

TYBBI
SEMESTER VI
AUDITING II

COMPANIES AUDIT

**APPOINTMENT OF AN AUDITOR UNDER COMPANIES ACT
2013**

REMOVAL OF AN AUDITOR

QUALIFICATION OF AN AUDITOR

DISQUALIFICATION OF AN AUDITOR

REMUNERATION

STATUS OF AN COMPANY AUDITOR

DUTIES OF AN COMPANY AUDITOR

RIGHTS

BRANCH AUDIT

JOINT AUDITOR

SPECIAL AUDIT

APPOINTMENT OF FIRST AUDITOR SECTION 139(6)

THE FIRST AUDITOR OF THE COMPANY SHALL BE APPOINTED **BY THE BOARD** WITHIN 30 DAYS OF INCORPORATION OF COMPANY.

IN CASE OF **BOARD'S FAILURE**, AN **EGM SHALL BE CALLED** WITHIN 90 DAYS TO APPOINT THE FIRST AUDITOR.

APPOINTMENT BY DIRECTORS

- **FIRST AUDITORS :**

The board of directors shall appoint the first auditor(s) of the company within **One Month** of the **Date Of Registration** of the company.

- **CASUAL VACANCY:**

The directors have been empowered to fill any casual vacancy in the office of an auditor, except which is caused by prior resignation of an auditor.

APPOINTMENT BY SHAREHOLDERS

- **FIRST AUDITORS :**

In case the directors fail to appoint the first auditor(s), the shareholders shall do so at a general meeting by passing a resolution.

- **SUBSEQUENT AUDITORS:**

(i) By Ordinary Resolution

(ii) By Special Resolution

The company shall within 7 days give intimation to the auditor so appointed. The auditor shall inform in writing to the Registrar of Companies within 30 days of his appointment.

- **CASUAL VACANCY:**

If a casual vacancy in the office of an auditor arises by his resignation, such vacancy should only be filled by the company in a **General Meeting**.

APPOINTMENT BY CENTRAL GOVERNMENT

If a company, at an annual general meeting, fails to appoint or re-appoint an auditor, the Central Government may appoint a person to fill the vacancy.

- The company has to give notice of the above fact to the Government within 7 days of the Annual General Meeting.
- The appointment by the Central Government is made from the panel of names suggested by the applicant company.

REMUNERATION & TENURE OF FIRST AUDITOR

- **REMUNERATION** – AS PER PROVISIO TO SECTION 142(1)
REMUNERATION OF THE FIRST AUDITOR CAN BE DECIDED BY
THE BOARD.
- **TENURE** – TILL CONCLUSION OF 1ST ANNUAL GENERAL
MEETING.

QUALIFICATIONS

A person shall appointed as an auditor if he is chartered accountant within the meaning of Chartered Accountants Act, 1949 and holding valid certificate of practice and acting in capacity as

- a) Individual**
- b) Partnership Firm**
- c) Limited Liability partnership**

It has been further provided that only partners who are Chartered Accountants will be authorised to sign on behalf of the firm.

DISQUALIFICATIONS OF AN AUDITOR

- A body corporate
- An officer or employee of the company under audit
- A person who is a partner, or who is in the employment of an officer or employee of the company
- A person who is indebted to the company for an amount exceeding Rs.1000
- A person holding security of that company
- A person who has been disqualified for appointment as an auditor of a company on above mentioned grounds, shall also not be eligible for appointment with any other body corporate which may be that company's subsidiary or that company's holding company.

DUTIES OF AN AUDITOR

- 1) Compliance with Audit Standard
- 2) Duty to Report Fraud
- 3) Duty not to render certain services
He can not render "consulting and specialized services"
which means any one or combination of-
 - Accounting and Book keeping services
 - Internal Audit
 - Design and implementation of any financial information system
 - actuarial services
 - investment advisory services
 - investment banking services
 - management services
 - any other kind of consultancy services

- 4) Duty to sign audit reports etc.
- 5) Duty to attend General meeting
- 6) Duty to Report

Under section 143 of the Act the auditor has a duty to report to the members of the company on:

- accounts examined by him
 - every financial statement laid before a general meeting during his tenure
- 7) Duty to Enquire-
 - Secures loans and advances
 - transactions represented merely by book entries
 - personal expenses
 - issue of shares for cash
 - loans and advances made by the company etc.

Section 143(8)- Branch Audit

Company has Branch in India

1. Audited shall be performed by Company Auditor
2. Any other qualified Person u/s 139 of act.

Such branch auditor should prepare a report on the books of accounts of the branch audited by him & send a copy of such audit report to the company auditor.

Company has Branch outside India

1. Audited shall be performed an Accountant.
2. Any other person qualified who is qualified to perform such audit



▶ A **joint audit** is an **audit** on a legal entity (the auditee) by two or more **auditors** to produce a single **audit** report, thereby sharing responsibility for the **audit**. A typical **joint audit** has **audit** planning performed **jointly** and fieldwork allocated to the **auditors**.

WHAT IS SPECIAL AUDIT?

- ✦ An audit other than the annual audit of accounts of the company called in special circumstances is known as Special Audit. Section 233A empowers the Central Government, in certain cases, to call for a 'special audit' of a company.

Such an audit may be required where the Central Government has reasons to believe:

(i) That the affairs of the company are not being managed on sound business principles or according to prudent commercial practices;

(ii) That the company is being managed in a manner likely to cause serious injury or damage to the interests of the trade, industry or business to which it pertains; or

(iii) That the financial position of the company is such as might endanger its solvency..

WHO SHALL CONDUCT SUCH AUDIT?

- ✦ The audit may be conducted either by the company's auditor or another chartered accountant who may or may not be engaged in a practice, appointed by the Central Government [Sections 233(1) & (2)].

Liabilities of an Auditor

- ▶ **A Chartered Accountant is associated with the valuable profession. His primary duty is to present a report on the accounts and statements submitted by him to members of the company. He is responsible not only to the members of the company but also to the third parties of the company, i.e., creditors, bankers etc.**

Liabilities of an Auditor

Civil Liability

1. Liability for Negligence
2. Liability for Misfeasance

Liabilities under Companies Act

1. Liability for Misstatements in the Prospectus
2. Criminal Liability of Auditor under Companies Act

Criminal Liability under Indian Penal Code

Liability under Income Tax Act

Liability for Professional Misconduct

Liability towards Third Parties

1. Liability for Negligence
2. Liability for Frauds

CIVIL LIABILITY NEGLIGENCE

Negligence means breach of duty. An auditor is an agent of the shareholders. He has to perform his professional duties. He should take reasonable care and skill in the performance of his duties. If he fails to do so, liability for negligence arises. An auditor will be held liable if the client has suffered loss due to his negligence. It should be noted that an auditor will not be liable to compensate the loss or damage if his negligence is not proved.

Liability for Misfeasance:

Misfeasance means breach of trust. If an auditor does something wrongfully in the performance of his duties resulting in a financial loss to the company, he is guilty of misfeasance. In such a case, the company can recover damages from the auditor or from any officer for breach of trust or misfeasance of the company. Misfeasance proceedings can be initiated against the auditor for any untrue statement in the prospectus or in the event of winding up of the company.

Liabilities under Companies Act

(1) Liability for Misstatements in the Prospectus

An auditor shall be held liable to compensate every person who subscribes for any shares or debentures of a company on the faith of the prospectus containing an untrue statement made by him as an expert. The auditor shall be liable to compensate him for any loss or damages sustained by him by reason of any untrue statement included therein. The auditor may escape from liability if he proves that:

- The prospectus is issued without his knowledge or consent.**
- He withdrew his consent, in writing before delivery of the prospectus for registration. He should have withdrawn his consent after issue of prospectus but before allotment of shares and reasonable public notice has given by him regarding this.**

(ii) Criminal Liability of Auditor under Companies Act:

Auditor under Companies Act

- 1 Untrue statement in Prospectus [Sec.34]
- 2 Non compliance by auditor [Sec. 143 and 145]
- 3 Failure to assist investigation [Sec.217 (6)]
- 4 Failure to assist prosecution of guilty officers [Sec.224]

Criminal Liability of Auditor

5

Failure to return property, books or papers [Sec.299]

6

Penalty for falsification of books [Sec.336]

7

Prosecution of auditor [Sec.342]

8

Penalty for deliberate act of commission or omission [Sec.448]

Criminal Liabilities under the Income Tax Act.

A qualified chartered accountant or the auditor of the company can act as authorized representative and may attend the Income Tax Authority or the Appellate Tribunal in connection with the proceedings under the Income Tax Act.

C. Auditors Liabilities to Third Parties.

The liability of an auditor towards third parties can be discussed under 2 circumstances.

- For Frauds
- For Negligence

For Fraud

the auditor can be held liable to 3rd parties only when the following facts are proved against him.

- I. That the statement or balance sheet signed by the auditor was materially untrue
- II. That the statement or the Balance Sheet was made with an intention that a 3rd party should act on it.
- III. That the auditor knew that the statement of balance sheet was untrue.
- IV. That the 3rd party acted upon such a statement and consequently suffered a loss.
- V. That the auditor gave his consent for the inclusion of such a statement in the prospectus

For Negligence

- An auditor in general is not liable to 3rd parties for negligence of duty as no contractual obligation exists between the auditor and the 3rd party. As he is not appointed by them, he owes no duty towards them and hence there is no question of any type of liability.

Definition of Auditor's Report

An audit report may be defined as an organized statement of facts relating to audit of books of account of the company prepared after an inquiry and presented to the shareholders.

It is the duty of an Auditor to make report to shareholders. But it isn't the duty of an Auditor to send the report to each & every shareholder as decided in the case "Allen Grigh & Co. Ltd.(London, (1931))"

Meaning of audit report

- **An audit report is usually of the financial records and accounts of a company.**
- **A report is a statement of collected and considered facts, so drawn up as to give clear and concise information to persons who are not already in possession of the full facts of subject matter of the report**
- **The audit reporting is the communication of audit conclusions after having carried out the audit process in accordance with audit plan.**

Contents of Audit Report

- ❖ According to Section 227(2) an audit report requires an auditor to the members of the company:
 - i. On accounts examined by him
 - ii. On every balance sheet and profit and loss account
 - iii. On every other document declared by this Act to be part of annexed to the balance sheet or profit and loss a/c which are laid before the company in general meeting during his tenure of office
 - iv. The report shall state whether, in his opinion and to the best of his information and according to the explanations given to him.

Cont.

v. Give a true and fair view :

- a. Balance sheet
- b. Profit and loss account

❖ According to Section 227(3) the following matters have to be specified in Audit Report by the auditor:

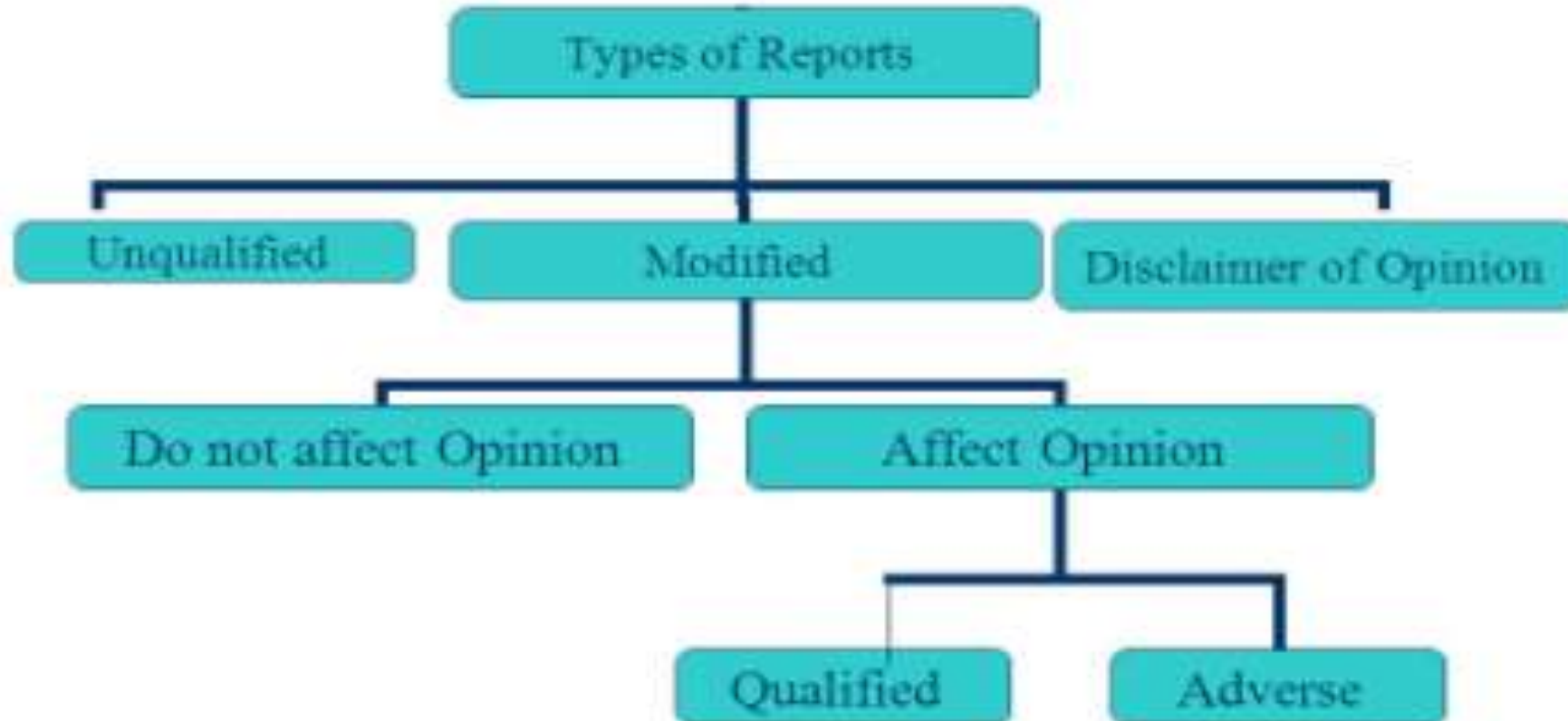
- i. Whether he has obtain all the information and explanations which to the best of his knowledge....
- ii. Whether proper books of a/c as required by law have been kept by company
- iii. Whether proper returns adequate for the purpose of his audit have been received from the branches not visited by him...

Cont.

- iv. Whether in his opinion the profit and loss a/c and balance sheet comply with the accounting standard
- v. Whether any director is disqualified from being appointed as director
- vi. Whether the balance sheet exhibits a true and fair view of the state of affairs of the company and whether the P & L a/c reflects the true profit or loss of the company.

If the answer to any of the above questions is in negative or is with a qualification, the auditor should state it in his report.

Types of Audit Reports



TYPES OF REPORT

- ▶ **CLEAN REPORT/ UNQUALIFIED REPORT**
- ▶ **QUALIFIED REPORT**
- ▶ **NEGATIVE AUDIT REPORT/ ADVERSE REPORT**
- ▶ **NO OPINION REPORT**

TYPES OF AUDIT REPORT

◎ Unqualified Audit Report

This type of report is issued by an auditor when the financial statements presented are free of material misstatements and are in accordance with GAAP, and the auditor does not detect any significant internal control breakdown during his examination.

Types of Audit Report

1. Clean Report:

- ❖ If no defect, illegal act, frauds are detected during the verification of the accounts of the company and if profit and loss account in the annual account of the company presents true and fair profit or loss and balance sheet shows true and fair economic condition as of the date and auditor presents whatever report are called clean report. Clean report is also called Report Without Defect or Routine Report or Regular Report.

2. Qualified Report:

- ❖ During the verification of the accounts of the company, any defect, illegal act, frauds, breach of provision of law is detected and the profit loss account does not show true and reasonable profit or loss of the concluding year and balance sheet does not show the true and fair economic condition as of that date, when auditor gives report about it is called qualified audit report. This type of audit is also called Improved Report or Limited Report.

⦿ **Qualified Audit Report**

This type of opinion is very similar to an unqualified or "clean opinion", but the report states that the financial statements are fairly presented with a certain exception which is otherwise misstated.

Audit Certificate

“A certificate is a written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion.”

- ❖ It is a guarantee of absolute accuracy and correctness of the information contained in it. The information contained in it is based on the documentary evidence made available to the auditor.

TYPES OF QUALIFICATIONS IN AN AUDIT REPORT

- ◉ **Disclaimer of opinion**

The auditor is unable to give an opinion whether the financial statements are true and fair.

- ◉ **Adverse Opinion**

The auditor expresses his views of financial statements to be untrue.

- ⦿ **Subject to Opinion**

The auditor disclaims his opinion on a particular aspect of financial statements.

- ⦿ **Except opinion**

The auditor expresses adverse opinion on a particular aspect of financial statements.

1 AUDIT REPORT

CLEAN REPORT

QUALIFIED REPORT

DISCLAIMER OF OPINION

NO TRUE & FAIR

OPINION ON FINANCIAL STMTS

NO OPINION ON FIN STMTS

TRUE & FAIR FIN STMTS

MODULE II AUDIT OF BANKING COMPANIES

Audit Of A Bank– Basic Concepts

- **An audit of a bank is different from a conventional audit mainly for the following two reasons: -**
 - The Nature of business is altogether different from any other sector. Money is the raw material and money is the finished good.
 - It is a highly regulated sector of the economy. The Central Bank of our country i.e. the State Bank of Pakistan established policies and procedures in the form of regulatory and operational requirements and require strict compliance to these.
 - **The assets and liabilities of a bank are arranged on the face of balance sheet in descending order of their liquidity.**

Major Areas of Branch Audit

1. Advances / Loans / Credits / Risk Assets Facilities.
2. Deposits
3. Operations / General / Retail / Miscellaneous Banking

Classification of Loans / Credits / Advances / Facilities

Loans/Facilities can be broadly divided in two categories

a. Funded Facilities

- A funded facility is one in which actual funds are credited/disbursed to the borrower's account and default risk is born by the bank.
- Examples:
 - Running Finance
 - Term Finance
 - Bridge Finance

a. Non-Funded Facilities

In case of a non-funded facility the bank only assumes a financial obligation on behalf of the customer towards a third party in the event of default by the customer.

- Examples:
 - Letter of Credit
 - Letter of Guarantee

Types of Advances

- Overdrafts / Running Finance
- Cash Finance
- Term Credit Facilities
 - Term Finance
 - Syndicated Loans
 - Bridge Finance
 - Demand Finance
- Payment against documents (PAD)
- Finance against imported merchandise (FIM)
- Finance against Trust Receipts (FATR)
- Bills purchased / negotiated under LC
- SBP export refinance
- Pre Shipment Export Finance (FAPC-I, FAPC-II, FAPC-G)
- Consortium / Syndicated financing

WHAT IS INTERNAL CONTROL?

INTERNAL CONTROL

- Internal Control indicate the whole system of controls employed by the management in the conduct of the business.

OR

- Internal Controls assist management and staff of the organization to achieve the organization objectives.

Principal of Internal Control

1. **Records and Books:** should be kept up to date and at regular intervals .
2. **Independent Checking:** Work performed by one person should be independently and automatically check by another person.
3. **Changing :** It is also an important principal that no one should handle the transaction from beginning to end.
4. **Proper Supervision:** for the effective control system management should have up to date information about the trade and financial position of the company.

Principal of Internal Control-Con't

5. **Clear Rules:** All those rules relating to cash, Stock , receipt and issuance of goods should be very clear and well defined.
6. **Instruction in Working:** For the effective internal control it is necessary that all instruction should be in written form.
7. **Qualified and Competent Staff:** For effective control system it is also need of Qualified and competent staff.
8. **Incentive for Honest worker:** Honest and hard working person must be encouraged he must be given some reward in the shape of promotion and cash.

Objective of Internal Control

Following are the main objective of internal control:

1. To prevent errors and frauds.
2. To prevent miss use of goods and cash.
3. To keep an accurate record of all the business transactions.
4. Protect organization assets against their improper expenditure.
5. Assure the accuracy and dependability of all the financial and operating information.

Objective of Internal Control Con't

6. Protect against the incurrence of improper liabilities.
7. Judge operating efficiency.
8. Measure the adherence to established policies of company.

Non Performing Assets (NPA)

- NPA is defined as a credit facility in respect of which the **interest and/or installment** of principal has remained '**past due**' for a specified period of time.
- An asset, including a leased asset, becomes non-performing when it **ceases to generate income** for the bank.
- In accounting, originally **Bad & Doubtful Debts**

CATEGORIES OF NPA

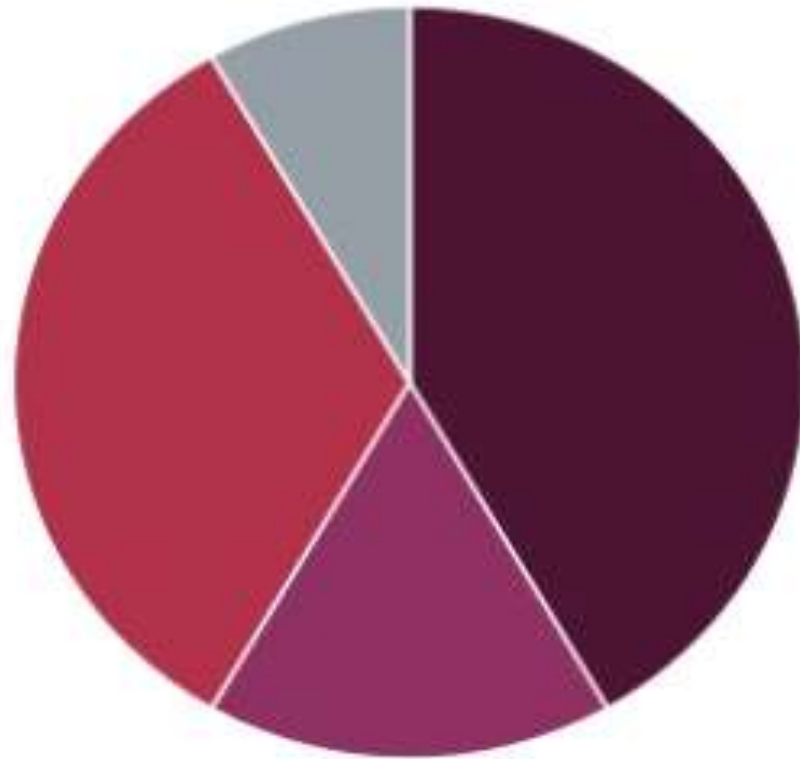
- **Standard Assets:** Arrears of interest and the principal amount of loan does not exceed 90 days at the end of financial year
- **Substandard Assets** – Which has remained NPA for a period less than or equal to 12 months.
- **Doubtful Assets** – Which has remained in the sub-standard category for a period of 12 months
 - D1 i.e. up to 1 year : 20% provision is made by the banks
 - D2 i.e. up to 2 year: 30% provision is made by the bank
 - D3 i.e. up to 3 year : 100% provision is made by the bank.
- **Loss Assets** – where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

LONG FORM AUDIT REPORT (LFAR)

IMPORTANCE OF LONG FORM AUDIT REPORT

- Standardisation of reports
- Coverage
- Internal control evaluation
- Ready Audit program

STRUCTURE OF LONG FORM AUDIT REPORT



■ Asset ■ Liability ■ Income ■ Expenses

GENERAL GUIDELINES

- Be Specific
- Be thorough with requirements
- Don't "Save as" previous year
- Disclosures to be specific
- Audit report vis-a-viz LFAR
 - LFAR qualifications to be part of audit report
 - Main report to be standalone

IMPORTANT CLAUSES

- Cash and Bank balances
- Advances
- Other Assets
- Deposits and other liabilities
- Profit and Loss
- General

CONTENTS OF LFAR

CAPITAL

LIABILITIES

ASSETS

PROFIT AND LOSS ACCOUNT

GENERAL

AUDIT OF INSURANCE COMPANIES

- ▶ **“Insurance as a form of contract agreement under which one party agrees in return for a consideration to pay an agreed amount of money to another party to make good a loss, damage or injury to something of value in which the insured has a interest as a result of some uncertain event.**

what is insurance...?

- **INSURANCE** is a practice or arrangement by which company or government agency provides a guarantee of compensation for specified loss, damage, illness or death in return for a payment of a premium.
- In some sense, it's a thing providing protection against a possible eventuality.

Defination of insurance

A contract in which an individual or entity receives financial protection or reimbursement against losses from an company. The company **pools clients'** risks to make payments **more affordable for the insured** .

INSURANCE

INSURANCE

LEGAL FRAMEWORK

INSURANCE SECTOR IN INDIA IS GOVERNED BY THEO IMP ACTS

INSURANCE ACT 1938

IRDA ACT 1999

OTHER ACTS

COMPANIES ACT 2013

THE GENERAL INSURANCE BUSINESS (NATIONALISATION)ACT,1972

IMP PROVISIONS OF INSURANCE ACT 1938

1) FORMS OF FINAL ACCOUNTS

2) REGISTER OF POLICIES

3)REGISTER OF CLAIMS

4) AUDIT

APPROVED INVESTMENTS

PAYMENT OF COMMISSIONS TO AGENTS

STRUCTURE OF INSURANCE COMPANIES

LOWEST LEVEL

BRANCHES

DIVISION

REGION

HO

“CATASTROPHE RESERVE”

INSURANCE ACT, 1938

The Insurance Act, 1938 contains important provisions relating to insurance sector in country. Important provisions are:

ELIGIBILITY:

- a public company
- a co. registered under the co-operative societies Act

REGISTRATION:

- should obtain a certificate of registration
- a person who carry on any class of insurance business before IRDA Act,1999 shall make an application for such registration within three months from the date of commencement of such Act.

DOCUMENTS TO BE FILED:

- A certified copy of memorandum & articles of association
- Name & address of the directors & their occupation
- A statement of the class of insurance business done or to be done.
- A certified copy of published prospectus & standard policy forms of the insurer.
- The receipt showing payment of fee Rs. 50000.

GRANT OF CERTIFICATE:

After satisfying the soundness of the management of the applicant, volume of its business & other requirements, the authority may register the applicant & grant a certificate of registration.

CANCELLATION OF REGISTRATION:

- The Authority may cancel the registration of an insurer if he fails
- to comply with requirements of deposits with RBI, TRANSFER
- HIS BUSINESS, do not pay any claim within 3 months of final
- court judgement etc.

RENEWAL OF REGISTRATION:

- The insurer has to file an application of renewal before 31st
- December of preceding year along with evidence of payment of
- requisite fee.

FEE:

- 1/4th percent of total gross premium or Rs. 5 crore whichever is
- less, & a minimum of Rs. 50000 for each class of business.

CAPITAL REQUIREMENT:

- The capital of ins. Co. should consist ordinary shares each of
- which has single face value, paid amt. of all should be same &
- maintain the register of shareholders with names & address.

FINANCIAL STATEMENTS:

Every insurer is required to prepare a balance sheet, a profit & loss a/c, a receipt & payment a/c, a revenue a/c at the end of each financial year. Separate fund a/cs of shareholders & policy holders should be maintained.

INVESTIGATION BY ACTUARY:

Every insurer who is carrying on life insurance business should get the investigation, done by an actuary, into financial conditions including a valuation of liabilities.

Reinsurance is also known as insurance for insurers or stop-loss insurance. Reinsurance is the practice whereby insurers transfer portions of their risk portfolios to other parties by some form of agreement to reduce the likelihood of paying a large obligation resulting from an insurance claim.

AS3	SEGMENT REPORTING 4
AS 9	ACCOUNTING FOR INVESTMENTS 3
AS 13	CASH FLOW STATEMENTS 1
AS 17	REVENUE RECOGNITION 2

NEW AREAS OF AUDITING
RECENT DEVELOPMENTS IN TYPES OF AUDITS

COST AUDIT

MEANING

- ◉ Cost audit can be defined as verification of correctness of cost accounts and a check on adherence to the cost accounting principles, plans and procedures.
- ◉ Cost Audit is an audit of efficiency of minute details of expenditure while the work is in progress, and not a post mortem examination.
- ◉ Cost Audit is mainly a preventive measure, a guide for management policy and decisions, in addition to being the barometer of performance.

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ADVANTAGES OF COST AUDIT

1. Advantages to the management

- Helps management to regulate production
- Provides reliable cost data for managerial decision
- Check on the role of Uneconomic Unit
- Helps in reducing the price
- Helpful in Budgetary control and Standard Costing
- Proper Valuation of Raw material and WIP
- Assessment of Profitability

HUMAN RESOURCE AUDIT

The background features a dark blue field on the left and a complex, layered geometric pattern of various shades of green on the right. The green shapes are semi-transparent and overlap, creating a sense of depth and movement. The overall aesthetic is modern and professional.

Definition:

An HR audit is a process to review implementation of your institutions policies and procedures, ensure compliance with employment law, eliminate liabilities, implement best practices and educate your managers.

(OR)

HR Audit refers to Examination & Evaluation of Policies, Practices & Procedures to detect Effectiveness & Efficiency of HRM and Verify if Mission, Objectives, Policies, Procedures, Programs are chased and expected results achieved. HR Audit also suggest future improvements based on past activities measurement.

HR Audit Significance:

Managements Feel, that Employee Participation in Activities is:

1. Essential for Organization success.
2. It Provides Required Feedback.
3. Managing Rising Labor Costs.
4. Increasing Opportunities for Competitive Advantage of HRM.
5. HR Audit can avoid Government intervention
6. HRP protect Employees interests

Objectives:

1. **Effectiveness:** To review performance of Human resource Department and its activities to determine effectiveness.
2. **Implementation:** To locate gaps, lapses, failings in applying Policies, Procedures, Practices & HR-directives. Also to see areas of wrong/ non-implementation that hindered the planned programs & activities.
3. **Rectification:** To take corrective steps to rectify mistakes, shortcomings contesting effective work performance of HR Department.
4. **Evaluation:** To evaluate HR Staff & employees.
5. To evaluate the extent to which Line Managers Applied Policies Programmes & Directives initiated by Top Management & HR Department.
6. **Modify:** To review HR System and Modify to meet challenges in comparison with other organizations.
7. **Questioning:** To seek answers to 'What, Why 'When Happened while implementing Policies, Practices & Directives in managing HRs



What is a social audit?

(AMIE, Engineering Management,
Summer 2015)

A social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. A social audit helps to narrow gaps between vision/goal and reality, between efficiency and effectiveness.

Objectives of social audit

- Assessing the physical and financial gaps between needs and resources available for local development.
- Creating awareness among beneficiaries and providers of local social and productive services.
- Increasing efficacy and effectiveness of local development programmes.
- Scrutiny of various policy decisions, keeping in view stakeholder interests and priorities, particularly of rural poor.
- Estimation of the opportunity cost for stakeholders of not getting timely access to public services.

MEANING OF TAX AUDIT:

- Tax audit means an official examination and verification of financial accounts and records. It is required to be performed only by a Chartered Accountant u/s 44AB of the Income Tax Act, 1961.



The purpose of tax audit is to:

1. Ensure **proper maintenance of books of accounts and other records.**
2. Reflect **true income of tax payer.**
3. Facilitate the **administration of tax laws** by a proper presentation of accounts before tax authorities.
4. Assist the income tax department to **assess the correct income.**
5. Ensure that income chargeable has been computed as per sec 145 of the Act. i.e. Method of accounting And ensure that the AS notified* under section 145 have been followed or not.

* CBDT till now has notified the following two Accounting Standards:

1. AS relating to Disclosure of Accounting Policies.
2. AS relating to Disclosure of Prior Period and Extraordinary Items and Changes in Accounting Policies.

CLAUSE 49 ON AUDIT COMMITTEES

Members

- **At-least three members, two-thirds of which shall be IDs**
- **All the members must be financially literate and one member must be an expert in accounting or related financial management**
- **The Chairman of the Audit Committee must be an Independent Director**

Meeting

- **At-least four times a year and not more than four months gaps between meetings**

Roles

- **Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.**
- **Approval of payment to external auditors for any other services rendered by the external auditors.**



Introduction to Professional Ethics



PROFESSIONAL MISCONDUCT

Members in Practice

Members in Service

Members of the Institute generally

Part I of First & Second Schedules

Part II of First Schedule

Part III of First Schedule

Part II of Second Schedule

Other Misconduct

**Members of
the Institute
generally**

**Part IV of
First
Schedule**

**Part III of
Second
Schedule**