

Role and Responsibilities of Internal Audit under New Companies Act

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Agenda

- Legal Provisions
- Opportunities
- Recap

Legal provisions

Section 138

- (1) Such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.
- (2) The Central Government may, by rules, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the Board.

Internal Audit made mandatory for:

1. All listed companies; and
2. Public limited companies with: loans/deposits \geq INR 25 crore ; or paid up capital \geq INR 10 crore

Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and Methodology for conducting the internal audit

Not permitted services

Section 144.

An auditor shall not provide any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company, namely:—

- (a) accounting and book keeping services;
- (b) internal audit;
- (c) design and implementation of any financial information system;
- (d) actuarial services;
- (e) investment advisory services;
- (f) investment banking services;
- (g) rendering of outsourced financial services;
- (h) management services; and
- (i) any other kind of services as may be prescribed

Roles & Responsibility
VS
Opportunities

Board of Director's Report

134 (3) (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;

Director's Responsibility Statement

Section 135 (5)

Directors' Responsibility Statement referred to in clause (c) of sub-section (3) shall state that—

..

(b) the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view ...;

(c) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

..

(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.

Auditor's Report

Section 143 (3)(i)

whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;

Audit Committee

Section 177 (4)

Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,—

..

(vii) evaluation of internal financial controls and risk management systems;

Section 177 (5)

The Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company.

Code for Independent Directors

Schedule IV

Code for Independent Directors

II (4) satisfy themselves on the integrity of financial information and that financial controls and the systems of risk management are robust and defensible;

Way Forward

- Internal Audit re-scoping
- Review and assess entity Internal Controls on Financial Reporting
- Carry out Fraud risk assessment
- Controls Self Assessment (CSA) Framework
- Risk management

Helping directors make necessary statement in director's responsibility statement.