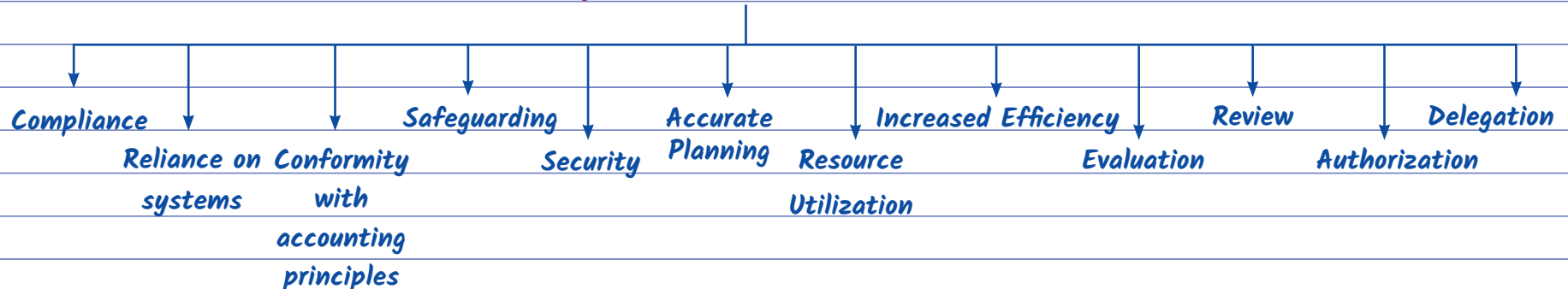
Essentials

- ▶ Proper Internal Check
- ▶ Proper Internal Audit
- ▶ Division of Functional responsibility
- ▶ Proper authorization & assignment of duties
- ▶ Adherence with management policies
- ▶ Review & authorization of transactions

Steps in Internal Control

- Control Environment (tone at the top) → Entity's Risk Assessment
- (Plan to prevent risks) → Control Activities (Policies & Procedures) → Information & Communication
- (At all levels) → Monitoring (Assessing performance)

Objectives of Internal Control



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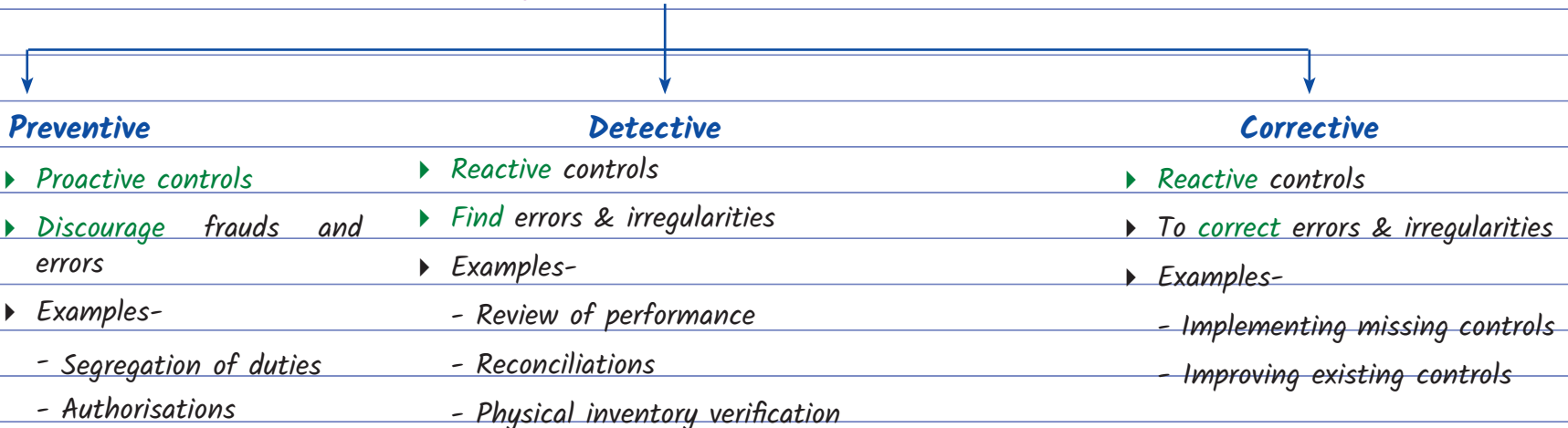
Basic Elements

- ▶ Financial & organizational plans
- ▶ Competent personnel
- ▶ Division of work
- ▶ Separation of record keeping & operational responsibility
- ▶ Separation of custody of assets & accounting
- ▶ Authorization
- ▶ Managerial supervision & review

Nature & Scope

- ▶ Essential prerequisite for efficient management
- ▶ Extends beyond financial matters
- ▶ Covers operational & administrative aspects
- ▶ Strong control environment includes tight budgetary control
- ▶ Control Environment depends on -
 - ▶ Entity's organizational structure
 - ▶ Functions of BOD
 - ▶ Management philosophy
 - ▶ Management control system

Types of Internal Controls



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Evaluation of internal control by auditor

Understanding the System [😊 DRI]

- Discussions with personnel
- Reference to organizational charts, Manuals
- Inquiries

Testing of Internal Control

Procedural Test

→ Checking compliance of laid down procedures

Examination in depth

→ Examination of few transactions end to end

Techniques Used for Evaluation

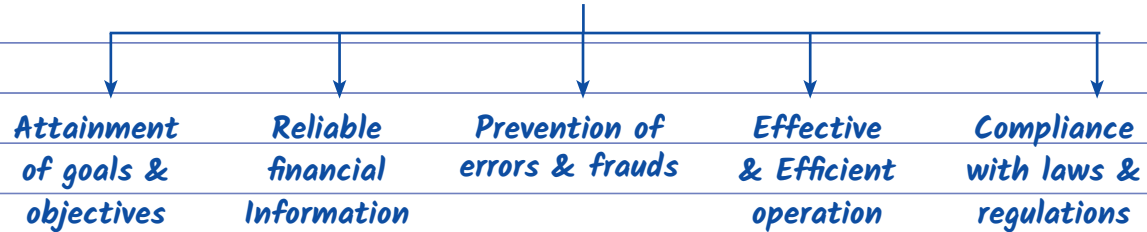
- Narrative Record
- Check List
- Flow Chart
- ICQ

Advantages of Internal Controls

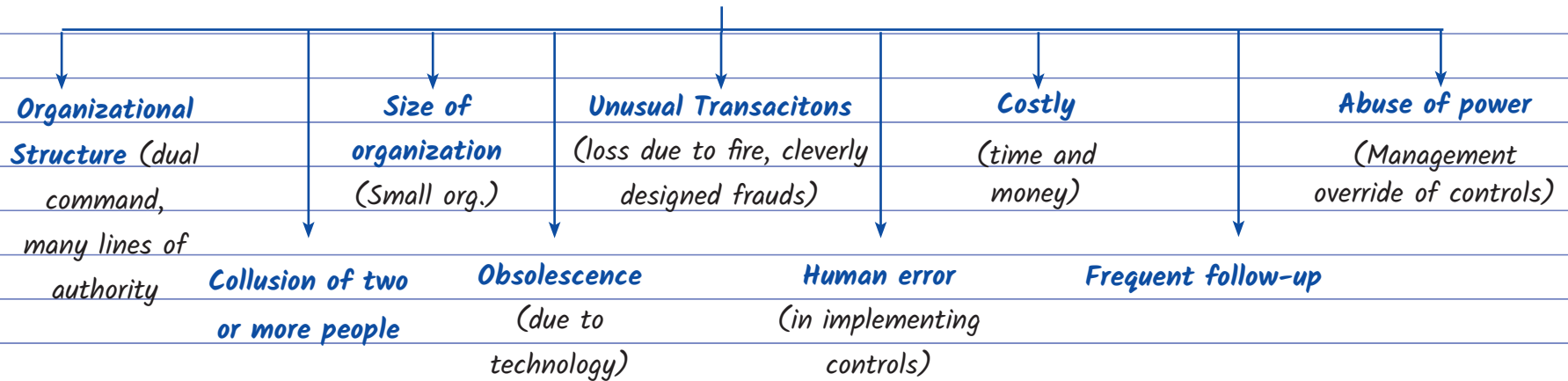
- Efficiency & Economy
- Effectiveness
- Safeguard from misappropriations
- Prevention of errors
- Employees' Satisfaction

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Importance of internal controls



Limitations of internal controls



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PART C - INTERNAL AUDIT

Meaning & Features

- ▶ Independent appraisal activity
- ▶ by staff/ independent professional and
- ▶ Review of accounting, financial & other operations & controls
- ▶ a service to the organization
- ▶ analysis, appraisal & suggestions
- ▶ continuous effort for promoting effective internal control -

Scope

- Covers 5 areas (Review, Verify, Ensure)
- ▶ Reliability & integrity of financial and operating information
 - ▶ Compliance with laws, regulations, policies etc
 - ▶ Safeguarding of assets
 - ▶ Economic & efficient use of resources
 - ▶ Accomplishing established objectives & goals

Need of Internal Audit

- ▶ Increased size and complexity
- ▶ Compliance requirements
- ▶ Focus on risk management
- ▶ Unconventional business models
- ▶ Intensive use of IT
- ▶ Stringent norms by regulators
- ▶ Competitive environment

Provisions of section 138 of companies act, 2013 read with Rule 13 of Companies (account) Rules, 2014

Mandatory Internal Audit in -

1. Every listed company

	Paid up Share Capital	Turnover	Outstanding loans & borrowings	Outstanding deposits
2. Unlisted public companies	≥ 50 Crores	≥ 200 Crores	≥ 100 Crores	≥ 25 Crores
3. Private companies	-	≥ 200 Crores	≥ 100 Crores	-



LEARNING TECHNIQUE

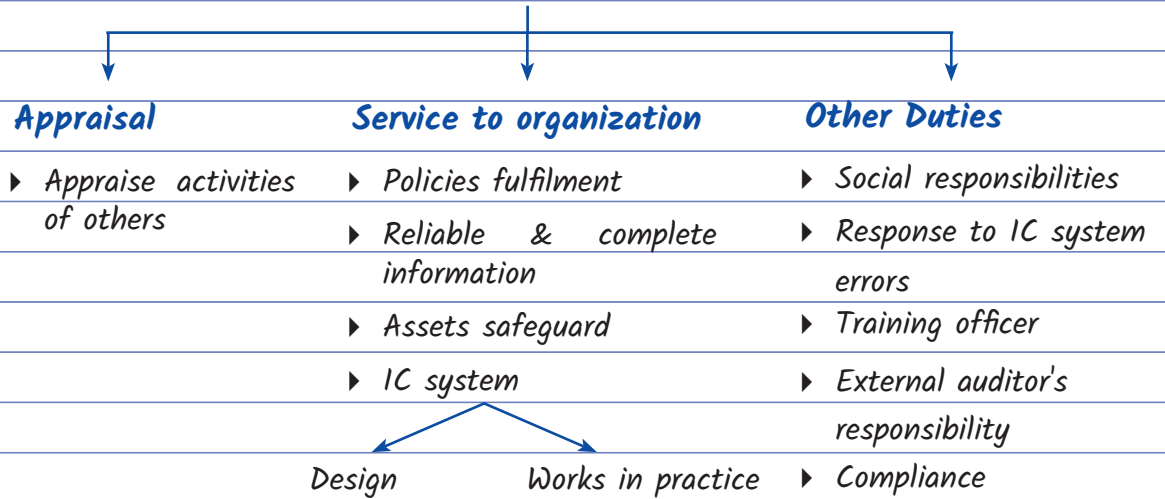
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Internal Audit - A management tool

- ▶ Compliance of CARO, 2016
- ▶ Compliance of AS & policies
- ▶ Reliability of MIS
- ▶ Efficiency of operations
- ▶ Effectiveness of IC system
- ▶ Suggest improvements
- ▶ Adequacy, reliability, accuracy of financial, operational data
- ▶ Management by system
- ▶ Assistance in acquisition etc.

Functions of internal auditor



Internal audit v/s Operational Audit

	Basis of distinction	Internal audit	Operational audit
Objective		Compliance	Process improvement
Area		Financial Accounts	Business
Orientation		Audit	Efficiency & improvement
To check		Transactions	Processes
Focus		Policies & procedures	Risk management
Measure		Cost unless wise budget monitoring	Performance improvement

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Advantages of Internal Audit

Management

- ▶ Review of IC System
- ▶ Deviations in procedures
- ▶ MIS appraisal
- ▶ Suggestions for improvement

Statutory Auditor

- ▶ Can reduce no. of tests
- ▶ Reliance on stock valuation
- ▶ Timely completion of accounts
- ▶ Year end- contingent liabilities existence
- ▶ Correction of FS

Organization & other Stakeholders

- ▶ Accurate & efficient Accounting System
- ▶ Critical review of Business Performance
- ▶ Safeguarding of Assets
- ▶ Means of improvements
- ▶ Prevents error and frauds
- ▶ Check on resource utilization

Internal audit v/s Internal Control v/s Internal Check

Basis of distinction	Internal Audit	Internal Control	Internal Check
Way of Checking	Each component is checked	Automatically checked	Doubly check
Objective	Evaluate IC System	Adherence to policies, safeguarding assets	Segregation of duties - No exclusive control
Point of time	After occurrence	Simultaneously with occurrence	Continuously
Thrust	Detect frauds & errors	Fixing of responsibility	Prevent errors
Cost	Additional cost involved	Costly in small business	No additional cost
Report	To management	MIS Reports	For senior

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VOUCHING

Voucher

- ▶ Piece of *substantiating evidence*
- ▶ *Written record* of expenditure, disbursement, transaction
- ▶ Examples : Cash memo, Sale or purchase invoice, delivery challan etc.

Vouching

- ▶ Examination of documentary evidences
- ▶ *Authority of transactions*
- ▶ *Essence or backbone* of auditing

Types of vouchers

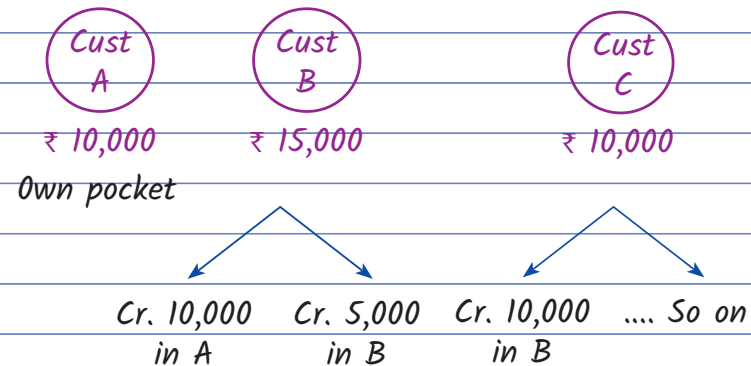
- Original & collateral vouchers** : Primary & supporting or copies (Sale invoice, Carbon Copy)
- Internal & External vouchers** : Inside or outside the company (Purchase Order, Purchase Invoice)
- Missing vouchers** :
 - ▶ Voucher not found. E.g., Cash memos, journal vouchers, TDS Certificates, copies of resolutions
 - ▶ Reasons for missing vouchers -
 - ▶ *Wrong or careless filing*
 - ▶ *Unawareness of statutory requirement*
 - ▶ *Intention to hide/ misappropriation*
 - ▶ Auditor should *cross verify* with other documents
 - ▶ Issue appropriate report.

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Teaming & Lading / Lapping

- ▶ Method of *misappropriation of cash*
- ▶ Concealing *cash shortages*
- ▶ Recoveries from another customer

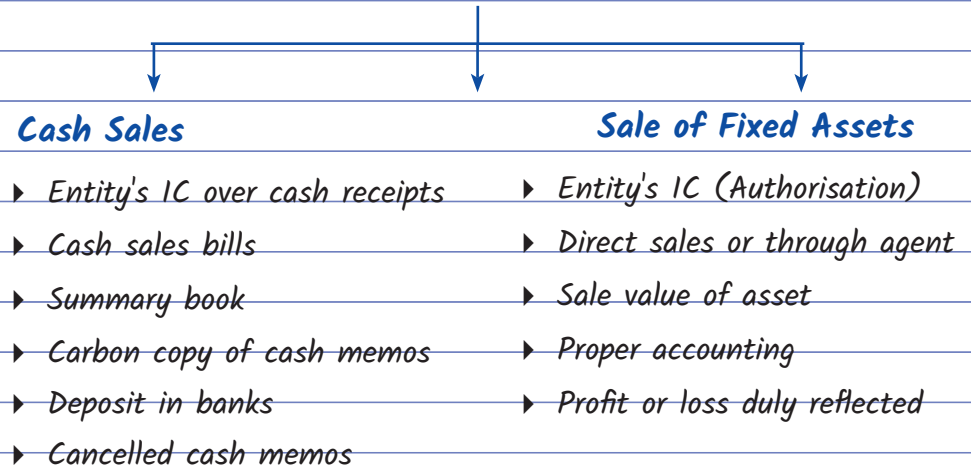
Example :



Auditor's procedures

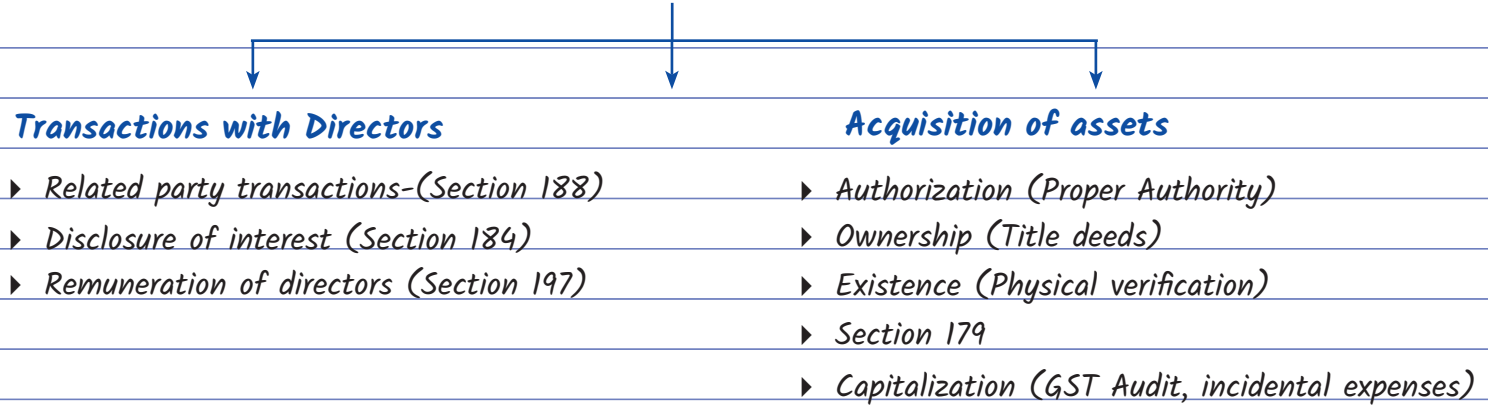
- ▶ Cash means *consecutively numbered*
- ▶ Reconcile individual cash amounts
- ▶ Reconcile rough & main cash book
- ▶ Cash deposits in banks
- ▶ Debtor's ledgers- Part payment
- ▶ Confirmations

Audit of Receipts



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Audit of expenditure



VERIFICATION

Meaning

- ▶ Enquiry into Value, Ownership, Existence, Possession of assets & liabilities
- ▶ Proving the truth

Objectives

- ▶ True & Fair View
- ▶ Existence
- ▶ Ownership
- ▶ Valuation
- ▶ Arithmetical accuracy
- ▶ Detect frauds/errors
- ▶ Adequate IC
- ▶ Free from charge
- ▶ Proper recording

How to conduct verification

- ▶ Examine documentary evidences
- ▶ Verify Opening balances
- ▶ Verify Acquisitions
- ▶ Verify Self constructed assets
- ▶ Check Written off fixed assets
- ▶ Ensure Authorisation
- ▶ Ascertain Omissions
- ▶ Examine Title deeds
- ▶ Conduct Physical Verifications
- ▶ Verify Register of charges, loan agreements, repayment

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Importance

- ▶ True & Fair View fo Balance Sheet
- ▶ Valuation (understated/ overstated)
- ▶ Omissions (All assets & liabilities recorded)

Scope

- ▶ All account balances (assets & liabilities)
- ▶ Existence
- ▶ Authorisation
- ▶ Right of ownership
- ▶ Free from charge
- ▶ Proper Valuation
- ▶ Proper Disclosure

Techniques

- ▶ Inspection (examining documents)
- ▶ Observation (Witnessing process)
- ▶ Confirmation (Obtaining corroborating written evidences)

Advantages

- ▶ Manipulation of Accounts ✗
- ▶ Improper use of assets ✗
- ▶ Proper recording & valuation ✓
- ▶ True & Fair View ✓

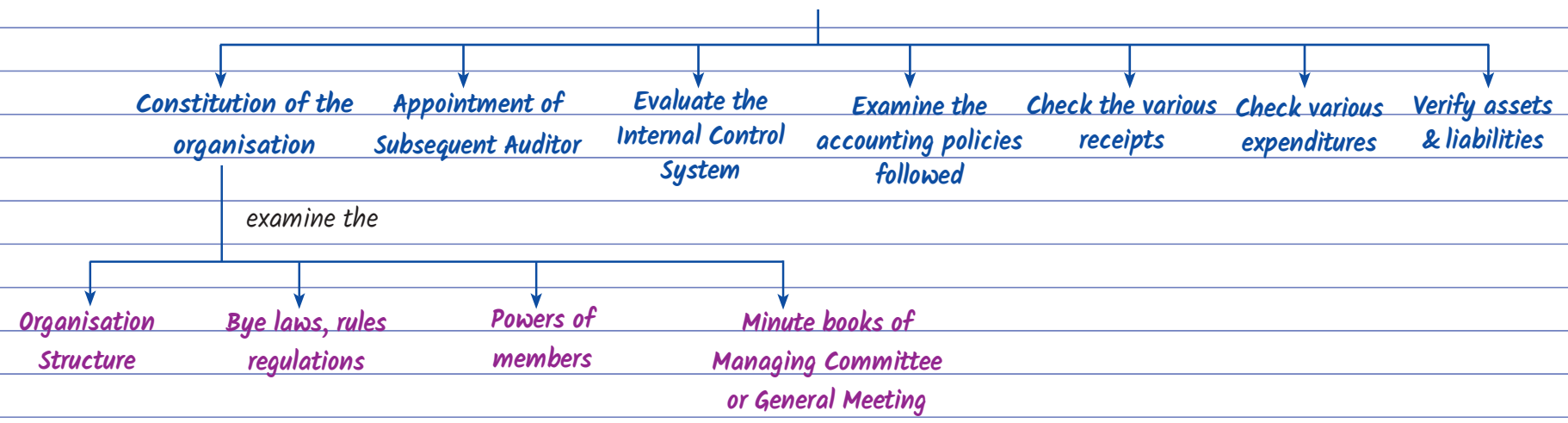
Special points while verification

- ▶ Tracing from ledger to Balance Sheet
- ▶ Business purpose or not
- ▶ Proper classification & grouping
- ▶ Actual existence or not
- ▶ Owned by client or not
- ▶ Overvalued or undervalued
- ▶ Balances tallies with confirmations

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AUDIT OF DIFFERENT UNDERTAKINGS

MAJOR COMMON POINTS



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A. EDUCATIONAL INSTITUTIONS

1. General/ Preliminary

- ▶ Trust Deed, Regulations, Act, Legislature
- ▶ Minutes of meetings

2. Income/ Cash Inflow

- ▶ Students' fees register
- ▶ Comparing counterfoils
- ▶ Admission fees → Capital
- ▶ Scholarships, Commissions
- ▶ Fines for late payments
- ▶ Hostel dues
- ▶ Rental income
- ▶ Endowments & legacies
- ▶ Local authority grant
- ▶ Dormitory rents

3. Expenditure/ Cash Outflow

- ▶ Donations
- ▶ Capital expenditure
- ▶ Establishment expenses
- ▶ Salaries
- ▶ Issues of foodstuff, clothing, equipments etc.

4. Assets & Liabilities

- ▶ Caution money & deposits-liability
- ▶ Investments representing endowment fund for prizes
- ▶ Provident fund
- ▶ Corpus donations
- ▶ Inventories - Food, Stationery, Furniture
- ▶ Refund of TDS

B. HOSPITALS

1. General/ Preliminary

- ▶ Letter of appointment
- ▶ Charter or Trust Deed
- ▶ Internal Check, Internal Controls

2. Income/ Cash Inflow

- ▶ Patients' bill register with bills issued
- ▶ Collections from patients, arrears, irrecoverable
- ▶ Interest/ dividend income
- ▶ Legacies & donations
- ▶ Subscription → budgeted & actual

3. Expenditure/ Cash Outflow

- ▶ Capital & Revenue expenditure
- ▶ Proper authorization under valid resolutions
- ▶ Internal check w.r.t. purchase of medicines

4. Assets & Liabilities

- ▶ Staff salaries
- ▶ Physical verification of investments, inventories
- ▶ Depreciation

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C. TRUSTS

1. General/ Preliminary

- ▶ Constitution - society/ trust/ company
- ▶ Interest of members
- ▶ Budget- Different heads of incomes & expenses
- ▶ Internal check system

4. Assets & Liabilities

- ▶ Physical verification of investments inventories etc.
- ▶ Corpus donations

2. Income/ Cash Inflow

- ▶ Income deposited in bank
- ▶ Subscription & donation
- ▶ Legacies received
- ▶ Income from investments
- ▶ Rental income
- ▶ Income from concert

3. Expenditure/ Cash Outflow

- ▶ Expenditure relating to concert
- ▶ Only for charitable purpose

D. MUNICIPALITIES AND PANCHAYATS

1. Objectives

- ▶ Ensuring fairness and correctness
- ▶ IC adequacy
- ▶ Value of money
- ▶ Detect frauds & errors

2. Special points for audit

- ▶ Expenditure confirms provisions of law
- ▶ General/ special sanction
- ▶ Provision of funds
- ▶ Economical expenditure

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E. CO-OPERATIVE SOCIETIES

1. Meaning

- ▶ Voluntary association of persons
- ▶ Common economic benefits
- ▶ Equitable contribution
- ▶ Co-operative Societies Act, 1912

2. Books of accounts

- ▶ Cash Book
- ▶ Stock Register
- ▶ Register of assets & investments
- ▶ Register of Fixed deposits
- ▶ Register for Sureties

3. Special Points

- ▶ **Restriction on shareholding:** Max. limit - 20% of no. of shares or ₹1000 value
(Registered Society member-exception)
- ▶ **Restriction on loan:** Loans only to members. Prior approval of Registrar for loans to other Co-operatives.
- ▶ **Restriction on borrowing:** Accept loans & deposits from members & non-members
- ▶ **Investment of funds**
 - ✓ Central / State Co-operative banks
 - ✓ Section 20 of Indian Trust Act
 - ✓ Shares, securities etc. of other Co-operative banks
 - ✓ Approved co-operative banks
- ▶ **Profit Appropriation**
 - 25% profits before dividend distribution
(ROC permission for less ⇒ but minimum 10% appropriation)
- ▶ **Charitable Purposes**
 - 10% of N.P. (after t/f to Reserves)

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S. Audit of Co-operatives

- ▶ **Qualification**
 - CA
 - Diploma in co-operative accounts
 - Auditor of Co-operative department of government
- ▶ **General/ Preliminary**
 - Bye-laws
 - Register of members
 - Internal check
- ▶ **Incomes**
 - Cash receipts for share capital
 - Sales vouchers
 - Receipt of interest
- ▶ **Expenditure**
 - Authorised by Managing Committee
 - Payment for loans
 - Establishment expenses
- ▶ **Special Points**
 - Overdue debts for 6m to 5 years
 - Overdue interest reserve account
 - Writing off bad debts with prior authorisation of Committee (Sometimes auditor also)

F. BANKS

1. Types of Banks

- ▶ Commercial Banks (e.g., ICICI)
- ▶ Regional Rural Banks
- ▶ Co-operative banks
- ▶ Development banks (e.g., NABARD)
- ▶ Payment Banks (e.g., Airtel Payments)
- ▶ Small Finance banks (e.g., Jana Small Finance)

2. Auditing Aspects

- ▶ **Advances**
 - Internal controls
 - Scrutinise ledger accounts
 - Documentation
 - Overdue accounts
- ▶ **Cash in hand**
 - Internal control
 - Physical verification
 - Foreign currency translation

▶ **Balance with RBI**

- Confirmation certificates
- Reconciliation

▶ **Balance with Other banks**

- Reconciliation
- Foreign currency A/c translation

▶ **Money at call & short notice-**

- Authorisation
- No net off

▶ **Fixed Assets**

- Accounting method
- Ownership
- New assets acquired
- Assets sold
- Revaluation
- Section 9 : Disposal of non-banking assets

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▶ **Borrowings**

- Proper classification
- From RBI
- Outside India
- Rate of interest & duration

- Signatures ↔ Specimen signature
- Issued by branch ↔ Debit advice
- Confirmation from paying branch
- Manner of cancellation

▶ **Contingent liabilities**

- Properly identified and valued
- Non fund based facilities to regular customers

▶ **Deposit**

- Interest accrued but not due → not liability
- Window dressing in LFAR

▶ **Capital**

- Opening balance
- SR for increasing authorised capital

- Adequate internal controls
- LCs, guarantees etc → Payment on basis of documents

▶ **Reserves & Surplus**

- Opening balance
- Addition/ deduction
- Dividend
- Foreign branch

- Substantive tests to establish completeness
- Reasonableness of amount
- Comfort letters issued by banks

▶ **Bills for collection**▶ **Bills Payable**

- Drafts, mail transfers → printed forms
- Unused forms in proper custody
- Private code for decoding

- Bills drawn on other branches - not included
- Register for outward bills
- Subsequent collections
- Procedure for crediting party account

▶ **Treasury operation- Foreign Exchange & derivatives**

- Assess controls because of high risk in innovative products
- Appropriate risk assessment of treasury operations
- Figures in F.S. are true & fair.

▶ **Reports to be given**

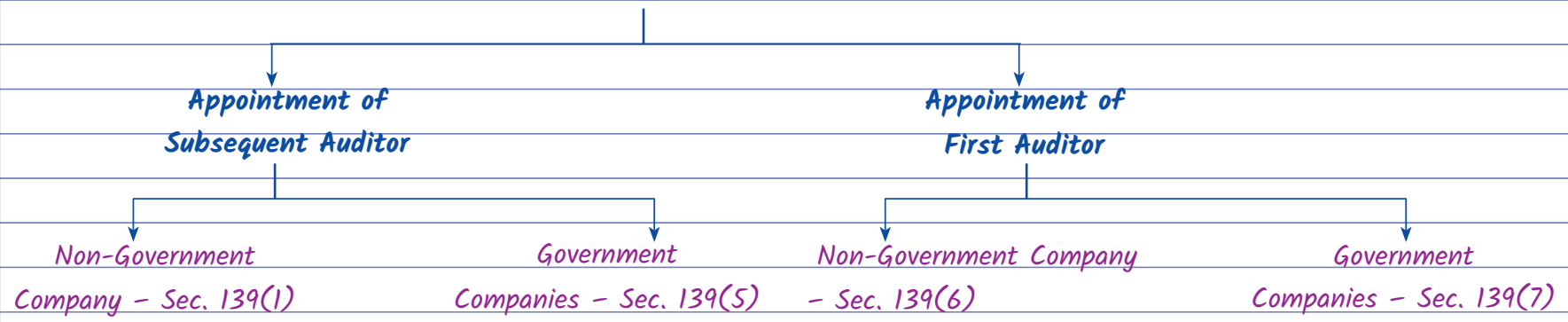
- Audit report on true & fair view
- Unaudited branches info.
- Additional matters - 30(3)
- Info & explanation
- Transactions within powers
- Returns from branches
- Other significant matter

- LFAR
- Certificates

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COMPANY AUDIT - I

APPOINTMENT OF AUDITOR



<u>Non-Government Company</u> - Sec. 139(1)	Condition	Details of condition	<u>Government Companies - Sec. 139(5)</u>
	1. Ratification	Omitted	By CAG
▶ Appointment will be at First AGM	2. Written consent	Before appointment company shall obtain (a) Written consent	↓
▶ till conclusion of 6 th AGM; and		(b) Certificate	Within a period of 180 Days
▶ thereafter till conclusion of every 6 th AGM	3. Certificate	→ Certificate shall indicate → criteria as provided u/s 141 satisfied	↓
▶ Subject to following conditions:	4. Intimation to ROC	→ Inform auditor and ROC within 15 days of appointment.	From commencement of financial year
		→ Intimation to ROC in Form ADT-1	↓
			Tenure: till the conclusion of next AGM

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Appointment of First Auditor

Non-Government Company - Sec. 139(6)

Government Company - Sec. 139(7)

By Board of Directors

by CAG

↓
Within 30 days

↓
Within 60 days of registration of company

↓
of registration of company

↓
If CAG fails

↓
If Board fails, Board shall inform the members

↓
BOD will appoint within next 30 days

↓
If Board fails, Board shall inform the members

↓
Members shall within 90 days

↓
Members shall within 60 days

↓
at an EGM

↓
at an EGM

↓
appoint the first auditor

↓
appoint the first auditor

↓
Tenure: till conclusion of first AGM

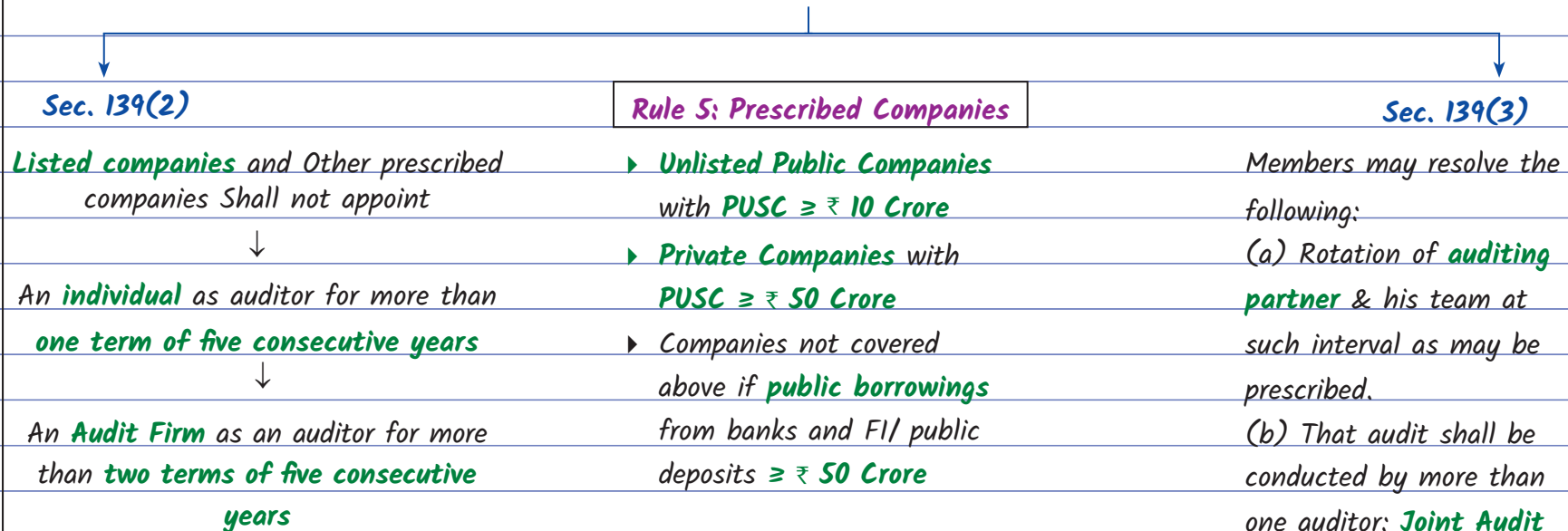
↓
Tenure: till conclusion of first AGM

😊 LEARNING TECHNIQUE: 30-90

😊 LEARNING TECHNIQUE: 60-30-60

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ROTATION OF AUDITOR



Rule 6 – Manner of Rotation

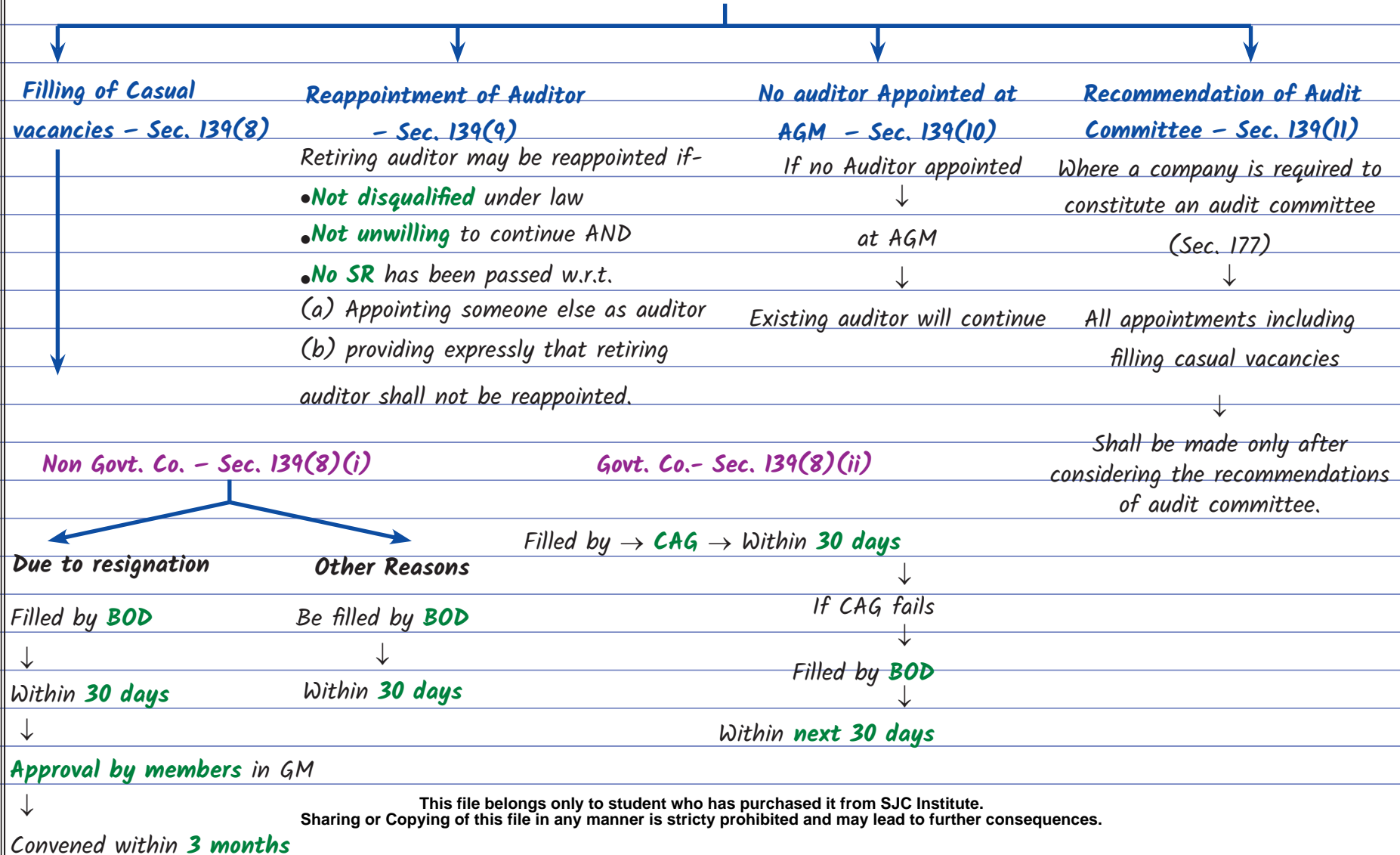
1. For calculating period of 5 years / 10 years, period served prior to commencement of this Act, shall also be considered.
2. Individual auditor / Audit Firm not eligible for appointment for a period of 5 years if it belongs to **same network** to whom retiring auditor belong to.
3. Break in the term should be for a continuous period of 5 years.
4. Auditing partner retires from Firm and joins **Other Firm**, latter becomes ineligible

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1st Proviso	Cooling Period	Individual Auditor	for 5 years after completing of tenure
		Audit Firm	for 5 years after completing of tenure
2nd Proviso	Common Partner	<ul style="list-style-type: none"> ▶ Audit Firm having common partner with firm ▶ Whose tenure has just expired ▶ Shall not be appointed as auditor of same company ▶ For a period of five years 	
3rd Proviso	Company existing before commencement of this Act	<ul style="list-style-type: none"> ▶ Comply with requirement of Sec. 139(2) ▶ Within a period not later 3 years from the date of commencement of this Act. 	
4th Proviso	Sec. 139(2) shall not prejudice the	<ul style="list-style-type: none"> ▶ Right of company to remove auditor ▶ Right of auditor to resign. 	

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OTHER PROVISIONS OF SEC. 139



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SEC. 140 - REMOVAL, RESIGNATION OF AUDITOR AND GIVING OF SPECIAL NOTICE



Sec. 140(1) - Removal before expiry

Requires

→ **SR** of Company & **prior approval of CG** in prescribed manner (Rule 7). → auditor concerned should be provided an **opportunity of being heard.**

- Application to CG in **Form ADT-2.**
- Within **60 days** of approval by CG,
- convene a general meeting
- to pass SR

Opportunity → **Board Resolution**

→ **Application to CG** → **General Meeting**

Sec. 140(2) & (3) - Resignation

Resigning auditor

- Shall file
- Within **30 days** of resignation
- Form **ADT-3**
- To Company & ROC
(Also to CAG - in case of Govt. Companies)
- Indicating the reasons and other facts relating to resignation.

Sec. 140(3): Fine for non compliance

Lower of Audit fees or ₹ 50,000

Continuing Failure- ₹500 per day to ₹5 lakhs

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Sec. 140(4) - Removal at AGM

Special notice shall be required

→ to pass the **SR at AGM** that-

- a) Retiring Auditor shall not be re-appointed or,
- b) To appoint as auditor any person other than retiring auditor.

→ Copy of notice to be sent immediately to concerned auditor.

→ Auditor has a right of representation

→ Copy of notice and representation needs to be sent to every person to whom notice of AGM was given.

→ Auditor may demand for reading the representation in meeting.

→ Representation need not be sent or read out at meeting, if on application of company or other person, Tribunal pass such order.

Sec. 140(5) - Directions for change of Auditor

Tribunal may, by order, direct the company to change its auditors

→ either **suo motu** or on an **application** made to it **by C.G.** or by any person concerned,

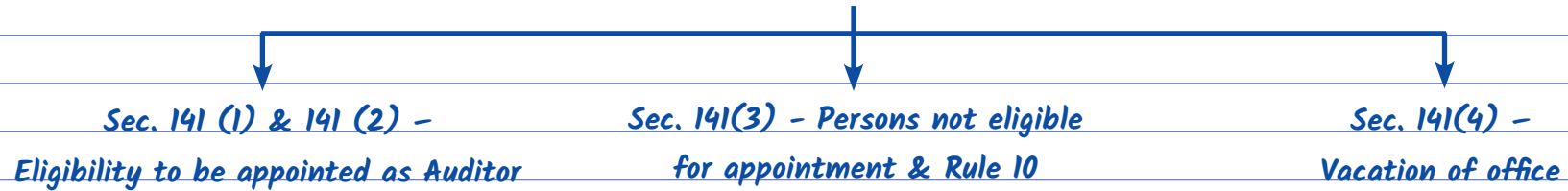
→ if it is **satisfied** that the auditor has acted in a **fraudulent manner** or **abetted** or **colluded** in any fraud.

→ If the application is made by the C.G. → Tribunal shall **within 15 days** of receipt of such application, make an order that

- he shall not function as an auditor and
- C.G. may appoint another auditor in his place.

→ Such auditor shall be ineligible to be appointed as an auditor of **any company** for a period of **5 years** from the date of passing of the order and the auditor shall also be liable for action u/s **447**.

SEC. 141 - ELIGIBILITY, QUALIFICATIONS AND DISQUALIFICATIONS OF AUDITOR



Sec. 141 (1) & 141 (2) - Eligibility to be appointed as Auditor

Eligible persons-

- **Chartered Accountant**
- A **Firm** whereof Majority of Partners
 - Practicing in India
 - are qualified
 - including **LLP**
 - Signing partner = CA

Sec. 141 (4) Vacation of Office

Disqualifications incurred (Sec 141 triggered)

↓
After appointment

↓
Auditor to vacate office

↓
To be deemed as **Casual Vacancy**

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Sec. 141 (3) Disqualifications

(a)		Body Corporate other than LLP	
(b)		Officer or Employee of the company	
(c)		Partner/ Employee of Officer/ Employee of the company	
(d)	(i) person/ relative/ (ii) partner (iii) _____ (PRP)	is holding any security * or interest in the is indebted > ₹ 5 Lacs in the has given a guarantee in connection with indebtedness of 3rd person > ₹ 1 Lac in the	Company / subsidiary / holding / associate, or subsidiary of same holding.
		*no disqualification if relative holds any security in the company of face value upto ₹1 Lac.	(5 Companies)
(e)		Person or firm having business relationship with Company / Subsidiary / Holding / Associate / Subsidiary of Such Holding or Associate Company	(6 Companies)
(f)		A Person whose relative is a director or is in employment of the company as a Director or KMP.	
(g)		A person who is in full time employment elsewhere Or A person holding appointment as auditor or more than 20 companies other than OPC, dormant companies, Small Companies and private companies having paid up capital < 100Cr.	
(h)		A person who has been convicted of an offence involving fraud and a period of 10 years has not elapsed.	
(i)		Any person who directly or indirectly renders any service referred to in Sec. 144 to company or its holding company or its subsidiary company	(3 Companies)

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POWERS / RIGHTS AND DUTIES OF COMPANY AUDITOR (SEC. 143)

RIGHTS OF AUDITOR - Sec. 143(1)

Right of Access

- at all times
- to books of Account & Vouchers
- whether kept at Regd. Office or at any other place.

Right to Obtain Information

- From the officers of the company
- As considers necessary
- For performance of his duties

DUTIES of AUDITOR

Inquire into Propriety Matters - Sec. 143(1)

1. **Loans and advances** are properly secured and terms are prejudicial.
2. **Book entries** are prejudicial.
3. Shares, debentures and other **securities** are sold at a **price less than acquisition cost** in case of non banking and non investment company.
4. Loans and advances made are shown as **deposits**.
5. **Personal expenses** charged to revenue account.
6. **Cash** has actually been received on shares allotted for cash, if not received, correct position shown in books and balance sheet.

That to the best of auditor information & knowledge, the accounts & financial statements give a **true and fair view** of the state of the company affairs as at the end of its financial year & profit & loss

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Reporting u/s 143(3)

1. Obtained all necessary **information** for the audit.
2. **Proper books of accounts** have been maintained.
3. **Branch audit report** has been received and manner of dealing with it.
4. Balance Sheet and P & L Account **agree** with the books of accounts.
5. Financial statements comply with **AS**.
6. Comments on financial transactions having any **adverse effect on functioning** of company.
7. **Directors disqualified** u/s 164(2).
8. **Qualifications** w.r.t. maintenance of accounts.
9. Adequacy and operative effectiveness of **Internal Financial Controls** with reference to FS
10. Other matters as prescribed.

(Rule 11) Rule 11

1. Disclosure of impact of **pending litigations** on financial position.
2. **Provisions** for Material Forseeable losses on long term contracts made.
3. Any delay in transferring amounts to **IEPF**.

Duties of Auditor of Govt. Cos. - Sec. 143(5)

→ CAG - direct the auditor the manners in which accounts are to be audited. Auditor report shall include:

- ▶ Directions issued by CAG.
- ▶ Action taken thereon

- ▶ Its impact on Accounts and FS

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Supplementary Audit – Sec. 143(6)

Within **60 days** of days of receipt of Audit Report

- ▶ CAG has a Right
- ▶ To order for supplementary audit of FS
- ▶ By such persons as authorized by him

Test Audit – Sec. 143(7)

CAG may If considers necessary

- ▶ by an order
- ▶ cause test audit
- ▶ of accounts of Govt. companies

Sec. 143(8) Audit of Branch Accounts

Sec. 143(9) Compliance with Auditing Standards

Sec. 143(10) SAs in consultation with NFRA

Sec. 143(11) CARO, 2016

Reporting u/s 143(12)

Fraud involving prescribed amount

- ▶ Committed by **officers** or **employees**
- ▶ Reported to CG in prescribed manner (Rule 13)
- ▶ Frauds below prescribed amount
- ▶ Should be reported to Audit Committee or BOD
- ▶ Details of Such Frauds need to be disclosed in Board's report.

Nature of Fraud with description	Approx. amount involved
Parties involves	Remedial action taken

Rule 13

Fraud ≥ ₹ 1 Crore.

- ▶ Reported to Audit Committee / BOD within **2 days**
- ▶ Seeking their reply within **45 days**

If Reply

Received

Not Received

Forward to CG

Forward to CG

- Report, Reply of BOD/AC,

- Report

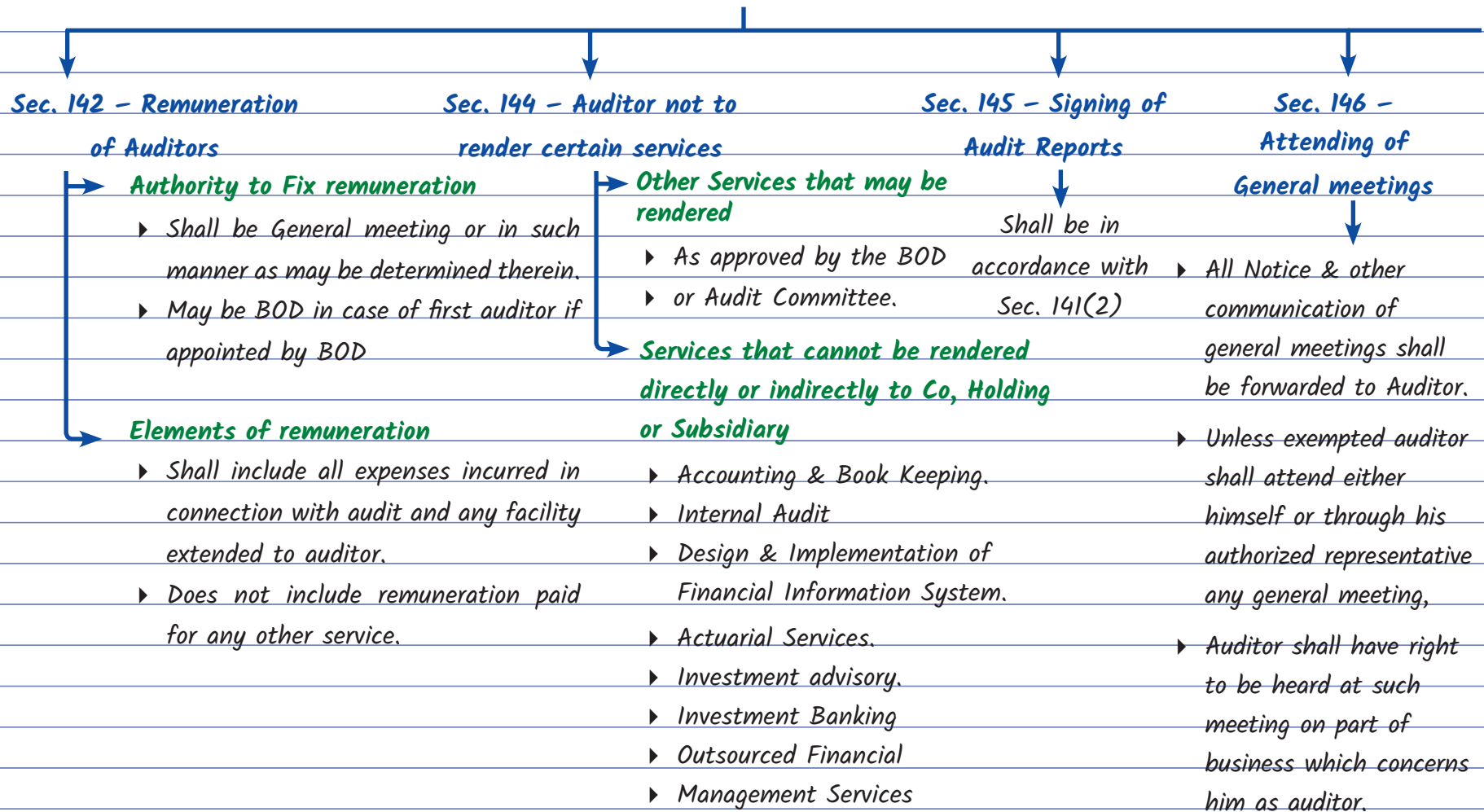
Comments on Reply

- Note that no reply recd.

▶ Within **15 days** in **ADT-4**

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OTHER PROVISIONS (SEC. 142, 144, 145, 146 & 147)



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Sec. 147 - Punishment for

Contravention

→ On the Company & Officer in default - 147(1)

- ▶ Violation of Sec. 139-146
- ▶ Company - Fine from ₹ 25,000 to ₹ 5,00,000
- ▶ Officer in default - Imprisonment upto 1 year or fine from ₹ 10,000 to ₹ 1 Lac or both

→ On the Auditor - 147(2)

- ▶ Violation of Sec. 139, 143, 144, 145.
- ▶ Fine from ₹25,000 to (₹5 Lacs or 4 times the remuneration, whichever is less).
- ▶ In case of Willful default - Imprisonment upto 1 year and fine from ₹50,000 to (₹25 Lacs or 8 times the remuneration, whichever is less)

If auditor convicted u/s 147(2)

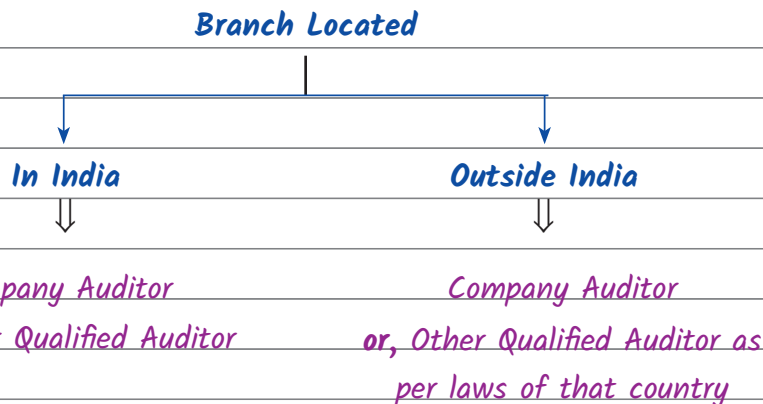
- ▶ he shall be liable to
- ▶ Refund the remuneration and Pay for damages

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COMPANY AUDIT - II

BRANCH AUDIT [SECTION 143(8)]

◆ Who will be the auditor?



◆ Branch Auditor Submits report to → Company Auditor

◆ Qualifications in report included in statutory report unless -

- Objections are met
- Objections are immaterial
- Information gets available

◆ Fraud Reporting

- Branch auditor also responsible

JOINT AUDIT [SA 299]

◆ Meaning

Audit of one company conducted by more than one persons or firm.

Example : Auditors of Reliance Industries -

Joint Auditors ⇒ DTS and Associates
SRBC and Co. LLP

◆ Advantages

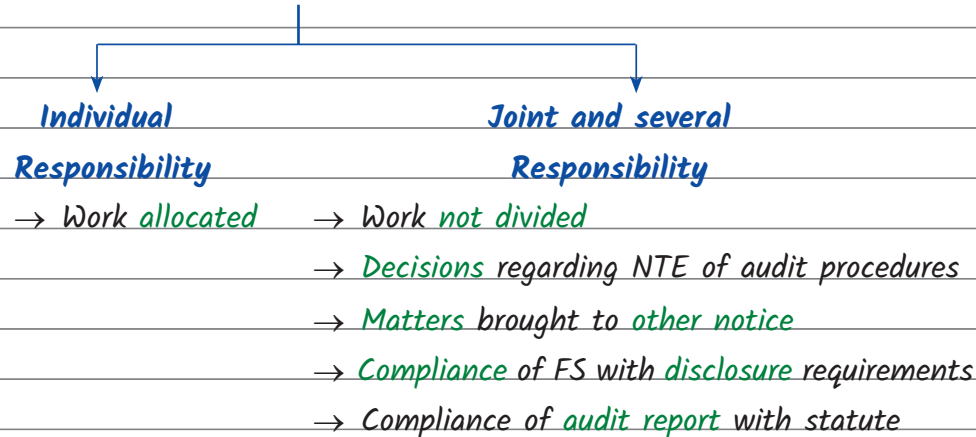
- Sharing of expertise
- Lower workload
- Improved quality of service
- Quality of performance
- Timely completion of work

◆ Disadvantages

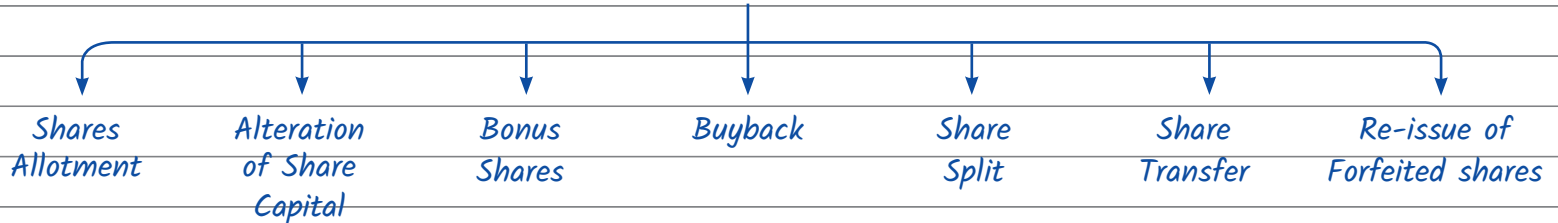
- Superiority complex
- Costly
- Lack of coordination
- Liability uncertain
- Psychological Problem

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◆ Responsibility of Joint Auditors



AUDIT OF SHARES



Share Allotment [Section 39]

- Study of contract - how many shares, value, consideration
- Examine Prospectus - terms of issue, payment mode
- Minimum Subscription
- Application money received or not
- Application money $\geq 5\%$ of nominal amount
- Examine Board minutes - Purpose of issue
- Refund within 15 days if minimum subscription not received
- Return of allotment - ROC (PAS - 3)
- Check records of RTA with dematerialisation & electronic record

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Alteration of Share Capital [Section 61]

- Authorised by AOA
- Board meeting + OR in GM
- Alteration in MOA & AOA
- Change in voting power
- Denomination > ₹ 1
- Accounting entries
- Register of members

Issue of Bonus Shares [Section 63]

- Authorised by AOA
- Board meeting minutes + OR in GM
- Fully paid up bonus shares to members
- Partly paid up made fully paid up
- Issue not made by capitalising revaluation reserves
- Any default in payment of interest or principal on fixed deposit
- Not to be issued in lieu of dividend

Buyback [Section 68]

- Authorised by AOA
- Board meeting minutes + SR in GM [if >10% of PUSC+FR]
- No buyback from earlier issue of same kind
- Maximum limit : < 25% of PUSC+FR
- Debt-equity ratio after buyback ≤ 2:1
- Fully paid up securities only
- SEBI regulations (if listed)
- Time limits
 - ◆ No buyback if same shares within 1 year from closure
 - ◆ Buyback to complete within 1 year of BR/SR
 - ◆ No further issue of same kind within 6 months (except bonus)
- Buyback out of -
 - ◆ Free reserves
 - ◆ Securities Premium
 - ◆ Proceeds of other securities
- Declaration of solvency with SEBI & ROC (if more than 10%)
- Register of shares
- Physically destroy shares brought back within 7 days of last date of completion
- Return to SEBI & ROC within 30 days

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Share Split

- Authorised by AOA
- Board meeting + OR in GM
- Alteration in MOA & AOA
- Proper Accounting entries
- Register of Members

Reissue of forfeited shares

- Authorised by AOA
- Vouch amount collected
- Accounting entries on re allotment
- $(\text{Amount received before} + \text{On forfeiture}) \geq \text{Par value}$
- Surplus credited to Capital Reserve
- Partly paid reissued as fully paid : Issue at discount

Share Transfer [Section 56]

- Inspection of AOA
- Notification by transferor of lodgment of transfer
- No-objection from transferee in case of partly paid shares
- Scrutiny of transfer forms
- Proper stamp duty
- Signature comparison of transferor
- Shares transfer journal
- Register of members
- Old certificate cancellation
- Board minutes
- Register of Directors

AUDIT OF DEBENTURES

Issue of Debentures

Interest on Debentures

Redemption of Debentures

Debentures as Collateral security

Issue of Debentures [Section 71]	Interest on Debentures	Redemption of Debentures	Debentures as Collateral security
<ul style="list-style-type: none"> → Redeemable debentures : SR in GM → No voting rights → Debenture redemption reserve for redeemable debentures → Debentures Trustee <ul style="list-style-type: none"> Offer to public if Offer > 500 members → Prospectus duly filed → Amount collected in Cash book → Debenture trust deed → Mortgage : Charge correctly recorded → SEBI guidelines → Issued to vendors as Purchase Consideration - contract 	<ul style="list-style-type: none"> → Acknowledgement of debenture holders → Reconcile total amount due and total amount paid → Separate item in Statement of P/L 	<ul style="list-style-type: none"> → Check Debenture Trust Deed → Director's minute books → Bonds cancelled → Accounting Treatment 	<ul style="list-style-type: none"> → Approval by BOD

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AUDIT OF DIVISIBLE PROFITS AND DIVIDENDS

Declaration of Dividend [Section 123]

- BOD recommends
- OR in GM
 - Source
 - Profit for the year or previous years
 - Money provided by CG or SG
- In case of losses - as per prescribed rules
- Brought forward depreciation and losses to be adjusted
- Transfer amount to separate bank A/c within 5 days
- Non compliance with Section 73 & 74 ⇒ No dividend declaration

Interim Dividend

- During FY or anytime between closure of FY till date of GM
- In case of losses :
 - Rate of dividend < Average of rate of last 3 FYs
- All other provisions : Same as final dividend

Unpaid Dividend Assets [Section 124]

- Transfer within 7 days if unpaid till 30 days of Date of Declaration; Issue list on website within 90 days
- Default in transfer : Penal interest @12%

Investor Education and Protection Fund (IEPF) [Section 125]

- Unpaid/ unclaimed dividend for 7 years transferred to IEPF
- All shares on which dividend unpaid/ claimed
 - transferred to IEPF
- Default : Fine on company ₹ 5L to ₹ 25L
Fine on officer ₹ 1L to ₹ 5L

Amounts credited

- Grants by CG
- Donation by CG, SG and others
- Unpaid dividend account
- Interest or other income
- Matured Deposits
- Matured Debentures
- Preference shares redemption amount unpaid/ unclaimed for 7 years
- Sale proceeds of fractional shares on merger etc., unpaid for 7 years

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Amounts utilised for

- Education, awareness and protection of investors
- Refund of unclaimed dividends, matured deposits, matured debentures etc.
- Reimbursement of legal expenses on class action suits
- Disbursed amount distribution to persons suffering losses due to wrong action of others
- Any other purpose, as may be specified.

AUDIT OF ABRIDGED FINANCIAL STATEMENTS

- Compliance of Section 136 of Companies Act, 2013
- Subsequent events : Events occurring upto date of report

ACCOUNTS OF LIQUIDATION [SECTION 348]

- Proper books of accounts
- Liquidation accounts relating to realisation and disbursements
- True and fair view

CONTRIBUTION TO POLITICAL PARTY/ POLITICAL PURPOSE [SECTION 182]

Who can contribute?

- Company except
 - a) Govt. Company
 - b) Company which has been in existence < 3 years

→ BR in BM

- Proper disclosure in accounts
- Accounting entries
- Permitted payments only
- Compliance with Section 182

AUDIT OF INVENTORIES

Features :

- Nature : High turnover rate
- Obsolescence & spoilage
- Movable/ immovable
- Location
- Individual items - low value
- Total inventory - high value

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- Estimation of valuation

Auditor's duties

- Check Inventory records
- Obtain External confirmation from suppliers
- Physical verification
- Controls over movement/ issues
- Valuation and Disclosure as per AS-2
- WIP Valuation
- ABC Analysis
- Stock with third parties
- Management representation

STATUTORY AUDITOR V/S INTERNAL AUDITOR

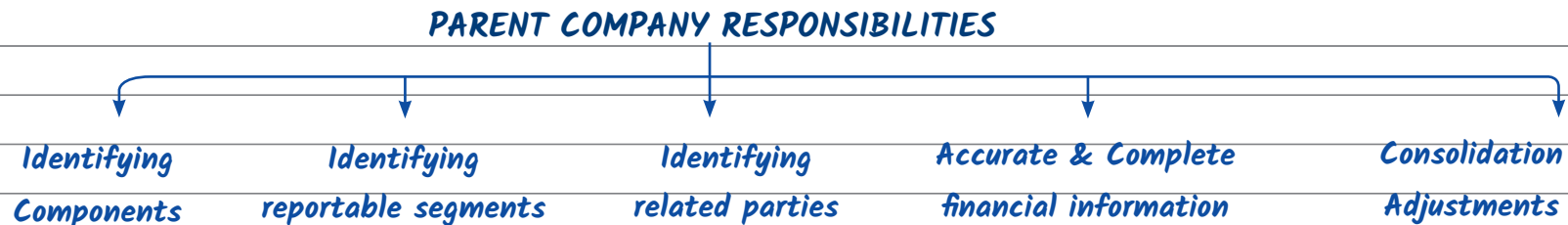
Basis of difference	Statutory Auditor	Internal Auditor
Appointing Authority	Shareholders in GM	BOD
Scope	As per companies Act	As per mutual agreement
Removal	By Shareholders	By BOD
Remuneration fixed	By Shareholders	By BOD
Audit Report	To Shareholders	To BOD

AUDIT OF PROPERTY, PLANT AND EQUIPMENT

- Tangible items used for
 - Production of goods and services
 - held for > 1 year
- Review of IC system
- Compliance with AS-10/ Ind AS-16
- Physical verification
- Proper records maintained or not
- Proper Depreciation
- Acquisition / disposal of assets
- Title deeds
- Profit / loss on sale

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AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS



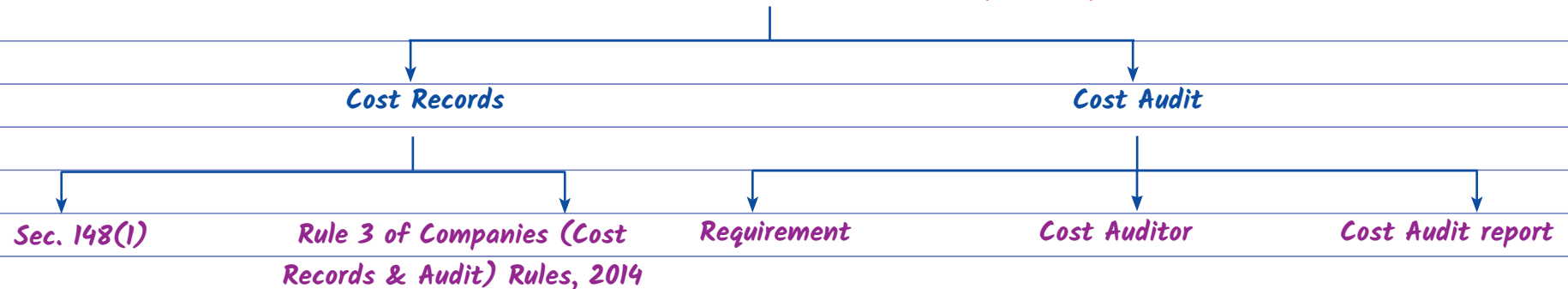
Auditor's duties

- All relevant subsidiaries, associates and JVs included (working papers or prior years, agreements)
- Check if any entity has parent-subsidiary relation due to **control** in BOD (Minute books, Shareholders agreements)
- Any entity **excluded** from consolidation
- Compliance with **Ind AS -27 & 28/ AS 21, 23, 27**
- **Disclosure requirements**
- **Impairment Losses, (if any)**
- **Permanent consolidation adjustments -**
 - ◆ Capital Reserve/ Goodwill
 - ◆ Minority interest
 - ◆ Investments in associates
- Intra group transactions (interest, indebtedness etc.)
- **Unrealised intra group profits**
- Harmonising **accounting policies**

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COST AUDIT AND SECRETARIAL AUDIT

COST RECORDS AND COST AUDIT (SECTION 148 OF COMPANIES ACT, 2013 & COMPANIES (COST RECORDS AND AUDIT), RULES, 2014)



SECRETARIAL AUDIT (SECTION 204)

- ▶ Applicable to all (a) **Listed Companies**
(b) **Unlisted Public Cos. with PUSC \geq ₹50 crores or Turnover \geq ₹ 250 crores**
- ▶ Audit conducted by **Company Secretary**
- ▶ Report in **Form MR-3**

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Cost Records

Sec. 148(1) Companies engaged in **production** of prescribed goods or providing prescribed **services** → particulars relating to → Material, Labour or Other items of cost → Shall be included in the books of accounts

Rule 3 of Companies (Cost Records & Audit) Rules, 2014 :

Companies including foreign companies → Engaged in → production of goods or providing services as specified (Table A and B products)

	Regulated Sector (Table A)	Non Regulated Sector (Table B)
	◆ Telecommunication	◆ Iron
	◆ Electricity	◆ Steel
	◆ Petroleum	◆ Rubber
	◆ Sugar	◆ Cement
	◆ Drugs and Pharma	◆ etc.
	◆ Fertilisers	

During immediate preceding financial year ← Having turnover > ₹35 Crores ←

↓

shall include **cost records** in their books of accounts

Rule 5 : Every Company under these Rules shall In respect of each of its Financial year

↓

Maintain Cost records in **Form CRA - I**

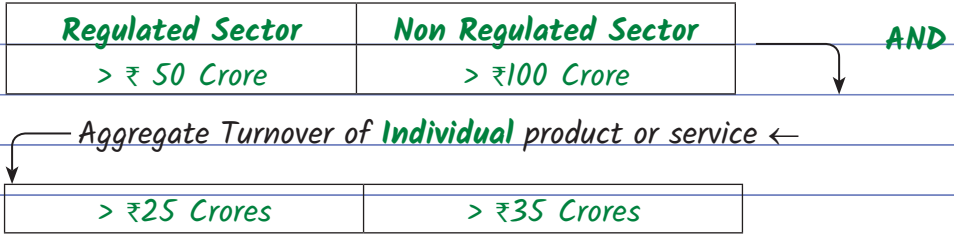
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Cost Audit

Requirement → **Sec. 148(2)** C.G. may be order → direct for the → **audit of cost records** of → companies covered u/s 148(1) → having prescribed net worth or turnover → in a manner → specified in that order

→ **Rule 4 of Companies (Cost Records & Audit) Rules, 2014**

Cost Records are required to be audited → If **overall annual turnover** → From all products and services → In immediate preceding Financial Year → In case of



Exemption - Rule 4(3)

Requirement of Cost Audit shall not apply to a company



Whose revenue from exports in foreign exchange exceeds 75% of its total revenue or which is operating from SEZ. or Engaged in generation of electricity for captive consumption

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Cost Auditor → **Sec. 148(3)** → Cost Audit shall be conducted → by **Cost Accountant** → Appointed by BOD in prescribed manner → No person appointed u/s 139 as an auditor → Shall be appointed as cost auditor

Rule 6 of Companies (Cost Records & Audit) Rules, 2014

Within 180 days of commencement of every financial year. → Before appointment **written consent & certificate** be obtained. → Company Shall inform the cost auditor of his appointment. → Company Shall file a notice with CG in **Form CRA-2** within **30 days** of Board meeting or **within 180 days** of commencement of FY whichever is earlier. → Tenure: **180 days of closure of FY or till submission of cost audit report.** → Cost statements shall be approved by BOD before being signed by any director on behalf of Board for submission to cost auditor.

Cost Audit Report → **Sec. 148(5) & 148(6)** → Cost Auditor shall submit his report to **BOD** → Company shall → **within 30 days** of date of receipt of report → furnish such report to CG → along with full information & explanation.

Rule 6 of Companies (Cost Records & Audit) Rules, 2014

Cost Auditor shall submit Cost Audit Report → in **Form CRA-3.**

Forward Duly Signed Report to BOD → **Within 180 days from closure of FY.**

Report along with information & explanation to → Shall be furnished to CG in **Form CRA-4** in **XBRL** Format

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AUDITOR'S REPORT AND CERTIFICATE

MEANING

- ◆ Medium through which
- ◆ Auditor expresses opinion on FS
- ◆ Statement of observations gathered and conclusions reached
- ◆ Going Concern (As per SA 570)
- ◆ Key Audit Matters (As per SA 701 for listed entities or L&R requirement)
- ◆ Management's Responsibilities (FS preparation, Designing IC, Assessing GC)

IMPORTANCE [WOFER 😊]

- ◆ End Product and concluding part
- ◆ Auditor's Opinion on accounts & FS
- ◆ Work done by auditor
- ◆ Measure of Auditor's Responsibility
- ◆ Indicator of real position of Financial Status
- ◆ Auditor's Responsibilities (General and Specific)+ Location of description (within the body, Appendix, Reference to a website)
- ◆ Other Reporting Responsibilities (Other than reporting as per SAs)
- ◆ Signature (Personal name, on behalf of firm, MNO, Firm registration no.)
- ◆ Address (Place of which report signed)
- ◆ Date (Not earlier than date of SAAE, All events and transactions upto the date considered)

BASIC ELEMENT OF AUDIT REPORT

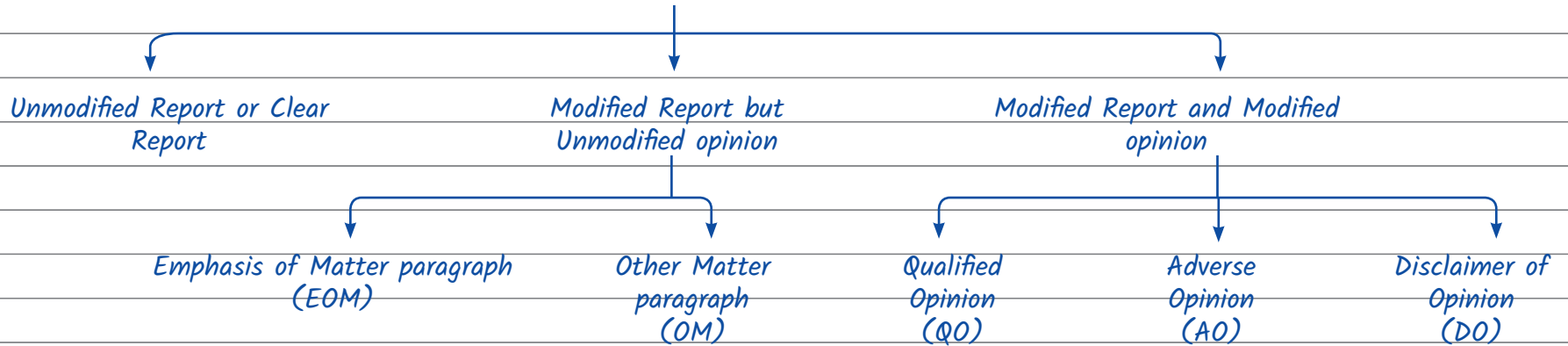
As per SA 700 the elements are -

- ◆ Title
- ◆ Addressee (based on circumstances, L&R)
- ◆ Auditor's Opinion (Entity's name, FS title, Notes, Period)
- ◆ Basis for opinion (SAs, Reference of responsibilities, Ethical Req., SAAE)

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TYPES OF AUDIT REPORT & AUDIT OPINION

AUDITOR'S REPORT



UNMODIFIED REPORT

Meaning

- ◆ FS give true and fare view as per FRF
- ◆ No significant reservations

Implications

- ◆ GAAP consistently applied
- ◆ Statutory regulations complied
- ◆ Adequate presentation and disclosures
- ◆ Change in accounting principles disclosed

Prerequisites to issue clear report

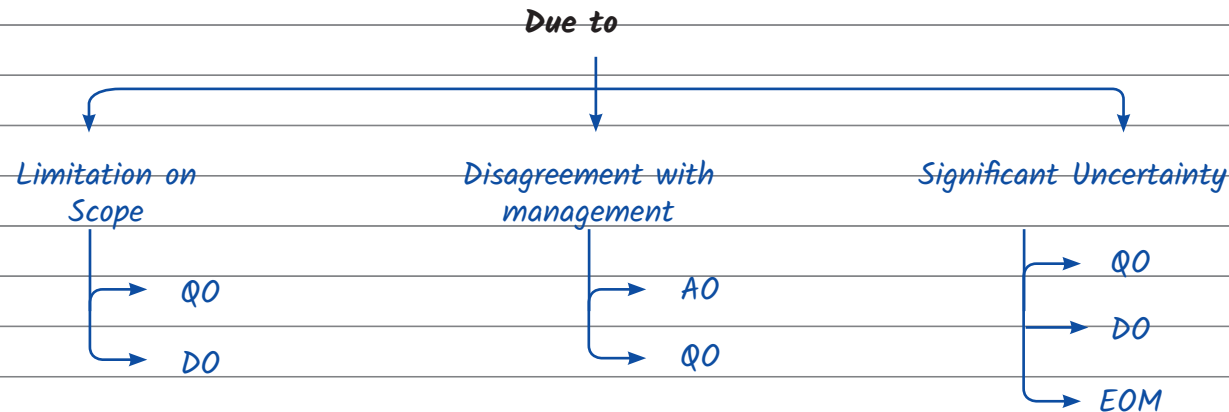
Auditions shall satisfy himself that -

- ◆ Reasonable **evidence** is obtained
- ◆ **AS & GAAP** followed consistently
- ◆ **True and Fair View** is reflected
- ◆ **Classification** does not hide a material fact
- ◆ **Format of FS** is as per law
- ◆ **No MMS** in FS

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MODIFIED REPORT

Circumstances requiring Modified Report



Modified Report but Unmodified Opinion

- ◆ When going concern unresolved but adequate disclosures made
- ◆ Significant uncertainty dependent upon future events
- ◆ EOM para does not affect auditor's opinion
- ◆ Audit opinion is not qualified in this respect
- ◆ Matter adequately presented in FS

Modified Report and Modified Opinion

1. Qualified Opinion

- ◆ Opinion on truthness and fairness *subject to certain reservations*
- ◆ Detailed reasons with *quantitative impact on FS*
- ◆ Express qualified opinion when :
 - Unqualified opinion cannot be expressed
 - Effect of MS is material but not pervasive
 - Auditor unable to obtain SAAE and possible effect is

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Features

- ◆ Clarity
- ◆ Explanations and Reasons
- ◆ Placement (Notes to be annexed)
- ◆ Phrasing ("Subject to" or except that)
- ◆ Vague statement to be avoided
- ◆ Violation of law
- ◆ Qualification of effect
- ◆ Notes-Report relationship
- ◆ Draft Report

- Assets/ Liabilities not properly valued
- Income/ expenditure not reflected fairly
- Info. required for fair presentation not disclosed
- Contravention of provisions of law affecting accounts
- Contravention of MOA/ AOA

II. Disclaimer of Opinion

- ◆ Auditor unable to form an overall opinion due to inability to obtain SAAE
- ◆ Possible effect of limitation on scope is material and pervasive
- ◆ May happen when

Situations calling for Qualification

- ◆ Unable to obtain information and explanation
 - Absence of satisfactory documentation
 - Absence of vouchers
 - Destruction of books and records
- ◆ Proper books of accounts not kept
- ◆ B/S and P/L not in agreement with books
- ◆ Info. required by law not furnished
- ◆ Accounts do not disclose true & fair view

- Books are seized by authorities
- Not possible for auditor to obtain information
- Restriction on scope of work

Piecemeal Opinion

- ◆ Partial true & fair view
- ◆ Unable to express opinion on certain items
- ◆ Divided opinion is issued

- Inappropriate accounting practices
- Changes in accounting principles not reflected adequately

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III. Adverse on Negative Report

- ◆ Auditor concludes that he *does not agree* with affirmations in FS
- ◆ FS *do not present true & fair view*
- ◆ Effect of disagreement is *material and pervasive*

Effect	Material but not pervasive	Material and pervasive
Reservations	On specific matters or items	On truthness and fairness of FS
Phrasing	Subject to certain reservations, FS give true & fair view	Because of significance of matters, FS do not present true and fair view

Difference between Clean and Qualified Audit Report

Basis	Clear Report	Qualified Report
Meaning	No reservation w.r.t any matter	Subject to certain reservations
Phrasing	FS give true and fair view	Subject to reservations, FS give true and fair view
Management Duty	No specific responsibility	Bound to give explanation in Board Report

AUDITOR'S REPORT ON REVISED ACCOUNTS BEFORE CIRCULATION TO SHAREHOLDERS

- ◆ Management *amends audited accounts*
- ◆ Requests statutory auditors to issue amended report
- ◆ Auditor's duties are :
 - Ensure copies of *original accounts and report returned*
 - Fact of revision of accounts *disclosed in a Note*
 - If disclosure made, no need to refer to revision in the report also refer the fact of revision in report

Difference between Qualified and Adverse Report

Basis	Qualified Report	Adverse Report
Situation	FS give true and fair subject to certain reservations	FS do not present true and fair view

REVISION OF AUDIT REPORT

Situation calling revision of report

- ◆ When auditor considers amendment unwarranted

When auditor considers amendment but management refuses

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- ◆ When management agrees for revising FS but is unable to amend & agrees to circulate revised audit report
 - ◆ *Fundamental assumptions made*
 - ◆ Clear title of certificate
 - ◆ Use of *general purpose statements*
 - ◆ Carefully interprets *law related matters*
 - ◆ Mention clearly *figures used from audited FS*
 - ◆ Mention *addressee carefully*
 - ◆ Submit to *specific authority/ person*
- Auditor's duties**
- ◆ Issue revised report & refer earlier report
 - ◆ State reasons for revision
 - ◆ If management neither revises FS nor agrees to circulate amended report, auditor shall take action *to prevent reliance on original report*
 - Notify client
 - Notify regulatory agencies
 - Make statement at AGM
 - ◆ Consider withdrawal from engagement

AUDIT CERTIFICATE

- ◆ Certificate for *special purpose*
- ◆ Declaration of subject matter by management
- ◆ On *auditor's letterhead*
- ◆ State the *limitations*
- ◆ Work of *expert* being used
- ◆ Manner of checking

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Difference between Audit Report and Certificate

Basis	Audit Report	Audit Certificate
Meaning	Statement of facts to give clear picture of audit conclusions	Written confirmation of accuracy of information
Opinion	Contains Opinion	Does not contain opinion
Basis	Based on information obtained & books of accounts	Based on particular data
Guarantee	Does not provide absolute guarantee	Provides absolute guarantee
Coverage	Covers entire accounts	Covers only certain part
Responsibility	Auditor not held responsible	Auditor responsible
Suggestion	May provide suggestions	No such suggestions
Nature	Based on vouching & verification	Based on arithmetical accuracy
Scope	Wide	Narrow
Characteristics	Opinion oriented	Fact oriented
Format	Prescribed	No standard format
Addressee	To members/ appointing authority	To concerned persons

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COMPANIES (AUDITOR'S REPORT) ORDER, 2016

Applicability

- ◆ Applies to every company including foreign company
- ◆ Does not apply to
 - Banking Company
 - Insurance Company
 - Section 8 Company
 - Small Company
 - One person Company
 - Private Company
 - Not holding/ subsidiary of public company
 - PUSC & RRS \leq 1 crore
 - Borrowings \leq 1 crore
 - Total Revenue \leq 10 crores
- ◆ Not applicable to audit of CFS

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Reporting Requirements [Para 3] [FILLED-CS-DFF-MNRP-NN] 😊

Clause	Subject Matter	Report on	Clause	Subject Matter	Report on
(i)	F ixed Assets	Proper Records, Physical Verification, Title Deeds	(ix)	Application of F unds	Moneys utilized for purposes for which raised ⇒ Default Delays & subsequent rectification
(ii)	I nventories	Physical verification	(x)	F raud	Fraud on company or by company ⇒ Nature & amount
(iii)	L oans granted	Terms & Conditions, Repayment schedule, Amount overdue for > 90 days and steps for recovery	(xi)	M anagerial Remuneration	Compliance with Section 197 and Schedule V Default ⇒ Amount & Steps for recovery
(iv)	L oans, investments and guarantees	Compliance with Section 185 and 186	(xii)	N idhi companies	Net owned funds to Deposits ⇒ 1:20 10% unencumbered deposits
(v)	D eposits	Compliance with Section 73 to 76 and order of Tribunal on RBI	(xiii)	R elated party transactions	Compliance with section 177 and 188 and required disclosures made
(vi)	C ost Records	Maintenance as per Section 148(1)	(xiv)	P referential allotment	Compliance with Section 42 utilization for specified purpose
(vii)	S tatutory dues	Undisputed dues ⇒ regularity & o/s for > 6m Disputed dues ⇒ Amount involved & forum	(xv)	N on-cash transactions	Compliance with Section 192
(viii)	D ues Repayment	Default ⇒ Period & Amount	(xvi)	N BFC Registration	Registered u/s 45-IA of RBI Act, 1934 and Regn. No.

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