

# INTERNAL AUDIT UNDER THE COMPANIES ACT 2013



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**(SAIL & TATA STEEL JV COMPANY)**

# INTERNAL AUDIT

Chapter - X of Companies Act  
2013,

Section – 138 of Companies  
Act 2013,

Rule - 13 of The Companies  
(Account) Rules 2014



# INTERNAL AUDIT

“Internal Audit is an independent management function, which involves a continuous and critical appraisal of the functioning of an entity with a view to suggest improvements thereto and add value to and strengthen the overall governance mechanism of the entity including entity’s strategic risk management and internal control system.”

Internal Controls are systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to

- (1) conduct its business in an orderly and efficient manner,
- (2) safeguard its assets and resources,
- (3) deter and detect errors, fraud, and theft,
- (4) ensure accuracy and completeness of its accounting data,
- (5) produce reliable and timely financial and management information, and
- (6) ensure adherence to its policies and plans.



## Section – 138 – Appointment of Internal Auditors

- (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**.
- Nothing is provided under the Act regarding **removal** of an Internal Auditor

# Section – 138 – Appointment of Internal Auditors

Such Class or Classes of Companies includes –

- Every **Listed Company**
- Every **Unlisted Public Company** having paid up share capital of Rs. 50 crs or more, turnover of Rs. 200 crs or more, o/s loans and borrowings from banks and public financial institutions exceeding Rs. 100 crs or more, o/s deposits of Rs. 25 crs or more at any point of time during the preceding financial year
- Every **Private Company** having turnover of Rs. 200 crs or more, o/s loans or borrowings from bank or public financial institutions exceeding Rs. 100 crs or more at any point of time during the preceding financial year.

(The existing company covered under the above criteria shall comply with the requirement within **6 months** of the commencement of the Act.)

# WHO CAN BE AN INTERNAL AUDITOR



1. Internal Auditor shall either be a –
  - Chartered Accountant, or
  - Cost Accountant, or
  - Such other Professional as may decided by the Board.
2. Internal Auditor may or may not be an employee of the Company

# SCOPE OF INTERNAL AUDIT

- Not prescribed under the Act or Rules made thereunder
- The Audit Committee or the Board shall, in consultation with the internal auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.



# OBJECTIVES

- To establish better policies and procedures
- To evaluate and improve risk management system, internal control and governance processes
- To ensure better compliance of law
- To avoid unwarranted legal action
- Fraud detection
- Integrity and Accountability
- To protect the interest of Shareholders



 **bjectives**



# OTHER RELEVANT SECTIONS

- **SEC - 144** - The statutory auditor shall not provide the internal audit services to the company, its holding co. Subsidiary co. (**directly or indirectly**)
- **SEC - 177(4)(vii)** - The Audit Committee should evaluate the internal financial control and risk management systems and may discuss the related issue with the internal and statutory auditors
- **SEC - 179(3) & 117(3)** - Appointment of internal auditors by the BOD and filing of Form MGT - 14 with ROC. (Not Applicable to Private Limited Company)

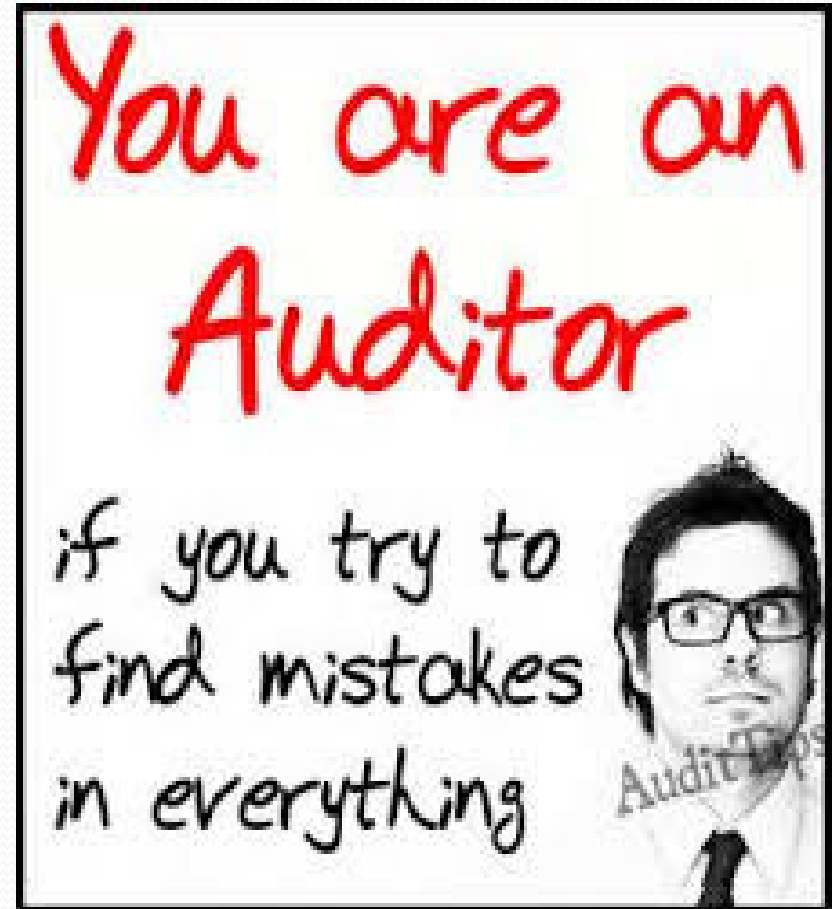
# SEBI (LODR) Regulations 2015

## Roles of Audit Committee

- The audit committee at its discretion **shall invite** the finance director or head of the finance function, head of internal audit and a representative of the statutory auditor and any other such executives to be present at the meetings of the committee
- **reviewing**, with the management, **performance** of statutory and internal auditors, **adequacy** of the internal control systems
- **reviewing** the adequacy of **internal audit function**, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
- **discussion** with internal auditors of any **significant findings** and follow up there on;
- **reviewing** the findings of any **internal investigations** by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
- Review of internal audit reports relating to **internal control weaknesses**;
- the **appointment, removal and terms of remuneration** of the chief internal auditor shall be subject to review by the audit committee.

# TYPES / AREAS OF INTERNAL AUDIT

- FINANCIAL AUDIT
- OPERATIONAL AUDIT – UNIT / DEPARTMENT
- MANAGEMENT AUDIT
- COMPLIANCE AUDIT
- IT / SYSTEM AUDIT
- INVESTIGATION AUDIT
- SOCIAL AUDIT
- ISO AUDIT
- INTERNAL AUDIT OF BANK, STOCK BROKER, DP, NBFC, INSURANCE COMPANIES etc.



# Basic Fundamentals of Internal Audit

- Testing, Analysis & Reporting
- Maker & Checker concept / Internal check
- Review of documented policies & procedures for various key operations and adherence thereto
- Analyse the process / systems followed by the Co.
- Authenticity of reports generated from the systems
- Scrutiny of delegated authority
- Third party confirmations for checking
- In-depth checking principle



# INTERNAL AUDIT PROCEDURE

- Proposal from Company & Acceptance from IA
- Fixation of area / scope of the IA assignment and remuneration duly approved by the Board / Audit Committee.
- Preparation of Internal Audit Plan & Strategy
- Execution of Internal Audit Plan & Strategy
- Escalate the matter of unnecessary interference in the IA work and non co-operation by the Auditee's staff.
- Preparation of Preliminary Report with observation, findings, recommendation of Internal Auditor.
- Internal Auditor should report significant observations, suggestions / recommendation based on the policies, processes, risk, control and transactions processing
- Management Comments and Action Taken Report
- Submission of Final Report for the consideration of the Audit Committee / Board of Director / Managing Director

# CONTENT OF INTERNAL AUDIT REPORT

- Title
- Addressee
- Period of coverage of the Report
- Opening or introductory paragraph
- Objective paragraph
- Scope paragraph
- Documents / Records checked during the IA
- Executive summary, highlighting the key material issues, observations, control, weaknesses and exceptions
- Significant observations, findings and recommendations
- Management comments on respective observations, findings and recommendations
- Action Taken Report
- Date of Report
- Place of signature
- Internal Auditor's signature with Membership No.





**THANK YOU**

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