

AUDIT UNDER VARIOUS LAWS IN INDIA



Sr No.	Type of Audit	Provision	Purpose
1	Statutory Audit (Section 139 of Companies Act, 2013)	All companies registered under the Companies Act, should get their accounts audited by an Auditor who is a Chartered Accountant (CA)	Statutory audit is legally required for review of the accuracy of a company's financial statements and records. The purpose of statutory audit is to determine whether an organization is providing a fair and accurate representation of its financial position. Auditors are expected to examine information related to bank balances, book keeping records and financial transactions.
2	Tax Audit (Section 44AB of the Income Tax Act, 1961)	<p><i>Rs. 5 Crores Threshold:</i> Every taxpayer: (a) carrying on business whose turnover/ total sales/gross receipts exceed Rs. 5 crore in previous year, Provided that such person fulfills below condition: (i) Only 5% of total sales, turnover or gross receipts during the year is in cash (non cheque, electronic modes); (ii) Only 5% of all payments incurred for expenditure during the year are in cash.</p> <p><i>Rs. 1 Crore threshold:</i> If conditions given in previous point are not satisfied then tax audit will be applicable for person carrying on business whose turnover/total sales/gross receipts exceed Rs. 1 crore in previous year.</p> <p><i>Specified Professions:</i> Tax payers carrying on a profession whose gross receipt/ turnover exceed Rs.50 lakhs in previous year,</p> <p><i>Specified Businesses:</i> Tax payers carrying on business as mentioned below and the person has claimed his income to be lower than the profits or gains so deemed to be the profits and gains of his business, in any previous year. - Section 44AE - business of plying, hiring or leasing goods carriages</p>	<p>Purpose of Tax Audit is as under:</p> <ul style="list-style-type: none"> - Ensure proper maintenance and correctness of books of accounts and certification of the same by tax auditor - Reporting of observations/ discrepancies noted by tax auditor after a methodical examination of books of account - Reporting prescribed information such as tax depreciation, compliance of various provisions of income tax law etc. <p>This in turn enables and also saves time of tax authorities in verifying the correctness of income tax return filed by the taxpayer such as total income, claim for deductions etc.</p>

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		<p>Section 44BB – business of exploration, etc. of mineral oils Section 44BBB - foreign companies engaged in the business of civil construction, etc., in certain turnkey power projects.</p> <p>Taxpayers carrying on profession if such person has claimed his income to be lower than the profits and gains of his profession so deemed to be computed as per Section 44ADA (i.e. Presumptive Taxation) and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year;</p> <p>Tax payers carrying on business if the provisions Section 44AD(4) are applicable in his case and his income exceeds the maximum amount which is not chargeable to income-tax.</p> <p><i>Section 44AD (4): Where an eligible assessee having total turnover or gross receipts not exceeding 2 crores, declares profit for any previous year on presumptive basis under Section 44AD and he declares profit for any of the five assessment years relevant to the previous year succeeding such previous year not in accordance with presumptive taxation, he shall not be eligible to claim the benefit of the presumptive taxation for five assessment years subsequent to the assessment year relevant to the previous year in which the profit has not been declared in accordance with the presumptive provisions of Section 44AD.</i></p>	

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3	<p>Internal Audit (Section 138 of the Companies Act, 2013)</p> <p>[Rule 13 of Companies (Accounts) Rules, 2014 as amended by Companies (Accounts) Amendment Rules, 2016]</p>	<p>The Following companies are required to appoint an Internal Auditor:</p> <p>(a) every listed company;</p> <p>(b) every unlisted public company having-</p> <p>(i) paid up share capital of Rs.50 crore or more during the preceding financial year; or</p> <p>(ii) turnover of Rs.200 crore or more during the preceding financial year; or</p> <p>(iii) outstanding loans or borrowings from banks or public financial institutions exceeding Rs.1 crore or more at any point of time during the preceding financial year; or</p> <p>(iv) outstanding deposits of Rs.25 crore or more at any point of time during the preceding financial year;</p> <p>(c) every private company having-</p> <p>(i) turnover of Rs.200 crore or more during the preceding financial year; or</p> <p>(ii) outstanding loans or borrowings from banks or public financial institutions exceeding Rs.1 crore or more at any point of time during the preceding financial year.</p>	<ul style="list-style-type: none"> - Internal auditors mean people or departments that are working for the company to perform internal audit activities as determined by Audit Committee (AC) or board of directors (BOD). - Internal auditor is employed by the company but he is independent from operations - Scope of internal audit is generally determined by AC or BOD. In case of non-companies, internal auditors normally report to owner(s) of the entity. - Internal audit is the type of audit that normally covers internal control review, operational review, fraud, compliances, and sometime special investigation assigned from AC or BOD. - The Internal Auditor does not issue opinion like the statutory auditor but the report normally contains the list of audit findings, implications of those findings, along with recommendation. All finding require discussion with the management
4	<p>GST Audit</p> <p>Section 35(5) of Central Goods and Services Tax Act, 2017</p>	<p><u>Audit by taxable person:</u> Every Registered dealer whose turnover exceeds Rs. 2 crores, should get his accounts audited by a CA or Cost & Management Accountant (CMA).</p>	<p>Reconciling the value of supplies declared in the return furnished for the financial year with the audited annual financial statement and such other particulars as may be prescribed.</p>
	<p>Section 65 and Section 66 of Central Goods and Services Tax Act, 2017</p>	<p><u>Audit by GST tax authorities:</u></p> <p>- <u>General Audit:</u> The commissioner or on his orders an officer may conduct an audit of any registered dealer.</p> <p>- <u>Special Audit:</u> The department may conduct a special audit due to the complexity of the case and considering the</p>	

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		interest of revenue. The CA or a CMA will be appointed to conduct the audit.	
5	Cost Audit (Section 148 of the Companies Act, 2013)	Central Government (CG) may by order in respect of certain companies direct that particulars relating to material, labour and other items of cost be included in the books of account kept by Company. CG shall before issuing such order in respect of companies regulated under a special Act, consult the regulatory body constituted or established under such special Act.	1) Compliance with the cost auditing standards. 2) Protection of business. 3) Determination and comparison of costs. 4) Constructive appraisal.
6	Secretarial Audit (Section 204 of Companies Act, 2013 and Rule 9)	<u>Secretarial Audit is applicable to:</u> (a) every public company having a paid-up share capital of Rs.50 Crore or more; or (b) every public company having a turnover of Rs.250 Crore or more. Only a member of Institute of Company Secretaries of India (ICSI) can be an auditor.	
7	Audit of Charitable Trusts (Section 12A of Income Tax Act, 1961)	To qualify for exemption under Sections 11 and 12, a trust having total income (before claiming exemption u/s. 11 and 12) exceeding the maximum amount not chargeable to tax must have its accounts audited by a CA.	To check if the exemptions claimed under section 11 and 12 of the Income tax act are correct.
8	Forensic Audit	Presently not required by any Law	- A forensic audit is an examination and evaluation of a firm's or individual's financial information for use as evidence in court. - A forensic audit can be conducted in order to prosecute a party for fraud, embezzlement or other financial claims.

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9	Management Audit	Presently not required by any Law	<ul style="list-style-type: none"> - The principal reason for undertaking a management audit is the need for detecting and overcoming current managerial deficiencies in ongoing operations - It is to evaluate how well the management is planning, organizing and directing the organizations activity - The evaluation of managerial performance is achieved with the aid of a management audit questionnaire.
10	Operational Audit	Presently not required by any Law	Operational Audit is a systematic review of effectiveness, efficiency and economy of operation. In operational audit financial data may be used, but the primary sources of evidence are the operational policies and achievements related to organizational objectives.
11	Due Diligence	Presently not required by any Law	<ul style="list-style-type: none"> -Due diligence is an investigation or audit of a potential investment or product to confirm all facts, such as reviewing all financial records. - It refers to the care a reasonable person should take before entering into an agreement or financial transaction with another party. Due diligence can also refer to the investigation a seller does of a buyer.
12	Cultural Audit	Presently not required by any Law	Study and examination of an organization's cultural characteristics (such as its assumptions, norms, philosophy, and values) to determine whether they hinder or support its vision and mission.

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13	Information System Audit or Information Technology Audit (IT Audit)	Presently not required by any Law except for certain businesses like banking.	To assess and check the reliability of security system, information security structure, and integrity of system.
14	Compliance Audit	Presently not required by any Law except for certain businesses like stock brokers under the SEBI Act.	<p>-To check against internal policies and procedures as well as law and regulation where the business is operating.</p> <p>-Entity may assign its internal audit function to review whether entity's internal policies and procedures are complied and followed effectively.</p>
15	Special Audit	Presently not required by any Law	-This may be conducted when there are problems in the organization like fraud, business case or others special case/s.