

Practical Aspects of Audit under Companies Act & I. Tax Act

(Including CARO 2016 & IFC)



LUNAWAT & CO.

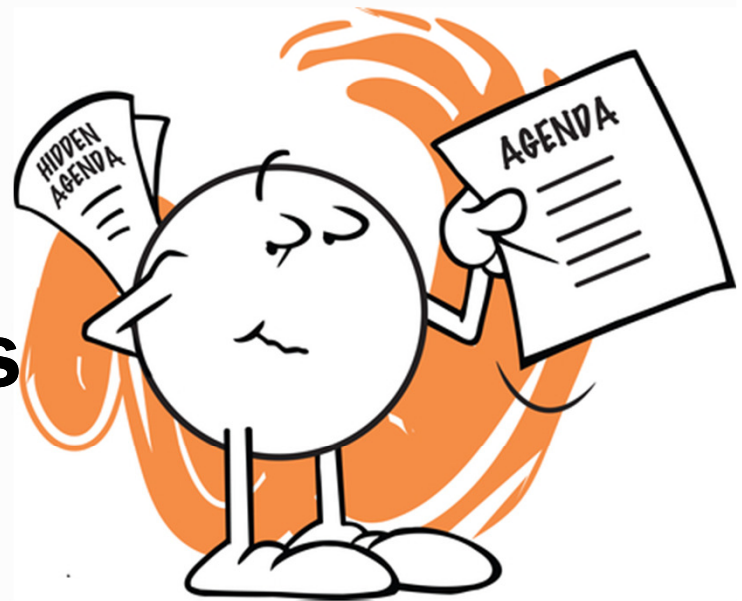
Chartered Accountants
30th April 2016, DC Janakpuri

CA. PRAMOD JAIN

FCA, FCS, FCMA, LL.B, MIMA, DISA

AGENDA

- ✖ Practical Issues of Audit under Companies Act 2013
- ✖ Practical Issues of Audit under Income Tax Act 1961
- ✖ CARO 2016
- ✖ Internal Financial Controls



AUDIT PROCESS

APPOINTMENT

AUDIT

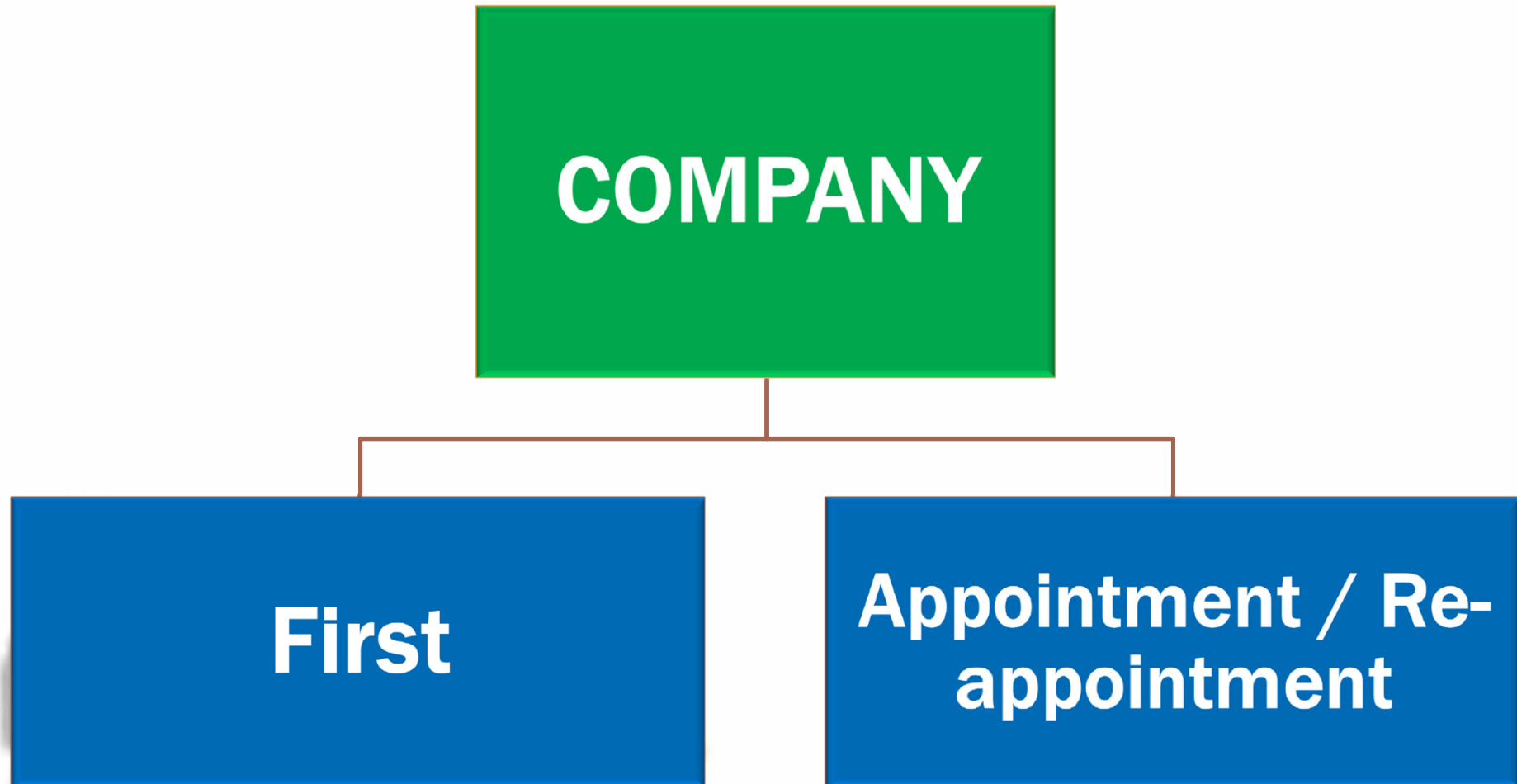
REPORTING

BILLING

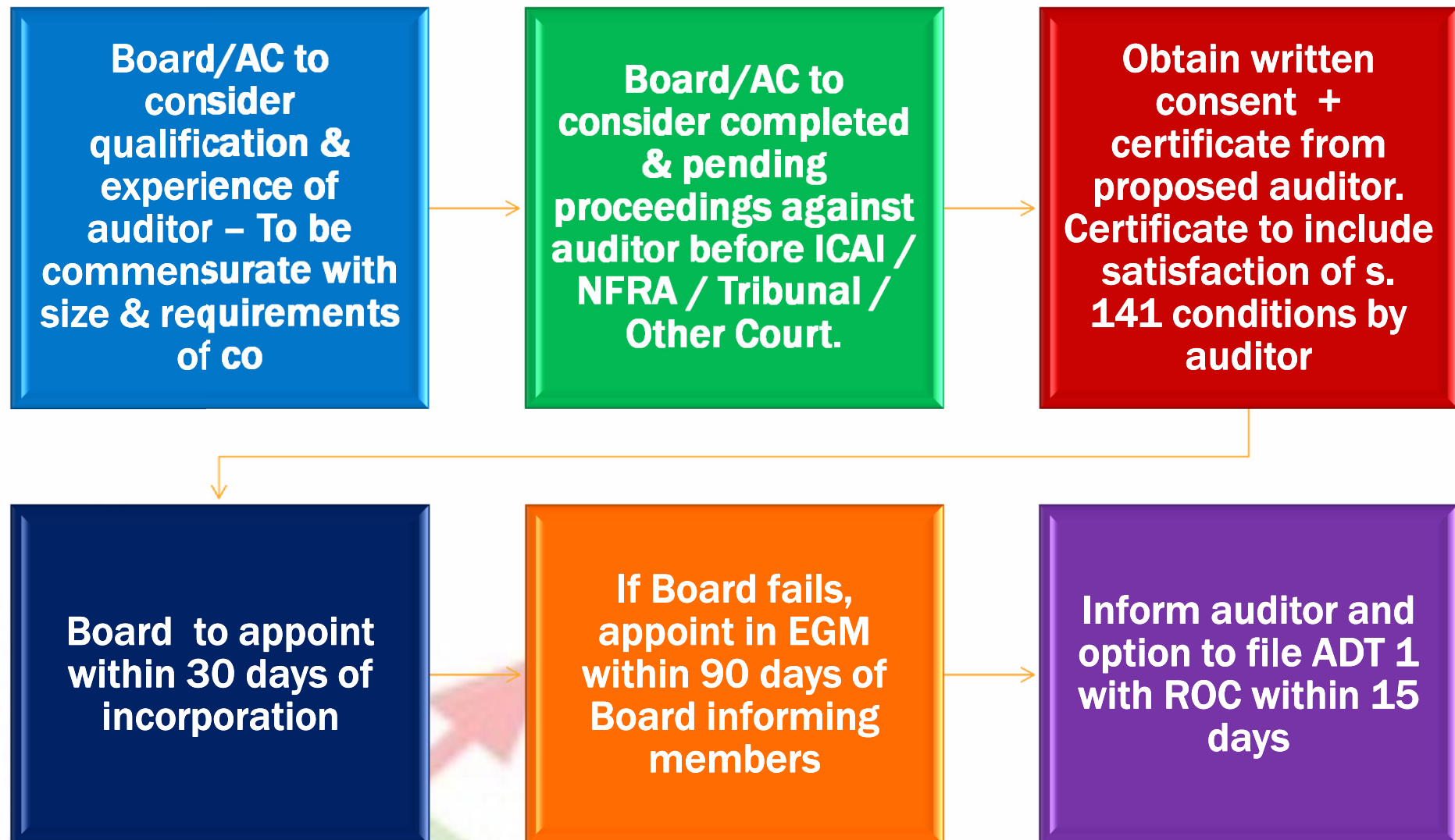
COLLECTION



APPOINTMENT

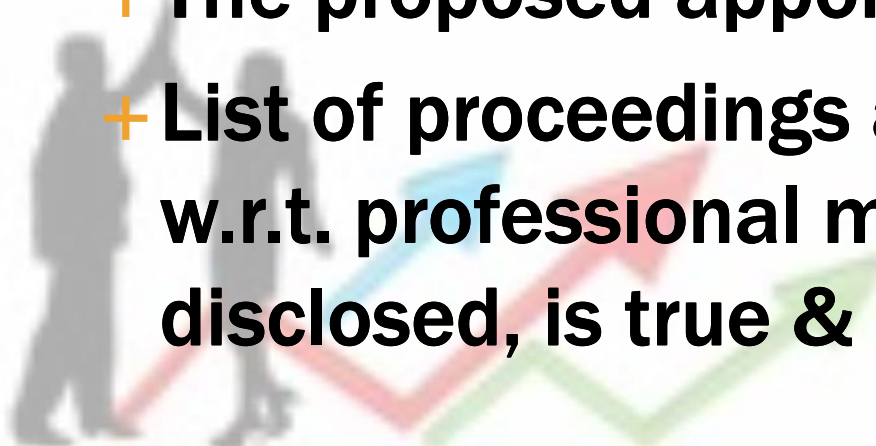


PROCEDURE FOR 1ST APPOINTMENT



CA CERTIFICATE

- **CA to issue certificate that:**
 - + He / It is eligible for appointment u/s 141 and is not disqualified under the Act, the CA Act, & related Rules**
 - + The proposed appointment is within the term allowed**
 - + The proposed appointment is within the limit**
 - + List of proceedings against auditor pending w.r.t. professional matters of conduct, as disclosed, is true & correct**



PROCEDURE FOR APPOINTMENT

Board/AC to consider qualification & experience of auditor – To be commensurate with size & requirements of co

Board/AC to consider completed & pending proceedings against auditor before ICAI / NFRA / Tribunal / Other Court.

Obtain written consent + certificate from proposed auditor. Certificate to include satisfaction of s. 141 conditions by auditor

Appointment is to be done in AGM for 5 years. Ratification to be done annually.

Inform auditor and file ADT 1 with ROC within 15 days of appointment

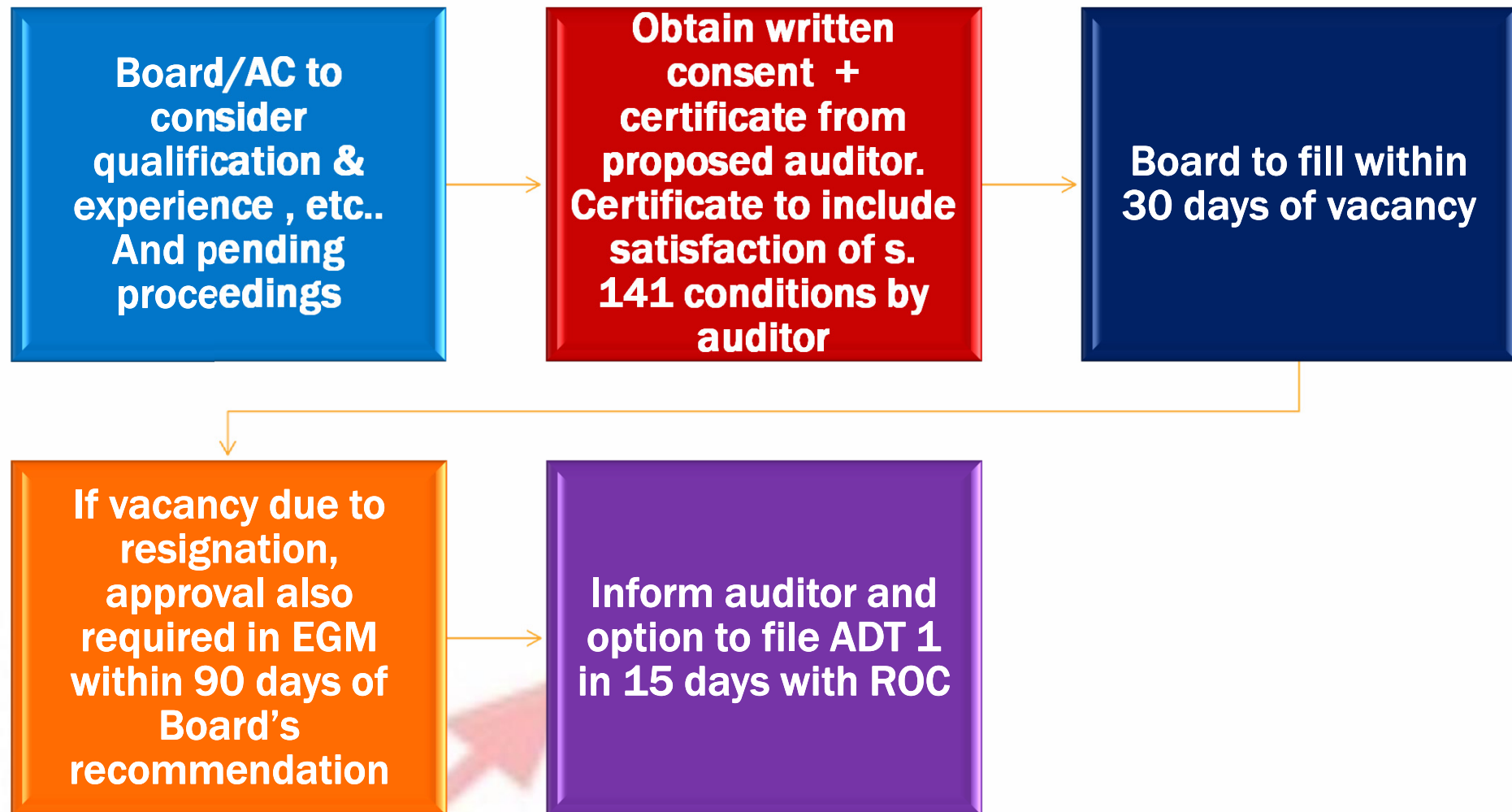


RE-APPOINTMENT

- **Retiring auditor may be re-appointed at AGM, if—**
 - **He is not disqualified for re-appointment;**
 - **He has not given Co. a notice in writing of his unwillingness to be re-appointed; and**
 - **A SR has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed**
- **Automatic reappointment of existing auditor at AGM if not re-appointed.**

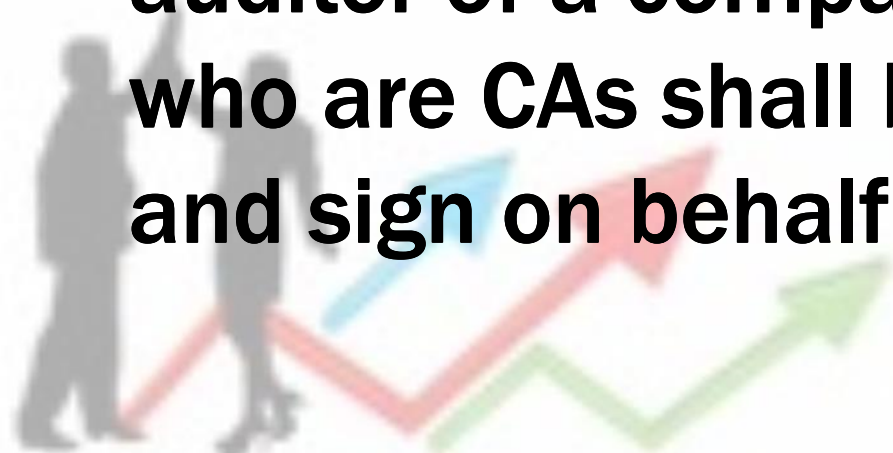


CASUAL VACANCY



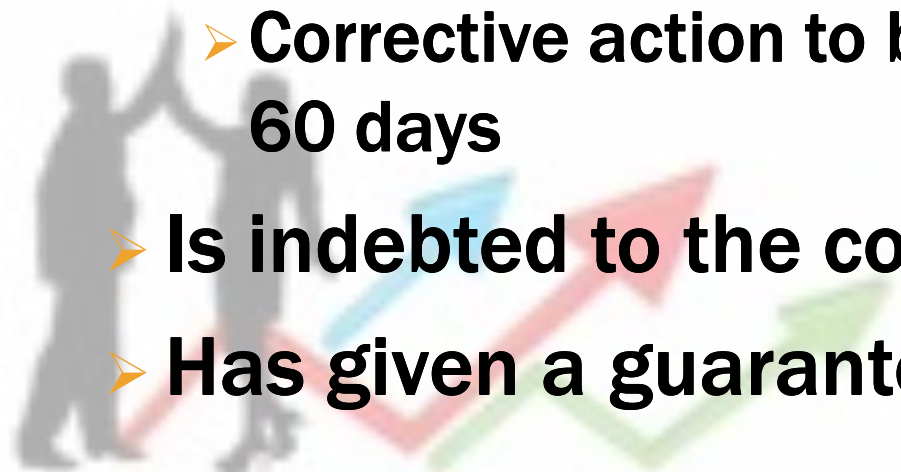
QUALIFICATION

- **Must be a CA**
- **A firm including LLP whereof majority of partners practicing in India are qualified for appointment as auditor**
- **Where such firm/LLP is appointed as an auditor of a company, only the partners who are CAs shall be authorized to act and sign on behalf of the firm.**



DISQUALIFICATIONS

- **A body corporate other than LLP;**
- **An officer or employee of the company;**
- **A person who, or his relative or partner—**
 - **Is holding any security of or interest in Co. or its subsidiary, or of its holding or associate Co. or a subs. of such holding co. Relative – Rs. 1 L**
 - **Corrective action to bring within limits (relative) – 60 days**
 - **Is indebted to the co.... – Rs. 5 L (ICAI – 10K)**
 - **Has given a guarantee /provided security – 1 L**



DISQUALIFICATIONS

- **A person who is a partner, or who is in the employment, of an officer or employee of Co**
- **A person whose relative is a director or is KMP of the company;**
- **A person who is in full time employment elsewhere**
- **A person who has been convicted by a court of an offence involving fraud & a period of 10 Yrs has not elapsed from date of such conviction**
- **A person or a partner of a firm holding appointment as auditor of more than 20 cos**

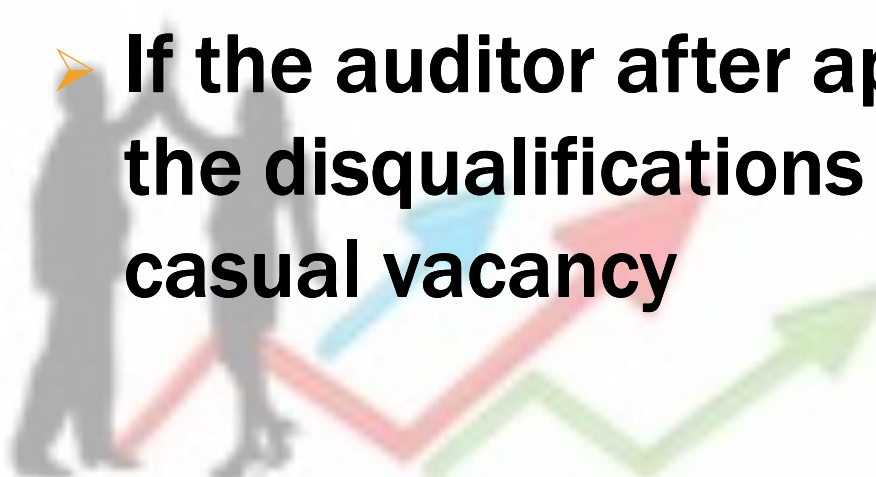
DISQUALIFICATIONS

- A person or a firm who, whether directly or indirectly, has business relationship with co., or its of nature i.e., any transaction entered into for commercial purpose except:
 - In nature of professional services permitted
 - In the **ordinary course of business of co.** at ALP like
 - sale of products or
 - services
 - To **auditor, as customer, in the ordinary course of business**, by companies engaged in business of telecommunications, airlines, hospitals, hotels & such other similar businesses



DISQUALIFICATIONS

- **Any person whose:**
 - subsidiary or
 - associate company or
 - any other form of entity,
 - is engaged as on the date of appointment in consulting and specialized services as provided in s. 144.
- **If the auditor after appointment incurs any of the disqualifications – vacate his office by casual vacancy**



OTHER SERVICES BY AUDITOR

➤ Auditor not to provide other services directly or indirectly to the company or its holding company or subsidiary company:

+Accounting & Book Keeping Services;

+Internal Audit;

+Design and implementation of any financial IS;



OTHER SERVICES BY AUDITOR

- + Actuarial services;
- + Investment advisory services;
- + Investment banking services;
- + Rendering of outsourced financial services;
- + **Management services;**
- + Others Prescribed



20 LIMIT ON AUDITORS

Not to include:-

- **One person companies,**
- **Dormant companies,**
- **Small companies, and**
- **Private cos. having paid-up share capital less than Rs. 100 Crs**
- **Limit currently as per ICAI is 30 companies per auditor including private companies (unless changed by ICAI later)**

RESIGNATION

- Auditor may resign before his term.
- To file a statement with ROC in ADT-3 as well as the Co. within 30 days, indicating reasons
- In case of Government companies to be filed with CAG too.
- Non compliance – fine on auditor:
 - Minimum – 50K
 - Maximum - 500K

REMOVAL BEFORE TERM

- **Removal before term**
 - **Special Resolution; and**
 - **Prior CG approval – application in ADT-2 within 30 days of Board resolution & filing fee to be paid:**
 - **OPC & small - < 25 L – 1000; 25 – 50 L – 2500**
 - **Others - < 25 – 2000; 25 to 50 L – 5000; 50L to 5 Cr – 10000; 5 Cr to 10 Cr – 15000; above 10 Cr - 20000**
 - **Reasonable opportunity of hearing to be given**
 - **Co. to hold GM within 60 days of CG approval for SR**
- **Special notice required at AGM to appoint other auditor than the retiring auditor except in case of rotation**

REMOVAL BY TRIBUNAL

- **Tribunal suo moto or on application of CG or any person concerned may change auditor if it is satisfied, that auditor has directly or indirectly:**
 - **Acted in fraudulent manner, or**
 - **Abetted, or**
 - **Colluded in any fraud by or in relation to, Co. or its directors or officers**
- **If on CG application – Tribunal on satisfaction change in 15 days. CG to appoint another auditor**
- **On final order - shall not be appointed for 5 yrs in any other Co. and shall be liable u/s 447**



WHO CAN CONDUCT AUDIT

- **W.e.f. 1st June 2015**
- **Accountant as defined in Explanation below S. 288 (2)**
- **A Chartered Accountant as defined in section 2 (1) (b) of the Chartered Accountants Act, 1949 who holds a valid certificate of practice u/s 6 (1) of that Act**
- **CA in practice (can represent)**



DISQUALIFICATION - COMPANIES

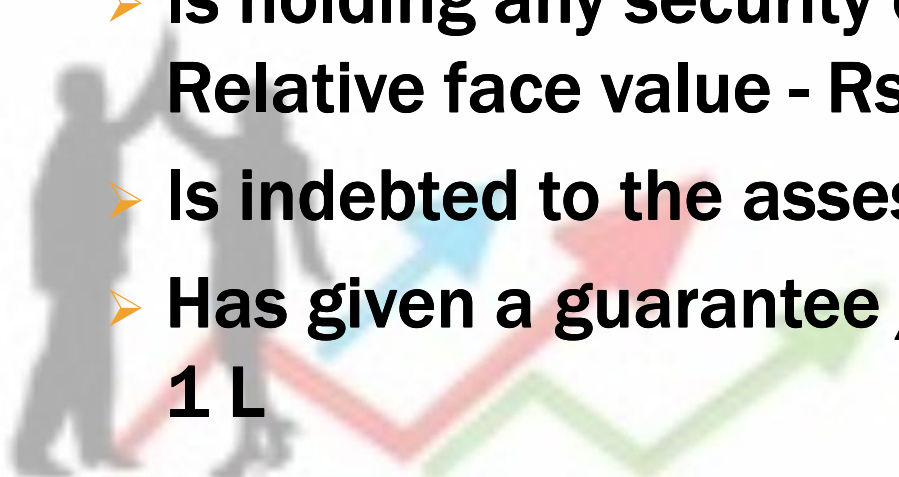


DISQUALIFICATION – OTHERS

- **Assessee himself**
- **In case of a firm - any partner of the firm**
- **In case of AOP - member of the association**
- **In case of HUF - member of the family**
- **Person referred to in section 13(3)(a),(b),(c), (cc);**
- **Relative of any of above persons**
- **Other than above, person who is competent to verify return u/s 139/140;**
- **Officer or employee of assessee;**

DISQUALIFICATIONS - OTHERS

- **Who is a partner, or who is in employment, of an officer or employee of assessee;**
- **Who has been convicted by a court of an offence involving fraud and a period of 10 years has not elapsed from the date of such conviction**
- **An individual who, or his relative or partner**
 - **Is holding any security of or interest in assessee–
Relative face value - Rs. 1 L**
 - **Is indebted to the assessee. Relative – Rs. 1 L**
 - **Has given a guarantee /provided security . Relative –
1 L**



RELATIVE – INCOME TAX AUDITOR

- **Spouse of the individual;**
- **Brother or sister of the individual;**
- **Brother or sister of the spouse of the individual;**
- **Any lineal ascendant or descendant of the individual;**
- **Any lineal ascendant or descendant of the spouse of the individual;**
- **Spouse of a person referred above**
- **Any lineal descendant of a brother or sister of either the individual or of spouse of individual**

DISQUALIFICATIONS – TAX AUDITOR

- A person or a firm who, whether directly or indirectly, has business relationship with assessee. i.e., any transaction entered into for commercial purpose except:
 - In nature of professional services permitted
 - In the **ordinary course of business of co.** at ALP like
 - sale of products or
 - services
 - To **auditor, as customer, in the ordinary course of business**, by companies engaged in business of telecommunications, airlines, hospitals, hotels & such other similar businesses



APPOINTMENT

AUDITOR

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graph TD; A[AUDITOR] --> B[First]; A --> C[Re-appointment];
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First

Re-appointment

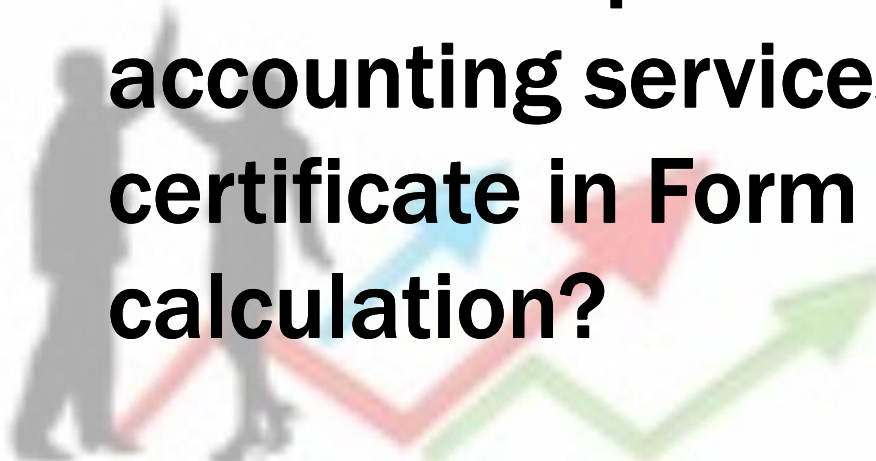
AUDITORS' COMPLIANCE

- **See that he is not disqualified to be appointed.**
- **In case of cos. issue required certificate**
- **In case of being appointed in place of another auditor**
 - **Ensure due compliance made if it's a co.**
 - **Intimation to previous auditor**
- **Obtain Appointment Letter**
- **Issue Engagement Letter**



???

- Can a CA in practice who is giving accounting services to a company conduct tax audit of that company?
- Can an internal auditor of a company issue Form 15CB certificate for that company?
- Can a CA in practice who is giving accounting services to a company issue certificate in Form 29B for MAT calculation?





AUDITING STANDARDS

- Auditor to comply with auditing standards
- NFRA to notify auditing standards. Till NFRA does – as by ICAI
- Total 37 SAs

SA. No.	Sub-division	No.
100-199	Introductory Matters	0
200-299	General Principles & Responsibilities	9
300-499	Risk Assessment and Response to Assessed Risks	6
500-599	Audit Evidence	11
600-699	Using Work of Others	3
700-799	Audit Conclusions and Reporting	5
800-899	Specialized Areas	3

DOCUMENTATION

- Have checklists, tell articles to cross verify
- Seniors to cross verify
- Take necessary certificates / representation from management
- External Confirmations
- Ensure Compliance of ASs
- Ensure all applicable regulatory compliances including Companies Act, 2013
- Comply with SAs
- Work not documented is work not done.



REPORT

- **Under Companies Act**

- **CARO**

- **Non- CARO**

- **Others**

- **Tax Audit**

- **Form 3 CA**

- **Form 3 CB**

- **LLP**

- **Society**



REPORT - COMPANIES

- **Inquiry u/s 143(1) – 6 points – only to be reported when comments required**
- **Report to include:**
 - **Matters specified u/s 143(3) - 9 points**
 - **Matters specified in Rules - 3 points**
 - **Any order made u/s 143(3) for specified Companies in consultation with NFRA – CARO 2016 – 16 points**



Lunawat & Co.

FOR ACCOUNTS AFTER 1.4.2015

CARO 2016



CARO 2016 – FOR A/C AFTER 1.4.15

- **Applicable to all including Foreign Co. Except:**
 - **Banking Co. / Insurance Co.**
 - **Section 8 Co.**
 - **OPC**
 - **Small Co.**
 - **Pvt. Co not being sub. or holding of Pub. Co. whose:**
 - **Paid up capital & reserves < 1 Cr as at B/s date; and**
 - **Outstanding Loans from bank or FIs < 1 Cr; and**
 - **Total Revenue (including from discontinuing operations < 10 crores as per Financial Statements as per Sch III**
 - **During the FY as per FS**
 - **Not applicable on CFS**

CARO 2016 – CHANGES

- **Clauses increased from 12 to 16 (Draft 15)**
- **1(c) - Whether title deeds of immovable properties are held in the name of the company. If not, provide details thereof**
- **2(a)(b)(c) merged into 2 - Whether physical verification of inventory has been conducted at reasonable intervals by the management & whether any material discrepancies were noticed and if so, how they have been dealt with in books of a/c**

CARO 2016 – CHANGES

- **3 - Whether company has granted any loans, secured or unsecured to cos, firms, **LLP** or other parties covered is registered maintained u/s 189. If so,**
 - (a) **Whether terms & conditions of grant of such loans are not prejudicial to company's interest;**
 - (b) **Whether the schedule of repayment of principal & interest is stipulated & whether repayments & interest are regular.**
 - (c) **If overdue amount for more than 90 days, whether reasonable steps taken by Co. for recovery of principal & interest**

CARO 2016 – CHANGES

- **4 – Internal control on purchase etc not required**
- **4 - In respect of loans, investments and guarantees, whether provisions of Section 185 and 186 have been complied with. If not, provide details thereof.**
- **5 – Deposits – no change**
- **6 – Cost Records – no change**
- **7 – Statutory Dues – Wealth tax removed**
- 7(c) – IEPF not required**

CARO 2016 – CHANGES

- **8 – Accum. /cash losses– not required**
- **8 – Earlier 9 – Default to Bank, Fls, Govt. & debenture holders - (in case of banks, Govt. and Fls, lender wise details to be provided).**
- **9 – New - Whether moneys raised by way of IPO / FPO (including debt instruments) & term loans were applied for purposes for which those are raised. If not, details together with delays / default & subsequent rectification.**

CARO 2016 – CHANGES

- **10 - Whether any fraud by Co. or any fraud on Co. by its **officers/ employees** has been noticed or reported during the year; If yes, nature and amount involved be indicated**
- **11 - Whether managerial remuneration has been paid / provided in accordance with the requisite approvals mandated by the provisions of s. 197 r.w. schedule V? If not, state the amount involved & steps taken for securing refund of the same.**

CARO 2016 – CHANGES

- **12 – Nidhi Co..**
- **13 - Whether all transactions with related parties are in compliance with S. 177 and 188 and details have been disclosed in FS etc as required by applicable AS.**
- **14 - Whether Co. has made preferential allotment / PP of shares or fully or partly convertible deb. during yr. Whether S. 42 complied & amount raised used for purposes for which funds were raised.**

CARO 2016 – CHANGES

- **14 (Contd) - If not, details of amount involved and nature of non-compliance.**
- **15 - Whether the company has entered into any non-cash transactions with directors or persons connected with him and if so, whether provisions of S. 192 complied with**
- **16 – Whether Co is required to be registered u/s 45-IA of RBI and if so whether the registration has been obtained**

The
Next
Big
Thing

Internal Financial
Controls



IFC / ICFR

S.	Responsible	Remarks
134	Director Responsibility Statement	Listed Co – Directors have laid down IFC to be followed by the Co. & that such controls are adequate & operating effectively
R. 8(5) (viii)	Director Report	Details in respect of adequacy of internal financial controls with reference to the Financial Statements
143	Auditor Report	The Co, has adequate IFC system and operating effectiveness of such controls
177	Audit Committee	AC may call for comments of auditors about IFC before their submission to Board & may also discuss related issues with internal & statutory auditors & management of Co.
Sch. IV	Independent Directors	To satisfy themselves on integrity of financial information & ensure that financial controls & systems of risk management are robust & defensible

INTERNAL FINANCIAL CONTROL- IFC

- Voluntary for Auditor to report on adequacy of **IFC** & operating effectiveness of such controls – for 2014-15 but **mandatory for Director Report**
- IFC means policies & procedures adopted by co. for ensuring :
 - Orderly & efficient conduct of its business, including adherence to company's policies,
 - Safeguarding of its assets,
 - Prevention and detection of frauds and errors,
 - Accuracy and completeness of accounting records,
 - Timely preparation of reliable financial information

ICFR – ICAI GUIDANCE NOTE – 9/2015

- × Term ‘IFC’ in S. 143(3)(i) would relate to ‘IFC over Financial Reporting’ in accordance with objectives of an audit stated in SA 200 “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing”
- × Auditor needs to obtain reasonable assurance to state:
 - + Whether an adequate IFC system was **maintained** &
 - + Whether such IFC system **operated effectively** in co. in all material respects with respect to financial reporting only.

ICFR – ICAI GUIDANCE NOTE – 9/2015

- × **“IFC over Financial Reporting” shall mean**
 - + **“A process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.**
 - + **A company's IFC over financial reporting includes those policies and procedures that:**
 1. **Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;**



ICFR – ICAI GUIDANCE NOTE – 9/2015

2. **Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and**
3. **Provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.**



ICFR – AUDITOR’S REQUIREMENT

- Should report if company has adequate internal control systems in place and whether they were operating effectively **as at balance sheet date**.
- Report – **in main / annexure?**
- Not applicable on interim financial statements, such as quarterly or half-yearly FS, unless such reporting is required under any other law or regulation
- Should use a top-down approach to select the controls to test. It is not necessarily the order in which auditor will perform auditing procedures.

TOP-DOWN APPROACH

Internal Financial Control Framework

Financial Reporting

FS ASSERTIONS (Completeness, Existence or Occurrence,
Rights & Obligations, Valuations Presentation & Disclosure) &
CONTROLS (Authorisation, Safeguarding of assets &
Maintenance of Records)

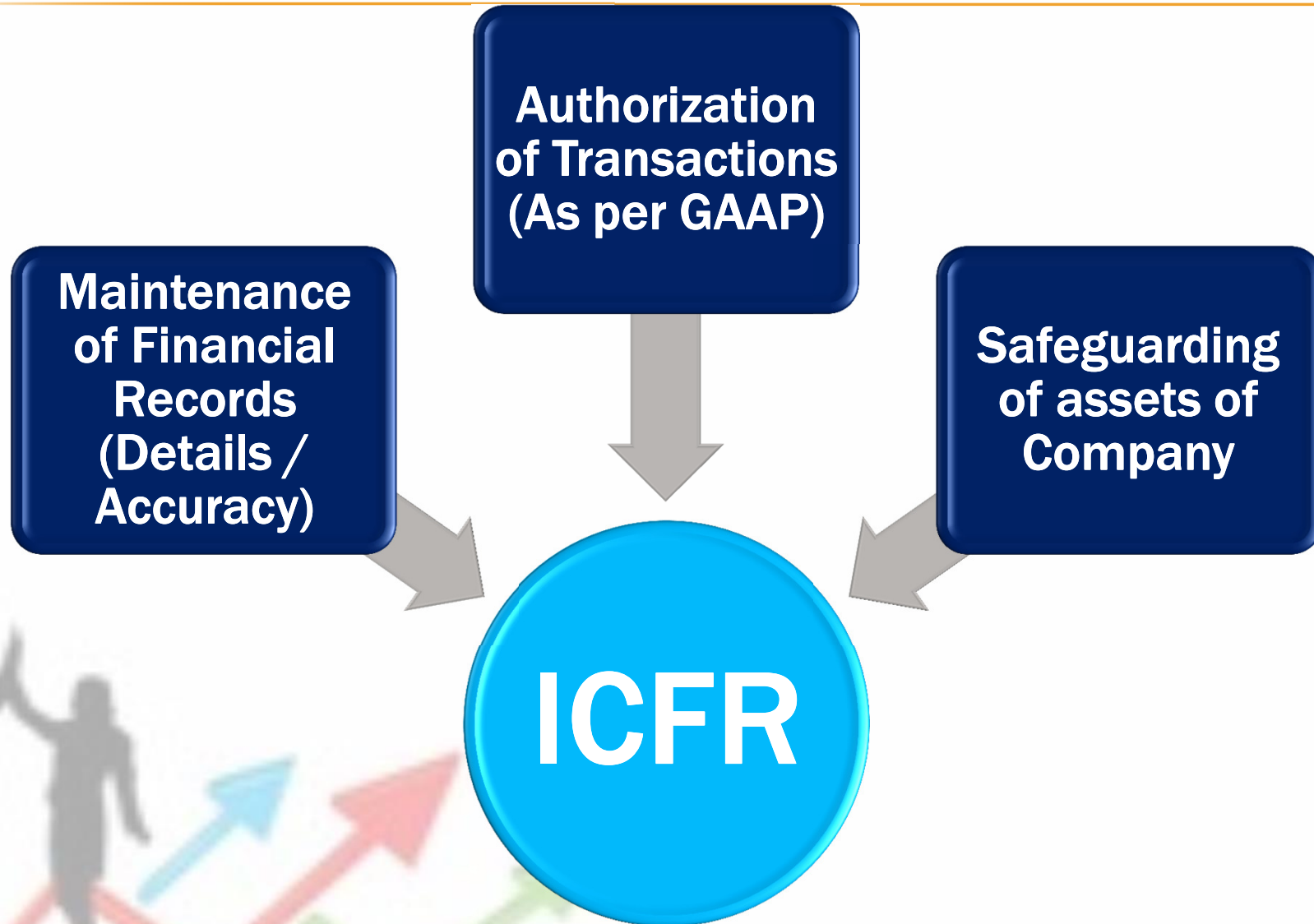
Business Cycles

Sub- processes

Objectives

Activities





THE ONLY WAY





**INCREASE YOUR
VALUE**



