



Professional Opportunities in Internal Audit/Assurance Work, Statutory Audit and Other Areas



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Auditor's Need to...

- Evaluate Emerging Trends,
- Ensure Appropriate Corporate Governance
- Incorporate Technology into the Audit Process
- Network with Peers
- Stay Relevant by Staying Current



Professional Opportunities in Audit and Assurance Work

- **Peer reviewer**
- **Technical reviewer with QRB/FRRB**
- **Consultant to practice unit**
- **Consultant to QRB**
- **Trainer with CAG ETC.**



Professional Opportunities in Audit and Assurance Work

- **This can be divided into Professional Opportunities in**
 - **Internal Audit/Assurance Work**
 - **Statutory and Other Audit/Assurance Work**



What is an Internal Audit/Assurance Work?

- A management function
- Internal auditors to render impartial judgments
- It is a dynamic one
- It assists board in governance responsibility
- Auditor assures the effectiveness of internal audit
- It is a component of internal control



Origin of Auditing

- The process audit, timely submission of accounts and audit was initiated by Arya Chanakya in 300 BC.
- Auditing in the form of ancient checking activities was found in the ancient civilizations of **China, Egypt and Greece.**
- The ancient checking activities found in Greece (around 350 B.C.)
- In the period pre-1840, Auditing was restricted to performing detailed verification of every transaction



History of Auditing I

History on Evolution of Auditing

19th Century –
English Companies Act
1862

The Stock Market Crash of 1929

Influence of
New York Stock Exchange



History of Auditing II

History on the Evolution of Auditing

The McKesson & Robbins
scandal case of 1939

1950's and 1960's brought more reform

E.D.P- electronic data processing



Development of Auditing

- Auditing did not become established until the industrial revolution during 1840s-1920s in the UK
- Growth of the US economy in the 1920s-1960s caused a shift of auditing development from the UK to the USA.
- Auditors in the 1970s played an important role in enhancing the credibility of financial information and furthering the operations of an effective capital market.



Development of Auditing

- The auditing profession witnessed substantial and rapid change since 1990s as a result of the accelerating growth at the world economies.



Evolution of Auditing I

Evolution of Auditing

Auditing Sub-Committee
of Research Committee
(ASRC) 1955

1963 ASRC
issued
The Statement on Auditing Practices

1983
the Auditing Practices Committee
(APC) was constituted



Evolution of Auditing II

Evolution of Auditing

APC issued the first AS in the year 1985

July 2002 APC was changed to AASB

43 Standards on Audit and Assurance issued



Evolution of Auditing III

Evolution of Auditing

W.E.F 1.4.2008 –
AAS has been changed
to 5 groups of standards

5 group of Standards –
SQC,SA,SRE,SAE,SRS

Quality Control &
Engagement Standards



Origin of Internal Audit Function

- Internal Audit dates back to 5000 BC.
- Chaldaean Empire and the Babylonian Empire where the first to introduce Internal Control System
- Internal Audit began during the Second World War when organisations found it difficult to maintain operational efficiency and control.



Definition of Internal Audit

*“Internal audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity, including the entity's strategic risk management and internal control system.” -
Preface to SIA*



Scope of Internal Audit

- Evaluating the adequacy of internal controls
- Suggesting ways to reduce the costs and promote efficiency
- Assessing the compliance with the applicable laws and regulations
- Assist management in decision making
- Backbone of a sound corporate governance system



Need for Internal Audit

- Increased complexity of businesses
- Enhanced compliance requirements
- Focus on risk management and internal controls to manage them
- Unconventional business models
- Intensive use of information technology
- Stringent norms mandated by regulators to protect investors
- An increasingly competitive environment



Internal Audit/Assurance Cycle

- Pre engagement activity
- Understanding the work
- Assurance plan
- Substantive work
- Report



What is an opportunity?

Every event has two exhaustive classification namely

1. Opportunity
2. Risk



Listing of Broad Opportunities in Internal Audit

1. Internal Controls Auditing
2. Internal Audit Functions/Requirements Under Various Laws
3. Enterprise Risk Management – The ERM Role
4. Audit of Compliance of Standards on Internal Audit
5. Monitoring XBRL Implementation and Reporting Results
6. Audit of IFRS Convergence
7. Forensic Audit



Listing of Broad Opportunities in Internal Audit

8. Fraud Detection
9. Internal Audit and Corporate Governance
10. Internal Audit Of Management Functions
11. Stock Audit/Credit Audit
12. Internal Audit of Compliance with Commercial Laws
13. Due Diligence
14. Social Audit



Listing of Broad Opportunities in Internal Audit

15. Environmental Audit
16. Corporate Social Responsibility (CSR) Audit
17. ISO 9000 Audit
18. Cyber Audit
19. Industry Specific Internal Audit Programs
20. Assurance Services
21. Internal Audit of Tendering Process
22. Audit of Sustainability Initiatives and Integrated Reports



Internal Audit Procedure

- Organizing Internal Audit Function
- Managing Internal Audit Function
- Internal Audit Planning
- Importance of Effective Internal Control Process
- Internal Audit-Business Related Knowledge
- Knowledge of Processes followed by the Organization
- Field Survey



Internal Audit Procedure

- Internal Audit Programme
- Audit Procedure
- Communication of Internal Auditor with Management Team
- Information Request List
- Audit Notification to Management
- Audit Report Cover Letter
- Internal Audit Report



Change in Business Trends



Industrial Services

- Classification into Primary, Secondary, Tertiary and Quaternary
- Categorized into Public and Private Sector
- Classification of Internal Audit
 - Systems Audit
 - Operational Audit
 - Management Audit
- Source Anywhere and Build Anywhere Business Models



Financial Services

- Onset of Globalization in 1991
- 1969 Nationalization of Banks
- IRDA Bill, 1999 – Privatization Process Commenced
- Mutual Funds – 1963 UTI enacted
- 1986 Public Sector banks permitted
- 1993 – Economic Policy – Private Sector Mutual Funds
- 2009 – Interest Rate Future launched in NSE



Financial Services

- E-finance dramatically changed the structure and nature of financial services
- Technological advances changing the face of the financial services industry
- Electronic Trading and Communication Networks
- Financial services in India changed since 1991



Service Industry

- Largest and fastest-growing sector in the global economy in the last 2 decades
- Provides more than 60 per cent of global output
- Also provides a larger share of employment
- It now contributes around 51 percent of GDP
- Growth pattern in the service sector has not been uniform across all services in India



Computer Assisted Auditing Techniques (CAAT)



CAATs

- Provides reasonable evidence
- Helps in performing
 - Tests of transactions
 - Analytical review procedures
 - Compliance tests
 - Sampling Programs
 - Penetration Testing
- Need for CAAT
 - Audit Objective
 - Nature of data to be reviewed
 - Availability of requisite CAAT tools
 - Availability of skilled audit staff



CAATs

- **Types of computer audit software**
 - Generalized Audit software tools
 - Specialized Audit test and analysis software
 - Utility software
 - Test data techniques
 - Expert systems
 - Embedded audit procedures



Internal Audit Standards Board - IASB

- Internal Audit Standards Board was constituted as the Committee on Internal Audit in the year 2004
- With the mission of reinforcing the primacy of the Institute of Chartered Accountants of India (ICAI)



Standards on Internal Audit

1. Standard on Internal Audit (SIA) 1, Planning an Internal Audit
2. Standard on Internal Audit (SIA) 2, Basic Principles Governing Internal Audit
3. Standard on Internal Audit (SIA) 3, Documentation



Standards on Internal Audit

4. Standard on Internal Audit (SIA) 4, Reporting
5. Standard on Internal Audit (SIA) 5, Sampling
6. Standard on Internal Audit (SIA) 6, Analytical Procedures



Standards on Internal Audit

7. Standard on Internal Audit (SIA) 7, Quality Assurance in Internal Audit
8. Standard on Internal Audit (SIA) 8, Terms of Internal Audit Engagement
9. Standard on Internal Audit (SIA) 9, Communication with Management



Standards on Internal Audit

10. Standard on Internal Audit (SIA) 10, Internal Audit Evidence
11. Standard on Internal Audit (SIA) 11, Consideration of Fraud in an Internal Audit
12. Standard on Internal Audit (SIA) 12, Internal Control Evaluation



Standards on Internal Audit

13. Standard on Internal Audit (SIA) 13, Enterprise Risk Management
14. Standard on Internal Audit (SIA) 14, Internal Audit in an Information Technology Environment
15. Standard on Internal Audit (SIA) 15, Knowledge of the Entity and its Environment



Standards on Internal Audit

- 16. Standard on Internal Audit (SIA) 16, Using the Work of an Expert

- 17. Standard on Internal Audit (SIA) 17, Consideration of Laws and Regulations in an Internal Audit



Professional Opportunities In Internal Audit



1. Internal Controls Auditing

- Evaluation of Effectiveness Internal Audit Function
- Providing Assurance regarding Internal Controls
- Determination of Adequacy of Internal Control Framework
- Internal Audit evaluating the policies and procedures of the organizations
- Offering Control Self Assessment



1. Internal Controls Auditing

– Internal Audit of various controls in an Organization

- Cash and Bank Balance
- Capital
- Debenture and Long Term Loans
- Creditors, Accruals, Provision
- Contingent Liabilities



1. Internal Controls Auditing

- Purchase & Other Expenditure
- Sales & Other Income
- Fixed Asset
- Investments
- Debtors, Prepayments, Accrued Income
- Stock and WIP
- Wages & Salaries
- Bank Branches
- Bank Head Office/Central Office



2. Internal Audit Functions /Requirements Under Various Laws

- Risk Based Internal Audit (RBIA) in Banks under RBI Guidance
- Internal Audit requirement under sections 302 and 404 of the Sarbanes Oxley Act of 2002
- Compliance of Internal Audit requirements under Companies (Auditor's Report) Order, 2003
- Internal Audit of Operations of Depository Participants
- Internal Audit requirements mandated by SEBI on a half yearly basis for stock brokers/trading members/clearing members



2. Internal Audit Functions /Requirements Under Various Laws

- System Audit of Investment functions of Insurance Companies
- Concurrent Audit in banks
- Internal audit to be undertaken in respect of Credit Rating Companies Operations
- Internal Audit of Mutual funds
- Internal Audit of Custodians
- Internal Audit of Registrar & Share Transfer Agents



2. Internal Audit Functions /Requirements Under Various Laws

- Internal audit mandatory for multiple banking or consortium - RBI
- Internal Audit requirement every quarterly required for insurers under IRDA (Investment) (Fourth Amendment) Regulations, 2008



3. Enterprise Risk Management – The ERM Role

- Providing assurance on the design and effectiveness of risk management processes.
- Providing assurance that risks are correctly evaluated.
- Evaluating risk management processes.
- Evaluating the reporting on the status of key risks and controls.



3. Enterprise Risk Management – The ERM Role

- Reviewing the management of key risks, including the effectiveness of the controls and other responses to them.

Consulting Activities

- Championing the establishment of ERM within the organization.
- Developing risk management strategy for board approval.
- Facilitating the identification and evaluation of risks.



3. Enterprise Risk Management – The ERM Role

- Coaching management on responding to risks.
- Coordinating ERM activities.
- Consolidating the reporting on risks.
- Maintaining and developing the ERM framework.

Roles the internal auditors should NOT undertake are:

- Setting the risk appetite.
- Imposing risk management processes.



3. Enterprise Risk Management – The ERM Role

- Providing assurance to the board and management
- Making decisions on risk responses. This is management's responsibility.
- Implementing risk responses on management's behalf.
- Accountability for risk management.



4. Internal Audit of Compliance of Standards on Internal Audit

- Till date there are 17 standards issued by IASB ,ICAI
- Standards on Internal Audit shall be recommendatory in nature in the initial period.
- The Standards shall become mandatory from such date as notified by the Council.



Framework for Assurance Engagement (Effective 1st April 2008)

- Framework defines the elements and objectives of an assurance engagement
- Frame of reference is offered to
 - Practitioners
 - Other involved in assurance engagements
 - AASB Board in the development of SAs, SREs and SAEs



Framework for Assurance Engagement (Effective 1st April 2008)

- The framework distinguishes the assurance engagements from other engagements like consulting engagements
- Assurance engagements include internal audit and due diligence audits.



Framework for Assurance Engagement (Effective 1st April 2008)

- Definition of Assurance Engagement under the Framework
- ““Assurance engagement” means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.”



Framework for Assurance Engagement (Effective 1st April 2008)

Framework identifies 5 elements of assurance engagements namely

- A three party relationship
- A subject matter
- Criteria
- Evidence
- Assurance Report



5. Monitoring XBRL Implementation & Reporting Results

- Ensuring savings in cost/resources for redundant data related work - XBRL ensures data re-usability
- Efficiency gains in external reporting processes
- Enables more frequent review/update of internal credit rating system



5. Monitoring XBRL Implementation & Reporting Results

- Integrating different systems and provide for easier generation of complete, consolidated and centralized information
- Enhanced internal controls/audit processes if XBRL is extensively leveraged
- Generation of standard and ad-hoc reports as required
- Ease of incorporating data for various analytical studies and periodic reports



5. Monitoring XBRL Implementation & Reporting Results

- Use of business intelligence tool for advanced analytics and drill-down/roll up facility
- Contextual and explanatory information available around every data
- There is a common framework of definitions
- Corporate information is available with transparency and accuracy
- Comparison of financial data among multiple companies made easier



6. Audit of IFRS Convergence

- Whether IFRS standards followed
- Selection of options provided
- First time adoption options selected
- Fair value determinations



7. Forensic Audit

- Strengthens control mechanisms, with the objective of protecting the business against financial crimes
- Can play an important role for companies under review by regulatory authorities
- Can help protect organizations from the long-term damage to reputation caused by the publicity associated with insider crimes.



8. Fraud Detection

- Banking Frauds
- Insurance Frauds
- Stock market frauds
- Internet frauds
- Investment Frauds
- Cyber crimes



8. Fraud Detection

Common type of frauds which internal auditors are likely to come across

- Frauds in computerized environment
- Cheque fraud
- Trojan horse fraud or the time bomb fraud
- Achilles Heel frauds
- Piggyback frauds
- Accounting manipulations



9. Internal Audit & Corporate Governance

- The four characteristics of good governance are
 - Transparency,
 - Accountability,
 - Effectiveness/efficiency and
 - Responsiveness.

- The role of internal control in a CG framework
 - Risk Assessment
 - Providing Assurance regarding controls
 - Compliance
 - Consulting and Operations



9. Internal Audit & Corporate Governance

- Organizational Independence is vital for an effective internal audit function of the governance framework
- An Internal Audit Charter helps in administering the audit function
- Unrestricted access to all forms of evidence offers efficient audit results



10. Internal Audit Of Management Functions

- Business strategy process
- Human resources functions
- Marketing strategy
- Production process



Internal Audit of Human Resource Function

- The Human resource audit ensures that the organization is aware of the existing laws and rules and whether it is implementing them effectively.
- This creates an atmosphere of transparency and goes a long way in avoiding legal confrontation later



Internal Audit of Human Resource Function

- Human Resource Management (HRM) is the function within an organization that focuses on recruitment of, management of, and providing direction for the people who work in the organization.
- The Human resource audit ensures that the following
 - organization is aware of the existing laws and rules and whether it is implementing them effectively so that legal confrontation is avoided later.



Internal Audit of Human Resource Function

- It helps build trust in the minds of the employees who are confident that things pertaining to their wellbeing are being taken care of
- It also makes the HR employees familiar with the current laws.
- It adds credibility to the company in the eyes of the investors, who may look favorably.



Internal Audit of Human Resource Function

- Laws such as those pertaining to discrimination, sexual harassment, overtime etc should be particularly looked into.
- Even seemingly minor things such as the employment application should be studied if it solicits inappropriate information



11. Stock Audit/Credit Audit

- Stock audit for bank borrowers
- Stock audit other than bank borrowers



12. Internal Audit of Compliance with Commercial Laws (Illustrative List)

1. Anti Money Laundering Laws
2. Laws relating to Alternate Dispute Resolution
3. Laws relating Real Estate
4. Family and Succession Laws
5. Legal Metrology laws
6. Laws Relating to Charity
7. Labour Laws
8. IPR laws
9. Insolvency Laws/BIFR



12. Internal Audit of Compliance with Commercial Laws (Illustrative List)

10. Securitization Laws
11. Laws relating to Non Banking Financial Institutions
12. Competition Laws
13. Consumer Laws
14. Laws relating to Cooperative Societies
15. Corporate Laws
16. Laws Relating To Limited Liability Partnership (LLP)



12. Internal Audit of Compliance with Commercial Laws (Illustrative List)

- 17. Laws Relating To Micro, Small And Medium Enterprises (MSMES)
- 18. Banking Laws
- 19. Insurance Laws
- 20. Securities Law
- 21. Laws relating to International Trade
- 22. Foreign Exchange Management Laws
- 23. Right to Information Law
- 24. Laws relating to Special Economic Zones (SEZ)



12. Internal Audit of Compliance with Commercial Laws (Illustrative List)

25. Energy Laws

26. Carriage Laws And Multi-Modal Transportation Of Goods

27. Laws relating to Aviation Sector

28. Laws relating to Telecom Industry

29. Laws relating to Pharmaceuticals

30. Information Technology and Cyber Laws

31. Environmental Laws

32. Carbon Credit



13. Due Diligence

1. Commercial Due Diligence
2. Legal Due Diligence
3. Operational Due Diligence
4. Business Strategy/ Management Culture Due Diligence
5. Environmental Due Diligence
6. Human Resource Due Diligence



13. Due Diligence

7. Marketing Due Diligence
8. Business Environmental Due Diligence
9. Preliminary Due Diligence
10. Full Due Diligence
11. Ongoing Due Diligence
12. Private Equity Due Diligence



13. Due Diligence

13. Mergers and Acquisitions Due Diligence
14. Joint Venture Due Diligence
15. Venture Capital Due Diligence
16. Purchase of Business Due Diligence
17. Investment in Business Due Diligence
18. Loans for Business Due Diligence



13. Due Diligence

19. Partnership in Business Due Diligence
20. Substantial Supply to Business Due Diligence
21. Financial and Accounting Due Diligence
22. Tax Due Diligence
23. Information Technology Due Diligence
24. Strategic and Commercial Due Diligence



13.Due Diligence

- 25. Investor Due Diligence
- 26. Vendor Due Diligence



14. Social Audit

- Prepare a statement of purpose, objectives, key issues and activities for Social Auditing.
- Preparation of Social accounting plan and timeline
- Budgeting for Social Audit
- Prepare social accounts using existing information, data collected and views of stakeholders.
- Reviewing support to civil society for its participation



14. Social Audit

- The 6 steps followed in the performance of Social Audit are
 - Preparatory activities
 - Defining audit boundaries and identifying stakeholders
 - Social accounting and book-keeping
 - Preparing and using social accounts
 - Social audit and dissemination
 - Feedback and institutionalization of social audit



15. Environmental Audit

- Reviewing the effectiveness of Environmental Management
- Reviewing the compliance of an organization with all regulatory and environmental performance
- Ensuring conformity with environmental assessment requirements
- Testing the accuracy of the assessment



16. Corporate Social Responsibility (CSR) Audit

- Gain an understanding of Corporate Social Responsibility (CSR) influences and initiatives.
- Understand CSR stakeholders and their needs.
- Understand the economic value proposition and reputation drivers.
- Examine how organizations approach: climate change challenges, health and safety issues, and supply chain imperatives.
- Review emerging practices in social responsibility and sustainable development.
- Examine CSR links to governance and risk management.
- A guidance on social responsibility ISO 26000:2010 can be referred to
- Network with your peers on this emerging area of internal audit focus.



16. Corporate Social Responsibility (CSR) Audit

- A CSR audit program can cover all or any of the following risks:
 - Effectiveness of the operating framework for CSR implementation
 - Effectiveness of implementation of specific, large CSR projects
 - Adequacy of internal control and review mechanisms
 - Reliability of measures of performance
 - Management of risks associated with external factors like regulatory compliance, management of potential adverse NGO attention, etc



17. ISO 9000 Audit

- The term *ISO 9000* has two different meanings:
 - It refers to a single standard (ISO 9000) and
 - It refers to a set of three standards (ISO 9000, ISO 9001, and ISO 9004).
- All three are referred to as *quality management system standards*



17. ISO 9000 Audit

- Two types of auditing are required to become registered to the standard: auditing by an external certification body (external audit) and audits by internal staff trained for this process (internal audits).
- The internal audit programs comprises of five programs



17. ISO 9000 Audit

- The five programs comprise of
 - ISO 9001 *Compliance Audit Program*
 - ISO 9001 *Policy Audit Program*
 - ISO 9001 *Procedures Audit Program*
 - ISO 9001 *Process Audit Program*
 - ISO 9001 *Records Audit Program*



18. Cyber Audit

- COBIT based Audits
 - Reviews of Baselines and Standards for IT
 - Information System Implementations
 - Pre-Implementation Review
 - Implementation of Controls Certification Reviews
 - Post Implementation Review
 - Code Development / Source Code Management Reviews
 - General Controls Reviews
 - Data Center reviews
 - Audits of the Business Continuity Program



18. Cyber Audit

- Audits of Security Configuration
 - Reviews of Security Administration
 - Reviews of IT Purchasing and Procurement
 - Application Review / Audits
 - Audits of Business Processes
- System Audit
 - Internal Audit of System Security Policy
 - Network Security Audit
 - Quality Management Systems Audit



19. Industry Specific Internal Audit Programs (Illustrative List)

1. Educational Institutions
2. Information Technology Companies
3. Hotels
4. Hospitals
5. Stock Brokers
6. Portfolio Manager
7. Company
8. Mutual Funds



19. Industry Specific Internal Audit Programs (Illustrative List)

8. Construction Company
9. Banks
10. Manufacturing Company
11. Insurance Company
12. Non Banking Finance Companies
13. Asset Management Company
14. Telecom Companies
15. Cooperative Societies
16. Real Estate Industry



20. Assurance Services

1. Revenue Audit
2. Special Audit
3. Concurrent Audit
4. Income & Expenditure Audit
5. Grants Audit
6. Projects Audit
7. Investigative Audit
8. CAG Audit for PSUs
9. Diligence Report
10. Assurance On Sustainability Reporting



List of Audit /Assurance Services under Internal Audit

1. Financial Audit
2. Operational Audit
3. Grant Audit
4. Project Audit
5. Information Systems Audit
6. Compliance Audit
7. Investigative Audit
8. Enterprise Risk Management



List of Audit /Assurance Services under Internal Audit

9. Assurance on Sustainability Reporting
10. Revenue Audit
11. Special Audit
12. Audit of Public Sector Undertaking
13. Audit of Stock Brokers



21. Internal Audit of Tendering Process

1. Open Tenders
2. Limited or Closed Tenders
3. International Competitive Bidding (ICB)
4. National Competitive Bidding (NCB)
5. Request for Proposal (RPF)
6. Request for Quote (RFQ)
7. Request for Information (RFI)
8. Expression of Interest (EOI)



21. Internal Audit of Tendering Process

- 9. Single Envelop Bidding
- 10.2 Envelop Bidding
- 11. Multiple Envelop Bidding



22. Audit of Sustainability Initiatives and Integrated Reports

- Report on Sustainability Progress and Issues
- Best Practice Assessments – identify enhancement opportunities
- Best Practice Standards/Framework – Adoption of externally recognized framework, guidelines, standards in testing sustainability activities and performance measurements
- Assurance Service – Performing the “Sustainability Readiness Audit” of non financial performance measurements for independent audit



22. Audit of Sustainability Initiatives and Integrated Reports

- Advisory Opportunities – offering consultancy services to management by identifying key trends like green building, brand positioning
- Looking out for regulatory changes and process verification in place to communicate changes if any



Contents of a Good Internal/Assurance Audit Report

The assurance report should include the following basic elements

- A Title
- An addressee
- An identification and description of the subject matter information and, when appropriate, the subject matter
- Identification of the criteria



Contents of a Good Internal/Assurance Audit Report

- Where appropriate, a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria
- When the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose



Contents of a Good Internal/Assurance Audit Report

- A statement to identify the responsible party and to describe the responsible party's and the practitioner's responsibilities
- A statement that the engagement was performed in accordance with SAEs
- A summary of the work performed
- Practitioner's Signature



Contents of a Good Internal/Assurance Audit Report

- The assurance report date
- The place of signature – the report should name specific location, which is ordinarily the city where the report is signed



Audit Reporting Cycle

- Outline Audit findings
- Preparation of Audit report - First draft
- Discussion with client
- Preparation of Final Audit report draft
- Closing conference
- Issuance of Final report
- Evaluation and Follow Up



Role of an Internal Auditor

The role of an Internal Auditor can be simply captured in four points

- To act as a Catalyst
- To interface between different groups
- To advise on the process
- To report the facts of audit results



Characteristics of an Internal Auditor

- Professionalism
- Proficiency
- Due Professional Care
- Continuing Professional Development
- Independence



How to Succeed as an Internal Auditor

- **Sharpen dialogue** with top management and directors in order to clearly establish the value-added objectives of internal audit (i.e., strategic issues, risk management and protection of company assets).
- **Realign** to meet key stakeholders' expectations (stockholders, executive management, external auditors and regulators).
- Think and act strategically.



How to Succeed as an Internal Auditor

- **Expand audit coverage** to include “tone at the top,” the conduct of executive management in protecting the company.
- **Assess and strengthen expertise** for complex business auditing.
- **Leverage technology** in high-risk areas.
- **Focus on enterprise risk management capabilities.**



How to Succeed as an Internal Auditor

- Make the **audit process dynamic**, changing with changed business conditions.
- **Strengthen quality assurance processes.**
- **Measure the enhanced performance** against expectations of stakeholders.



Opportunities in Statutory Audit

1. Audit under Income Tax Act 1961
2. Audit of Co-operative Societies
3. Audit of Multi State Cooperative Societies
4. Audit of NBFC
5. Audit of Mutual Funds
6. Audit of Insurance Companies
7. Audit of Banks
 1. Accounting System in Banks
 2. Branch Audit
 3. Head Office Audit
 4. Long Form Audit – Branch Level
 5. Long Form Audit – HO Level
8. Audit of Companies



Audits under Income Tax Act 1961

1. Tax Audit or the 44 AB Audit
2. Special Investigation Audit under Sec 142 (2A)
3. Audit of Public Trusts and Charitable Institutions under Sec 12A(b)- Rule 17B – Report under Form 10 B
4. Assesses claiming deduction in respect of Deposits under Site Restoration Fund Account/Scheme – 33ABA (2) – Rule 5AD – Form 3AD



Audits under Income Tax Act 1961

5. Assesseees other than Company or Co-op. Societies claiming amortization of certain preliminary expenses – Sec 35D(4) – Rule 6AB – Form 3B
6. Assesseees other than Company or Co-op. Societies claiming deduction for expenditure on prospecting etc. of certain minerals – 35E(6) – Rule 6AB – Form No 3B
7. Assesseees carrying on business/profession whose Turnover/Gross Receipts exceeds Rs. 40 lakhs (Rs. 10 lakhs for profession) or profit and gains are deemed to be u/s. 44AD/44AE/ 44AF and assessee has claimed lower profits than specified in those sections – 44AB – Rule 6G – Form 3CA, 3CB and 3CD



Audits under Income Tax Act 1961

8. Special provisions for computing income by way of Royalties, etc. in case of Non-residents – Sec 44DA – Rule 6GA – Form 3CE
9. Assessee having an industrial undertaking or an enterprise for Infrastructure Facility, Telecommunication Services, Industrial Park or Power – Sec 80I(7)/80IA(7) – Rule 18 BBB – Form 10 CCB
10. Assessee claiming deduction in respect of business of owning and operating a multiplex theatre or a convention center - Sec 80 IB (7A) & 80 (7B) – Rule 18DB/18 DC – Form 10CCBA/10CCBB



Audits under Income Tax Act 1961

11. Special audit at the instance of the Assessing Officer –
Sec 142(2A) – Rule 14A – Form 6B
12. Assessee claiming deduction in respect of newly
established undertakings in free trade zones EPZ, SEZ,
STP, etc.- Sec 10A(5) – Rule 16D – Form 56F
13. Assessee claiming deduction in respect of newly
established EOUs – Sec 10B(5) – Rule 16E – Form 56 G
14. Assessee engaged in export of hand made articles or
things made of wood as the main raw material – Sec
10BA – Rule 16F – Form 56H
15. Expenditure on eligible projects or schemes – Sec 35 AC
– Rule 11-0 (2) – 58 B



Audits under Income Tax Act 1961

16. Relating to International Transactions and particulars thereof – 92E – Rule 10 E – Form 3CEB
17. Company assesseees to which provisions of section 115JB applies – Rule 40B – Form 29B
18. Option for tonnage tax scheme by a tonnage tax co – Sec 115 VW – Rule 11T - Form 66



Audit of Co-operative Societies

- The following aspects should be taken note of while conducting the audit of co-operative societies.
 - Understanding the formation of co-operative societies (registration under Co-operative Societies Act, 1912),
 - Nature of the society (with or without liability),
 - Liability of the members of the Co-operative Society (Section 4 of the Act),



Audit of Co-operative Societies

- The word limited should exist as the last word in the name if every society registered with limited liability registered under the Co-operative Societies Act, 1912,
- Registration of the bye-laws of the society with the registrar of societies,
- Reference to sections 5 and 14 pertaining to liability of the society (limited and unlimited) and role of members of such societies



Audit of Co-operative Societies

- Section 28 of the Act empowers the Central Government to exempt any registered society or class of registered societies from income-tax, stamp duty or registration fees
- A registered society cannot make any loan to any person other than its members – Section 29
- A registered society can receive loans and deposits from non member only to such extent and under conditions prescribed by the rules or bye-laws



Audit of Co-operative Societies

- Section 32 provides the ways in which a society can invest or deposit its funds
- Transfer of at least 25% of the net profits of a co-operative society to reserve fund in any year – Section 33
- Distribution of current year or previous year profits to the members should be in accordance with the bye-laws of the society



Audit of Co-operative Societies

- A society with unlimited liability cannot distribute profits without the general or special order of the state government in this behalf
- A registered society may contribute an amount not exceeding 10% of the net profits remaining after the compulsory transfer to the reserve fund for any charitable purpose as defined under Section 2 of the Charitable Endowment Act, 1980



Audit of Multi State Cooperative Societies

- According to Section 73(3) & (4) of The Multi- State Co-Operative Societies Act, 2002, an audit report of a Multi State Cooperative Society shall consist of the following
 - Sec 73(3) – The auditor shall make a report to the members of a multi state cooperative society on the accounts examined by him and give a true and fair view of the affairs of the society in case of the balance sheet at the end of its financial year and the profit and loss for the period in case of profit and loss account.
 - Sec 73(4) – The report shall also include the following
 - Whether necessary information has been received by him to the best of his knowledge and belief
 - Whether proper books of accounts have been kept by the cooperative society in the opinion of the auditor



Audit of Multi State Cooperative Societies

- Whether the branch audit report given by another auditor has been received by him and whether the same has been considered in his report on the Multi State Cooperative Society
- Whether the financial statement prepared are in line with the books of accounts

Sec 73(5) – Where the answer to any of the questions stated above is in the negative, the reason for the same shall be stated in the report.



Audit of NBFCs

- Understanding the type of business carried out by the NBFC. NBFCs normally fall into the following categories they are as follows
 - Non Banking Financial Company
 - Mutual Benefit Financial Company or the Nidhi Company
 - Mutual Benefit Company or the Potential Nidhi Company
 - Miscellaneous Non Banking Company or the Chit Fund Company
- Evaluating the effectiveness of Internal Control System of the Organization
- Registration of NBFC with RBI made compulsory



Audit of NBFCs

- Classification of an NBFC by RBI – with effect from 6th December 2006 to
 - Asset Finance Company (AFC)
 - Investment Company (IC)
 - Loan Company (LC)
- It must be ascertained whether the company has complied with aspects in relation to the activity of mobilization of public deposits
- Compliance with the prudential norms directions
- Compliance with NBFC Auditors Report RBI Directions
- Report to Board of Directors under RBI Directions



Audit of Mutual Funds

- Mutual Fund Industry in India except UTI which has been brought into existence under an Act of Parliament is regulated by the SEBI (Mutual Fund) Regulation 1996.
- Reserve Bank of India is the Apex Monetary Institution in India. **RBI** is the only regulator of bank sponsored mutual funds, while SEBI regulates all Mutual funds.



Overview of the Mutual Fund Regulations issued by SEBI

The SEBI (Mutual Funds) Regulations, 1996 consists of 78 clauses and 12 schedules.

- Registration of Mutual Funds.
- MFs should be formed as a Trust under Indian Trust Act and should be operated by Asset Management Companies (AMCs).
- MFs need to set up a Board of Trustees and Trustee Companies. They should also have their Board of Directors.
- The net worth of the AMCs should be at least Rs.5 crore.
- AMCs and Trustees of a MF should be two separate and distinct legal entities.



Overview of the Mutual Fund Regulations issued by SEBI

- The AMC or any of its companies cannot act as managers for any other fund.
- AMCs have to get the approval of SEBI for its Articles and Memorandum of Association.
- A Custodian should be appointed to carry out the custodial services for the schemes of the Fund.
- All MF schemes should be registered with SEBI.
- MFs should distribute minimum of 90% of their profits among the investors.



Audit of Insurance Companies

- a. Schedule 'C' of the IRDA Regulations prescribe the matters to be specified in the Report of the Auditors on the Financial Statements.
- b. **Statutory Audit** is conducted as per the provisions Sec.224 to Sec. 233 of the Companies Act, 1956 (as amended) for reporting the matters specified in the schedule C of the IRDA Regulation, 2000.



Audit of Insurance Companies

- c. CAG Audit** is conducted by an auditor appointed by or reappointed by the Controller and Auditor General of India under Sec.619 of the Companies Act for the Govt. Company as defined by Sec.617 of the Companies Act, 1956,
- d. Regulatory Audit** is an audit, checking, examination and verification of books of accounts, investments of funds, margin of solvency etc per provisions of sec.14 of the IRDA Act, 1999.



Audit of Insurance Companies

- e. Special Audit** is an audit conducted by a Chartered accountant or Company's Auditor under the directives of the Central Govt. as per provisions of Sec.233A of the Companies (Amendment) Act 1960 in certain cases.



Audit of Banks

- Accounting System in Banks
- Branch Audit
- Head Office Audit
- Long Form Audit – Branch Level
- Long Form Audit – HO Level



Professional Opportunities In Banking Sector

- Compliance with all Reserve Bank of India regulations
- Compliances under the Banking Regulation Act, 1949
 - Submission of returns with regard to details of accounts
 - Submission of returns showing its assets and liabilities
 - Submission of profit and loss account and balance sheet with auditor's report.
- Taxation
- Audit and Accounts
- Stock Audit
- Charge Verification
- Valuation of Assets



Professional Opportunities In Banking Sector

- Consultancy for enforcement of security
- Credit Audit and liasoning with Credit Information Bureau (India) Limited (CIBIL)
- Securitization
- Verification of Loan Documents
- Know Your Customer (KYC) Audit
- Anti Money Laundering Audit
- FEMA Audit



Audit of Companies

- Audit of Annual Accounts of a company is compulsory and is indispensable part of incorporated business.
- Section 224 (1) of the Companies Act, 1956 states that every company whether it is public or private limited shall have an auditor to audit its accounts.
- Audit Of Accounts Of Branch Office [Section 228]
- The auditor' report is required to be read out at the Annual General Meeting and shall be open to inspection by any member of the Company. [Section 230]
- Section 231 of the Companies Act, 1956 confers a right on the statutory auditor to attend and to be heard at any general meeting on matters of his concern.



The Cost Audit - Structure

1. Cost Audit Programmes;
2. Cost Audit working papers; and
3. Checking/Verification
4. Cost Audit Report



Recent Amendments to Cost Accounting and Auditing

Ministry of Corporate Affairs (MCA) has introduced the following changes

- A change in the Method of Appointment of Cost Auditor vide circular no.15 dated 11/04/2011
- New Cost Audit Orders issued for 14 Industries.
- New Cost Accounting Record Rules vide Notification No GSR 429(E) dated 03/06/2011 – issued in suppression of 36 notifications



Recent Amendments to Cost Accounting and Auditing

- Hence forth the companies may prepare Cost Records as per its requirement subject to the fulfillment of certain said conditions, instead of adhering to specific formats for Cost Records.
- New Cost Audit Report Rules issued vide GSR 430(E) date 03/06/2011



Cost Account Record Rules 2011 (CARR 2011)

- Ministry of Corporate Affairs vide GSR No. 429/ (E) dated 3rd June 2011, have issued Companies (Cost Accounting Records) Rules, 2011.



CARR 2011

These rules shall apply to following companies, including a foreign company

- The company engaged in the production, processing, manufacturing, or mining activities and
- The aggregate value of net worth of the Company as on the last date of the immediately preceding financial year exceeds five crores of rupees;

Or



CARR 2011

- The aggregate value of the turnover made by the company from sale or supply of all products or activities during the immediately preceding financial year exceeds twenty crores of rupees;

Or

- The company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India.



The Companies (Cost Audit Report) Rules, 2011 (CAR)

- The Companies (Cost Audit Report) Rules, 2011 have been issued by the Ministry of Corporate Affairs vide Notification no. 430(E) dated 3rd June 2011.
- “Cost Auditor” means an auditor appointed to conduct an audit of cost records, under sub-section (2) of section 233B of the Act and shall be a cost accountant within the meaning of the Cost and Works Accountants Act, 1959.
- These rules shall apply to every company in respect of which an audit of the cost records has been ordered by the Central Government under sub-section (1) of section 233B of the Act.
- Cost Audit Reports submitted till 31.3.2012 will be governed by the Cost Audit Report Rules, 2001.



The Companies (Cost Audit Report) Rules, 2011 (CAR)

- Vide sub-rule 5 of Rule 4 of the Companies (Cost Audit Report) Rules, 2011, every cost auditor, who submits a cost audit report shall also furnish Performance Appraisal Report, duly authenticated by the cost auditor, to the Board/Audit Committee of the company in the prescribed format (Form III).
- There cannot be NIL report since list of the areas to be covered in the report as per Form III are relating to company's operations being audited by the cost auditor.
- There is no time limit within which the Central Government can seek clarification from the cost auditor
-



The Companies (Cost Audit Report) Rules, 2011 (CAR)

- The cost auditor shall forward his report referred to in sub rule (1) of the rule 4 to the Central Government and to the concerned company within one hundred and eighty days from the close of the company's financial year to which the report relates.



Cost Audit Report and Compliance Report

- MCA has decided that all cost auditors and the concerned companies will be allowed to file their Cost Audit Reports and Compliance Reports for the year 2011-12 (including overdue reports relating to previous years) with the Central Government in the XBRL Mode without any penalty up to 31st December 2012.(MCA Cir dtd 26th July 2012)
- Filing of Cost Audit Reports and Compliance Reports with the Central Government in the XBRL mode shall be allowed after 31st July 2012 (MCA cir dtd 29th June 2012)



Mandatory Cost Audit

The central government has issued different orders dated

- 2nd May 2011 [8 Industries],
- 3rd May 2011 [6 Industries],
- 30th June 2011 [8 Industries].

All industries covered under this orders, shall be audited its cost records on or after 1st April 2011.



Mandatory Cost Audit

- The central government enlarged the scope of cost audit through issuing cost audit order on 24th January 2012 and included another 9 industries under cost audit.



Mandatory Cost Audit

- The following industries shall get its cost accounting records audited by cost accountant on or after 1st April 2012.
 - All companies to which the Companies (Cost Accounting Records) Rules, 2011 apply and
 - The company engaged in the production, processing, manufacturing or mining of the following products/activities including intermediate products and articles or allied products thereof and
 - If the aggregate value of the turnover made by the company from sale or supply of all its products/activities during the immediately preceding financial year exceeds hundred crore of rupees **Or**
 - If the company's equity or debt securities are listed or are in the process of listing on any stock exchange, whether in India or outside India



Features of Cost Audit

- Every cost auditor shall forward his report to central government and company within 180 days from the end of financial year of the Company
- The company and every officer of the Company shall render necessary assistance to the cost auditor so as to enable him to complete the cost audit.
- The annexure prescribed with cost audit report shall be approved by Board of Director before submitting the same to central government. The annexure shall also be signed by company secretary and at least one Director of the Company. If there is no company secretary, then two Directors shall sign the same.



Features of Cost Audit

- No person in employment can be appointed as a cost auditor.
- The company shall within 30 days from the date of receipt of the copy of the cost audit report, furnish to the central government with full information and explanations on every reservation or qualification remarks.
- Sometimes, the central government may direct to circulate the cost audit report to members.



Features of Cost Audit

- A cost accountant in full time practice or a firm of cost accountants appointed for conducting cost audit of a product/activity of a company is eligible to also authenticate the Compliance Report of the Company in respect of Companies (Cost Accounting Records) Rules 2011
- A cost auditor would be deemed to have concluded his appointment as cost auditor and eligible to accept appointment of another company within the limits of Section 224 (1B) .



Section 233B of the Companies Act, 1956

Proviso to Sec 233B states as follows

- “Provided that if the Central Government is of opinion that sufficient number of cost accountants within the meaning of the Cost and Works Accountants Act, 1959 (23 of 1959), are not available for conducting the audit of the cost accounts of companies generally, that Government may, by notification in the Official Gazette, direct that, for such period as may be specified in the said notification, such **chartered accountant** within the meaning of the Chartered Accountants Act, 1949 (33 of 1949), as possesses the prescribed qualifications, may also conduct the audit of the cost accounts of companies, and thereupon a chartered accountant possessing the prescribed qualifications may be appointed to audit the cost accounts of the company”



Disqualification for appointment of Cost Auditor of a Company

- Under Section 226
 1. Body corporate
 2. An officer or employee of the company
 3. A person who is partner or who is an employment of an officer or employee of the company
 4. A person who is debtor or creditor with related to company for an amount of exceeding Rs. 1000
 5. A person who hold any security of that company



Cost Accounting Standards

Cost Accounting Standards

CAS No	Title	Objective	Useful for
CAS1	Classification of Cost	For preparation of Cost Statement	Assessment of excise duty and other taxes, anti-dumping measures, transfer pricing etc.
CAS2	Capacity Determination	For determination of capacity	Proper allocation, apportionment and absorption of cost.
CAS3	Overheads	For Collection, Allocation, Apportionment and Absorption of overhead	Determining Cost of products, services or activities.
CAS4	Cost of Production for Captive Consumption	To determine the assessable value of excisable goods used for captive consumption.	Determining Cost of products, services or activities.
CAS5	Average (equalized) Cost of Transportation	To determine averaged/ equalized transportation cost	Calculating the amount of deduction from assessable value of excisable goods, freight subsidy, Insurance claim valuation, etc.
CAS6 (Draft)	Arm's Length Price	For computation of Arm's Length Price	Determining Arms Length Price, for transactions between related parties.
CAS7 (Draft)	Costing of Joint Products & By-Products	For Appointment of Joint costs to Individual products	Inventory valuation, Cost of Goods Sold computations, Cost reimbursements under Cost Plus contracts, Transfer Pricing and Insurance settlement computations for Joint products and by products.



About the Author

- *CA. Rajkumar S Adukia is an eminent business consultant, academician, writer, and speaker. He is the senior partner of Adukia & Associates.*
- *In addition to being a Chartered Accountant, Company Secretary, Cost Accountant, MBA, Dip IFR (UK), Mr. Adukia also holds a Degree in Law and Diploma in Labour Laws and IPR.*
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About the Author

- *He has been coordinating with various Professional Institutions, Associations, Universities, University Grants Commission and other Educational Institutions.*
- *Authored more than 50 books on a vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Income Tax Search, Survey and Seizure, IFRS, LLP, Labour Laws, Real estate, ERM, Inbound and Outbound Investments, Green Audit etc.*
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Thank You!!