



In view of Companies Act 2013



INTERNAL AUDIT

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INTERNAL AUDIT-INTRODUCTION

- With the implementation of Companies Act, 2013 the Ministry of Corporate Affairs has notified the provisions of Internal Audit of Companies w.e.f. 1st April 2014

Internal Audit-

- statutory recognition to Internal Audit.
- scope of professional opportunity among the Chartered Accountants and other professionals
- internal audit makes mandatory for certain class of companies

INTERNAL AUDIT-COMPANIES COVERED UNDER INTERNAL AUDIT

- According to Rule 13 of The Companies (Accounts) Rules, 2014 class or classes of companies required to appoint an internal auditor or firm of internal auditors, :
- Every listed company

INTERNAL AUDIT-COMPANIES COVERED UNDER INTERNAL AUDIT

- Unlisted company having

Criteria	Final Rules
Paid up share capital or	≥INR50 crore
Turnover; or	≥INR200 crore
Outstanding loans or borrowings from banks or public financial institutions at any point of time during the preceding financial year; or	≥INR100 crore

INTERNAL AUDIT-COMPANIES COVERED UNDER INTERNAL AUDIT

- Every private company having:

Criteria	Final Rules
Turnover; or	≥INR200 crore
Outstanding loans or borrowings from banks or public financial institutions at any point of time during the preceding financial year; or	≥INR100 crore

INTERNAL AUDIT-COMPANIES COVERED UNDER INTERNAL AUDIT

- applies to every existing company covered under above criteria in F Yr 2013-14 shall comply with requirements of Section 138 and Rule 13 of Companies (Accounts) Rules, 2014 before 30th September 2014(within 6 months of commencement of Section 138, i.e. 1st April 2014

INTERNAL AUDIT- ELIGIBILITY TO APPOINT INTERNAL AUDITORS

- According to Section 138 of the Act, Internal auditor shall be either
 - Chartered Accountant (every registered member of ICAI) or firm of CAs or
 - Cost Accountant (member of Inst of Cost & Works accountant of India) or
 - Company secretary (member of ICSI) or,
 - Other professionals which are employees of the company
- Internal auditor can be appointed by board of the company
- Pvt Ltd Company cannot be appointed as Internal Auditors
- CARO Reporting for adequacy of IA applies to all listed companies and other companies having –
 - Paid up Share Capital & Reserves - >Rs. 50 Lacs OR
 - Average Turnover of last 3 FY's > Rs. 5 Crores

INTERNAL AUDIT- DISQUALIFICATIONS TO APPOINT INTERNAL AUDITORS

- Following persons can not be appointed as internal auditors of the company
 - Statutory auditor appointed under sec 139 of Act is not eligible to provide the service of internal audit whether rendered directly or indirectly to the company or its holding company or subsidiary company- provided in section 144 of the Companies Act, 2013.

INTERNAL AUDIT-SCOPE AND FUNCTIONS OF INTERNAL AUDITORS

- Has not been defined in Companies Act, 2013
- Nor prescribed in rules
- Scope, functioning, periodicity and methodology shall be formulated
 - In consultation with internal auditor
 - -Sub rule 2 of Rule 13 of Companies (Accounts) Rules, 2014

INTERNAL AUDIT- SCOPE OF AUDIT

- Scope of auditor enhanced to report on additional matters such as:
 - The existence and operating effectiveness of internal financial controls
 - Any qualification, reservation and adverse remark relating to maintenance of accounts
 - Any fraud by officers or employees on the Company (immediate reporting to CG) : is being or has been committed
- Does not provide for audit qualifications to be in thick / bold or italics

OPPORTUNITIES FOR INTERNAL AUDITORS

- Sec 134

- (n) a statement indicating development and implementation of a risk management policy for the company including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the company;
- (5) The Directors' Responsibility Statement referred to in clause (c) of sub-section (3) shall state that—
 - (a).....
 - (b)
 - (c)
 - (d) ...
 - (e) the directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively.

Explanation.—For the purposes of this clause, the term “internal financial controls” means the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information;

(f) the directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

CLASS ACTION SUITS

- Section 245 – Application to be filed before Tribunal by the members or depositors of the Company if they are of the opinion that the management or control of the affairs of the company are being conducted in a manner prejudicial to the interests of the Company or its members or depositors
- Application to be filed by specified percent or min numbers
- Application filed to claim damages or compensation or demand any other suitable action from or against –
- The company or its directors
- The auditor including the audit firm of the company
- Any expert or advisor or consultant or any other person for any incorrect or misleading statement made to the company or for any fraudulent, unlawful or wrongful act or conduct or any likely act or conduct on his part

THANK YOU