

# Company Auditor Series

## Chap. 1 – Types of Audits



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### Namaste

We are starting a series on Company Auditors, taking into account practical aspects of the various provisions related to Auditors under Companies Act, 2013 (Act). In Chapter 1 of these series, we would discuss about the basic provisions of various types of audits 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 about the provisions related to such audits and its applicability to class of companies.

### Cost Audit

Every company is not 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 of Rs. 35 Crores 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 during the immediately preceding financial year is Rs. 50 crores or more; and

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- 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 specified 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.

### Secretarial Audit

Every company is not 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 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
  - 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.

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### Internal Audit

Every company is not 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.
- 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 as 'Statutory Audit' under the Companies Act 2013 or any other law in force. The term "statutory auditor" in generally, 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 as statutory audit.

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## Chap. 1 – Types of Audits



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Every company whether private company or public 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 would be discussing only regarding Statutory Audit.

I hope this document is of use to you. I thank *CA. Shreya Jain and CA. Himani Gupta* in assisting me to compile this chapter of the series. Your suggestions and comments would be highly appreciated.

Best Regards

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**(Disclaimer:** Though full efforts have been made to state the interpretations correctly, yet the author is not responsible / liable for any loss or damage caused to anyone due to any mistake / error / omissions)

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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 has qualified 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 of ICAI. He has also done post qualification certificate course on Valuation of ICAI.

He has been elected as Central Council Member of ICAI for the period 2019 – 2022. Apart from being member in more than 25 committees / groups / directorates of ICAI, he is / was:

- Chairman of Committee on International Taxation (CITAX) for Year 2021-22
- Chairman of Taxation Audit Quality Review Board (TAQRB) for the year 2021-22.
- Chairman of Valuation Standards Board (VSB) for the year 2020-21.
- Chairman of CSR Committee of ICAI for year 2020-21.
- Vice-Chairman of Committee on MSME & Start-up for the year 2021-22.
- Vice-Chairman of Women Members Empowerment Committee (WMEC) for the year 2021-22.
- Vice-Chairman of Direct Tax Committee (DTC) for year 2019-20 and 2020-21.
- Vice-Chairman of Committee on International Taxation (CITAX) for Year 2019-20.
- Member of ICAI Disciplinary Committee Bench 1 for year 2020-21.
- Nominated as Member of Quality Review Board (QRB) for 3 years from 2020 to 2022.

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 27000 answers since its launch in mid of year 2018.

He is delivered more than 1300 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 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 FFRB and Quality Review Board and Peer Reviewer with Peer Review Board. He has authored books 13 books including “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, *Limited liability Partnership – A Complete Resource Book*, and “Accounting Standards and CARO”.