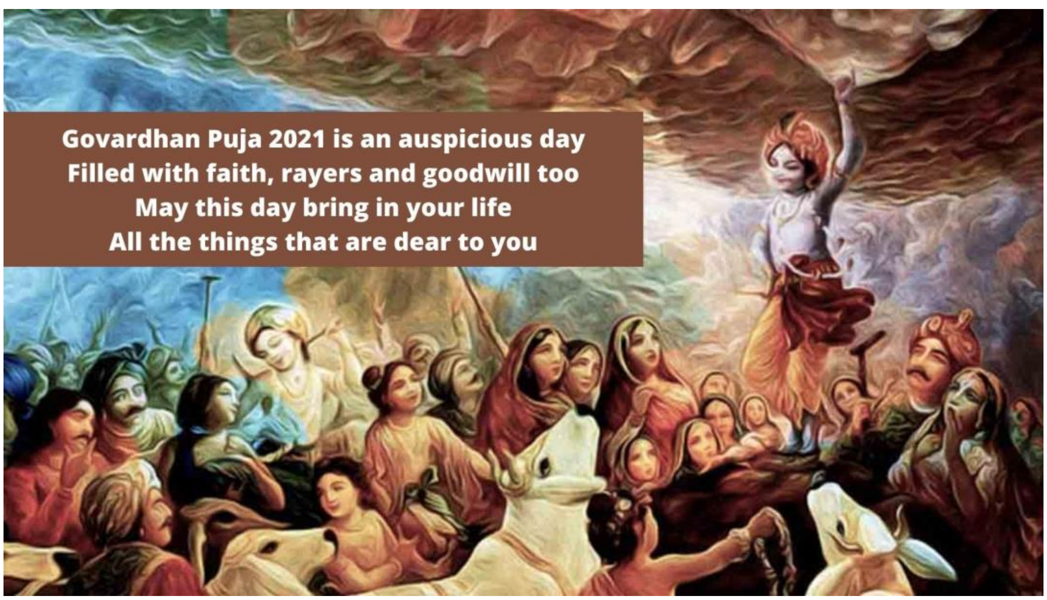
IRRESPECTIVE OF SIZE – EVERY ENTERPRISE NEED AUDIT

AUDIT IS ABSOLUTELY RISK FREE –PROVIDED WE FOLLOW SCIENCE & RULES OF IT

Just like Lord Krishna, save the villagers of vrindavan by lifting the Govardhan Hill. Audit is there to save the Enterprises & ensuring its growth



By

Your Candidate for Central Council Election (ICAI-WIRC) 2021 requesting your FIRST/BEST preference vote to Ballot No. 1 on my credentials and proven record and performance and let us contribute to make India No. 1 economy in world by making contributory services in all levels of economic activities, policy making initiatives through you and ICAI

MY MISSION IS TO TRANSFORM CA PROFESSION - MAKE EVERY CITIZEN ECONOMICALLY POWERFUL & INDIA THE MOST POWERFUL NATION OF WORLD ! MY PASSION IS TO MAKE EVERY CA MEMBER & STUDENT SPEAKER & WRITER !

Author of more than 300 books & Global business, professional growth and motivational coach
Passionate to make anyone Speaker, Writer, Acquiring New Knowledge ,Professional Qualifications , Growth in Business & Promotion As CEO
Member IFAC-PAIB committee 2001-2004; Member IFRS SMEIG London 2018-2020
Ex-director - SBI mutual fund, BOI mutual fund, global mediator and international arbitrator
B. Com (Hons), M.Com, FCA, FCS, FCMA, LL.B, LLM(Constitution),Dip CG, MBA, Dip IFRS (UK), DLL&LW, Dip IPR, Dip in Criminology, Ph. D, Mediation ,IP(IBBI), MBF, Dip HRM, Dip Cyber Law
20+ Certificate courses; 75+ Self Development Courses
Student of : MA(Psychology), MA (Economics), PGD CSR, PGD Crime Investigation
IBBI(RV)+++++++++++++++++
Ranks ALL INDIA 1st in Inter CA; 6th in CA Final; 3rd in CMA Final, 5th in Mumbai University +++
Chairman western region ICAI 1997; Council Member ICAI 1998-2016
Mob: 98200 61049; Email: rajkumar@cadrrajkumaradukia.com

By giving your most valuable First/Best Preferential Vote to me,

I vouch you yourself will be the member of the council!

You may read & download my articles from my website:- www.cadrrajkumaradukia.com

Introduction:

Science is "a **systematic enterprise that builds and organizes knowledge in the form of testable explanation and predictions about the universe**". Performing an audit and following the process results in testing and predictions whether the financial statements are free from material misstatement. Wikipedia defines Audit a follows:

An audit is an "independent examination of financial information of any entity, whether profit oriented or not, irrespective of its size or legal form when such an examination is conducted with a view to express an opinion thereon.

Proper and accurate compilation of financial information of a corporate and its disclosure, in a manner that is standardized and understood by stakeholders, is central to the credibility of the corporate and soundness of investment decisions by the investors. To prescribe all the details guiding the process and principles of audit is a technical matter which needs to be gone into by experts keeping in view the requirements of proper disclosures of financial information in the interests of healthy corporate governance.

Types of Audit

Audits are generally classified into:

- **Statutory audits**;
- **Internal audits**; and
- **Other audits**.

Statutory Audit

The Statutory audits are conducted in order to report the state of a company's finances and accounts to the departments of Indian Government like MCA, SEBI, CBDT etc and are performed by qualified auditors who are working as external and independent parties. The audit report of a statutory audit is made in the form prescribed by the government department.The two most common types of statutory audits in India are:

- **Tax audits**; and

- **Company/ LLP audits**.

Tax Audit: Tax audits are required under Section 44AB of India's Income Tax Act 1961. This section mandates that every person whose business turnover exceeds Rs 1Crore in any previous year, and every person working in a profession with gross receipts exceeding Rs 50 Lakhs must have their accounts audited by an independent chartered accountant. However, in case of business if both the Payment and Receipt does not exceed 5% of the Total Receipts and Payments respectively, the turnover limit is raised to 5 crores for Assessment year 2021-22. The Finance Act, 2021 has further increased the threshold limit of turnover for tax audit u/s 44AB from Rs.5 crores to Rs.10 crores where cash transactions do not exceed 5% of total transactions.

Company audits: The provisions for a company audit are contained in the Companies Act, 2013. Every company, irrespective of its nature of business or turnover, must have its annual accounts audited each financial year.

LLP Audit: Under **Section 34(4)** of the Limited Liability Partnership Act, 2008 there is LLP audit requirement for LLP whose turnover exceed prescribed limit Rs. 40 lakhs or whose contribution exceed Rs. 25 lakhs in any financial year.

Internal audits are conducted at the bequest of internal management in order to check the health of a company's finances and analyze the operational efficiency of the organization. Internal audits may be performed by an independent party or by the company's own internal staff. As per India's Companies Act, 2013, the following companies must have an internal auditing system:

1. Every listed company.

2. Companies whose shares are not listed on the stock exchange and have:

- Paid up share capital of Rs 50 Crores or more during the preceding financial year;
- Turnover of Rs 200 Crores or more during the preceding financial year;

- Outstanding loans or borrowings from banks or public financial institutions exceeding Rs 100 Crores or more at any point in time during the preceding financial year; or
- Outstanding deposits of Rs 25 crores or more at any point in time during the preceding financial year.

3. Every private company with:

- Turnover of Rs 200 Crores or more during the preceding financial year; or
- Outstanding loans or borrowings from banks or public financial institutions exceeding Rs 100 Crores or more at any point in time during the preceding financial year.

The statutory auditor of the company must report on the internal auditing system of the company in the audit report.

Other Audits

Besides the above there are certain other kinds of Audit like stock audit, cost audit , special audit, etc.

Stock audit

Stock audit or inventory audit is a term that refers **to physical verification of a company or institution's inventory assets**. At times, it may also involve the valuation of the inventory but it would depend on the terms of reference or the engagement letter of the assignment. Every business institution at least needs to perform a stock audit once a year to update and ensure that the physical stock and the computed stock match. the stock audit process is concerned, the process mainly involves the counting of physical stock presenting the specified premises and verifying the same with computed stock maintained by the company. Stock Audit is done either on behest of management:

- To find discrepancies between recorded stocks and physical stock,
- to identify slow-moving, or obsolete stock, and scrap and
- to reduce unnecessary investment on stocks and to ensure that you have a proper line balancing in the process.

Besides, stock audit is also done from the view point of the lender/ banks, annually, semi annually or quarterly, to monitor and ensure end-use of funds lent and check the economic viability of the borrower. The appointment of stock auditor is generally made by the Regional or Zonal Office in case of Nationalized banks and in case of co-op banks sometimes concurrent auditors only are asked to conduct stock audit of select borrowers of the branch who are enjoying certain working capital credit limits. The minimum limit for conducting stock audit varies from bank to bank according to their risk perception. Normally, CA or Cost Accountants are appointed by banks for conducting Cost Audit.

Audit of Receivables

The **audit** of existence in accounts **receivables** means verifying the actual existence, rights, and obligations, completeness, accuracy, classification, and presentation ofreceivables account balances as shown in books of accounts. The assertions in accounts may be materially misstated due to fraud or error. It is the responsibility of the auditor to perform unique audit procedures for every assertion and reveal any misstatement if present. One important and primary risk involved in the accounts receivables balances is that the organization has not expensed out the amounts of the bad debts in the receivables balances, which cannot be recovered anymore. Normally Banks/ lenders get this audit for ongoing working capital loan or cash credits secured by book debts.

Cost Audit

A **cost audit** represents the verification of cost records and accounts and a check on the adherence to the prescribed cost accounting procedures and the continuing relevance of such procedures. Cost audit ascertains the accuracy of cost accounting records to ensure that they are in conformity with cost accounting principles, plans, procedures and objectives.A cost audit comprises the following:

- Verification of the cost accounting records such as the accuracy of the cost accounts, cost reports, cost statements, cost data and costing technique
- Examination of these records to ensure that they adhere to the cost accounting principles, plans, procedures and objective
- To report to the government on optimum utilization of national resources.

The cost audit may be done on behalf of management, customer, government agencies or it may be required by some statute. The Section 148 of The Companies Act, 2013 read with The Companies (Cost Records and Audit) Rules, 2014 and Cost and Works Accountants Act, 1959 regulates statutory cost audit in India. Every company falling in regulated Sector like telecommunication, electricity, petroleum, pharma, fertilizer etc, should get its cost records audited if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is Rs 50 crore or more and the aggregate turnover of the individual product or products or services for which cost records are required to be maintain is Rs 25 crore or more. Other companies belonging to non-regulated Sector as given under Annexure A should get its cost records audited if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is Rs 100 crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintain is Rs 35 crore or more. Only a Cost Accountant can be appointed as Cost Auditor for conducting cost audit. Cost Accountant and no person appointed statutory auditor of the company shall be appointed for conducting the audit of cost records.

Special Audit

A Special Audit can be defined as a tightly defined type of audit that is conducted in order to probe into a specific area of the organization’s activities. Normally, this type of audit is mainly initiated by a third party, like a government agency or the tax authority, when some abnormal behavior is suspected within the organization.They can also be conducted when there are other institutional violations that might include pertaining to duties, authorizations, internal control procedures or responsibilities of the Senior Management. These special audit may are quite varied in their nature, purpose and scope and may take different forms like: .

- Compliance Audit – This is mainly conducted when there is a need to examine the policies and procedures to check if they follow internal or regulatory standards.
- Construction Audit – This analyzes the costs that occur for a given construction project. In the same manner, this also tracks down the actual amount that is paid to contractors, suppliers, and other reimbursement that takes place in this regard.
- Information Systems Audit. Information System Audit is mainly conducted when there is a need to review the overall controls present in software development. Additionally, it also involves a review of controls regarding software development, data processing and the overall access to computer systems.
- Investigative Audit. Investigative Audits take place when there is a need to find details of a specific event or an incident within the company, that was suspicious.
- Tax Audit. This Audit is mainly initiated to analyze the overall tax returns that are submitted by an individual or business entity. The main rationale is to see if the paid tax is actually valid.

Opportunity for Chartered Accountants in India in Audit

Auditing is the core and original function of any Chartered Accountant. With intense training, a qualified Chartered Accountant acquires professional skepticism to identify potential risks and propose preventative measures. Their role as consultants, either internally or externally, is focused on providing objective assessments or informed opinions about how existing practices and procedures might be improved. Overall goals of an audit include increased operational efficiency, risk management and regulatory compliance. A variety of industries employ auditors to provide policy and procedural oversight and ensure accurate financial reporting. Some of the key opportunities open to CAs on audit are:

- statutory audit under the Companies Act, 2013
- statutory audit under the Limited Liability Partnership Act, 2008
- Tax Audit under the Income Ta Act, 1961
- Internal Audit
- Stockandreceivablesauditfor banks
- Information Technology Auditor
- Audit Manager in Company
- Member of Audit Committee
- Forensic audit
- Cost Audit
- Investigative Audit
- Supply Chain Audit
- Environmental Audit
- Compliance Audit
- Revenue Management Audit
- Statutory Bank Audit
- Concurrent Audit in Banks
- Audit of NGOs
- Conducting Special Audits

History of Auditing

The word “AUDIT” has Latin origins, In general, it is a synonym to control, check, inspect, and revise. From the time of ancient Egyptians, Greeks, and Romans, the practice of auditing the accounts of public institutions existed. At that time audit was ordered by the Kings, emperors. and Churches and were conducted by the people of the state or scribes.

Later in 18th century, checking clerks began to be appointed by States or Courts, to check the public accounts. To locate frauds as well as to find out whether the receipts and payments are properly recorded by the person responsible was the main objective of auditing of those days. In second half of 18th century, with industrial revolution taking place, the sizes and complexities of enterprises increased many fold and thus necessitated joint-stock form of organizations and audit began its evolution into a field of fraud detection and financial accountability by professionally trained people.

Regulatory Requirement of Audit in India

Statutory Audit under the Companies Act, 2013

It is pertinent to note that from the year 1857 till date, all these Companies Act enactments have recognised the mandatory requirement relating to Accounts and Audit of accounts of the companies in India.**The Companies Act** 2013 states that auditing standards issued by the Institute of Chartered Accountants of India (ICAI), and subsequently approved by the Ministry of Corporate Affairs, are mandatory for the audit of financial statements of companies in India.

Chapter X Audit and Auditors (Section 139 to Section 148) of Companies Act, 2013 contains provisions related to audit of financial statements of companies. This chapter includes provisions, inter alia, regarding appointment, resignation, removal, rights and duties of the auditor.

Section 139 of the Act that deals with the Appointment of the Auditor prescribes that every Company shall appoint an individual or afirm as an auditor who shall hold office from the conclusion of that meeting till the conclusionof its sixth annual general meeting and thereafter till the conclusion of every sixth meeting. Themanner and procedure for selection of auditors by the members shall be as prescribed and thematter relating to such appointment for ratification by members at every annual generalmeeting.

Section 143(2) casts a duty on the auditor to make a report to the members of the company on the accounts examined by him and on every financial statements which are required by orunder the Act to be laid before the company in general meeting and requires that the report shallafter taking into account the provisions of the Act, the accounting and auditing standards andmatters which are required to be included in the audit report to the best ofhis information and knowledge, state that the said accounts and, financial statements give a trueand fair view of the state of the company's affairs as at the end of its financial year and profitor loss and cash flow for the year and such other matters as may be prescribed.

Section 143(3) casts some additional reporting requirements on the auditor including the requirement that the auditor report shall state as to whether the company has adequate internal controls over financial reporting (ICFR) with reference to financial statements in place and the operating effectiveness of such controls.

Section 143(11) empowers the Central Government in consultation with NFRA, to specify certain matters to be included in the Auditor's Report. Accordingly, the Companies(Auditor's Report) Order (CARO) has been issued from time to time.

Statutory Audit under LLP Act, 2008

Tax Audit under Income Tax Act, 1961

Tax audits are required under Section 44AB of India's Income Tax Act 1961. The provision of tax audits are applicable to everyone, be it an individual, a partnership firm, a company or any other entity. The tax audit report is to be obtained by September 30 after the end of the previous fiscal year.

As per section 44AB, following persons are compulsorily required to get their accounts audited :

- A person carrying on business, if his total sales, turnover or gross receipts (as the case may be) in business for the year exceed or exceeds Rs. 1 crore. This provision is not applicable to the person, who opts for presumptive taxation scheme under section 44AD and his total sales or turnover doesn't exceeds Rs. 2 crores. The Finance Act, 2021 has increased the threshold limit of turnover for tax audit u/s 44AB from Rs. 5 crores to **Rs. 10 crores** where cash transactions do not exceed 5% of total transactions. Non-compliance with the tax audit provisions may attract a penalty of 0.5 percent of turnover or Rs 150,000, whichever is lower.

- A person carrying on profession, if his gross receipts in profession for the year exceed Rs. 50 lakhs.
- An assessee who declare profit for any previous year in accordance with section 44AD (presumptive taxation) and he decreases profit for any of one 5 assessment year relevant to the previous year succeeding such previous year lower than the profit computed as per section 44AD and his income exceeds the amount which is not chargeable to tax.

National Financial Reporting Authority ("NFRA")

National Financial Reporting Authority ("NFRA"), was constituted as an independent regulator for accounting and auditing in India in October 2018. As per NFRA's Charter, an important function of NFRA under 132(2)(a) of the Companies Act 2013 is to make recommendation to Central Government on the formulation and laying down of accounting andauditing policies and standards for adoption by companies or class of companies or theirauditors.

Standards on Auditing in India

Brief History

- ICAI constituted the Auditing Practices Committee (APC) on 17th September 1982, to review the existing auditing practices in India and to develop Statements on Standard Auditing Practices
- At its 226th meeting held in July 2002, approved the renaming of the Auditing Practices Committee as the Auditing and Assurance Standards Board (AASB) as

well as renaming of the Statements on Standard Auditing Practices as Auditing and Assurance Standards (AASs).

- The ICAI is one of the founder members of the International Federation of Accountants (IFAC)

Accordingly, while formulating Engagement and Quality Control Standards, the AASB takes into consideration the corresponding Standards, if any, issued by the IAASB

Section 143(9) of Companies Act, 2013, requires that every auditor shall comply with auditing standards. Section 143(10) of Companies Act, 2013, states that the Central Government may prescribe the standards of auditing or any addendum thereto, as recommended by the Institute of Chartered Accountants of India, constituted under section 3 of the Chartered Accountants Act, 1949, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority, provided that until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India (ICAI) shall be deemed to be the auditing standards. As of date, there is a single set of auditing standards issued by ICAI which is applicable for all type and size of companies and are to be applied whenever an independent examination of financial information is carried on for *ANY* entity whether the business motive is t make the profit or not, whether the size of the entity is big or small or even if the entity has does not have any legal form (unless any lays specifies something else).

Auditing Standards in India are in line with the International Standards issued by the International Auditing and Assurance Board (IAASB) and even their numbering is akin to International Standards. In all there are 45 standards.

- **Standards of Quality Control (SQCs**): This is a single standard SQC 1 which is for all the services under Engagement Standards. These standards are applicable to all auditing firms which perform audits and reviews of historical financial information including assurances and related service engagements.

- **Standards on Auditing (SAs):** There are 37 SAs for auditing historical financial information. These apply whenever any independent Audit is carried out.
- **Standard on Review Engagements (SRE**): There are 2 SREs for review of historical financial statements.
- **Standard on Assurance Engagements (SAE):** There are 3 SAEs for assurance engagements other than audit and review.
- **Standard on Related Services (SRS):** There are 2 SRSs applicable to agreed upon procedures regarding financial information.

Standards on Quality Control (SQCs)	
SQC 1	Quality Control for Firms that Perform Audit and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements
Standards on Auditing (SAs)	
SA 200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing
SA 210	Agreeing the Terms of Audit Engagements
SA 220	Quality Control for an Audit of Financial Statements
SA 230	Audit Documentation
SA 240	The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements

SA 250	Consideration of Laws and Regulations in an Audit of Financial Statements
SA 260	Communication with Those Charged with Governance
Rev SA 260	Communication with Those Charged with Governance
SA 265	Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
SA 299	Responsibility of Joint Auditors
Rev SA 299	Joint Audit of Financial Statements
SA 300	Planning an Audit of Financial Statements
SA 315	Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment
SA 320	Materiality in Planning and Performing an Audit
SA 330	The Auditor's Responses to Assessed Risks
SA 402	Audit Considerations Relating to an Entity Using a Service Organisation
SA 450	Evaluation of Misstatements Identified During the Audit
SA 500	Audit Evidence

SA 501	Audit Evidence-Specific Considerations for Selected Items
SA 505	External Confirmations
SA 510	Initial Audit Engagements – Opening Balances
SA 520	Analytical Procedures
SA 530	Audit Sampling
SA 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
SA 550	Related Parties
SA 560	Subsequent Events
SA 570	Going Concern
Rev SA 570	Going Concern
SA 580	Written Representations
SA 600	Using the Work of Another Auditor
SA 610	Using the Work of Internal Auditors
Rev SA 610	Using the Work of Internal Auditors

SA 620	Using the Work of an Auditor’s Expert
SA 700	Forming an Opinion and Reporting on Financial Statements
Rev SA 700	Forming an Opinion and Reporting on Financial Statements
SA 701	Communicating Key Audit Matters in the Independent Auditor’s Report
SA 705	Modifications to the Opinion in the Independent Auditor’s Report
Rev SA 705	Modifications to the Opinion in the Independent Auditor’s Report
SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report
Rev SA 706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report
SA 710	Comparative Information—Corresponding Figures and Comparative Financial Statements
SA 720	The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements
Rev SA 720	The Auditor’s Responsibilities Relating to Other Information
SA 800	Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

SA 805	Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
SA 810	Engagements to Report on Summary Financial Statements
Standards on Review Engagements (SREs)	
SRE 2400	Engagements to Review Financial Statements
SRE 2400 Rev	Engagements to Review Historical Financial Statements
SRE 2410	Review of Interim Financial Information Performed by the Independent Auditor of the Entity
Standards on Assurance Engagements (SAEs)	
SAE 3400	The Examination of Prospective Financial Information
SAE 3402	Assurance Reports on Controls At a Service Organisation
SAE 3420	Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus
Standards on Related Services (SRSs)	
SRS 4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information

SRS 4410	Engagements to Compile Financial Information
SRS 4410 (Revised)	Compilation Engagements

Benefits of Auditing

Auditing should not be viewed barely as a statutory compliance exercise as audit and assurance services provide numerous benefits to management. They can:

- Determine whether internal controls in an enterprise is adequate, effective and suggest corrective measures if required;
- Promote and prescribe best practices for controls
- Ensure complete and timely compliance with policies and regulations to ensure the smooth functioning by avoiding penalties and prosecutions
- Identify operational inefficiencies and waste and to enable maximization of profit
- Review IT projects, systems, and technology to determine deficiencies therein
- Provide objective insight on over all working of an enterprise
- Assess efficient and responsible use of resources
- Identify potential cost savings
- Assist management in addressing complex, cross-functional issues

Quality of a good Auditor

An auditor's job is to obtain complete and accurate information about activities of enterprise. It is a very responsible job requiring specialized skills. Some of the essential quality an auditor must possess are:

i) *Knowledgeable*: Appropriate range and depth of knowledge of best quality practices, regulations, compliance requirements, standards and of relevant technology. The CA course ensures indebt study of all the regulations and standards applicable to different kind of entities operating and thus making auditor competent to do the job diligently.

ii) *Experienced:* The auditor will need an appropriate range and depth of experience which hegains during the course of professional pursuit including the article ship period.

iii) *Observer:* An auditor must possess good powers of quick observation as he has to quickly have a grasp of entities operations, processes, finance, management, internal control etc, so that he can plan his work like wise and conduct audit diligently.

iv) *Inquisitiveness and Scepticism:* An Audit must have an enquiring attitude which is essential to know the in and outs of the enterprise under audit.He must have a questioning mindbeing alert to anything that may indicate misstatement due to error or fraud while critically assessing audit evidence.

v) *Articulate:* An Auditor must have good communication skills as the job involves interactions with all levels of people in an organization. He should be proficient in both oral and written communication as lot of interactions are done on electronic media.

vi) *Independence:* Auditor must be function independently and should have courage and conviction to maintain the independence as it fundamental principle of any audit assignment.

vii) *Level headed:* Every entity an auditor deals with in course of his professional career is different with different set of people involved. The varied environment in which auditor works exposes him to experiences some of which may not be very pleasant. As an Auditor one must beable to stay cooland maintain the composure and be persistent, yet patient and diplomatic, in pursuit of the objectives of the audit.

viii) *Sound Decision Maker:* An auditor must be capable of making sound and quick judgments on the matters observed.

ix) *Good Listener:* An auditor must be a good listener so as to properly appreciate what is being communicated to him.

5 Phases in Auditing Process

Though the extent, nature and requirement varies for different kinds of entity under audit, the essential process involved are similar in each audit assignment. The whole process of auditing can be understood in 5 different phases viz.

- ***Pre-Commencement:*** Before starting the process, auditor has to get an engagement letter and a general analysis is performed on the organization to be audited to have a better understanding of how processes work and what the entity's objectives are. To have such understanding the audit team must comprehend the organizational structure of the entity under audit. The audit team must acquire a though understanding of the legal framework in which entity under audit operates and also the internal regulation imposed by its memorandum/ articles, board decisions, etc. Doing so will give the team an overall picture of Organizational objectives, Activities performed, Company's structure, Resources available, Industry context, and the Budget.
- ***Audit Planning:*** It is a very important aspect of any audit as the work well planned is half done. In this phase of the audit, the data collected in the previous stage are used to create an audit plan. The audit plan must contain the following information**:**
  - Objectives, scope and criteria of the audit.
  - Units and areas to be audited within the company.
  - Staff members in charge of the quality of the processes.
  - Priority aspects.
  - Time and duration of inspections: dates and locations.
  - Meeting schedule.
  - Confidential requirements.
  - Structure and delivery of the final report.

The lead auditor must define the staff members who will be responsible for performing each of the audit activities. To ensure the independence of audit function team members involved in audit assignment must be free from conflict of interest and must not be involved in the activities they are auditing.

- ***Conducting the audit:*** Once the audit plan is drawn, a meeting of the audit team should takes place, where the team membersintroduce themselves and the plan is reviewed. The methodologies and procedures to be used in audit are discussed and the role of each member of the team is defined. The necessary resources are also defined and the security and emergency procedures are reviewed. The audit team must work diligently and intelligently to work as per the plan. However, plan must not be too rigid and should provide scope for adjustment like increasing the extent of audit in case some major discrepancies are observed during the course of audit. The information collected by the audit team is gathered and analyzed, and it is assessed whether the criteria of the audit plan are being fully complied with. The auditors then meet with management and those responsible for the audited functions and the results of the audit are discussed, disagreements are resolved, and conclusions are drawn.
- ***Reporting:*** The Auditor of the company after verifying the accounts, financial and operational performance of the company would release an audit report with audit opinion. This audit opinion could be unqualified, qualified, adverse or disclaimer of opinion. An ***unqualified audit*** report means that the Auditor has verified and accepts the financial statement prepared by the Company whereas a***qualified opinion*** means that the Auditor after verifying the accounts does not agree on some information presented in the financial statements prepared by the Company. Such qualification is given where the auditor concludes that misstatements are material but the impact is not so high that it would render the whole financial statements unacceptable or where the auditor is unable to obtain sufficient or appropriate audit evidence but concludes that there are indications of misstatements in the financial statements but the degree is not high. An ***Adverse opinion*** shall be issued by the auditor where he concludes that on the basis of evidence obtained

and procedures performed, there are material misstatements in the financial statements and the impact of the same is high. A ***Disclaimer of Opinion*** is to be issued by an auditor in cases where the auditor concludes that he / she is not able to obtain sufficient and appropriate evidences.

- ***Follow up:***There may be occasions when corrective actions to resolve an audit issue are not accomplished until after the audit report has been finalized. In these cases, follow-up should be performed on the previously reported recommendations to determine whether corrective action plans have been effectively implemented and that expected results are being achieved. Depending on the severity of the audit issue, follow-up activities could include interviewing staff, reviewing updated procedures or documentation, or re-auditing the processes that originally led to the audit issue.

Action against Auditors

***Under Income Tax Act, 1951*: **As per Section 271J of the Income Tax Act, 1961 the Assessing Officer can levy a penalty of Rs. 10,000 on a Chartered Accountant if he believes that the CA has furnished incorrect information in any report

Under Chartered Accountants Act, 1949: The Section 22 of the Chartered Accountants Act 1949, provides an inclusive definition of the term *Professional or Other Misconduct* as acts and omissions provided in any of the Schedules annexed to the Act. There are 2 Schedules which lay down the various types of offences by a CA.

If a CA is found guilty of professional misconduct under the First Schedule action can be taken by the Board of Discipline constituted under Section 21A of the Act and also by the Disciplinary Committee constituted under section 21B of the Act. Board of discipline adopts summary disposal procedure and may take any one or more of the following actions if a CA is found guilty under Misconduct specified in First Schedule, namely

- reprimand the member;

- remove the name of the member from the Register up to a period of 3 months;
- impose such fine as it may think fit which may extend to Rs. 1 lakh.

If a CA is found guilty of professional misconduct under the Second Schedule action can be taken against a CA, by the Disciplinary Committee constituted under section 21B of the Act which has same powers as are vested in a civil court, in matters summoning and enforcing the attendance of any person and examining him on oath; the discovery and production of any document; and receiving evidence on affidavit. It can take following action against a CA:

- Reprimand a Member
- Remove name from Register Permanently or for any period of time
- Impose fine for an amount which may go upto Rs. 5 Lakh

Some of the clauses of Part 1 of the Second Schedule which directly deal with audit functions and which would be regarded as professional misconduct ere

- certifies or submits in his name, or in the name of his firm, a report of an examination of financial statements unless the examination of such statements and the related records has been made by him or by a partner or an employee in his firm or by another chartered accountant in practice
- expresses his opinion on financial statements of any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest
- fails to disclose a material fact known to him which is not disclosed in a financial statement, but disclosure of which is necessary in making such financial statement where he is concerned with that financial statement in a professional capacity
- fails to report a material misstatement known to him to appear in a financial statement with which he is concerned in a professional capacity;
- does not exercise due diligence, or is grossly negligent in the conduct of his professional duties

- fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion
- fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances

Under the Companies Act, 2013

Section 140 (5):

Deals with removal, resignation of Auditor and giving of special notice and prescribes a punishment for auditor of a company who has, whether directly or indirectly, acted in a fraudulent manner or abetted or colluded in any fraud by or in relation to the company or its directors or officers. Apart from debarring the auditor from appointment as auditor of any company for a period of five years of passing of order by the NCLT, the auditor shall also be liable under Section 447.

Section 147

As per the section 139 to 145 of the Companies Act, 2013 deals with audit and account of the Companies. Section 147 prescribes penalties for any contraventions under the Companies Act in respect to these sections. The company in default is punishable with fine which shall not be less than Rs. 25,000 but which may extend to Rs. 5 Lakh and every officer of the company who is in default shall be punishable with fine which shall not be less than Rs.10,000 but which may extend to 1 lakh rupees. If an auditor of a company contravenes any of the provisions unknowingly or unwillingly,

- the auditor shall be punishable with fine which shall not be less than Rs. 25,000 but which may extend toRs. 5 Lakh or 4 times the remuneration whichever is less.
- However, if the auditor has contravened such provisions knowingly or willfully with the intention to deceive the company or its shareholders or creditors or tax

authorities, he shall be punishable with imprisonment for a term which may extend to 1 year and with a fine of Rs. 50,000 which may extend to Rs. 25 Lakh or 8 time the remuneration of the auditor, whichever is less.

- Besides, auditor if guilty, must also refund the fees to the Company and also pay damages if any to the company, statutory bodies or authorities or to members or creditors of the company for loss arising out of incorrect or misleading statements of particulars made in his audit report.
- In case an audit firm is found guilty, the partners will be jointly and severally liable except in case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable

Section 245 and 246

The Companies Act,2013 provides for class-action lawsuits, which can allow a large number of people with common interest in a matter to sue or be sued as a group. Sections 245 and 246 of the Act contain these provisions. Under these, class-action suits may be filed by investors if they are of the opinion that the affairs of the company are being conducted in a manner prejudicial to the interest of the company, its shareholders or depositors. *The* group of prescribed number of shareholders or depositors may file an application with the National Company Law Tribunal (NCLT). Such class action may include beside others suits against the audit firm as well as the partners responsible for any misleading or improper statements in the auditors' report or any misconduct or fraud by act or omission.

Section 132

National Financial Reporting Authority (NFRA) is an independent authority created under the section 132 of the **Companies Act, 2013** for the establishment and enforcement of accounting and auditing standards and oversight of the work of auditors of certain entities like listed entities, banking, insurance and electricity companies and other large unlisted companies having

- paid-up capital of Rs. 500 crores or more
- annual turnover of Rs. 1000 crores or more
- having, in aggregate, outstanding loans, debentures and deposits of Rs. 500 crores

Where professional or other misconduct is proved on an auditor, NFRA shall have the power to impose the penalty which may be as follows:

  - For individuals a fine between Rs. 1,00,000 to 5 times the fees received
  - For firms a fine Between Rs. 5,00,000 to 10 times the fees received

Where professional or other misconduct is proved, NFRA shall have the power to debar the member/firm from being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or performing any valuation services for a period which may be from 6 months to 10 years.

Section 447

Section 447 of the Companies Act, 2013 exclusively deals with punishment for Fraud. As per the section, any person who is found to be guilty of fraud involving an amount of at least Rs 10 Lakh or 1% of the turnover of the company, whichever is lower shall be punishable with imprisonment for a term which shall not be less than 6 months but which may extend to 10 years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to 3 times the amount involved in the fraud:. Moreover, where the fraud in question involves public interest, the term of imprisonment shall not be less than 3 years.

However, where the amount of fraud is lesser and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to 5 years or with fine which may extend to R. 50 lakh or with both.

Conclusion

The penalties and responsibilities of an auditor may seem onerous however it would be incorrect to hold audit as risky. With essential features of auditor like independence, professional skepticism, documentation skills and continuous knowledge upgradation any Chartered Accountant can make a name for himself in the field of Audit profession.