

# Reporting to Audit Committee

Seminar on Internal Audit – WIRC

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# Audit Committee - Legal Framework

## Section 177 of Companies Act 2013:

- Every listed and certain class of public companies to have Audit Committees.
  - Paid up capital  $\geq$  Rs. 100 crore OR
  - Outstanding Loans & Borrowings  $\geq$ Rs. 200 crore
- Comprising of minimum 3 directors with **Independent Directors** forming majority
- Frequency : At least 4 times in a year

# Audit Committee – Legal Framework

## Regulation 18 of SEBI (LODR):

- Every **listed entity** shall constitute an Audit Committee.
- Comprising of minimum 3 directors.
- **Two third** of members of audit committee shall be independent directors.
- **Chair person** of audit committee shall be an independent director.
- Frequency: At least 4 times in a year (for equity) and 2 times (for debt).

# Role of Audit Committee

## Section 177 of Companies Act 2013:

- Review and monitor auditor's independence and performance and effectiveness of audit process.
- Examination of Financial Statements and **Auditor Report**
- Approval or modification of **Related Party** transactions
- Scrutiny of **Inter Corporate** loans and investments
- Monitoring of end use of funds of public offer.
- Evaluation of **Internal Controls** and **Risk Management systems**.

# Internal Audit - Legal Framework

## Section 138 of Companies Act 2013:

- Internal Audit is mandatory for all listed companies., specified unlisted companies and specified private companies.
- Rule 8 of Companies (Meeting of Board and its Powers) Rules 14: Internal Auditor to be appointed by means of resolution passed in a Board meeting.
- Sub rule (2) of Companies (Accounts) Rules 2014: Audit Committee or Board shall in consultation with Internal Auditor formulate **scope, functioning, periodicity and methodology** of conducting internal audit. However, no scope is defined under the Act or Rules.

# Internal Audit - Legal Framework

Specified companies for internal audit:

	<b>Unlisted Public Co.</b>	<b>Private Co.</b>
Paid up capital	$\geq 50$ crore	
Turnover	$\geq 200$ crore	$\geq 200$ crore
O/s Loans	$\geq 100$ crore	$\geq 100$ crore
O/s Deposits	$\geq 25$ crore	

# Before Reporting

- Get Audit Scope approved by Audit Committee.
- Get Audit Charter approved by Audit Committee. Audit Charter to include:
  - Authority of internal auditor
  - Responsibilities of internal auditor
  - Limitation of scope.
  - Deliverables
  - Reporting structure of Internal Auditor

# Matter can be reported

- Internal Control issues.
- Process gaps
- Cost Reduction / savings
- Testing of IFC
- Business risk identified / not covered
- Review of Risk Mitigation Measures
- Compliance matters
- Fraud investigations
- Related Party Transactions
- Key audit observations of subsidiary companies



# Approaches

- Placing of all audit reports in full
- Placing of all reports in summary form
- Presentation of key audit observations.
- Presenting of key audit observations and summary of balance points.
- Separate Audit Committee meeting to discuss internal audit matters.

# Risk Rating of observations

Rating	Category	Parameters
High	Efficiency	Financial Impact > Rs. 1 crore
	Process	Repeated observations for more than 2 times
	Compliance	Financial penalty > Rs. 5 lac or Imprisonment
	Others	Risk of loosing reputation
Medium	Efficiency	Financial Impact > Rs. 50 Lakh but < Rs. 1 crore
	Process	Repeated observations
	Compliance	Financial penalty > Rs. 1 lac but < Rs. 5 lac
Low	Efficiency	Financial Impact < Rs. 50 Lakh
	Process	Observation reported first time
	Compliance	Financial penalty < Rs. 1 lac

# Presentation to include

- Audits covered during the period
- Status of Annual Audit Plan
- Action Taken Report.
- Key observations from current audit programs
- Audit observation
- Risk and Impact
- Action Plan / Management Comments.
- Time Frame
- Status on request raised by Audit Committee members

# Safeguards to Statutory Auditor

- Section 139 : Statutory Auditor is appointed in AGM.
- Section 140 : Special resolution required to remove auditor after obtaining prior approval of central govt.
- Section 143: If he has reason to believe that an offence involving a fraud is being or has been committed against the company by officers or employees of companies, he shall immediately (but not later than 60 days) report the matter to Central Govt. Procedure : Sent report to ACM or Board seeking reply within 45 days, sent report and reply to Central Govt. within 15 days.
- Section 146: Opportunity to speak in AGM

# Balancing between AC & Management

- Circulate draft presentation to relevant process owners in advance and get their action plan / comments.
- Circulate and discuss the above with Location In-charge, Function Heads, CFO and CEO.
- Avoid surprises to TOP management.
- If there is difference of opinion with management, mention both the opinions in presentation.
- Give sufficient time to Management in initiating corrective action.

# Balancing between AC & Management

- If any audit is outsourced, invite outsourced agency to presentation.
- Ask for presence of relevant process owners / HODs in meeting either in person or via telephone / video conferencing.
- Circulate final presentation (normally along with agenda papers) to Directors well in advance.
- Anticipate the questions which may be raised in Audit Committee. Keep supporting information / data ready to address any questions raised by Audit Committee.

**Questions??**