

# Company Auditor Series – Version 2.0

## Chapter 1 – Types of Audits



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### Namaste

The original series on company auditors considering practical aspects of the various provisions related to Auditors under Companies Act, 2013 (Act) was published in the middle of the year 2021. Since then, there have been a few changes and improvements, which I felt were required to be incorporated into the series. The updated series is being published as Version 2.0 and would contain:

1. Types of Audits
2. Qualifications & Disqualifications of Auditors
3. Appointment of Auditor
4. Power & Duties of Auditors
5. Removal & Resignation of Auditors
6. Penalties on Auditors

In Chapter 1 of the updated series, we would discuss the basic provisions of various types of audits prescribed under the Act.

### Types of Audits

Under the Companies Act, 2013, there are various type of audits, namely:

- Statutory Audit
- Cost Audit
- Secretarial Audit
- Internal Audit

In this series, we would discuss briefly the provisions related to such audits and its applicability to class of companies.

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### Cost Audit

Not every company is required to get the Cost Audit done. The provisions for Cost Audit are contained in section 148 of the Companies Act 2013 read with the Companies (Cost Records and Audit) Rules, 2014.

According to the Rules, companies engaged in production of goods and services [6 regulated sectors and 33 non-regulated sectors (as per rule 3)] having overall turnover from all its products and services of Rs. 35 Crores or more in the immediately preceding financial year are required to maintain cost records. These companies are required to get their cost records audited by a Cost Accountant in practice appointed by the Board, if it is:

- Covered in Regulated Sector and:
  - Overall turnover from all its products and services during the immediately preceding financial year is Rs. 50 crores or more; and
  - Aggregate turnover of the individual product or products or services for which cost records are required to be maintained is Rs. 25 crores or more; or
- Covered in Non-Regulated sector and:
  - Overall turnover from all its products and services during the immediately preceding financial year is Rs. 100 crores or more; and
  - Aggregate turnover of the individual product or products or services for which cost records are required to be maintained is Rs. 35 crores or more.

However, even when a company is covered in above criteria, the following companies are not required to get the cost audit done:

- i) Whose revenue from exports, in foreign exchange, exceeds 75% of its total revenue; or
- ii) Which is operating from a Special Economic Zone; or
- iii) Which is engaged in generation of electricity for captive consumption through Captive Generating Plant.

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### Secretarial Audit

Not every company is required to get the secretarial audit done. As per section 204 of the Companies Act 2013 read with Rule 9 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, a secretarial audit is to be conducted by a Company Secretary in practice for following companies only:

- Every Listed company
- Every Public company:
  - having paid up share capital of Rs 50 crores or more; or
  - having a turnover of Rs 250 crores or more.
- Every Company having outstanding loans or borrowings from banks or public financial institution of Rs 100 crores or more.

### Internal Audit

Not every company is required to get its internal audit done. As per section 138 of the Companies Act 2013 read with Rule 13 of Companies (Accounts) Rules 2014, certain class or classes of companies are required to get an internal audit of the activities and functions of the company by a Chartered Accountant or Cost Accountant whether in practice or not or other professional which may be an individual whether employee or not, or a partnership firm or a company as decided by the board. The class or classes of companies who are required to get the internal audit done are:

- Every Listed Company
- Every Public Company having:
  - Paid up share capital of Rs 50 crores or more; or
  - Turnover of Rs 200 crores or more; or
  - Outstanding loans or borrowings from banks or public financial institution of Rs 100 crores or more anytime during the year; or
  - Outstanding deposits of Rs 25 crores or more anytime during the year.

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- Every Private Company having:
  - Turnover of Rs 200 crores or more; or
  - Outstanding loans or borrowings from banks or public financial institution of Rs 100 crores or more anytime during the year

### Statutory Audit

There is no specific term 'Statutory Audit' under the Companies Act 2013 or any other law in force. The term "statutory auditor" in general, refers to an external auditor whose appointment is mandated by law. Hence, Statutory Audit is a type of audit which is mandated by a Law or a Statute to ensure that the books of accounts presented to the regulators and public are true and fair. In other words, audit of financial statements by auditors whose appointment is mandated by law is generally referred to as statutory audit.

Every company whether private company or public company or small company or one person company or dormant company is mandatorily required to get its books of accounts audited under the Companies Act 2013. The provisions for the same are contained in sections 139 to 147 of the Companies Act 2013 read with the Companies (Audit and Auditors) Rules, 2014.

In the coming chapters of this series, we will be discussing such Statutory Audit only.

I hope this document is of use to you. I thank *CA. Shreya Jain, Ms. Sakshi and Ms. Ria* in assisting me to update this chapter of the series. Your suggestions and comments would be highly appreciated.

Best Regards

**CA. PRAMOD JAIN**

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**(Disclaimer:** Though full efforts have been made to state the interpretations correctly, yet the

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### ABOUT CA. PRAMOD JAIN

He is a commerce graduate [B. Com (H)] from Shri Ram College of Commerce (SRCC). He is a fellow member of the Institute of Chartered Accountants of India (FCA). He is a fellow member of the Institute of Companies Secretaries of India (FCS). He is a fellow member of the Institute of Cost Accountants of India (FCMA). He is a Bachelor of Law (LL. B). He is qualified as an Information System Auditor [DISA (ICAI)]. He is also a member of All India Management Association (MIMA). He is also an Insolvency Professional (IP). He has also passed the Certificate Course on CSR of ICAI. He has also passed the Proficiency Self-Assessment Test for Independent Director's Databank. He has passed certification course NCFM of National Stock Exchange of India (NSE). He has also done certification course CAAT and post qualification certificate course on Valuation of ICAI.

He is elected as Central Council Member of ICAI for 2 consecutive terms from 2019 to 2025. Apart from being member in more than 25 committees / groups / directorates of ICAI, and other Bodies he is / was:

- Chairman of Accounting Standards Board (ASB) of ICAI for 3 years from 2022 to 2025
- Deputy Convenor of Centre for Audit Quality Directorate (CAQD) for 2024-25
- Convenor - Members & Students (Grievances Handling & e-Sahayata) Directorate for 2023-24
- Chairman of Accounting & Finance Services Sectional Committee SSD-12 under the Services Sector Division Council (SSDC) of Bureau of Indian Standards (BIS) for 2023-24
- Chairman of Expert Advisory Committee (EAC) of ICAI for Year 2022-23
- Co-Chairman of Corporate Affairs Committee of PHDCCI for the year 2022-23
- Chairman of Committee on International Taxation (CITAX) of ICAI for 2021-22
- Chairman of Taxation Audit Quality Review Board (TAQRB) of ICAI for the year 2021-22.
- Member of Quality Review Board (QRB) for 2 terms from 2020 to 2026.
- Member of the SME Implementation Group (SMEIG) of IFRS Foundation, UK for 3 years from 2023 to 2026.
- Chairman of Valuation Standards Board (VSB) of ICAI for the year 2020-21.
- Chairman of CSR Committee of ICAI for year 2020-21.
- Vice-Chairman of Committee on MSME & Start-up of ICAI for the year 2021-22.
- Vice-Chairman of Women Members Empowerment Committee (WMEC) of ICAI for 2021-22.
- Vice-Chairman of Direct Tax Committee (DTC) of ICAI for 2 years from 2019 to 2021.
- Vice-Chairman of Committee on International Taxation (CITAX) of ICAI for Year 2019-20.

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- Member of ICAI Disciplinary Committee for the year 2020-21.

He is the conceptualizer of the portal [www.expertspanel.in](http://www.expertspanel.in) which is a one stop solution for all professional queries which has given more than 36000 answers since its launch in mid of year 2018.

He has delivered more than 1700 lectures and articles on various topics of Income Tax, Corporate Laws, LLP, Audits, Peer Review, Quality Review, etc. at more than 200 forums throughout the country. Most of his presentations and articles since 2013 are available for free download from [www.lunawat.com](http://www.lunawat.com) and from 2018 at [www.expertspanel.in](http://www.expertspanel.in) also.

He is Senior Partner of **M/s LUNAWAT & CO.**, Chartered Accountants. He is president, founder convener and member of various Boards, Directorate, Committees, Study Circles, etc. of ICAI, ICSI and other prestigious bodies and associations. He has been a Technical Reviewer with Financial Reporting Review Board (FRRB) and Quality Review Board (QRB) and Peer Reviewer with Peer Review Board (PRB).

He has authored books on “*Chartered Accountant’s Documentation and Compliance for Audits and Reviews*”, “*Limited liability Partnership – A Complete Resource Book*”, “*Chartered Accountant’s Documentation and Compliance for Audits and Reviews*”, “*Importance of LLP after Companies Act, 2013*”, “*Chartered Accountant’s Documentation and compliance under Companies Act 2013, Peer Review and Quality Review*”, “*Limited Liability Partnership – Law, Procedures and Taxation*”, “*Documentation for Chartered Accountants*”, “*Limited Liability Partnership – Law and Procedures with Ready Reckoner*”, “*Fringe Benefit Tax & Banking Cash Transaction Tax*”, “*Documentation for Audits*” and “*Accounting Standards and CARO*”.

He has written various articles on taxation, company law and audit in various journals. He has vast practical experience in income tax, audit, corporate laws and LLP.