

CSAS-4

Auditing Standard on Secretarial Audit

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Auditing Standard on Secretarial Audit

Scope

This Auditing Standard ('the standard') is applicable to Auditor undertaking Secretarial Audit under section 204 of the Companies Act, 2013. The Standard deals with responsibilities of the auditor while carrying out Secretarial Audit of a Company. The Standard is in addition to other Auditing Standards, as may be applicable with regard to Secretarial Audit.

Effective Date

This Standard is applicable for Secretarial Audit undertaken by the Auditor on or after.....

Objective

The objective of this Standard is to prescribe principles for evaluation of:

- a) statutory compliances; and
- b) corporate conduct in relation to statutory Compliances for conducting Secretarial Audit and expression of an opinion thereon by the auditor.

Definitions

i. Auditor

Auditor means a Member of the Institute of Company Secretaries of India undertaking the Audit.

ii. Audit Procedure

An audit procedure represents the broad framework of the manner of handling the audit, including techniques used for forming an opinion.

iii. Board process

The board process means process followed for decision making by the Board and its committees.

iv. Systems and process

Systems and process signify broad framework including activities for compliance of law.

v. Trigger test

Trigger test means the parameters by which applicability of particular enactment, rule, regulation, guideline, provision, etc. is ascertained.

Requirements

1. Identification of applicable laws

The Auditor shall take note of various laws applicable to the Company as identified by the Board of Directors of the Company in addition to the laws specifically mentioned in the form of the Secretarial audit report.

1.1 Identification of basic details

The Auditor shall identify the basic details as indicated below to apply trigger test for the applicability of the laws:

- Key financial parameters such as Turnover, Paid-up share capital, Net worth, Borrowings, etc.
- Geographic location of registered office, units/divisions/plants/branches, etc.
- Status of company such as listed/unlisted
- Type/Class of company such as Private, Public, Holding, Subsidiary, Foreign, Nidhi, Producer, Section 8, etc.
- Registration with various authorities such as SEZ, Sectoral Regulators, etc.
- Segment such as Manufacturing/Trading/Service/e-commerce and Industry classification thereof;
- Agreements governing rights, obligations of shareholders such as Joint venture, shareholders' agreements
- Number, class and category of employees/workers such as women, contractual employees, etc.

1.2 Trigger test for validation of applicable laws

The auditor shall validate the laws applicable to the Company by applying trigger test on details collected at Para 1.1 above.

1.3 Segregation of Industry specific and other applicable laws

Segregation of laws applicable on the Company into the Industry specific and other category is essential. The auditor shall make the segregation of the same based on the understanding of the Company and after application of trigger test as provided in 1.1 and 1.2 above. The auditor shall ensure the verification of the various laws is done as per the table below:

Category	Principles	Verification Requirement
Industry Specific Laws	All laws, rules, regulations made for regulation of specific Industry; and	Comprehensive verification of Compliances
Other applicable laws	All laws applicable on Company other than Industry Specific	Assessment of systems and process only

2. Verification of corporate conduct & compliance of Laws

2.1 Creation of master checklist

The auditor shall create master checklists for laws (laws specifically mentioned in the format of the secretarial audit report and Industry Specific laws) by making segregation in event based and calendar based compliances.

2.2 Identification of Events/Corporate Actions

The auditor shall identify events/Corporate actions that took place during the audit period. The identification can be made by reviewing the website of the regulators, statutory records including books and papers, interaction with the Company and in any other appropriate manner.

2.3 Verification of Compliance

The auditor shall verify all event based and calendar based compliances with master checklists, making mention of source documents relied for verification.

2.4 Summarizing Non Compliances

Based on above verifications, the auditor shall create summary of non-compliances, if any, for seeking clarifications from management or for reporting in the Audit report.

3. Board composition

3.1 Minimum and maximum limit on number of Directors on the board

The auditor shall verify the overall composition of the Board including the minimum

and maximum strength of the Board as per provisions of the Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, Articles of Association and provisions of other Acts/rules/regulations as may be applicable to the Company.

3.2 Optimum Combination of Board

The auditor shall verify the combination of Executive, Non-executive, Independent, Non-independent, retiring, non-retiring, woman, nominee in the Board as per provisions of the Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Articles of Association, agreement with Lenders/Investors and provisions of other Acts/rules/regulations as may be applicable to the company.

3.3 Eligibility requirements of directors

The auditor shall verify the eligibility criteria including qualifications of Directors in accordance with the provisions/principles laid down in the Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Articles of Association and provisions of other Acts/rules/regulations as may be applicable on the Company.

3.4 Board Committees

The auditor shall verify the constitution and composition of mandatory Board Committees.

4. Board processes

4.1 The auditor shall ensure the verification to the effect that whether Board decisions have been taken in compliance to applicable Secretarial Standards, Act, Rules, Articles of Association, SEBI Listing Regulations and other applicable laws.

4.2 In case of conflict between various provisions the stricter compliance to be verified.

5. Systems and Processes

5.1 Assessment of Compliance organogram

The Auditor needs to check as to whether there is clear demarcation of responsibility

for ensuring various compliances to be done by the Company. In the absence of such clear demarcation, the ultimate responsibility lies with the Board of Directors of the Company. The auditor shall perform an assessment of Compliance organogram to understand compliance responsibility centers, control points, matrix, flow of information/non-compliances escalation.

5.2 Assessment of Compliance tracker

The auditor shall perform an assessment of Compliance tracker (manual or software driven) to understand its extent, coverage and severity mapping. The Auditor may also make assessment of Compliance manual/standard operation Procedures (SOP's), if any, available with the Company.

5.3 Identification of Non Compliances & Instances of Show cause notices received, Penalty/fine levied

The auditor shall identify the non-compliances and instances of Show Cause notices received, reply submitted by the company including the likely impact on the Company based on provisions in accounts and disclosures in contingent liabilities, Penalty/fine levied to make assessment of compliance mechanism towards compliances and risk assessment.

5.4 Maintenance of Records

The auditor shall perform an assessment of adequacy and effectiveness of the maintenance of records.

5.5 Concurrent Audit of Samples

The auditor shall identify sample size and timing for respective compliance for performing concurrent audit to assess the adequacy of systems and processes.

5.6 Compliance reporting

The auditor shall review the Compliance reports submitted to the management /Board at regular interval to assess compliance level as well as systems and process.

5.7 Overall Assessment

An Overall assessment of systems and process, based on above verifications and also making an assessment of adequacy thereof, considering size, no of units/branches, severity of compliance shall be performed by the auditor.

6. Detection of Fraud

6.1 A fraud may impact the organization adversely in monetary or other terms. The Auditor shall report the fraud, if the same has been observed by him during the course of audit.

6.2 The Auditor shall check whether the company has any anti-corruption and/or anti-bribery policy, ethics policy which may be in place at the Company.

6.3 The Auditor may communicate directly with the internal auditors and statutory auditors to verify whether they have suspected/identified any fraud during the course of their audit.

6.4 During the course of the audit, if the auditor suspects any commission of fraud, he shall endeavour to collect further evidence for the same. The suspicion may arise on perusal of internal control systems, perusal of any complaints under whistle blower mechanism, reports of the other auditors, etc.

6.5 The auditor shall ensure to collect sufficient evidence which substantiates his suspicion of the commission of the fraud against the Company by the employees and officers of the company. The auditor shall ensure that he has sufficient reason to believe that there is commission of fraud and should have justifiable grounds for the same.

7. Reporting of Fraud

7.1 The Auditor shall report the fraud to Audit Committee/Central Government as per process laid down in the Companies Act, 2013 and include the same in Secretarial Audit Report.

7.2 The Auditor shall verify if Audit Committee has given any comments on such suspected fraud and directors have included details of suspected fraud in their report in terms of the provisions of the Companies Act, 2013.

7.3 The Auditor shall verify if the fraud detected by other Auditor has been reported to Audit Committee/Central Government. If yes then include the same in Secretarial Audit Report.

7.4 If fraud has been detected by management, which is not required to be reported by Auditor to the Audit Committee/Central Government in terms of the provisions of section 143(12) of the Companies Act, 2013, it shall be included in the Secretarial Audit Report.

8. Identification & Reporting of the events/actions having major bearing on Company's affairs

It shall be the duty of the Auditor to identify and report all events/actions having major bearing on the Company's affairs in pursuance of the applicable laws, rules, regulations, guidelines, standards, etc. An event/action may be considered as having major bearing on Company's affairs includes the following situations:

- 8.1** Events/actions affecting going concern status of the Company
- 8.2** Events/actions altering the charter documents of the Company
- 8.3** Capital structure of the company
- 8.4** Change in the affairs and management of the company
- 8.5** Change in the licensing or permission for the business operation of the company
- 8.6** Capacity expansion and utilization of the company.
