
STUDY MATERIAL

PROFESSIONAL PROGRAMME

**SECRETARIAL AUDIT
COMPLIANCE MANAGEMENT
AND DUE DILIGENCE**

MODULE 2

PAPER 4



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

IN PURSUIT OF PROFESSIONAL EXCELLENCE

Statutory body under an Act of Parliament

(Under the jurisdiction of Ministry of Corporate Affairs)

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PROFESSIONAL PROGRAMME

SECRETARIAL AUDIT, COMPLIANCE MANAGEMENT AND DUE DILIGENCE

Secretarial Audit is a process to check compliance under the provisions of various laws and rules/ regulations/ procedures applicable to organization. It is conducted by an independent professional to ensure that the company has complied with the appealable legal and procedural requirements and has also followed the due process. It is essentially a mechanism to monitor compliance with the requirements of stated laws.

Compliance management is the method by which corporate manage the entire compliance process with the help of check list of compliance calendar. It includes compliance program, compliance audit, compliance report etc. In other words it is called compliance solution. Secretarial Audit and Compliance Management are the routine tools for effective governance. Compliance Management is into a corporate system to avoid non compliances and the Secretarial Audit is carried out on periodical basis by an independent professional.

Due diligence is a pre-emptive tool to assess a business transaction. Due diligence is an investigative process for providing the desired comfort level about the potential investment and to minimize the risks such as hidden uncovered liabilities, poor growth prospects, price claimed for proposed investment being on higher side etc., In general, due diligence process is based on transaction.

This study material is published to aid the students in preparing for the paper on Secretarial Audit, Compliance management and Due diligence of Professional Programme. It is part of the educational kit and guide the students step by step through each phase of preparation while emphasizing on key concepts, principles, comprehending, integrating and advising to resolve complex issues case studies and decision making.

Company Secretaryship being a professional course, requires the examination standards to be set very high, with emphasis as expert of concepts, applications, procedures and case laws, for which sole reliance on the contents of the study material may not be enough. Besides Company Secretaries Regulations, 1982 it requires the students to be conversant with the amendments in the laws made upto six months preceding the date of examination. This study material may therefore be regarded as basic material and must be read along with the respective amendments in the Act, Rules, Regulations, Order, Circulars, Clarification notified by the Central Government or issued by the respective Regulators.

The coverage of subject is "Hybrid" in nature which requires integrated application of several Core / Ancillary areas or references of the other subjects included in the ICSI Syllabus. This study material has covered such topics to a limited context. The students are advised to refer the relevant topics from the Bare Acts, Rules & regulations and study material of the respective subjects or from the publications such as ICSI Auditing Standards, guidance note on Secretarial Audit, Annual Secretarial Compliance Audit, Peer Review, Quality review etc., referencer published by the ICSI.

The amendments notified up to July, 2021 have been incorporated in this study material. However, it may happen that some developments might have taken place during the printing of the study material and its supply to the students. The students are therefore advised to refer to the supplement uploaded on ICSI website from time to time and ICSI Journal Chartered Secretary and other publications for updation of study material. In the event of any doubt, students may contact the Directorate of Academics at academics@icsi.edu.

Although due care has been taken in publishing this study material, yet the possibility of errors, omissions and/or discrepancies cannot be ruled out. This publication is released with an understanding that the institute shall not be responsible for any errors, omissions and/or discrepancies or any action taken in that behalf.

Should there be any discrepancy, error or omission noted in the study material, the Institute shall be obliged, if the same are brought to its notice for issue of corrigendum.

PROFESSIONAL PROGRAMME SECRETARIAL AUDIT, COMPLIANCE MANAGEMENT AND DUE DILIGENCE

This study material is divided into two parts with following weightage of marks:

Part I – Compliance Management (40 Marks)

Part II – c Audit and Due Diligence (60 Marks)

Part I- Compliance Management

The primary responsibility of a company secretary is to ensure the development and implementation of the compliance framework in a company, Compliance requirement in the various types of the company based on the activity, sector and industry. As the company secretary play a significant role in the creation of the compliance chart of the company and is required to report to the board about the compliance status of the company. It is expected from the student to be well versed with the compliance requirement to the various types of the companies.


This part of study material also covers the documentation, maintenance and search reports. This includes that how records/ documents should be managed by the company secretary and what are the various methods for maintenance of records. However, for various purposes company need to refer the historical documents from the internal records as well as from the various other sources such as records from MCA, Stock Exchanges, records of various other registrars etc.

In view of the various regulatory actions and requirements, it is necessary for professional to know about the companies and their promoters/directors before taking up any assignment or before engaging for any signing and certification work. This part of the study material also covers the role of company secretaries in the various business segments and the requirements, obligation and penal provisions relating to the KYC, signing and certification requirements.

Part II - Secretarial Audit and Due Diligence

Section 204 of the Companies Act, 2013, enable the company secretaries to conduct secretarial audit report for the listed and the public companies and Regulation 24A of SEBI (LODR) Regulations provides for the Secretarial Audit for every listed entity and its material unlisted subsidiaries, which has open up the new area for company secretaries as secretarial auditor. Further, under various other regulations, the company secretaries are recognised for providing certification and to act as auditor. The part II of the study material covers these auditing principles, techniques, coverage and the reporting requirement for such audits. The ICSI has constituted the Auditing Standards Board to prescribe the Auditing Standards for the members of ICSI, The Institute of Company Secretaries of India (ICSI) has issued four ICSI Auditing Standards. The Standards are required to be observed by the Company Secretaries undertaking Audits. The Standards seek to promote best auditing practices, uniformity and consistency while conducting audits.

The review of the systems and process adopted by the professional provide support in the setting up the benchmarks of professional practices, the study cover the peer review and quality review guidelines issued by the ICSI and ethical standards to be maintained by the professional.



The strategic and investment decision of any company depends on the due diligence report on the affairs of the company and the company secretaries are engaged by the companies for various purposes of due diligence, the study includes the various requirements in performing such due diligence. The study also covers non-compliance under the Companies Act, 2013, SEBI Act, 1992 and the regulations made thereunder.

Students are strongly advised to go through the ICSI Publications, amendments in laws, articles, and research papers for the detailed understanding and updation for the subject.

PROFESSIONAL PROGRAMME SECRETARIAL AUDIT, COMPLIANCE MANAGEMENT AND DUE DILIGENCE

Legal and Regulatory Framework

1. Companies Act, 2013 and Rules made thereunder
2. Securities Contracts (Regulation) Act, 1956 and Rules made thereunder
3. SEBI Act, 1992\and Regulations made thereunder including:
 - a. SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009/2018
 - b. SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
 - c. SEBI (Share Based Employee Benefits) Regulations, 2014
 - d. SEBI (Issue of Sweat Equity) Regulations, 2002
 - e. SEBI (Buy Back Of Securities) Regulations, 1998/2018
 - f. SEBI (Prohibition of Insider Trading) Regulations, 2015
 - g. SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
 - h. SEBI (Delisting of Equity Shares) Regulations, 2009
 - i. SEBI (Issue and Listing of Debt Securities) Regulations, 2008
 - j. SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003
4. Depositories Act, 1996
5. Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;
6. Secretarial Standards issued by ICSI.
7. Auditing Standards issued by ICSI.

PROFESSIONAL PROGRAMME

Module 2

Paper 4

SECRETARIAL AUDIT, COMPLIANCE MANAGEMENT AND DUE DILIGENCE (100 Marks)

SYLLABUS

Objective

Part I : To develop expertise in Compliance management, Internal control systems and preparation of various search and status reports.

Part II : To develop expertise in Secretarial Audit and other Audits and to impart knowledge on the process for conducting Due Diligence of various business transactions.

Detailed Contents

PART I : Compliance Management (40 Marks)

1. **Compliance Framework:** Identification of applicable laws, rules, regulations; Risk Assessment; Responsibility center mapping/ allocation; Escalation & reporting; Creation of Compliance framework and reporting system; Review & Updation; Training & Implementation.
2. **Compliances:** (a) Entity wise: Public, Private, Listed, Government, Small Companies, OPC, Section 8 Company, LLP – Annual and Event based compliances. (b) Activity wise: Compliances related to specific activities undertaken. (c) Sector wise: Service Sector, Manufacturing, Trading, E-commerce, Mining, Infrastructure. (d) Industry Specific: Compliances with Industry Specific Laws applicable to the company such as Tourism, Pharmaceutical, FMCG, Hospitality, Information Technology etc. (e) State and Local applicable laws
3. **Documentation & maintenance of records:** Electronic versus Physical repository; General principles of good documentation, coding, storage, preservation, safety & retrieval; Privacy & Control.
4. **Search and Status Report:** Type of Searches, Purpose and Objective of Search Reports, Search under Companies Act, IPR Laws, Property Title Search, Compilation & verification of data published by MCA 21, SEBI, RBI, Stock Exchanges, other regulators/ authorities (national/international), Web-sites and other sources.
5. **KYC:** Carrying out KYC with respect to directors, promoters and client, Compliance with the applicable ICSI Guidelines.
6. **Signing and Certification:** Various Certification(s) by Company Secretary in practice; Pre-certification of Forms; Signing & certification of Annual Return; Corporate Governance Certification; Obligations and Penal provisions.
7. **Segment-wise Role of Company Secretaries:** Knowledge about the segment(s) in which the company is operating, Industry trends and national and international developments. Segment-wise Compliances.

Part II: Secretarial Audit & Due Diligence (60 Marks)

8. **Audits:** Overview and Introduction of Various Audits; ICSI Auditing Standards.
9. **Secretarial Audit:** (i) Overview & introduction: Concept; advantages; legal provisions; risk of Secretarial Auditor; code of conduct. (ii) Scope of Secretarial Audit: (a) Corporate, Securities and Foreign Exchange Laws and Rules and Regulations made there under. (b) Other Laws applicable to the Company. (c) Board Processes, Adequacy of Systems and Processes, Compliance with Secretarial Standards and applicable Accounting Standards and Reporting of Major Events. (d) Corporate conduct & practices.
10. **Internal Audit & Performance Audit:** Objective & Scope; Internal Audit Techniques; Appraisal of Management Decisions; Performance Assessment, Internal Control Mechanism.
11. **Concepts and Principles of Other Audits:** (a) Corporate Governance Audit (b) CSR Audit, (c) Takeover Audit (d) Insider Trading Audit, (e) Industrial and Labour Laws Audit (f) Cyber Audit (g) Environment Audit (h) Systems Audit (i) Forensic Audit (j) Social Audit.
12. **Audit Engagement:** Audit engagement; Appointing authority; communication to previous Auditor; Terms & conditions; Audit fees & expenses; Independence & conflict of interest; confidentiality; Auditing standard on Audit engagement.
13. **Audit Principles and Techniques:** Audit Planning; Risk Assessment; Collection of information/Records of Audit, Audit Checklist; Audit Techniques, Examination & its process; Enquiry; Confirmation; Sampling; Compliance Test of Internal Control System; Substantive Checking; Dependence on other Expert, Verification of documents/records; Collection of audit evidences; Creation of Audit trails; Analysis of Audit findings; Documentation; materiality; record keeping;
14. **Audit Process and Documentation :** Preliminary Preparations; Questionnaire; Interaction; Audit program; Identification of applicable laws; creation of master checklist; Maintenance of Work-sheet, working papers and audit trails; Identification of events/ corporate actions; Verification; Board composition; Board process; systems and process; identification of events having bearing on affairs of the Company, Auditing standard on Audit process & documentation.
15. **Forming an Opinion & Reporting:** Process of forming an opinion; materiality; forming an opinion on report of third party/expert; modified/unmodified opinion/qualifications; Management Representation Letter, Opinion obtained by Management, Discussion with Management, Evaluating Audit Evidence and forming Opinion, Audit report and drafting of qualifications; Sharing Draft Report with Management with Category of Risk involved with each Remark and Qualification, Signing of Audit reports and its Submission, Auditing standards on forming of an Opinion.
16. **Secretarial Audit:** Fraud detection & Reporting : Duty to report fraud; Reporting of Fraud by Secretarial Auditor; Fraud vs. Non- compliance; speculation; suspicion; Reason to believe; knowledge; Reporting; Professional Responsibilities and Penalties; Record keeping; Reporting of fraud in Secretarial Audit Report.
17. **Quality Review:** Peer Review; Monitoring of Certification and Audit Work by Quality Review Board.
18. **Values Ethics and Professional Conduct:** Case Studies & Practical Aspects.
19. **Due Diligence- I:** Overview and Introduction; Types of Due Diligence; Financial Due diligence; Tax Diligence; Legal Due Diligence; Commercial or Business Diligence – including operations, IT systems, IPRs; Human Resources Due Diligence; Due Diligence for Merger; Amalgamation; Slump Sale; Takeover; Issue of Securities; Depository Receipts; Competition Law Due Diligence; Labour Laws Due Diligence; Due Diligence Report for Bank; FEMA Due Diligence; FCRA Due Diligence; Techniques of Due Diligence and Risk Assessment; Non-Disclosure Agreement.
20. **Due Diligence – II – Non Compliances, Penalties and Adjudications:** Impact Assessment of Non Compliances and Reporting thereof.

Case Laws, Case Studies & Practical Aspects.

LESSON WISE SUMMARY

SECRETARIAL AUDIT, COMPLIANCE MANAGEMENT AND DUE DILIGENCE

Part I : Compliance Management

Lesson 1 - Compliance Framework

A compliance management system manages the entire compliance process of the company. It includes the compliance program, compliance audit, compliance reporting etc. The compliance program consists of the policies and procedures which guide in adherence of the applicable laws and regulations on the company. Further, the compliance audit is an independent testing of level of compliance with applicable laws and regulations on an Organisation.

The core function of the company secretary is to formation of the compliance framework in association with the other functional heads of the company. The lesson covers process of formation of the compliance frame work and point to be considered while dealing with the corporate compliances.

Lesson 2 - Compliances

Every company incorporated under the Companies Act is required to comply with the various regulatory requirement provided in the laws, However the specific exemptions to the some class of the companies has been provided specifically in the act or through the exemption notifications under the Companies Act, 2013.

As the part of the annual compliances, every company is required to file its financial statement and annual return every financial year before the due date, with the Registrar of Companies. However, there are several event base compliances wherein the company is required to file the report, return or intimation to the concerned Registrar of Companies, which is an time bound activity and any failure in such compliance will liable to action by the various regulators.

The lesson covers the various compliance requirements under the Companies Act and SEBI Law and rule and regulations made thereunder.

Lesson 3 - Documentation & Maintenance of Records

The good documentation promotes good corporate governance practices and improves the compliance level of the company. Also the documentation provides a detailed knowledge of the historical records of the company. The effective documentation provides easy access to the required information on time for the effective and timely utilization of the information. The primary responsibly of a company secretary to prepare and maintain the secretarial and other records, which are required to be kept by the company under the various regulatory requirements.

The lesson covers the various method of documents and the principles to be followed by the professional while preparation of records as well as at the time of preserving the records in the record room.

Lesson 4 - Search and Status Report

The search and status report is a method for confirmation of the status of the company in the records of the various regulators. The report provides the information gathered by a search of specific records made available for inspection in the public domain. The company secretaries provide the search reports based on the information gathered along

with the observations/comments on the status of the company along with necessary explanations desired by the company or any other stakeholder i.e. lenders, regulator etc.

The company secretaries are engaged by the Banks, Financial Institution to provide the search report on the charge on the assets of the company, for property search, search relating to Trade marks, Copy rights and Patents, ROC search etc. to know the actual status of the company. The lesson covers the various type of search reports and content and method of verification of the records from various sources.

Lesson 5 - Know Your Customers (KYC)

As the banks and Financial Institutions (FIs) are required to follow certain customer identification procedure for opening of accounts, and monitor transactions of suspicious in nature. The company secretaries should also conduct the KYC of their clients companies and the promoters /directors before accepting any assignment and engagement.

The objectives of doing KYC is to stop the corporate vehicles to be used intentionally or unintentionally, by criminal elements for illicit purposes such as money laundering activities, fraud, bribery and corruption, shielding assets from creditors, illicit tax practices, market fraud, terrorist funding, avoiding future risk and the KYC related procedures also enable institution to better understand their customers and their financial dealings. The lesson covers importance of KYC, manner of doing KYC and various KYC requirement for companies, individuals and other types of business organisations.

Lesson 6 - Signing and Certification

Pre-certification means certification of correctness of any document by a professional including Company Secretary in Practice before the same is filed with the respective authority or with the Registrar in terms of the requirements of the Companies Act, 2013 and certification under SEBI Laws. The signing professional should checks the correctness of the particulars stated in form or supporting documents after due consideration of the provisions of the Act and the rules made thereunder. The professional should also ensure that the particulars stated in the form/ disclosure/ certificates are in agreement with the books and records of the company. The lesson covers the prerequisite for the signing and certification by the professionals and the requirement for various forms, annual return, corporate governance certification.

Lesson 7 - Segment-wise Role of Company Secretaries

The role of Company Secretaries is now considered as a senior position or above. It is evolving beyond the administrative work. Company Secretaries are employed as chairs, chief executives and non-executive directors, as well as executives and company secretaries. Some company secretaries are also known in their own companies as corporate secretarial executives/managers.

A company secretary's has core competence in compliance and corporate governance. He popularly known as governance professional and more frequently called upon to guide the corporate board on various strategic, governance and compliance related issues.

The role of company secretary is also termed as legal advisor on the board who needs to have a legal knowledge of all the sectors thus directly indirectly they are the Key Managerial Person (KMP) of the Company. Company secretaries are the primary source of advice on the conduct of business and this can span everything from legal advice on conflicts of interest, through accounting advice on financial reports, to the development of strategy and corporate planning.

The lesson covers various roles of company secretary in employment as well as in practice along with the national and international developments in the role of company secretary.

Part II: Secretarial Audit & Due Diligence (60 Marks)

Lesson 8 - Audits

Audit is an independent examination or inspection of various transactions, the audit can be done internal or external person or by an independent auditor. The idea is to check and verify the transaction by an independent authority to ensure that the affairs of the company are done in a fair manner and there is no misrepresentation in the affairs of the company.

The company secretaries engaged for performing various audits under the statutory requirements and voluntarily by the companies and the lesson covers the brief description of the various audits.

Lesson 9 - Secretarial Audit

Secretarial Audit is a mechanism which gives necessary comfort to the management, regulators and the stakeholders, as to the compliance by the company of applicable laws and the existence of proper and adequate systems and processes in the company. Submission of Secretarial Audit Reports for the prescribed companies was mandated from financial year 2014-15 under section 204 of the Companies Act, 2013.

Further, Regulation 24A of the SEBI (LODR) Regulations, 2015, every listed entity and its material unlisted subsidiaries incorporated in India is required to undertake secretarial audit and shall annex with its annual report, a secretarial audit report, given by a company secretary in practice, in Form No. MR-3 from the year ended March 31, 2019.

The secretarial auditors should detect the instances of non-compliances and in result facilitate taking corrective measures. The professional should perform an effective due diligence exercise before the issuance of Secretarial Audit Report.

The lesson covers the various requirements under the scope of secretarial audit and process to be followed by the company secretaries while conducting secretarial audit.

Lesson 10 - Internal Audit & Performance Audit

The internal audit is an Independent review and appraisal of financial and operational control systems across the organization. The internal audit also includes the ascertainment of the extent of compliance of policies, procedures, regulations and legislations and facilitate in risk management.

The internal auditor is also involved in structuring programs and activities that safeguard company assets, it also provide internal check systems which minimize the possibility of fraud / early warning signals for identifying fraud.

The provisions of Companies Act, 2013 provides that an internal auditor appointed under section 138 shall either be a chartered accountant or a cost accountant, or such other professional (including company secretaries) as may be decided by the board to conduct internal audit of the functions and activities of the company. The lesson cover the objective& scope of internal audit, manner of engagement, internal audit techniques and the process for reviewing the internal control mechanism in the company.

Lesson 11 - Concepts and Principles of Other Audits

Audit is an independent and systematic examination of statutory records, books of accounts, documents and vouchers of an organization. This mainly performed or conducted to ascertain how far the financial statements as well as non-financial disclosures present a true and fair view of the affairs of the company. Audit provides a

significant assurance to the management and other stakeholders on the affairs of the company. The Auditor while conducting audit obtains evidence and formulates an opinion on the basis of his judgement which is communicated through his audit report.

As an independent professional, auditor provide third party assurance on every subject matter for which he has been engaged. The lesson covers the areas which are commonly audited by the company secretaries such as Corporate Governance Audit, CSR Audit, Takeover Audit, Insider Trading Audit, Industrial and Labour Laws Audit, Cyber Audit, Environment Audit, Systems Audit, Forensic Audit, Social Audit etc.

Lesson 12 - Audit Engagement

The Companies Act, 2013 provides that the statutory auditors of the company shall be appointed by the members of the company, through a resolution passed at the annual general meeting. However In case of other audit the auditors are appointed by the board of the company or by the person authorized by the board of the company, by the tribunal/ courts, company liquidators etc.

In any auditing assignment, the engagement letter is the governing documents for whole audit process, as it covers the scope of audit, terms & conditions of audit, responsibility of auditor and the management etc.

The lesson covers the various requirements of laws and the points to be considered while taking up the audit engagement by any professional.

Lesson 13 - Audit Principles and Techniques

The Auditing principles are the generally accepted rules, which are commonly applicable for the every type of Audit, whereas the audit techniques stand for the methods that are adopted by an auditor to obtain audit evidence and performance of the audit as per the scope of the audit. An auditor can apply various techniques of auditing which may be applied by the auditor under different circumstances of audit.

The purpose of an audit is to enhance the degree of confidence in the secretarial records/non-financial statements, of intended users. An auditor expresses his opinion as to whether the significant reporting aspects of an enterprise are duly covered within the prescribed framework. The auditor is required to conduct the audit and express his opinion based on these principles and techniques for conducting audit.

The lesson covers the various auditing principles and techniques which are useful for undertaking the audit.

Lesson 14 - Audit Process and Documentation

The auditing process is a way to ensure that the affairs of the company were in accordance with the applicable laws, rules, regulations and principles and that they are free of material misstatement. The audit process include the phase like Pre-Planning, Planning, Fieldwork, Reporting, Corrective Action etc.

The audit documentation is the written record of the basis for the auditor's conclusions. The audit documentation also facilitates the planning, performance, and supervision of the engagement, and is the basis for the review of the quality of the work because it provides the reviewer with written documentation of the evidence supporting the auditor's significant conclusions. Among other things, audit documentation includes records of the planning and performance of the work, the procedures performed, evidence obtained, and conclusions reached by the auditor. Audit documentation also may be referred to as work papers or working papers.

The lesson covers designing the auditing program, procedures and documentation procedures relating to the performance of the audit.

Lesson 15 - Forming an Opinion & Reporting

On the completion of each audit assignment, the auditor need to prepare a written report setting out the audit observations and conclusions in an appropriate form; the content of the audit report should be easy to understand, free from ambiguity and supported by sufficient, competent and relevant audit evidence and be independent, objective, fair, complete, accurate, constructive and concise.

The content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the same is qualified, whether it is qualified in certain respects or is adverse or a disclaimer of opinion.

The lesson covers process of forming opinion and the process to be followed by the auditor before submitting the final reports to the management.

Lesson 16 - Secretarial Audit : Fraud Detection and Reporting

Under the provisions of Companies Act, 2013, the company secretaries like other statutory auditors can now act as whistle blowers if they detect any fraud. The Companies Act, 2013 provides that if an auditor of the company, in course of the performance of audit has reason to believe that an offence of fraud, which involves or is expected to involve such is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government or the Board/ Audit Committee of the company within the prescribed timeline and the manner provided in the law. The lesson covers the various aspects relating to the identification of fraud and the manners of reporting the same to the Audit Committee/ Board or to the Central Government.

Lesson 17 - Quality Review

The Professional Codes of Conduct are one of the most important characteristics of a profession. Such Codes of Conduct illustrate the high ethical and professional standards to reassure stakeholders of two conditions, namely, that any particular set of professional services is being rendered not only by (i) properly qualified or technically expert persons but also (ii) by persons whose professional standards merit the high degrees of trustworthiness, typically required of professionals.

The Peer Review mechanisms used in working groups for many professional occupations only to strengthen systems and infrastructure to enhance the quality of professional services. Whereas the Quality Review Board (QRB) has been set up to review and enhance the quality of the services rendered by the members of the ICSI. The Board aims to standardize the practices followed by the Company Secretaries and enhance the quality of the services rendered by the members of ICSI on continuous basis.

The lesson covers the various aspects relating to the peer review of the company secretaries in practice and the highlights relating to the Quality of Audit & Attestation Services by the company secretaries.

Lesson 18 - Values Ethics and Professional Conduct

India with its inherent spiritual strength, rich traditions and strong value systems- which drive from the core of family run businesses to large corporate houses become the role model for other countries in corporate governance. The company secretaries being practitioners of corporate governance should play a leading role in making India a global leader in their field.

Further, the company secretary is not only the conscience keeper of an enterprise, but he also has a larger social responsibility represent internal and external stakeholders of the company and to play a pivotal role in ensuring compliances and implementing principles of good governance.

Accordingly, every professional should inculcate highest standards of professional ethics and moral values and adherence to professional code of conduct in its true letter and spirit while working in the various capacities. The lesson covers the various ethical principles, issues, practical aspects and the recent case laws in the Indian corporate sectors.

Lesson 19 - Due Diligence- I

Due diligence is an analysis and risk assessment of an impending business transaction. It is the careful and methodological investigation of a business or persons, or the performance of an act with a certain standard of care to ensure that information is accurate, and to uncover information that may affect the outcome of the transaction.

For any strategic business transactions the detailed analysis of both financial and non-financial information requires careful and methodological investigation of business processes and the parties involved. Due diligence of business transaction includes methodical investigation of information relating to the financial, human resources, tax, environmental, legal matters, intellectual property matters etc. The lesson covers the various types of the due diligence, due diligence process and the points need to be considered while performing due diligence.

Lesson 20 - Due Diligence – II – Non Compliances, Penalties and Adjudications

Corporate compliance involves adhering to various rules, regulations, laws, and standards which are designed to protect business, employees, and all others stake holders involved in the organization. The impact of the non-compliance of such rules and regulations on a business could be in the form of monetary fines, disqualification of directors, prohibition of doing business, regulatory enforcement, and court cases or even extended to the closure of the business entity.

In the recent years the instances of the non-compliances have been continuously increased and the business owners are getting impatient as these consequences would affect their eligibility and affect the business in many ways.

The lesson covers the various non-compliances under the Companies Act, 2013, SEBI Act, 1992 & RBI Act, etc. and the manner of adjudication and compounding of such offences.

LIST OF RECOMMENDED BOOKS

SECRETARIAL AUDIT, COMPLIANCE MANAGEMENT AND DUE DILIGENCE MODULE 2 – PAPER 4

Readings

1. **ICSI Publications :**
 - The Companies Act, 2013
 - The Companies Rules
 - Premier on Companies Act, 2013
 - Guidance note on Secretarial Audit
 - Guidance note on Auditing Standards
 - Referencer on Pre-certification of E forms
 - Ready Reckoner on Private companies
 - Peer review manual
 - Quality review manual
2. **Taxmann :**
 - SEBI Manual
3. **Regulations/Rules/Guidelines/Circulars issued by SEBI, RBI, MCA etc. from time to time**
4. **Articles by the professionals and Firms**
5. **Important Websites :**
 - www.mca.gov.in
 - www.sebi.gov.in
 - www.rbi.org.in
 - www.finmin.nic.in
 - www.dipp.nic.in
 - www.icsi.edu
 - www.ebook.mca.gov.in

JOURNALS

1. **Chartered Secretary :**
 - ICSI, New Delhi
2. **Student Company Secretary ebuletin :**
 - ICSI, New Delhi

Note:

- (i) Students are advised to read the relevant Bare Acts, Regulations/circulars/rules issued by various regulatory authorities like SEBI, RBI, MCA etc. from time to time in addition to reading of journals like Student Company Secretary, Chartered Secretary etc.
- (ii) The reference to websites of different regulatory authorities is essential.

ARRANGEMENT OF STUDY LESSONS

Module 2 Paper 4

SECRETARIAL AUDIT, COMPLIANCE MANAGEMENT AND DUE DILIGENCE

PART I: COMPLIANCE MANAGEMENT (40 MARKS)

Lesson No.	Lesson Title
1.	Compliance Framework
2.	Compliances
3.	Documentation & Maintenance of Records
4.	Search and Status Report
5.	Know Your Customers (KYC)
6.	Signing and Certification
7.	Segment-wise Role of Company Secretaries

PART II: SECRETARIAL AUDIT & DUE DILIGENCE (60 MARKS)

8.	Audits
9.	Secretarial Audit
10.	Internal Audit and Performance Audit
11.	Concepts and Principles of Other Audits
12.	Audit Engagement
13.	Audit Principles and Techniques
14.	Audit Process and Documentation
15.	Forming an Opinion & Reporting
16.	Secretarial Audit – Fraud Detection and Reporting
17.	Quality Review
18.	Values, Ethics and Professional Conduct
19.	Due Diligence- I
20.	Due Diligence – II – Non Compliances, Penalties and Adjudications

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Lesson 1

Compliance Framework

Key Concepts One Should Know

- Risk Mitigation
- Inherent risk
- Compliance Risk Mitigation
- Punitive action
- Risk escalation
- Compliance ownership
- Cyclical Reporting
- Incident Reporting

Learning Objectives

To understand:

- The need of timely compliance and how it reduces risks as well as potential cost of non-compliance and also builds better corporate image.
- Compliance framework as a system designed to assist an organisation to meet its obligations and to reduce the risk of non-compliance.
- How a systematic compliance framework establishes better compliance platform by timely compliances with the provisions of various statutes including, laws, rules & regulations, procedures therein.
- The importance of the compliance framework in an organization
- The Role of the management and the compliance officer/ company secretary.

Lesson Outline

- Introduction
- Corporate Compliance Framework
- Preparation of Compliance Chart
- Content of Compliance Chart
- Role of Company Secretary in Creation of Compliance Chart
- Compliance Risk– Review and Updation
- Training and Implementation
- Compliance Audit
- Secretarial Audit and Compliance Management System
- Role of Company Secretary in Compliance Management
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

INTRODUCTION

Compliance with laws and regulations must be an integral part of any corporate strategy. The board of directors and management must recognize the scope and implications of applicable laws and regulations. They must establish a compliance management system as a supporting system of risk management system as it reduces compliance risk to a great extent. To ensure an effective approach to compliance, the participation of senior management in the development and maintenance of a compliance program is very important. They should review the effectiveness of compliance management system at periodic intervals, so as to ensure that it remains updated and relevant in terms of modifications/ changes in regulatory regime including acts, rules, regulations etc. and business environment.

A compliance management system manages the entire compliance process. It includes the compliance program, compliance reporting, compliance audit etc. The compliance program consists of the policies and procedures which guide in adherence of the applicable laws and regulations. Whereas the compliance audit is an independent testing of level of compliance.

Corporate compliance management involves a full process of research and analysis as well as investigation and evaluation. Such an exercise is undertaken in order to determine the potential issues and get a realistic view about how the entity is performing and how it is likely to perform in future. Company Secretary with core competence in compliance management and corporate governance plays a crucial role in the corporate compliance management.

CORPORATE COMPLIANCE FRAMEWORK

Compliance Chart

- Mention of Applicable Laws relating a business' operation.
- Explain how compliance risk mitigation activities are embedded in business processes.

Compliance Advisory

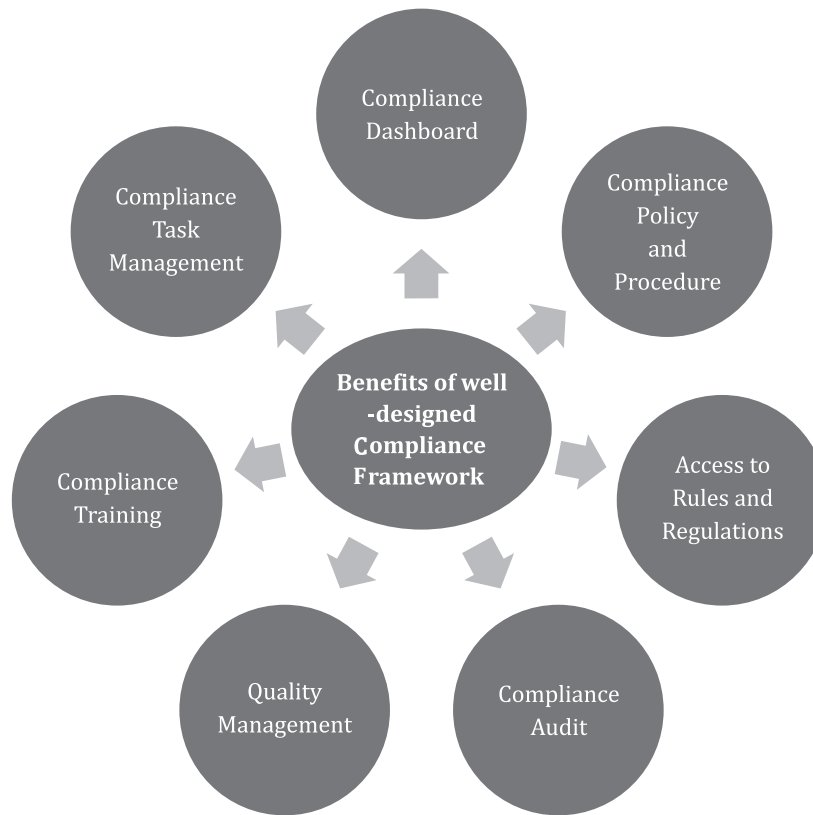
- Mention of Advice on compliances of applicable laws effect of non-compliances.

Compliance Scorecard

- A tool to analyse the position of an organisation in compliance.

The corporate compliance framework consists of three key components: **Compliance Chart, Compliance Advisory and Compliance Scorecard**. The Compliance Chart is a vital part of the framework. The Chart provides an overview of the applicable local, state, central and international laws, regulations and standards relating to a business' operations. The compliance chart also outlines how compliance risk mitigation activities are embedded in business processes. In other words, how compliance with the laws, regulations and standards is embedded and ensured. The compliance chart help business in meeting its compliance obligations towards the customers, regulators, shareholders and employees because it provides a centralize compliance information of the company on a single chart. The compliance chart also reflects the key activities and compliance calendar which is to be followed and performed by a business unit to manage its compliance risks.

A well-designed compliance framework has abilities to perform the following key functions across every type of business organisation:



Compliance Dashboard: The compliance program must provide a single enterprise-wide dashboard for all users to track and trend compliance events. All compliance events should be easily viewed interactively through the enterprise compliance dashboard. Statutory auditors, internal auditors, compliance officers can use the dashboards to make decisions on the compliance status of the organization.

Compliance Policy and Procedure: A well-designed document management system forms the basis of managing the entire lifecycle of policies and procedures within an enterprise. Ensuring that these policies and procedures are in conformity with the ever-changing rules and regulations is a critical requirement. The creation, review, approval and release process of the policy documents and SOPs (Standard Operating Procedures) should be driven by collaborative tools that provide core document management functionality.

Access to Rules and Regulations: A well-designed compliance management solution must offer capabilities for organization to continuously stay in sync with changing rules and regulations. As soon as there are regulatory changes, various departments should be notified proactively through “email based” collaboration. This process critically enables the organization to dynamically change their policies and procedures in adherence to the revised rules and regulations. While tracking a single regulation may be manually feasible, it becomes an error-prone task to track all local, state, and central regulations including those taking place across the globe. A well-designed compliance management program offers up-to-date regulatory alerts across the enterprise.

Compliance Audit: Audits have now become part of the enterprise core infrastructure. Internal audits, financial audits, external audits, vendor audits must be facilitated through a real-time system. Audits are no more an annual activity and corporations offer appropriate audit capabilities. Appropriate evidence of internal audits becomes critical in defending compliance to regulations.

Quality Management: Most organizations have internal operational, plant-level or departmental quality initiatives to industry mandates like Six-sigma or ISO 9000. A well-designed compliance management program incorporates and supports ongoing quality initiatives. Most quality practitioners agree that compliance and quality are two

sides of the same coin. Therefore, it is critical to ensure that compliance management solution offers support for enterprise-wide quality initiatives.

Compliance Training: Most compliance programs often require evidence of employee training. Sometimes lack of knowledge and in complete procedure lead to fines and penalties to the director and officers of the company. The compliance office has to work closely with the legal team of the organization to facilitate employee training. Well-designed compliance program requires a well-integrated approach to training management.

Compliance Task Management: The company must create plan to manage and report status of all compliance related activities from a centralized data base. Automated updates from the various compliance modules should provide for up-to-the-date status reporting that could be viewed by the Board, compliance officer, entity compliance coordinators, quality offices and others as designated.

Accordingly, for creating a compliance management framework an organization need to perform activities relating to the compliance identification, compliance ownership, compliance awareness, compliance reporting and periodical compliance MIS. These activities are covered in various parts of this chapter. However, the compliance framework in summary form consists of the following:

Process for Setting up of Compliance Framework				
Stage-1	Stage-2	Stage-3	Stage-4	Stage-5
Identification of Compliance Obligations	Preparation of Compliance Chart	Assessment of Historical Compliance Status	Assessment of Compliance Risk	Compliance/ Action Reporting
Applicability of the various Act, Rules, Regulations, Policies and Procedures covering Industry Specific Sector Specific, Specific Activity, Specific Entity, Specific State Law, Local Laws	Setting-up role and responsibilities of senior Management, Legal Department, and Compliance Executor	Assessment of File/ Report/ Return Statements/ Internal Auditor/ Independent agency/ Regulator	Identification of possible situations of non-compliance and development of strategy for Risk Mitigation/Risk Monitoring/Risk Reporting	Report of Internal Auditor/ Independent agency/Regulator with the possible consequence such as disqualification/ suspension/ lock out/ license cancellation

PREPARATION OF COMPLIANCE CHART

As referred in the introduction that the corporate compliance framework consists of three key components Compliance Chart, Compliance Advisory and Compliance Scorecard. The Compliance Chart is a vital part of the Framework and every organization shall give more focus on the preparation of the compliance chart. The compliance chart of a company is prepared after considering the operations and the structure of the company as the compliance requirements for an organization is based on the type of organization, activity of the organization, industry, sector in which the company operates and laws which are specifically applicable to the company.

Broadly, the compliance chart is prepared by considering the following activities:

- Identification of compliances under applicable Laws, Rules and Regulations
- Risk Assessment
- Risk Mitigation (includes Training)
- Compliance Monitoring (includes Action Tracking)
- Compliance Reporting (includes Incident Management)

Traditionally, the compliance chart are designed in a different era and with a different purpose keeping in mind, which largely known as an enforcement arm for the legal function of the company. Such compliance chart left companies at their own to devices or figure out the specific controls required to address regulatory requirements, which lead to a buildup of labor-intensive control activities with uncertain effectiveness. The role of company secretary as a compliance manager in a company is now extended to create a compliance framework for translating the regulatory requirements into management actions.

Question : Which of the following activity is not required to be considered while preparing compliance chart?

- Options:** (A) Risk Assessment
(B) Risk Mitigation
(C) Compliances reported in previous years
(D) Compliance monitoring

Answer: (C)

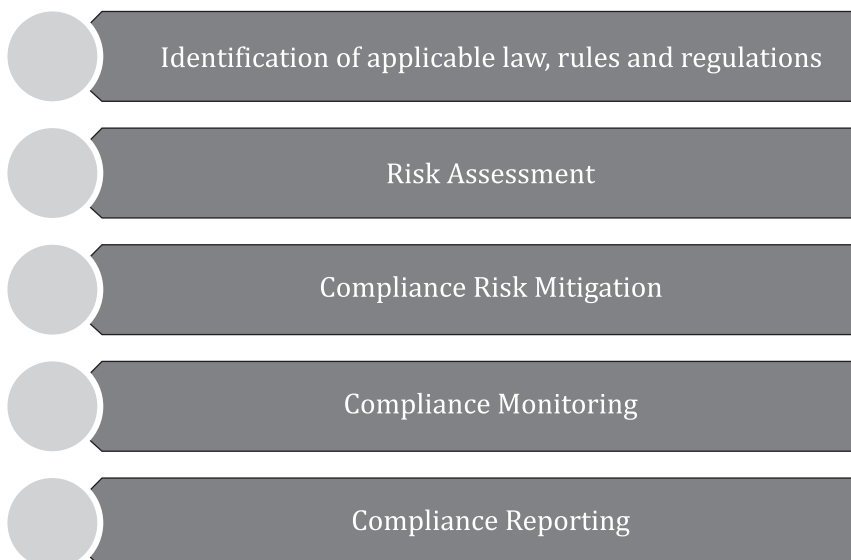
CONTENT OF COMPLIANCE CHART

The Compliance Chart of any company must contain the complete information on compliance dashboard, which provide a detailed compliance procedure to the compliance executor, this information includes:

1. Reference to the key compliance related laws, regulations, industry standards and compliance related policies and standards of the company;
2. Concise statements that capture the relevant internal and external compliance obligations and the risks arising from those obligations;
3. Inherent and managed risk level (critical, high, medium, low) of the identified obligations;
4. The business processes or people to which the compliance obligations are linked or on which they have an impact;
5. Specific compliance risk mitigation activities and compliance risk tracking and monitoring for managing the compliance obligations;
6. To whom and how frequently compliance related results and findings are reported; and
7. Clear ownership of the processes, activities and obligations outlined in the chart.

Such compliance chart must be practical and concise on the role and responsibilities of the management and of the compliance officer who is specifically responsible for existing and newly identified business activities.

ROLE OF COMPANY SECRETARY IN CREATION OF COMPLIANCE CHART



As one of the core function of the company secretary is the formation of compliance framework in association with the other functional heads of the company. Although the actual process of compiling the information under various laws may vary from company to company and is dependent on various factors such as the number of units and scale of operations, a brief process for preparation of the compliance chart is underlines as follows:

1. Identification of applicable law, rules and regulations

The compliance identification involves the identification of compliances requirements under various laws applicable to the company, in consultation with the functional heads. The legal team of the company guides the functional heads in identification of the laws applicable to the company and to identify the respective compliances under each law, rules and regulations applicable on the company. For preparation of such compliance framework by a company secretary and to identify the compliances & other requirements, it is necessary for him to get familiar with the business model of the company along with the environmental, health and safety aspects, and data security requirements. Further, a periodically review of the compliance requirements in the light of the regulatory updates is also necessary for the effective compliance management.

In India, the corporate compliance management broadly include compliance of the laws which are applicable on the company, this include the Corporate Laws, Securities Laws, Commercial Laws, including Intellectual Property Rights Laws, Labour Laws, Tax Laws, Pollution Control Laws, Industry Specific laws, etc.

The compliance chart covering above applicable laws must be kept up to date and should also reflect the compliance obligations and associated risks that may arise. Such obligations may be based on company compliance policies and / or international and local laws, regulations and standards that apply to a business' activities. As a good practice the company should communicate to the compliance executor that what he should or should not do for performing any compliance requirement.

In case where there is a policy issued by a company, research must be conducted to identify whether additional or different local laws exist. If a conflict between policies issued by company, local law and/or international law arises, the conflict must be resolved and the appropriate obligation must be identified. Where the obligations of local laws or regulations impose greater or more stringent requirements than those included in a policy issued by company (or if the opposite situation exists), the more stringent obligations shall prevail.

2. Risk Assessment

The compliance chart of the company oversees and objectively challenges execution, management, control and reporting of risk, however the management of the company has ultimate accountability for the effective control of risks affecting their business and the management should take ownership and responsibility for execution of risk assessments.

Risk assessments should be done according to the changes in the business' profile. Such changes may result because of new laws or regulations, new interpretations of existing laws or regulations, new theories of liability, a new activity of the business or changing social standards.

In the risk assessment process, the company identifies the inherent risk of each obligation as critical, high, medium or low. The outcome determines the type of risk mitigation strategy. However, the systems and procedure at the first line tracking and second line monitoring needed to effectively utilize to manage the risk. Thereafter the business assesses its managed risk levels for the identified compliance obligations.

There are two types of risk assessments that can be performed by the company, i.e., **High Level Risk Assessment And Detailed Risk Assessments.**

In the **High Level Risk Assessment**, the risk identification procedures and its assessment and the detailed risk assessment results are required as inputs for high level risk assessment which are facilitated by representatives of Risk Management team. The current and anticipated critical and high compliance risks must be included in the high level risk assessment process. The outcome of the risk assessment is the high level risk assessment report.

Reports from the detailed and high level risk assessments must include key compliance risks, with existing and approved risk mitigation activities. Assessment Reports must be discussed and signed off in accordance with the

risk management procedure of the company. Risk assessment techniques can be a combination of desk assessments, interviews and/or workshops; however they should be aligned with risk management standards of the company.

To ensure that risk is properly assessed and mitigated, a detailed risk assessment should be undertaken, particularly when further input is needed from support functions (i.e. outside experts) and/or to manage certain current and anticipated critical and high risk areas.

3. Compliance Risk Mitigation

Compliance risk mitigation is the process of developing and implementing controls such as standards, policies, procedures and guidelines to prevent or minimise risks arising from compliance obligations. From time to time, the company may issue a policy that must be implemented at the local level. If a corporate policy does not encompass local obligations of any unit of the company, a local policy to facilitate the effective management of the identified compliance risk must be developed. Framework components, policies and procedures must be developed and communicated and should be placed either on the local server accessible to all employees or on the prominent places in the organization, so employees understand their obligations (e.g. how to make a whistleblower report, complaints handling process, gifts, entertainment and anti-bribery procedures, etc.)

All documentation must be easily accessible to employees. Maintenance of the supporting material can be in the form of a manual, handbook or other physical or electronic means.

Various Risk of Non-compliance

The risks of non-compliance of the law are many which include the followings:

1. Cessation of business activities.
2. Civil action by the authorities.
3. Punitive action resulting in fines against the company/officials.
4. Imprisonment of the errant officials.
5. Public embarrassment.
6. Damage to the reputation of the company and its employees.
7. Attachment of bank accounts.

4. Compliance Monitoring - Ownership/ Allocation

The next important aspect of designing compliance framework is the compliance ownership. The ownership of the various compliances has to be described function wise and individual wise. Clear description of primary and secondary ownership is also very important. While the primary owner is mainly responsible for the compliance, secondary owner (usually the supervisor of the primary owner) has to supervise the compliance. Ex: Secretarial Officer /Asst. Company Secretary may be primarily responsible and Group Company Secretary's responsibility is secondary. The role of the various level of management for compliance ownership can be illustrated as under:

Top Management:

- Understanding the compliance obligations and recent changes
- Approval of policy and procedures
- Motivating employees to doing compliance in time

Legal Cell:

- Identification of new and changed relevant local laws, regulations and standards
- Communication in writing to compliance owner/ executor
- Review of system and policies and procedures
- Resolution of doubts and clarity in directions
- Periodical review and assessment

Senior Management & Functional Heads:

- Analysis and research on the Regulatory changes
- Formation of policy and procedure
- Motivating compliance officer for timely compliance
- Guiding compliance officer in doing compliance
- Tracking the compliance chart
- Risk escalation
- Conflict resolution

Compliance Officer / Subordinate Staff

- Performing Compliance Obligations
- Updating Compliance obligations into the Compliance Chart
- Risk Identification and intimation
- Conflict intimation.

The management of the company should develop and update the chart by clearly identifying the principle business activities and relevant processes affected by the obligation(s) and should identify the individuals having accountability for executing the activities outlined in the chart including those individuals with managerial responsibility. The management should formally approve the compliance chart and they should notify any changes in the policies, products, activities, strategy or governance structures of the company immediately.

5. Compliance Reporting

Compliances or non-compliances should be communicated to the concerned person. Reporting of non-compliances ensures that appropriate corrective action is taken by the responsible person to reduce the compliance risk. For example, Automated escalation emails in case of non-compliance, Pop-ups for the Compliance Due dates etc. Although, the actual process of compliance reporting under the various laws may vary from company to company and is dependent on various factors such as the number of units and scale of operations, a brief process of the Compliance reporting is as follows:

- Reporting by the functional heads for which they have the compliance ownership. For instance, the Chief Financial Officer (CFO) will report on the various finance, accounting and taxation laws, the head of the personnel department could report the compliance of labour and industrial laws.
- Each of the functional heads may collect and classify the relevant information from the various units/ locations pertaining to their department and consolidate them in the form of a report.
- The report shall carry an affirmation from the functional heads that the said report has been prepared based on the inputs received from the various units/offices and then list out the specific compliances/ non-compliances, as already circulated to the functional heads.
- Each of the functional heads will forward their respective compliance reports to the company secretary/ managing director.
- The company secretary would then brief the managing director. Upon receipt of suitable inputs from the company secretary, the Managing Director would consolidate and present, under his signature, a comprehensive compliance report to the Board for its information, advice and noting.
- The whole process of compliance reporting is contingent on the creation and implementation of comprehensive legal Management Information System (MIS).

Compliance reporting allows Management and the Compliance function to assess whether Compliance Risks exceed the risk appetite of Company. Compliance Reporting also allows for communication and discussion of potential Compliance Risks. Management and the Compliance officer is responsible for gathering information, and then

analysing and communicating the results so that informed, timely decisions can be made. At least quarterly, reports should be discussed at the risk management committee meeting.

Broadly, there can be two primary types of reporting: **Cyclical Reporting and Incident Reporting**.

In **Cyclical Reporting**, at least quarterly basis, the Compliance officer works with management and other risk functions to provide non-financial risk reporting. However, the Management may require more frequent or other types of Compliance-Risk related reporting. Under the Incident Reporting the material compliance incidents are reported, which need to be handled through the risk management process. **Material compliance incidents** are defined as events that have effect on the company's integrity, damaging company reputation, legal or regulatory sanctions, or financial loss, as a result of a failure (or perceived failure) to comply with applicable compliance related laws, regulations and standards.

Periodical Compliance MIS

Periodical compliance MIS is a type of reporting that occurs at a pre decided period, at least quarterly, if not monthly. This report contain status of the various compliances need to be done by the company and any gap in compliance and other incidents which are needed to be reported to Board, Senior Management of the company.

COMPLIANCE RISK - REVIEW AND UPDATION

Compliance risk monitoring makes it possible for the business to test if risk mitigation activities are working properly and to identify new or changed risks. The plan for monitoring must be documented and reviewed and, if necessary, updated annually and more frequently based on other framework activities and monitoring results.

The compliance risk monitoring plan must include:

- Critical and high Compliance Risks, focusing on inherent and managed risk levels;
- Key Compliance Risk mitigation activities;
- Routine business transactions to which compliance obligations or risks are associated;
- The implementation/embedding of the Framework and all policies issued by the corporate compliance department;
- Compliance with the laws, regulations and standards included in the chart, including the company values; and
- The obligations that have been delegated to the compliance function (e.g. complaints handling, privacy related obligations).

The plan for monitoring must include:

1. Concise statements that capture the relevant internal and external compliance obligations and the risks arising from those obligations;
2. The business processes to which the compliance obligations are linked or on which they have an impact;
3. Specific Compliance Risk mitigation activities for managing the compliance obligations;
4. The first line tracking (ongoing tracking as part of the normal course of business activities), second line monitoring (health check performed by the Compliance Function) and third line assurance (independent review performed by internal audit) for efficiency and / or effectiveness of first and second line activities);
5. Brief description of how tracking and monitoring activities are performed;
6. Frequency of tracking and monitoring activities;
7. Recipient(s) of the tracking and monitoring reports.

The following methodology may be adopted for accessing the compliance mechanism of the company:

Risk/Cultural Assessment: Through employee surveys, interviews, and document reviews, a company's culture of ethics and compliance at all levels of the organization is validated. The basis of this assessment is to identify gaps between company's current practices and the regulatory requirements.

Program Design/Update: In this approach the review of the guideline documents that outline the reporting structure, communications methods, and other key components of the code of ethics and compliance program is accessed. This encompasses review of all aspects of the compliance program, from grass root policies to structuring board committees that oversee the program.

Policies and Procedures: In this approach of compliance assessment, the company should review, develop or enhance the detailed policies of the program, including issues of financial reporting, anti-trust, conflicts of interest, gifts and entertainment, records accuracy and retention, employment, the environment, global business, fraud, political activities, securities, and sexual harassment etc.

Communication, Training, and Implementation: In this stage of compliance assessment, the Company focuses on the articulation, communication and reinforcement of the various policies and procedure of the company along with the philosophy behind such policies. Further training program on such policies help in the adoption of such policies in day-to-day realities and helps inculcation the same incorporate it into the attitudes and behaviors of the employees of the company.

Ongoing self-Assessment, Monitoring, and Reporting: The true test of a company's ethics and compliance program comes over time. How does one know in one year or five years that both the intent and letter of the law are still being observed throughout organization? How does the program and the organization adapt to changing legislation and business conditions? As the organization evolves for example, through mergers and acquisitions will the program remain relevant? The cultural assessment, mechanisms, and processes put in place including employee surveys, internal controls, and monitoring and auditing programs, help organisations achieve sustained success.

Question: What is purpose of cultural assessment ?

Options: (A) To identify gaps between current practices and regulatory requirements
(B) To understand the culture of particular place
(C) To find out, how many CSR activities are done by an organization (D) None of the above

Answer: (A)

The matrix below suggests a method of ranking risks as low, moderate, high or extreme

CONSEQUENCE LIKELIHOOD	LOW	MEDIUM	HIGH	VERY HIGH
	<p>A minor impact, which should be possible to be handled at the operational level. It could involve such things as:</p> <ul style="list-style-type: none"> • Minor delays in providing services or achieving performance targets • Minor reductions in system quality • Minor dissatisfaction of clients • Minor adverse financial impact 	<p>A moderate impact which could involve such things as:</p> <ul style="list-style-type: none"> • Significant delays in providing services or achieving key organisational objectives. • Limited dissatisfaction of clients. • Exposure to minor criticism and/or adverse publicity. • Minor damage to reputation. • Moderate adverse financial impact. 	<p>A major impact which could involve such things as:</p> <ul style="list-style-type: none"> • Major delays in providing services or achieving key objectives. • Significant dissatisfaction of clients. • Exposure to significant criticism and moderate adverse publicity. • Moderate damage to reputation. • Significant adverse financial impact. Breaches of contractual or legislative obligations. 	<p>An extreme impact: if the risk occurs, the organisation would not be able to effectively perform core activities. It could involve such things as:</p> <ul style="list-style-type: none"> • A critical business failure. • Extensive loss of clients. • Exposure to extensive criticism and adverse publicity. • Extensive damage to reputation. • A major adverse financial impact.

	• Minor breach of accountability requirements.	• Moderate breach of accountability requirements.	• Major breach of accountability requirements.	• Extensive breaches of contractual or legislative obligations • Extensive breach of accountability requirements.
VERY HIGH (almost certain) It is almost certain that the event or described result will occur	MODERATE	HIGH	EXTREME	EXTREME
HIGH (probable) There is a strong possibility that the event or described result will occur	LOW	MODERATE	HIGH	EXTREME
MEDIUM (could happen) While it is not certain, the event or described result could occur.	LOW	MODERATE	HIGH	HIGH
LOW (unlikely) While it is still possible, it is unlikely that the event or described result will occur	LOW	LOW	MODERATE	HIGH

Example: If the impact of one risk is Low and chance of happening is unlikely then risk may be ranked as Low.

TRAINING AND IMPLEMENTATION

In compliance framework, it is most important to create awareness of the various compliances requirements amongst the individuals responsible for such compliances. Many a times compliances are handled by persons who are not fully aware of the requirements of the law and hence creating appropriate awareness amongst the owners is very important. This could be done in the form of meetings/trainings/ communications explaining the various compliances or some manual containing the details of compliances.

A strong Compliance training and education programme reinforces the company compliance culture. It builds awareness and understanding of compliance standards, procedures, guidelines and issues. Specifically, it should build awareness and understanding of:

- Company Framework, including the four conduct-related integrity risk areas;
- Roles and responsibilities outlined in the policies and framework;
- Critical and high compliance obligations identified in the Compliance Chart;
- The process for addressing compliance issues and reporting concerns; and
- Consequences of failing to meet compliance obligations.

An annual plan for Compliance Risk related training and education must be developed and updated, as necessary, and should indicate the target audience and training delivery method. Compliance Risk related training program should, to the extent possible, be integrated into the training plans.

The plans for compliance training and education program must include:

1. Concise statements that capture the relevant internal and external compliance obligations and the risks arising from those obligations;
2. The business processes to which the compliance obligations are linked or on which they have an impact;
3. Brief description of the training or education activity;
4. Target audience (refresher for existing Employees, induction for new Employees, or Adhoc when required);
5. Frequency of training or education activity.

Question : Training and Implementation can be done in the form of explaining various compliances or some manual containing the details of compliances.

Options: (A) Meetings
(B) Trainings
(C) Communications
(D) All of the above

Answer: (D)

COMPLIANCE AUDIT

Compliance audits may be planned, performed and reported separately to the Board, senior management or Regulators. The compliance audit is completely different from the audit of financial statements and from performance audits. The compliance audits may be conducted separately on a regular basis, as distinct and clearly-defined audits each related to a specific subject matter.

As per CAG Auditing Standards, the Compliance audit is the independent assessment of whether a given subject matter is in compliance with applicable authorities identified as criteria. Compliance audits are carried out by assessing whether activities, financial transactions and information comply in all material respects, with the authorities who govern the audited entity. Compliance auditing may be concerned with

- Regulatory - adherence of the subject matter to the formal criteria emanating from relevant laws, regulations and agreements applicable to the entity.
- Propriety - observance of the general principles governing sound financial management and the ethical conduct of public officials.

SIGNIFICANCE OF CORPORATE COMPLIANCE MANAGEMENT

Compliance with the requirements of laws through a compliance management program can produce positive results at several levels:

- Go to the extra mile and lays the foundation for the control environment.
- Likely to avoid stiff personal penalties, both monetary and imprisonment.
- Companies that embed positive ethics and effective compliance management program deep within their culture often enjoy healthy returns through employees and customers loyalty and public respect for their brand, both of which can translate into stronger market capitalization and shareholder returns.
- Safety valve against unintended non compliances/ prosecutions, etc.
- Cost savings by avoiding penalties/fines and minimizing litigation.
- Better brand image and positioning of the company in the market.
- Enhanced credibility/creditworthiness that only a law abiding company can command.
- Goodwill among the shareholders, investors, and stakeholders.
- Recognition as Good corporate citizen.

Clearly, the benefits of implementing and maintaining an effective compliance program far outweigh its costs. Not only does the compliance management protect investor's wealth but also helps the business in running successfully with any potential risk being addressed in a timely and accurate manner.

APPARENT, ADEQUATE AND ABSOLUTE COMPLIANCES



Corporates are expected to comply with the regulatory prescriptions in their true letter and spirit and should be seen as an opportunity to make their systems and processes more robust and bring them in line with global practice, resulting in the enhanced trust level of stakeholders. As regards corporate disclosure, there has been a paradigm shift from letter to spirit because of factors like demand from stakeholders, regulatory shift from control to self regulation, market competition etc.

Good Corporate Governance demands compliances level that match the intentions of legislature, expectations of stakeholders and requirements of regulators. The compliances, however, generally found to fall in three categories, i.e. Apparent Compliances, Adequate Compliances and Absolute Compliances.

Apparent compliance is a disguise form of non-compliance, which is worse than a non-compliance. The classic example for Apparent Compliances are generating documents such as notice, agenda, minutes on papers for board and general meeting which are not actually held.

Adequate compliance is compliance in letter. The aspects specified in law are complied in letters, without getting into the spirit of the law, e.g. box ticking practices.

Absolute compliances are those which are in line with the spirit and intent of the law. A typical example in this regard is demonstrating shareholders' democracy as prescribed by law. When a company complies with law in its spirit it gains public confidence as well. For example, A company which has set new and effective standards in communicating with shareholders, stock exchanges and general public at large. Its Annual Report is said to be a trend setter and has been commended as an ideal report. It has demonstrated through its practices and procedures its commitment to enhance investor-relations and has amply rewarded its shareholders through its impressive performance and its value based management philosophy helps increase its brand value. It has achieved trust of stakeholders by having a strategic balance between wealth and welfare.

Experts view Annual report as self appraisal report of a company. The shift from shareholder concept to stakeholder concept has necessitated the corporates to provide a transparent report which is viewed by all stakeholders such as shareholders, creditors, lenders, strategic investors etc as a potential source of information. In order to attain corporate sustainability and to ensure a level playing field with international market, corporates has to necessarily increase their level of compliance from apparent to adequate leading to level of absolute compliances.

SECRETARIAL AUDIT AND COMPLIANCE MANAGEMENT SYSTEM

The compliance system and processes in a company are dependent mainly on the following factors:

- A. Nature of business(es).
- B. Geographical domain of its area of operation(s).
- C. Size of the company both in terms of operations as well as investments, technology, multiplicity of business activities and manpower employed.
- D. Jurisdictions in which it operates.
- E. Whether the company is a listed company or not.
- F. Regulatory authority(ies) in respect of its business operations.
- G. Nature of the company viz., private, public, government company, etc.

Based on the above the Secretarial Auditor can constitute a broad idea about the desired system and process to be adopted by a company. For example, a multi product / multi operation company is supposed to comply all the applicable corporate laws in addition to regulatory framework applicable at products/ operations.

At corporate level, monitoring of such complex web of compliances are generally made on a back-to-back mechanism. In such cases Boards' reporting on compliances are made on the basis of reports/certification provided by field level management. As a better compliance structure in such cases it is desired to have an internal checking mechanism about the quality of such report either on regular basis or sample basis.

Now-a-days most of the large companies have adopted Enterprise Resource Planning (ERP) Systems to cater to their complex operations. In many a cases, compliance system becomes a part of these modules.

Auditing in such systems requires the Auditor to enter and to have access within the system. While taking up the audit assignment, the Auditor needs to ensure that access would be given so that assessment of proper system and process of compliance is made.

Auditing of compliance system and process is not a fault finding exercise, rather a device to scale up compliance mechanism of a company commensurate to its size and operations. It is desired that the Secretarial Auditor as an expert in corporate compliance would advise the companies to build up strong corporate compliance system in case the system appears to be insufficient during the audit process.

ROLE OF COMPANY SECRETARIES IN COMPLIANCE MANAGEMENT

Compliance Management can add substantial business value only if compliance is done with due diligence. A company secretary is the 'Compliance Manager' of the company. It is he, who ensures that the company is in compliance with all regulatory provisions. Corporate disclosures, which play a vital role in enhancing corporate valuation, is the forte of a company secretary. These disclosures can be classified into statutory disclosures, non-statutory disclosures, specifies disclosures and continuous disclosures. Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015 spells out elaborately on various aspects of disclosures which are to be made by the company such as contingent liabilities, related party transactions, proceeds from initial public offerings, remuneration of directors and various details giving the threats, risks and opportunities under management discussion and analysis in the corporate governance report which is published in the annual accounts duly certified by the professional like company secretaries. A company secretary has to ensure that these disclosures are made to shareholders and other stakeholders in true letter and spirit.

The advisory services of the company secretaries impacts to all components and activities of the compliance framework, as the business receives one point specialized support and advice to help manage its compliance risks more effectively. The company secretary play a proactive advisory role as he advises management, Boards and committees, the compliance executor, and the employees. The company secretary provide advice on compliance risk, responsibilities, obligations, concerns and other compliance issues that are suitable for the business' practices and operational constraints of the company.

In nutshell, the company secretary is the professional who guides the Board and the company in all matters, renders advice in terms of compliance and ensures that the Board procedures are duly followed, best global practices are brought in and the organisation is taken forward towards good corporate citizenship.

Ascertaining Corporate Compliance Framework

1. Are you aware of all important laws applicable to your organization ?
2. How do you prevent/ track legal non compliances?
3. Are you confident while signing the legal compliance declaration ?
4. Does your organization have a compliance officer ?
5. Who tracks legal cases in your organization?

Risk profiling of a Company may include the following risk

1. Business Risk Management
 - (i) Whether risk management policy and procedures are in place?
 - (ii) Whether formal risk assessment has been carried out or not?

2. Business Ethics Framework
 - (i) Whether whistle-blower policy and Code of conduct exists and implemented ?
3. Internal Audit and Financial Integrity
 - (i) Whether internal audit function is independently reporting to Audit Committee?
 - (ii) Whether roles and responsibilities of senior management is defined and documented? And
 - (iii) Whether adequate segregation of duties exists?
4. Legal Compliance Framework
 - (i) Whether legal compliance framework is documented and compliance health to checked on periodic basis?
5. Fraud Risk Management
 - (i) Whether Fraud Risk Management policy exists, detailing structure of fraud deterrence, prevention and investigation, fraud incidence response guidelines.
 - (ii) Whether Key controls to mitigate fraud risks are identified and monitored for compliance on regular basis.
6. Business Continuity
 - (i) Whether Disaster Recovery Plan, Business continuity plan and crisis management policy defined and implemented?
7. Succession Planning
 - (i) Whether formal process of succession planning defined and implemented?
8. Management Operational Review
 - (i) Whether formal process management oversight and review mechanism exist and followed.

Question: Which of the following may be included while conducting risk profiling of an organization?

Options: (A) Does your organization have a compliance officer ?
 (B) Who tracks legal cases in your organization?
 (C) Whether Disaster Recovery Plan defined and implemented
 (D) None of these

Answer: (C)

LESSON ROUND UP

- Corporate compliance management involves a full process of research and analysis as well as investigation and evaluation.
- The role of company secretaries in a company is to create such framework which can translate the regulatory requirements into management actions of the company.
- The compliances requirement under various laws applicable to the company should be prepared in consultation with the respective functional heads.
- The risk monitoring plan must include critical and high compliance risks and should focus on inherent and managed risk levels.
- The material compliance incidents are the events having effect on the company's integrity, damaging company reputation, legal or regulatory sanctions, or financial loss, as a result of a failure (or perceived failure) to comply with applicable compliance related laws, regulations and standards.
- The compliance audit is the independent assessment of whether a given subject matter is in compliance with applicable laws and criteria defined by the authorities.

GLOSSARY

Compliance Chart	The Chart that provides an overview of the applicable local, state, central and international laws, regulations and standards relating to a business' operations.
Compliance Advisory	Advice on compliances of applicable laws and effect of non-compliances.
Compliance Scorecard	A tool to analyse the position of an organisation in compliances.
Compliance Dashboard	a single enterprise-wide dashboard for all users to track and trend compliance events.
Action Reporting	Report of Internal Auditor/Independent agency/Regulator with the possible consequence such as disqualification/ suspension/ lock out/ license cancellation.

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)

1. Define the point which should be kept in mind while developing a compliance framework.
2. Describe the importance of the compliance chart in the managing compliances of the company.
3. "A strong compliance training and education program reinforces company compliance culture" Comment.
4. Discuss the methodology which can be adopted for accessing the compliance mechanism of the company.
5. Take any event under the provisions of Companies Act, 2013 and prepare your own checklist.

LIST OF FURTHER READINGS

- Companies Act, 2013 and Rules made thereunder
- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- https://static.mygov.in/rest/s3fs-public/mygov_160975438978977151.pdf
- <https://prsindia.org/policy/report-summaries/revised-draft-non-personal-data-governance-framework>

Lesson 2

Compliances

Key Concepts One Should Know

- Severity
- Quasi-Judicial
- Encompass
- Prosecution
- Quarrying

Learning Objectives

To understand:

- Importance of compliance management
- Systematic approach in identifying, responding, implementing, reporting of compliances and changes in it.
- Adherence to various rules, regulations, laws, standards, guidelines etc.
- Legal implications of non-compliances of laws.
- Apparent, adequate and absolute compliances by various entities.

Regulatory Framework

- The Companies Act, 2013 and rules made thereunder.
- The SEBI Act, 1992 and rules and regulations made thereunder.
- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
- The Limited Liability Partnership Act, 2008 and rules made thereunder.

Lesson Outline

- Introduction
- Need for Compliance Management
- Benefit of Corporate Compliance Management
- Scope of Corporate Compliance
- Establishment of Compliance Management Framework
- Process of Corporate Compliance Reporting
- Entity wise Compliances
- Activity wise Compliances
- Sector wise Compliances
- Industry Specific Compliances
- State and Local Laws Compliances
- Compliance under Companies Act, 2013
- Private Company
- Small Company
- One Person Company
- Limited Liability Partnership

- Section 8 Company
- Register, Returns and Books
- Compliances under the SEBI (LODR) Regulations, 2015
- Website Disclosures and Newspaper Advertisement
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

INTRODUCTION

Compliance Management is the method by which corporate manage the entire compliance process. It includes the compliance program, compliance audit, compliance reporting etc. and in other words it is called compliance solution.

Compliance management together with the Secretarial Audit is the routine tools for effective governance. Compliance management is to be built into the corporate system to avoid non-compliances and the secretarial audit is carried out on periodical basis by an independent professional to check the effectiveness of the controls within the organization and report that how the organization is complying with the statutory requirements. Company Secretaries play a vital role and hold the responsibility for the compliance being the compliance officer and KMP of the entity.

A well designed and implemented Compliance Management Process reduces time, money and hassle that is spend on a compliance".

Corporate compliance management involves a full process of research and analysis as well as investigation and evaluation. Such an exercise is undertaken in order to determine the potential issues and get a realistic view about how the entity is performing and how it is likely to perform in the future. Corporates which ensure compliance are rewarded with positive public image and customer trust. Company Secretaries with core competence in compliance and corporate governance play a crucial role in the corporate compliance management in an organisation..

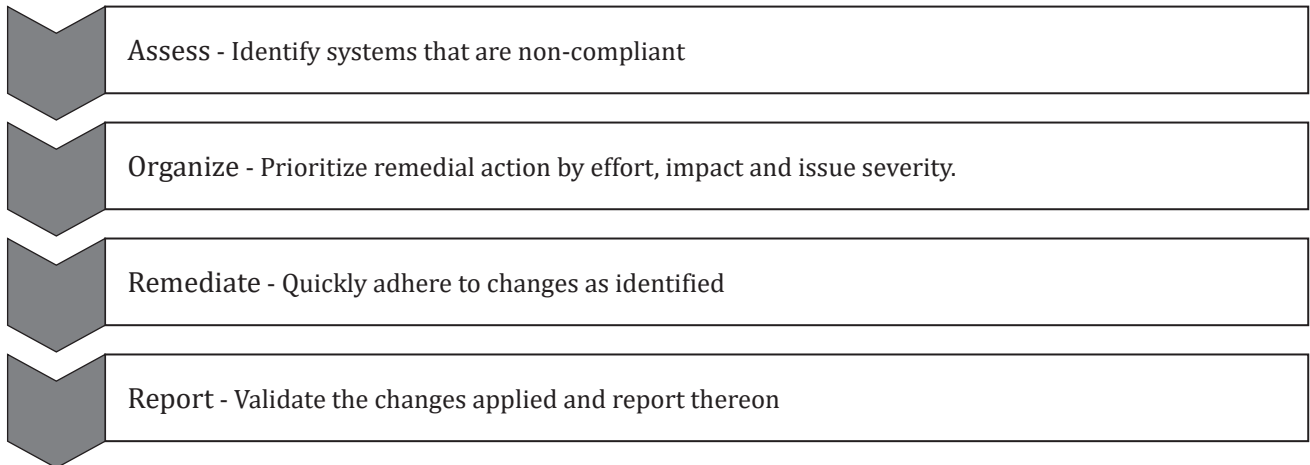
Need for Compliance Management

Every company needs to follow laws and regulations enacted by Central and State Governments or such other regulator from time to time. Corporate compliance is an ongoing process, and businesses especially ones that have incorporated under any statute need to make sure that they're following the rules set in place. In every organization top executive plays a significant role in complying with multiple rules and regulations under different laws. Many companies are adopting comprehensive compliance plans to address emerging regulatory paradigm and those fail to address the new regulations, pay huge fines, incur punitive restrictions on their operations and lose shareholders confidence by reduced share value which in turn damage the reputation of their businesses. Increased liability and regulatory oversight has amplified risk to appoint where it demands continuous evaluation of compliance management systems.

Onerous responsibility to guide to the management for compliance with the relevant laws casts upon the company secretaries. They have to advise companies in totality to provide full, timely and intelligible information. To enable companies to put in place an effective Compliance Management System, company secretaries should ensure that companies:

- Adhere to necessary industry and Government regulations.
- Change business processes according to legislative change.
- Realign resources to meet compliance deadlines.
- React quickly and cost-effectively if regulations change.

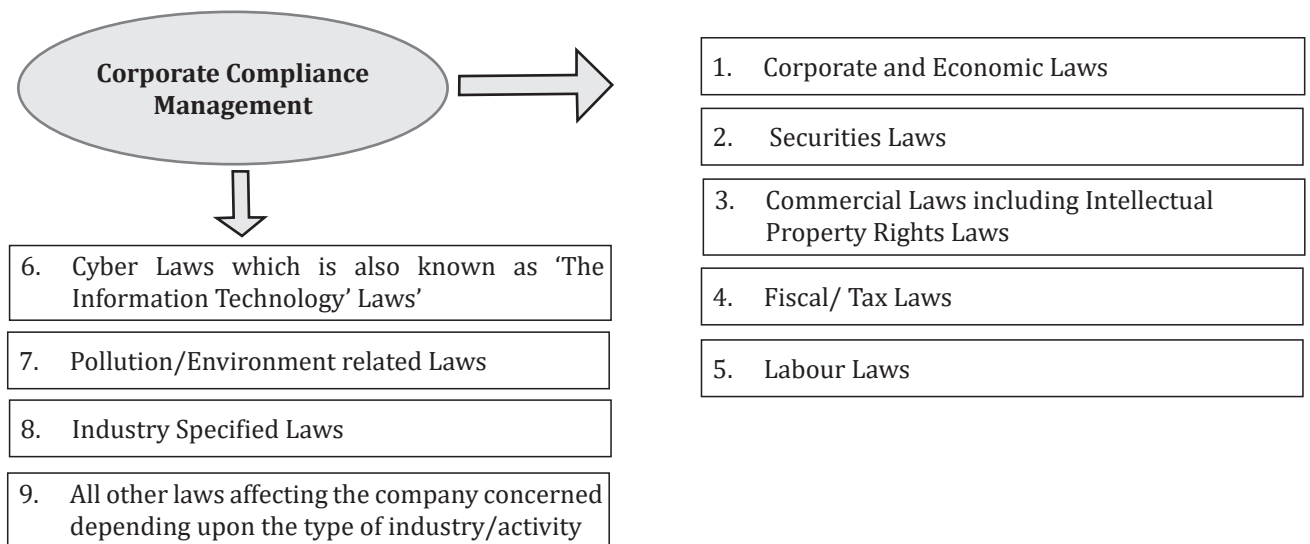
To successfully monitor compliance with regulations, an organization has to:



Benefits of Corporate Compliance Management

- Better compliance of the law.
- Real time status of legal/statutory compliances.
- Safety valve against unintended non-compliances/prosecutions etc.
- Real time status on the progress of pending litigation before the judicial/¹quasi-judicial authority.
- Detection of non-compliances at early stage and thus saving cost by avoiding penalties/fines which may arise and minimizing litigation.
- Improved operations and higher productivity.
- Better brand image and positioning of the company in the market.
- Goodwill among the customers, shareholders, investors, stakeholders and regulators.
- Better employee engagement and retained talent.
- Enhanced credibility/creditworthiness that only a law abiding company can command.
- Recognition as good corporate citizen.

Scope of Corporate Compliance



¹ Quasi-Judicial: A proceeding conducted by an administrative/ executive official, similar to a court proceeding, e.g. a hearing.

1. Corporate & Economic Laws

Corporate laws are core competence areas of a company secretary and corporate compliance management broadly requires complete compliance of these laws. Some of the important corporate laws are given below in brief:

- The Companies Act, 2013 and the Rules and Regulations framed thereunder, MCA-21 requirements and procedures.
- Secretarial Standards/ Accounting Standards/ Cost Accounting Standards issued by ICSI/ ICAI/ ICAI, respectively.
- The Emblems and Names (Prevention of Improper Use) Act, 1947
- The Foreign Exchange Management Act, 1999 and the various Notifications, rules and regulations framed thereunder Foreign Contribution (Regulation) Act, 2010
- The Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974
- The Competition Act, 2002
- The Special Economic Zones Act, 2005
- The Prevention of Money Laundering Act, 2002
- The Micro, Small and Medium Enterprises Development Act, 2006
- The Essential Commodities Act, 1955.

2. Securities Laws

- The SEBI Act, 1992
- The SEBI (Prohibition of Insider Trading) Regulations, 2015
- The SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011
- The SEBI (Buy-back of Securities) Regulations, 2018
- The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018
- The Securities (Contracts) Regulation Act, 1956 and rules made thereunder.
- The Various rules, regulations guidelines and circulars issued by SEBI.
- The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- The Depositories Act, 1996.

3. Commercial Laws

- The Indian Contract Act, 1872
- The Transfer of Property Act, 1882
- The Arbitration and Conciliation Act, 1996
- The Negotiable Instruments Act, 1881
- The Sale of Goods Act, 1930
- Intellectual Property Rights Laws.

4. Fiscal Laws/ Tax Laws

- The Income Tax Act, 1961
- The Customs Act, 1962
- The Goods and Services Tax Laws (GST Laws).

5. Labour Laws

- The Code on Wages, 2019
- The Occupational Safety, Health and Working Conditions Code
- The Code on Social Security
- The Industrial Relations Code.

6. Cyber Laws

Cyber laws which are also known as the 'Information Technology Laws' or the 'Internet Laws' is a part of overall legal system that is related to legal informatics and which supervises the digital circulation of information, e-commerce, software and information security.

7. Pollution/ Environment related Laws

- The Air (Prevention and Control of Pollution) Act, 1981
- The Water (Prevention and Control of Pollution) Act, 1974
- The Water (Prevention and Control of Pollution) Cess Act, 1974
- The Environment Protection Act, 1986
- The Public Liability Insurance Act, 1991
- The National Green Tribunal Act, 2010.

8. Industry Specific Laws

Legislations applicable to specific categories of industries - Tourism, Pharmaceutical, FMCG, Hospitality, Information Technology, Electricity, Power Generation & Transmission, Insurance, Banking, Chit Funds, etc.

9. Local Laws

These would include The Stamp Act, The Registration Act, The Municipal and Civic Administration Laws, Shops and Establishments, etc.

ESTABLISHMENT OF COMPLIANCE MANAGEMENT FRAMEWORK

Any corporate compliance management framework encompasses various steps relating to Compliance Identification, Compliance Ownership, Compliance Awareness, Compliance Reporting and Periodical Compliance MIS.

The **Compliance Identification** involves the identification of compliances under various legislations applicable to the company, in consultation with the functional heads. The legal team has to identify the legislations applicable to the company and identify the compliances that are required under each legislation or rules and regulations made there under.

The **Compliance Ownership** of the various compliances identified has to be described function wise and individual wise. Clear description of primary and secondary ownership is also very important. While the primary owner is mainly responsible for the compliance the secondary owner (usually the supervisor of the primary owner) has to supervise the compliance. Ex: Secretarial Officer/ Company Secretary may be primarily responsible.

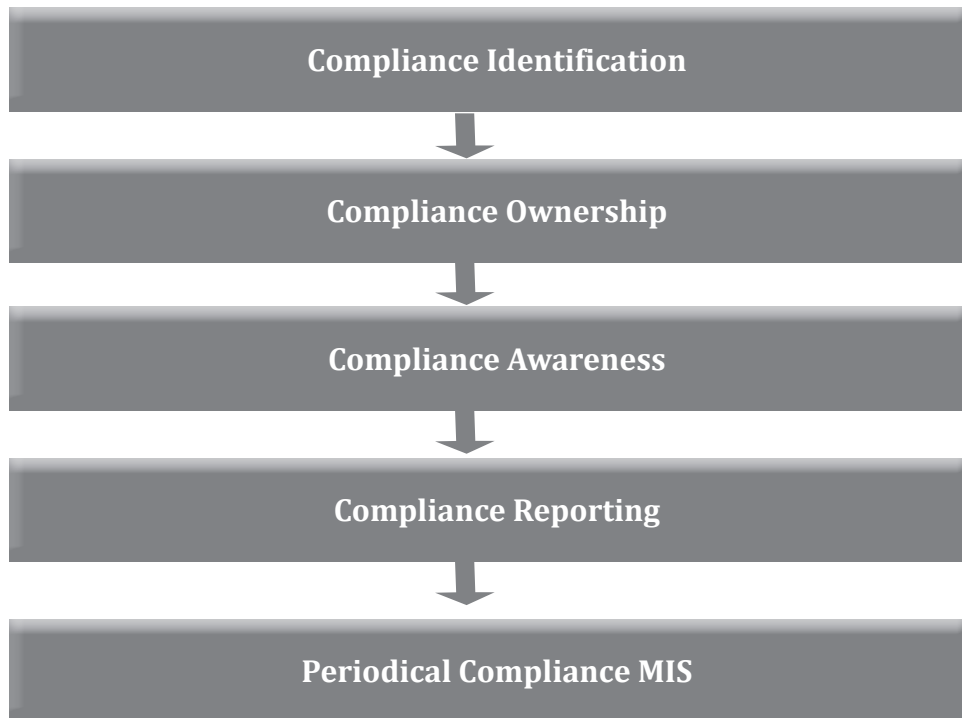
The **Compliance Awareness** covers the establishment of the legal compliance management and creation of awareness of the various Legal Compliances amongst those responsible. Sometimes the compliances are handled by persons who are not fully aware of the requirements of the legislations and hence creating appropriate awareness amongst the owners is very important. This could be done in the form of meetings/ trainings explaining various compliances or some manual containing the details of compliances.

DO YOU KNOW?

Ministry of Corporate Affairs has started a service (www.mcacms.gov.in) where any non-compliance is viewed as well as show cause notice is also issued online.

In the process of the **Compliance Reporting** status of compliances or non-compliances should be communicated to the concerned. This is done annually by the compliance officer. Reporting of non-compliances ensures that appropriate corrective action is being taken by the responsible person in case of the failure in doing compliances.

Such compliance should be reported periodically in **MIS (Management information system)**.

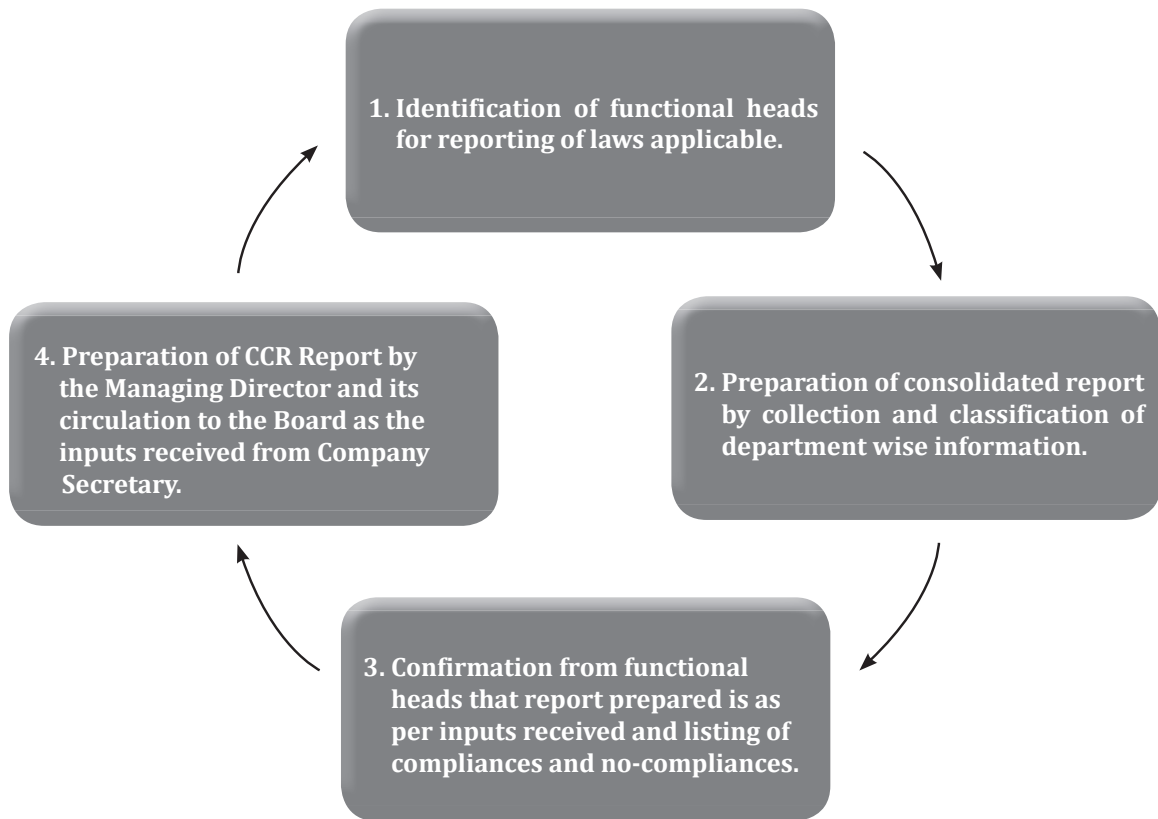


PROCESS OF CORPORATE COMPLIANCE REPORTING (CCR)

Under various business structures, the actual process of compiling the information under various laws vary from company to company and is dependent on various factors such as the number of units and scale of operations, size of the company, number of business activities etc. a brief process of the CCR mechanism is as under –

- Functional heads for the reporting of various laws have to be identified. For example - The company secretary would be the functional head for reporting of company law, listing regulations and commercial laws. Similarly, the head of the personnel department could report the compliance of labour and industrial laws and the fiscal law compliance would be the domain of head of the finance/accounts departments.
- Each of the functional heads may collect and classify the relevant information from the various units/locations pertaining to their department and consolidate them in the form of a report.
- The report shall carry an affirmation from the functional heads that the said report has been prepared based on the inputs received from the various units/offices and then list out the specific compliances/non-compliances, as already circulated to the functional heads. Each of the functional heads should forward their respective compliance reports to the company secretary/managing director.
- The company secretary would then brief the managing director and with suitable inputs the managing director would consolidate and present, under his signature, a comprehensive CCR to the board for its information, advice and noting. The whole process of CCR is contingent on the creation and implementation of comprehensive legal Management Information System (MIS).

Process of Corporate Compliance Reporting



ENTITY WISE COMPLIANCES

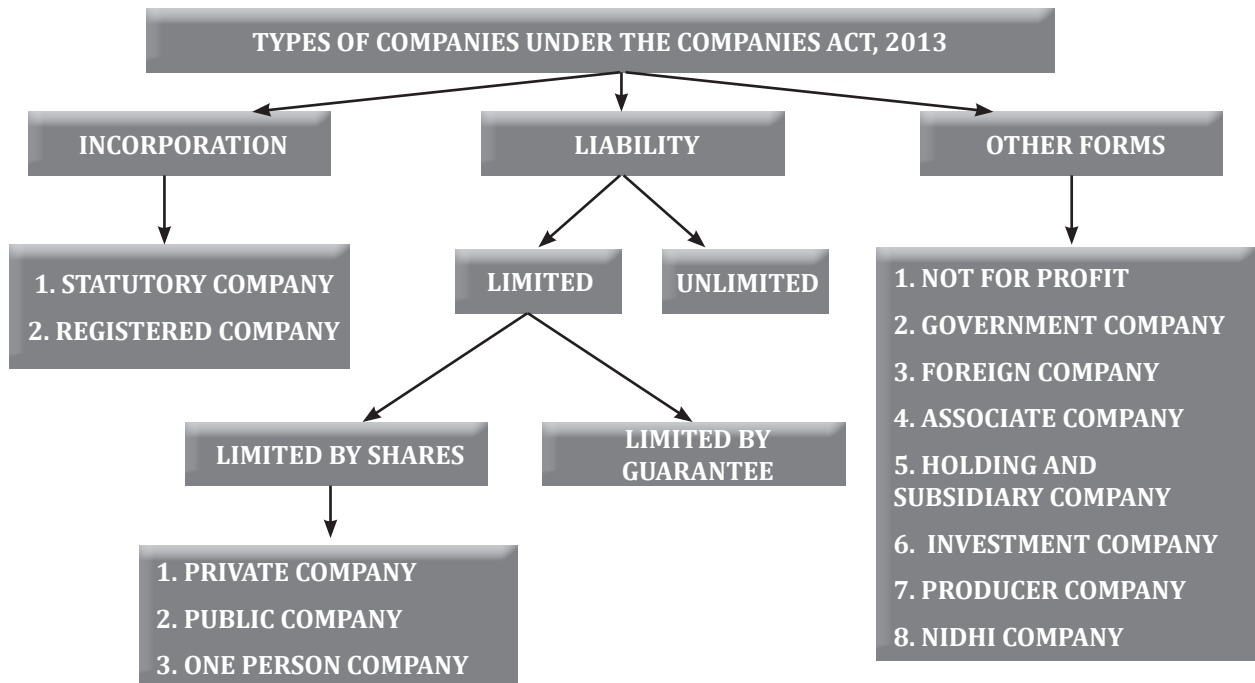
The Companies Act, 2013, lays down the detailed provisions regarding incorporation, requirement of members, qualification, appointment, remuneration, removal, retirement of directors, conducting board and shareholders meetings, passing of resolutions, related party transactions, the maintenance of books of accounts and the preparation and presentation of annual accounts (matters to be reported upon in the boards reports of the companies), periodical filing of forms with the Registrar of Companies, etc.

Every company incorporated under the Companies Act need to perform the compliances as required under the law. Companies Act, 2013 has provided specific exemptions to some of the class of companies through exemption notifications and through further amendments in the Companies Act, 2013.

Further, the companies are required to convene regular board meetings and should also observe the Secretarial Standards issued by ICSI as applicable to the company. As part of the annual compliances every company is required to file its financial statement and annual return every financial year before the due date, with the Registrar of Companies.

In addition to that, there are several event base compliances wherein the company is required to file report, return or intimation to the concerned Registrar of Companies, which is an time bound activity and any failure in such compliance will liable to action by the concerned regulators.

On the basis of the structure, the companies can be divided into the Listed company, Public Company, Private Company, Section 8 Company, which is further categorized as One Person Company, Small Company, and Government Company.



ACTIVITY WISE COMPLIANCES

The activity wise compliances include the compliances relating to the business activities of the company such as Banking Company, Insurance Company, Housing Development Company, IFSC Company, NBFC, Section 8 Company, Producer Company, Chit Fund Company, Plantation Company etc.

These companies are governed under the Companies Act, 2013 as well as the Laws, Rules, Regulations under which they have been registered. The Companies Act, 2013 provides the specific provision, exemptions to such companies, however, the additional compliance requirement may be required for these companies to avail such exemptions.

SECTOR WISE COMPLIANCES

For the sector wise compliances the companies can be broadly divided into the following:

- Agriculture & Allied Activities
- Manufacturing
- Construction
- Power
- Electricity
- Gas & Water
- Mining and Quarrying
- Business Services
- Real Estate
- Trading
- Community
- Personal & Social Services
- Transport, Storage & Communications
- Finance
- Insurance etc.

These companies are governed under the Companies Act, 2013 along with the sector specific laws, rules, regulations, policies, procedures and state and local laws applicable to the company .

INDUSTRY SPECIFIC COMPLIANCES

For identification of the industries specific compliance, it is necessary to correlate the business activity of the company with various laws applicable to such business activity. For example, if the company is dealing cement industry, which is related to the Construction sector & Real estate, Mining, Supply, Distribution and Trading of raw material, Bye product etc., The company may horizontally or vertically associated with such business activity or in multiple business activity relating to any industry and the sector. In such situation, the professional should be careful and use the expertise in identification of the business activity and sector and industry specific law. The some of the business activities along with the allied sub activity are provided as under:

- **Agriculture, Forestry, Fishing:** Production of crops and animal husbandry, forestry and logging, fishing and aquaculture, support activities to agriculture.
- **Mining and Quarrying:** Mining of coal and lignite, extraction of crude petroleum & natural gas, mining of metal ores, other mining & quarrying activities, mining support services activities.
- **Manufacturing:** Food, beverages and tobacco products, textile, leather and other apparel products, wood and wood products, furniture, paper and paper products, printing, reproduction of recorded media. Coke and refined petroleum products, chemical and chemical products, pharmaceuticals, medicinal chemical and botanical products, metal and metal products, plastic products, non-metallic mineral products, rubber products, fabricated metal products, computer, electronic, communication and scientific measuring & control equipment, electrical equipment, general purpose and special purpose machinery & equipment, transport equipment, motor vehicles, trailers, semi-trailers and other, transport vehicles, repair & installation of machinery & equipment, motor vehicles, other manufacturing including jewelry, musical instruments, medical instruments, sports goods, etc. activities.
- **Electricity, gas, steam and air condition supply:** Electric power generation, transmission and distribution, manufacture of gas, distribution of gaseous fuels, steam and air conditioning supply.
- **Water supply, sewerage and waste management:** Water collection, treatment and supply, sewerage, waste collection, treatment and disposal activities, materials recovery and other waste management services.
- **Construction:** Buildings, roads, railways, utility projects, demolition & site preparation, electrical, plumbing & other specialized construction activities.
- **Trade:** Wholesale trading, retail trading.
- **Transport and storage:** Land transport via road, land transport via railways & pipelines, water transport, air transport, services incidental to land, water & air transportation, warehousing and storage, postal & courier activities.
- **Accommodation and Food Service:** Accommodation services provided by hotel, inns, resorts, holiday homes, hostel, etc., food and beverage services provided by hotels, restaurants, caterers, etc.
- **Information and communication:** Publishing of newspapers, books, periodicals, etc. activities, publishing of computer operating systems, system software, application software, games, etc., motion picture, video and television programme, production, sound recording and music publishing activities, broadcasting and programming activities, wired, wireless or satellite telecommunication activities computer programming, consultancy and related activities data processing, hosting and related activities; web portal, other information & communication service activities.
- **Financial and insurance Service:** Banking activities by central, commercial and saving banks, activities by trusts, funds and other financial holding companies, life/ non-life insurance and reinsurance activities, pension fund activities, financial and credit leasing activities, fund management services, financial advisory, brokerage and consultancy services, other financial activities.
- **Real Estate:** Real estate activities with own or leased property, real estate activities on fee or contract basis.
- **Professional, Scientific and Technical:** Legal activities, accounting, book keeping and auditing activities, tax consultancy, management consultancy activities, architecture, engineering activities, technical testing and

analysis activities, scientific research and development, advertising and market research, specialized design & photographic activities, veterinary activities, other professional, scientific and technical activities.

- **Support service to Organizations:** Rental and leasing of motor vehicles, machinery, equipment, capital goods, etc. activities, placement agencies and human resource management services, travel agency and tour operators, security and investigation activities, housekeeping & maintenance service office administrative and other business activities including call centers, organising conventions, collection agencies, packaging activities etc. other support services to organizations.
- **Education:** Primary & secondary education services, higher education, technical & vocational education, sports, recreation, cultural and other education, educational support services.
- **Hospital and Medical Care:** Hospital activities, medical and dental practice, nursing, pathology, blood bank services, etc., residential nursing care activities, residential care for elderly, disabled and other ailments, counseling, welfare, referral activities without accommodation for elderly and disabled, other hospital and medical care activities.
- **Arts, entertainment and recreation:** Creative, arts and entertainment activities, library, archives, museums and other cultural activities, gambling & betting activities, sports, amusement and recreation activities.
- **Personal and Household service:** Activities of membership organisations, repair of computers and personal and household goods, washing and cleaning of textile and fur products, hair dressing and other beauty treatment, other personal service activities.
- **Activities of extraterritorial organizations and bodies:** Activities of extraterritorial organizations such as UN and its agencies, IMF, World Bank, OPEC, European Commission, etc.

STATE AND LOCAL LAWS COMPLIANCES

The companies having nationwide and international operation need to comply with the various local laws and state laws as applicable to each office and every operation of the company. In India, the typical corporate structure consists of the Registered Office, Corporate Office, Regional Head offices, State office, Warehouse, Branch office etc.

Every corporate structure is required to comply with some local and state laws applicable to the company. The company should have a reporting structure of the same to provide the compliance status of the company.

COMPLIANCES REQUIREMENTS UNDER THE COMPANIES ACT, 2013

1. Private Company

Sl. No.	Title	Section & Rules	Particulars of Compliances	
1.	Disclosures by a Director of his interest.	Section 184(1) & Rule 9 of Companies (Meetings of Board and its Powers) Rules, 2014.	Form MBP-1	<p>Every director shall at the first meeting of the Board in which he participates as a director and thereafter at the first meeting in every financial year or whenever there is any change in the disclosures already made, then at the first Board meeting held after such change, should disclose his concern or interest in any entity which shall include the shareholding.</p> <div> <p>Q1: Mr. Ram is a director and hold shares in XYZ Limited. He is also a shareholder in ABC limited.</p> <p>(i) Whether he will give MBP 1 to the Board of XYZ limited?</p> <p>(ii) Whether MBP 1 will also depict his shareholding in ABC Limited?</p> </div>

				Such notices shall be kept at the registered office and be preserved for a period of 8 years from the end of the financial year to which it relates and shall be kept in the custody of company secretary of the company or any other person authorized by the Board.
2.	Disqualification of Directors	Section 164(2) & Rule 14 (1) of Companies (Appointment and Qualifications of Directors) Rules, 2014.	Form DIR-8	<p>No person who is or has been a director of a company which:</p> <p>(a) has not filed financial statements/ annual returns for any continuous period of three financial years; or</p> <p>(b) has failed to repay the deposits accepted by it or pay interest thereon or to redeem any debentures on the due date or pay interest due thereon or pay any dividend declared and such failure to pay or redeem continues for one year or more,</p> <p>shall be eligible to be re-appointed as a director of that company or appointed in other company for a period of five years from the date on which the said company fails to do so.</p> <p>Every director shall inform to the company concerned about his disqualification under sub-section (2) of section 164, if any, before he is appointed or re- appointed.</p> <p>However, where a person is appointed as a director of a company which is in default of clause (a) or clause (b) of section 264(2) , he shall not incur the disqualification for a period of six months from the date of his appointment</p>
3.	Annual Return	Section 92(4) & (1) & Rule 11 (1) of Companies (Management and Administration) Rules, 2014.	Form MGT-7	<p>Every Company shall file its Annual Return within 60 days of holding the AGM or where no AGM is held in any year within 60 days from the date on which the AGM should have been held together with the statement specifying the reasons for not holding the AGM with such fees or additional fees as may be prescribed.</p> <p>Annual Return of every Private Company shall be signed by a director and the company secretary, or where there is no company secretary, by a company secretary in practice.</p>
4.	Placing of the annual return on the website	Section 92(3) & 134(3)(a) & Rule 12(1) of the Companies (Management and Administration) Rules, 2014.	Form MGT-7	Every company shall place a copy of the annual return on the website of the company, if any, and the web link of such annual return shall be disclosed in the Board's Report. Section 92 (3) shall not apply in case of Specified IFSC Private Company - vide Notification No. G.S.R. 9 (E) Dated 4th January, 2017.

5.	Financial Statements	Section 137 & Rule 12(1) of Companies (Accounts) Rules, 2014	E-form AOC-4 & E-form AOC-4 CFS	<p>Company is required to file its financial statements, including consolidated financial statements, if any, along with all the documents required to be or attached to such financial statements, duly adopted at the AGM of the company, shall be filed with the Registrar within 30 days of the date of AGM in such manner; with such fees or additional fees as may be prescribed. In case financial statements are not adopted in the AGM or adjourned AGM, such unadopted financial statements along with the required documents shall be filed with the ROC within 30 days of the date of AGM and the Registrar shall take them in his records as provisional till the financial statements are filed with him after their adoption in the adjourned annual general meeting for that purpose: with such fees or such additional fees.</p> <p>If annual general meeting is not held for any year, the financial statements along with the documents required to be attached under section 137(1) duly signed along with the statement of facts and reasons for not holding the annual general meeting shall be with the Registrar within 30 days of the last date before which the annual general meeting should have been held in such manner; with such fees or additional fees as may be prescribed.</p>
6.	Certification of Return	Section 92(2) & Rule 11(2) of Companies (Management and Administration) Rules, 2014	Form MGT-8	The annual return filed by a listed company or a company having paid up share capital of Rs. 10 Crores or more or turnover of Rs. 50 crores or more shall be certified by a Company Secretary in Practice.
7.	Boards' Report	Section 134 & Rule 8 of the Companies (Accounts) Rules, 2014.		<p>Boards' Report required to be attached with statements shall be prepared in a manner which shall include all the information required under Section 134 and should be signed by the "Chairperson" authorized by the Board, and where he is not so authorized, by at least 2 Directors one of whom shall be a managing director and the CEO, the CFO and the company secretary of the company, wherever they are appointed, or in the case of One Person Company, only by one director; for submission to the auditor for his report thereon.</p> <p>In case of a Specified IFSC private company, if any information listed in this sub-section is provided in the financial statement, the company may not include such information in the report of the Board of Directors. (Vide Notification No. G.S.R. 9(E) dated 4th January, 2017)</p>

8.	Circulation of Financial Statement & other relevant Documents	Section 136	<p>Company shall send to all the members of the Company, all trustees for the debenture holders and to all persons being the persons so entitled, copy of the approved financial statements (including consolidated financial statements, if any, auditor's report and every other document required by law to be annexed/ attached to the financial statements) at least 21 clear days before the AGM.</p> <p>Provided that if copies are sent in less than 21 days before meeting they shall deemed to have been duly sent, if:</p> <p>(a) holding, if the company has share capital, majority in number entitled to vote and representing not less than 95% of the paid-up share capital gives right to vote at the meeting; or</p> <p>(b) having, if the company has no share capital, not less than 95% of total voting power exercisable at the meeting.</p> <p>Provided also that every listed company shall place audited accounts of each subsidiary on its website which shall include a subsidiary incorporated outside India and where such foreign company is not required to get its accounts audited in the country of its incorporation then the Indian company shall place unaudited accounts on its website(Vide Notification dated 9th February, 2018.)</p>
9.	Notice of AGM	Section 101 & Rule 18 of the Companies (Management and Administration) Rules, 2014 & SS-2	<p>Every Notice of Annual General Meeting shall be prepared as per Section 101 of Companies Act, 2013 and Secretarial Standard - 2.</p> <p>In case of private company - Section 101 shall apply, unless otherwise specified in such section or the articles of the company provide otherwise. - Notification No. G.S.R.464 (E) dated 5th June, 2015.</p>
10.	Sending of Notice of AGM	Section 101 & SS - 2	<p>Notice of Annual General Meeting shall be sent to all the Directors, Members, Auditors, legal representative of any deceased member and the assignee of an insolvent member.</p> <p>In case of private company - Section 101 shall apply, unless otherwise specified in such section or the articles of the company provide otherwise. - Notification No. G.S.R.464 (E) dated 5th June, 2015.</p>
11.	Board Meetings	Section 173 & SS-1	<p>Every Company shall hold a minimum of 4 meetings of its Board of Directors every year in such a manner that maximum gap between two meetings should not exceed 120 days.</p> <p>In case of Specified IFSC Private Company-The Company shall hold the first meeting of the Board of Directors within sixty days of its incorporation and thereafter atleast one meeting of the Board of Directors in each half of a calendar year (Vide notification dated 4th January 2017).</p>

12.	Notice of Board Meeting	Section 173(3) & SS-1	<p>Board meeting shall be called by giving not less than 7 days notice in writing to every director at his address registered with the company and such notice shall be sent by hand delivery or by post or by electronic means.</p> <p>However, meeting may be called at shorter notice to transact urgent business subject to the presence of one independent director, if any and in his absence decision shall be circulated to all directors and shall be final on ratification by atleast one independent director, if any.</p>	
13.	Appointment of Auditor	Section 139(1) & Rule 4(2) of the Companies (Audit and Auditors) Rules, 2014	E-form ADT-1	<p>Auditor shall be appointed for 5 years in the AGM. Company shall inform the auditor concerned of its appointment and also file a notice of such appointment with the Registrar within 15 days of the meeting in which the auditor is appointed in E-form ADT-1.</p> <p>In case of Specified IFSC Private Company- notice of auditor's appointment shall be filed with the Registrar within 30 days of the meeting in which the auditor is appointed.</p> <p>(Vide Notification No. G.S.R. 9 (E) Dated 4th January, 2017).</p>
14.	Appointment of Company Secretary	Section 203 & Rule 8A of the Companies (Appointment and Remuneration) Rules, 2014.	Private Company having paid up share capital of Rs. 10 crores or more is required to appoint a whole time Company Secretary (Vide notification dated January 03, 2019).	
15.	Register of members	Section 88 & Rule 3 of the Companies (Management and Administration) Rules, 2014. Form MGT.1 & Form MGT. 2	<p>Company shall keep & maintain the following mandatory Registers:</p> <ol style="list-style-type: none"> 1. Register of Members residing in or outside India, 2. Register of debenture-holders, and 3. Register of any other security holders. 	

2. Small Companies under the Companies Act, 2013

Sl. No.	Title	Section & Rules	Particulars of Compliances	
1.	Disclosures by a Director of his Interest	Section 184(1) & Rule 9(1) of Companies (Meetings of Board and its Powers) Rules, 2014.	Form MBP-1	<p>Every director shall at the first meeting of the Board in which he participates as a director and thereafter at the first meeting in every financial year or whenever there is any change in the disclosures already made, then at the first Board meeting held after such change, disclose his concern or interest in other entities which shall include the shareholding.</p> <p>Such notices shall be kept at the registered office and be preserved for a period of eight years from the end of the financial year to which it relates in the custody of the company secretary of the company or any other person authorized by the Board.</p>

2.	Disqualification of Directors	Section 164(2) & 143(3)(g) & Rule 14(1) of Companies (Appointment and Qualification of Directors) Rules, 2014	Form DIR-8	<p>No person who is or has been a director of a company which—</p> <p>(a) has not filed financial statements/ annual returns for any continuous period of 3 financial years; or</p> <p>(b) has failed to repay the deposits accepted by it or pay interest thereon or to redeem any debentures on the due date or pay interest due thereon or pay any dividend declared and such failure to pay or redeem continues for one year or more,</p> <p>shall be eligible to be re-appointed as a director of that company or appointed in other company for a period of five years from the date on which the said company fails to do so.</p> <p>Every director shall inform to the company concerned about his disqualification under sub-section (2) of section 164, if any, before he is appointed or re- appointed.</p>
3.	Annual Return	Section 92(4) & (1) & Rule 11 (1) of Companies (Management And administration) Rules, 2014	E-form MGT-7A	<p>Every Company shall file its Annual Return within 60 days of holding of AGM or where no AGM is held in any year within 60 days from the date on which the AGM should have been held together with the statement specifying the reasons for not holding the AGM with such fees as may be prescribed. The Central Government may prescribe abridged form of annual return for small company.</p> <p>Annual Return of every Small Company shall be signed by the company secretary, or where there is no company secretary, by the director of the company.</p> <p>Small Company shall file annual return from the financial year 2020-2021 onwards in Form No.MGT-7A.</p>
4.	Placing of the annual return on website	Section 92(3) & 134(3)(a) & Rule 12(1) of the Companies (Management and Administration) Rules, 2014.	Form MGT-7A	<p>Every company is required to place a copy of annual return on its website and the web link where annual return has been placed will be required to be mentioned in the Board's Report.</p> <p>Section 92 (3) shall not apply in case of Specified IFSC Private Company - vide Notification No. G.S.R. 9 (E) Dated 4th January, 2017.</p>
5.	Financial Statement	Section 137 & Rule 12(1) of Companies (Accounts) Rules, 2014	E-form AOC-4 & E-form AOC-4 CFS	<p>Company is required to file its financial statements, including consolidated financial statement along with all the documents required to be or attached to such financial statements, duly adopted at the AGM of the company with the Registrar within 30 days of the date of AGM or in case financial statements are adopted in the adjourned AGM, within 30 days of the date of adjourned AGM.</p>

				If annual general meeting is not held for any year, the financial statements along with the documents required to be attached under sub-section (1) of section 137 duly signed along with the statement of facts and reasons for not holding the annual general meeting shall be with the Registrar within 30 days of the last date before which the annual general meeting should have been held.
6.	Board's Report	Section 134 & Rule 8 of the Companies (Accounts) Rules, 2014	Board's Report shall be prepared mentioning all the information required to be included in it for Small Company under Section 134. It should be signed by the "Chairperson" authorized by the Board, where he is not so authorized by at least two Directors one of whom shall be a managing director or by the director where there is one director.	
7.	Circulation of Financial Statement & other	Section 136	<p>Company shall send to all the members of the Company, all trustees for the debenture holders and to all persons being the persons so entitled, a copy of approved Financial Statements (including consolidated Financial Statements, if any auditor's report and every other document required by law to be annexed/ attached to the financial statements) at least 21 clear days before the Annual General Meeting.</p> <p>(Except in case of AGM is called on Shorter Notice pursuant to section 101(1).</p> <p>In case of private company which is a small company, Section 101 shall apply, unless otherwise specified in respective sections or the articles of the company provide otherwise.</p>	
8.	Notice of AGM	Section 101 & Rule 18 of the Companies (Management and Administration) Rules, 2014 & SS- 2	Every Notice of Annual General Meeting shall be prepared as per Section 101 of Companies Act, 2013 and Secretarial Standard - 2.	
9.	Sending of Notice of AGM	Section 101 & SS - 2	Notice of Annual General Meeting shall be sent to all the Directors, Members, Auditors, legal representative of any deceased member and the assignee of an insolvent member.	
10.	Board Meetings	Section 173 (5) & SS-1	Every Small Company shall hold at least one (1) meeting of the Board of Directors in each half of a calendar year and the gap between the two meetings shall not be less than 90 days.	
11.	Notice of Board Meeting	Section 173 (3) & SS-1	<p>A meeting of the Board shall be called by giving not less than 7 days' notice in writing to every director at his address registered with the company and such notice shall be sent by hand delivery or by post or by electronic means.</p> <p>However, meeting of the Board may be called at shorter notice to transact urgent business.</p>	

12	Appointment of Auditor	Section 139(1) & Rule 4(2) of the Companies (Audit and Auditors) Rules, 2014.	E-form ADT-1	Auditor shall be appointed for 5 years in the AGM. The company shall inform the auditor concerned of his or its appointment, and also file a notice of such appointment with the Registrar within 15 days of the meeting in which the auditor is appointed in E-form ADT-1.
13	Register of members	Section 88 & Rule 3 of the Companies (Management and Administration) Rules, 2014. Form MGT.1 & Form MGT.2	Company shall keep & maintain the following mandatory Registers: <ul style="list-style-type: none"> • Register of Members, • Register of debenture-holders, • Register of any other security holders. 	

3. One Person Company (OPC) under the Companies Act, 2013

Sl. No.	Title	Section & Rules	Particulars of Compliances	
1.	Disclosures by a Director of his Interest	Section 184(1) & Rule 9(1) of Companies (Meetings of Board and its Powers) Rules, 2014	Form MBP-1	<p>Every director shall at the first meeting of the Board in which he participates as a director and thereafter at first meeting in every financial year or whenever there is any change in the disclosures already made, then at the first Board meeting held after such change, disclose his concern or interest in other entities which shall include the shareholding.</p> <p>Such notices shall be kept at the registered office and be preserved for a period of 8 years from the end of the financial year to which it relates and shall be kept in the custody of company secretary of the company or any other person authorized by the Board.</p>
2.	Disqualification of Directors	Section 164(2) & 143(3)(g) & Rule 14(1) of Companies (Appointment and Qualification of Directors) Rules, 2014	Form DIR-8	<p>No person who is or has been a director of a company which</p> <p>(a) has not filed financial statements/ annual returns for any continuous period of 3 financial years; or</p> <p>(b) has failed to repay the deposits accepted by it or pay interest thereon or to redeem any debentures on the due date or pay interest due thereon or pay any dividend declared and such failure to pay or redeem continues for one year or more,</p> <p>shall be eligible to be re-appointed as a director of that company or appointed in other company for a period of five years from the date on which the said company fails to do so.</p> <p>Every director shall inform to the company concerned about his disqualification under sub-section (2) of section 164, if any, before he is appointed or re-appointed.</p>

3.	Meaning of AGM for the OPC means “Resolution passed for the Ordinary Business entered into the Minute Book”. In case of OPC, there is no need to hold AGM after the end of each financial year because there is only one Member.			
4.	Annual Return	Section 92(4) & (1) & Rule 11(1) of Companies (Management and Administration) Rules, 2014	E-form MGT-7A.	OPC shall file its Annual Return within 60 days of entry of ordinary resolution in Minute Book. The Central Government may prescribe abridged form of annual return for OPC.] In Case of OPC, there is no need to hold AGM. Annual Return of every One Person Company shall be signed by the company secretary, or where there is no company secretary, by the director of the company.
5.	Financial Statement	Section 137 & proviso 3 to Rule 12(1) of Companies (Accounts) Rules, 2014	E-form AOC-4	One Person Company shall file a copy of the financial statements duly adopted by its member, along with all the documents which are required to be attached to such financial statements, within 180 days from the closure of the financial year.
6.	Directors' Report	Section 134(4)	Directors' Report shall be signed by only one director, for submission to the auditor for his report thereon. In case of OPC, the report of the Board of Directors to be attached to the financial statement under section 134 means a report containing explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made by the auditor in his report.	
7.	Board Meetings	Section 173 (5) & SS-1	Every OPC shall hold at least one (1) meeting of the Board of Directors in each half of a calendar year and the gap between the two meetings shall not be less than 90 days. However, provisions of section 173 (5) and section 174 relating to quorum shall not apply to OPC in which there is only one (1) director in the company.	
8.	Notice of Board Meeting	Section 173 (3) & SS-1	A meeting of the Board shall be called by giving not less than 7 days' notice in writing to every director at his address registered with the company and such notice shall be sent by hand delivery or by post or by electronic means. However, meeting of the Board may be called at shorter notice to transact urgent business in the presence of atleast one independent director.	
9	Appointment of Auditor	Section 139(1) & Rule 4(2) of the Companies (Audit and Auditors) Rules, 2014	E-form ADT-1	Auditor shall be appointed for 5 years. The company shall inform the auditor concerned of his or its appointment, and also file a notice of such appointment with the Registrar within fifteen (15) days of the meeting in which the auditor is appointed in e-Form ADT-1.

Notes:

- In an OPC in which there is only one Director, Secretarial Standard- 1 will not apply.
- OPC is not required to hold AGM so Secretarial Standard- 2 is not applicable to OPC.
- Section 98 and Section 100 to Section 111 are not applicable on One Person Company.
- No need of preparation of Cash Flow Statement, in case of OPC.
- Exemption from rotation of Company Auditors and filing Audit Report.
- Lesser penalties for OPC under Section 446B of the Companies Act, 2013.

Compliances by Limited Liability Partnership (LLP)

As per section 3 of the LLP Act, 2008 a Limited Liability Partnership has the following characteristics:

- A limited liability partnership is a body corporate formed and incorporated under this Act and is a legal entity separate from that of its partners. LLP agreement govern the mutual rights and duties of Partners.
- A limited liability partnership shall have perpetual succession.
- Any change in the partnership shall not affect the existence, rights or liabilities of the limited liability partnership. A partner liability is limited to the extent of capital contributed by him. Limited liability partnership is popularly known as an “LLP”, and has become an alternative business vehicle to carry out business as it combines the characteristics of a private company and a conventional partnership. Over the period of time a LLP has gained popularity due to the following:
- LLP provides limited liability status to its partners and offers the flexibility of internal arrangement through an agreement between the partners. No partner will be liable for the wrongful decisions or misconduct of other partners.
- This combination gives entrepreneurs and businessmen a more structured business vehicle compared to a sole proprietorship or a conventional partnership.
- It provides the flexibility of controlling the business operation in accordance with the partnership agreement whilst enjoying the limited liability status compared to a company which is subject to strict compliance requirements under the Companies Act in most of its affairs.
- LLP is a business vehicle which offers simple and flexible procedures in terms of its formation, maintenance and termination while simultaneously has the necessary dynamics and appeal to be able to compete domestically and internationally.
- Registrar of Companies manages the affair and controls LLP.
- One of the partner must be Indian and there is no maximum limit provided for the number of Partners. Vide circular No. 11/2020, dated 24.03.2020, Government has relaxed the residency requirement of 182 days in a year by atleast one director and it shall not be treated as non-compliance for the financial year 2020-2021.

Q1: Provide some examples of Limited Liability Partnership.

Q2: Mr. Shyam runs an LLP. Mrs. Geeta (wife of Mr. Shyam) wants to join his LLP:

a. Can she join Mr. Shyam's LLP?

b. Will Mr. Shyam be liable for the decisions made by Mrs. Geeta in the LLP?

Contribution to Capital of LLP by Partners

As per the provisions of Section 33 of Limited Liability Partnership Act, 2008, contribution to the capital of LLP by each partner shall be as per the subscriber sheet being filled by the Company with the Registrar of Companies at the time of its Incorporation and it shall be mentioned in the LLP agreement filled with the Registrar of Companies.

If a partner contributes in excess of the obligation undertaken by him at the time of LLP incorporation then there are three ways to treat the excess amount:

OPTION-1

The LLP shall refund excess amount to the partner as soon as possible

OPTION-2

File Form 3 and increase the total contribution of the FIRM within 30 days of its receipt

OPTION-3

If option 1 and 2 has not been exercised, then excess amount shall be treated as loan from partner and such partner shall rank pari-passu to any other creditor of LLP

Illustrative list of Compliance Requirement under the LLP Act, 2008 and rules made there under.

1	Section 32 of read with sub-rule (1) of Rule 23	The contribution of each partner shall be accounted for and disclosed in the accounts of the limited liability partnership along with nature of contribution and amount or monetary value of the contribution.
2	sub-rule (2) of Rule 23	The contribution of a partner consisting of tangible, movable or immovable or intangible property or other benefits brought or contribution by way of an agreement or contract for services shall be valued by a practicing Chartered Accountant or by a practicing Cost Accountant or by approved valuer from the panel maintained by the Central Government.
3	Section 34	The LLP shall maintain its books of account relating to its affairs for each year of its existence on cash basis or accrual basis and according to double entry system of accounting. The LLP shall maintain its books of account at its registered office for a period of Eight years.
4	Rule 24(2)	The Books of Account of a limited liability partnership shall contain the following: <ul style="list-style-type: none"> • particulars of all sums of money received and expended and the matters in respect of which the receipt and expenditure takes place; • a record of the assets and liabilities; • statements of cost of goods purchased, inventories, work-in-progress, finished goods and cost of goods sold; and • any other particulars which the partners may decide.
5	Sub-rule (3) of Rule 24	The books of account of a limited liability partnership are required to be preserved for eight years from the date on which they are made.
6	Sub-section (3) of Section 34 read with sub-rule (4) Rule 24	Every limited liability partnership shall file the Statement of Account and Solvency in Form 8 with the Registrar, within a period of thirty days from the end of six months of the financial year to which the Statement of Account and Solvency relates.
7	Section 35	Every LLP is required to file an Annual Return duly authenticated with the Registrar in 60 days of closure of financial year in Form 11.
8	Sub-rule (4) of Rule 34	Every foreign limited liability partnership its Statement of Account and Solvency in Form 8 with the Registrar the in accordance with provisions of rule 24 duly signed by the authorized representatives within a period of 30 days from the end of six months of the financial year.
9	Statement of Account and Solvency of a LLP	The designated partners on behalf of the limited liability partnership are required to sign the Statement of Account and Solvency of a LLP.
10	Sub-section (4) of Section 34 read with sub-rule (8) of Rule 24,	The accounts of following limited liability partnerships, shall be required to get its accounts audited: <ul style="list-style-type: none"> • whose turnover in any financial year exceeds forty lakh rupees, or • whose contribution exceeds twenty-five lakh rupees.
11	Sub-rule (9) of Rule 24-eligibility of an auditor of LLP	A Chartered Accountant in practice shall be qualified for appointment as an auditor of a limited liability partnership.

12	Sub-rule (17) of Rule 24	The remuneration of an auditor appointed by the limited liability partnership shall be fixed by the designated partners or by following the procedure as laid down in the limited liability partnership agreement.
13	Rule 25(2) Additional certificates	<p>Circumstances where additional certificates required</p> <ul style="list-style-type: none"> • Turnover up to Rs 5 crores during Financial Year or Contribution upto Rs 50 lakhs require Certificate from designatory partner other than signatory of Annual Return to the effect that Annual Return contains true and correct information. • In other Cases Certificates from Company Secretary in Practice to the effect that he has verified the books and records maintained by LLP and considers them true and correct.
14	Rule 27, records of LLP to be preserved	<p>Records to be preserved Permanently</p> <ul style="list-style-type: none"> (a) Incorporation document [Section 11(1)(b)] Permanent (b) Notice of situation of registered office [Section 13] Permanent (c) Information with regard to Limited Liability Permanent Partnership Agreement or any changes made therein [Section 23(2)] (d) Notice of other address of any limited liability Permanent partnership at which documents to be served [Section 13(2)] <p>Records to be preserved for 21 Years</p> <ul style="list-style-type: none"> • All papers, registers, refund orders and correspondence relating to the limited liability partnership liquidation accounts to be preserved for 21 years. <p>Records to be preserved for 5 Years</p> <ul style="list-style-type: none"> (a) copies of Government orders relating to limited liability partnership; registered documents of limited liability partnership which have been fully wound up and finally dissolved together with; (b) correspondence relating to such limited liability partnership; (c) papers relating to legal proceedings from the date of disposal of the case and appeal, if any; (d) copies of statistical returns furnished to Government; (e) all correspondences including correspondences relating to scrutiny of accounts, annual returns, prosecutions, reports to the Central Government and the Tribunal and the correspondences relating to complaints. <p>In case of prosecution matter, the date is to be recorded from the date of disposal of the case and appeal, if any.</p> <p>Records to be preserved for 3 Years</p> <ul style="list-style-type: none"> (a) All books, records and papers, other than those specified in other categories. (b) Routine correspondence regarding payment of fees, additional filing fees and correspondence about the return of documents. <p>Preservation of Records under Annexure C of the LLP rules</p> <ul style="list-style-type: none"> (a) Statement of compliance with requirements of the Act by an Advocate or Company Secretary or Chartered Accountant or Cost Accountant in whole-time practice and by any person who subscribed his name to the incorporation document [Section 11(1)(c)] - 5 years

		<p>(b) Notice of a person ceasing to be a partner and any change in the name or address of a partner - 5 years</p> <p>(c) Registered documents relating to LLP struck off under Section 75 together with correspondence or copy of the order of restoration of the LLP into the register - 5 years</p> <p>(d) Annual return of a limited liability partnership 5 years</p> <p>(e) Consent of candidates to act as designated partner to be filed with the Registrar [section 7(4)] - 5 years</p> <p>(f) Consent to act as a partner - 5 years</p> <p>(g) Statement by all the partners of firm containing particulars of firm along with application for its conversion into limited liability partnership - 5 years</p> <p>(h) Statement by all the shareholders containing particulars of private company/unlisted public company along with application for its conversion into limited liability partnership - 5 years</p> <p>(i) Certified copy of the order(s) of the Tribunal under section 60/61/62- 5 years</p> <p>(j) Copy of the order of dissolution of a LLP by Tribunal [Section 63] -5 years</p> <p>(k) Statement of Account and Solvency - 8 years</p> <p>Records of foreign limited liability partnerships:</p> <p>Registered documents of foreign limited liability partnerships which cease to have any place of business in India shall be destroyed after expiry of three years from the date such limited liability partnerships cease to have any place of business in India.</p>
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Compliances under Section 8 Company

Any person or an association of persons intending to register a limited liability company for objects specified below can opt to apply for registration of Section 8 Company. The following have to be proved to the satisfaction of the Central Government that:

- (a) its objects includes promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object;
- (b) the company after incorporation intends to apply its profits, if any, or other income in promoting such objects only; and
- (c) the company intends to prohibit the payment of any dividend to its members.

Exemption to Section 8 Companies

Sl. No.	Provisions of the Act	Exceptions/Modifications/Adoptions
1	Section 2(24)	The provisions of clause (24) of section 2 shall not apply. Therefore, Section 8 Company are not required to appoint a qualified Company Secretary.
2	Section 2(68) for Private and Section 2(71) for Public companies	<p>The requirement of Minimum paid up share capital shall not apply.</p> <p>Descriptive Note:</p> <p>Section 2(68) defines a private company. The Companies (Amendment) Act 2015 has removed minimum paid up capital for private or a public company. It shall also not be applicable to section 8 companies.</p>

3	Section 96(2)	<p>In sub-section (2), after the proviso and before the explanation, the following proviso shall be inserted, namely:-</p> <p>Provided further that the time, date and place of each annual general meeting are decided upon beforehand by the board of directors having regard to the directions, if any, given in this regard by the company in its general meeting.</p> <p>Descriptive Note:</p> <p>Section 96(2) inter-alia covers time, date venue of annual general meeting. In case of Section 8 companies, the time, date and place of each annual general meeting are decided upon before-hand by the board of directors having regard to the directions, if any, given in this regard by the company in its general meeting.</p> <p>Section 8 Companies can hold its AGM on a National Holiday.</p>
4	Section 101(1)	<p>In sub-section (1), for the words “Twenty one days” the words “Fourteen Days” shall be substituted.</p> <p>Descriptive Note:</p> <p>Section 101(1) deals with notice of the General Meeting with clear twenty one days notice. In case of Section 8 Companies 14 clear days notice is sufficient for a general Meeting.</p>
5	Section 118	<p>The section shall not apply as a whole except that minutes may be recorded within thirty days of the conclusion of every meeting in case of companies where the articles of association provide for confirmation of minutes by circulation.</p> <p>Descriptive Note:</p> <p>Section 118 deals with minutes of proceedings of general/board and other meetings. Provision of Section 118 does not apply to Section 8 companies except that minutes may be recorded within thirty days of the conclusion of every meeting in case of companies where the articles of association provide for confirmation of minutes by circulation.</p>
6	Section 136(1)	<p>In sub-section (1), for the words “twenty one days”, the words “fourteen days” shall be substituted.</p> <p>Descriptive Note:</p> <p>Section 136(1) deals with the rights of members to copies of audited financial statement, before twenty one days before the date of annual general meeting. Section 8 companies may send the audited financial statements 14 days before the date of annual general meeting.</p>
7	Sub-section of Section 149 and the first proviso to sub section (1)	<p>Shall not apply.</p> <p>Descriptive Note:</p> <p>In Clause (b) and first proviso to Section 149(1) exemption is provided with respect to provisions related maximum number of directors and permission of shareholders for having directors exceeding 15 in number.</p>
8	Sub-sections (4), (5), (6), (7), (8), (9), (10), (11), clause (i) of sub-section (12) and sub-section (13) of section 149.	<p>Shall not apply.</p> <p>Descriptive Note:</p> <p>The cluster of sub-sections of section 149 given herein pertains to independent directors. These provisions will not apply to a Section 8 Company.</p>

9	Section 150	<p>Shall not apply.</p> <p><i>Descriptive Note:</i></p> <p>Section 150 deals with manner of selection of independent directors and maintenance of databank of independent directors, which is not applicable to Section 8 companies.</p>
10	Proviso to sub-section (5) of section 152	<p>Shall not apply.</p> <p><i>Descriptive Note:</i></p> <p>Proviso to sub-section (5) of section 152 relates to appointment of independent directors. It is not applicable to section 8 companies.</p>
11	Section 160	<p>Shall not apply to companies whose articles provide for election of directors by ballot.</p> <p><i>Descriptive Note</i></p> <p>Section 160 deals with right of persons other than retiring directors to stand for directorship. Section 160 shall not apply to section 8 companies whose articles provide for election of directors by ballot.</p>
12	Section 165(1)	<p>Shall not apply.</p> <p><i>Descriptive Note:</i></p> <p>Section 165(1) deals with restrictions on number of director ships. Directorship of Section 8 Companies are not reckoned for this purpose.</p>
13	Section 173(1)	<p>Shall apply only to the extent that the Board of Directors, of such Companies shall hold at least one meeting within every six calendar months.</p> <p><i>Descriptive Note:</i></p> <p>Section 173(1) mandates convening of first board meeting within 30 days of incorporation and minimum of four board meeting every year, with a gap not exceeding 120 days between two consecutive meetings. With regard to Section 8 companies this section shall apply only to the extent that the Board of Directors, of such Companies shall hold at least one meeting within every six calendar months.</p>
14	Section 174(1)	<p>In sub-section (1),-</p> <p>(a) for the words “one-third of its total strength or two directors, whichever is higher, the words “either eight members or twenty five per cent. of its total strength whichever is less” shall be substituted;</p> <p>(b) the following proviso shall be inserted, namely:- “Provided that the quorum shall not be less than two members”.</p> <p><i>Descriptive Note:</i></p> <p>Section 174(1) states that the quorum for a meeting of the Board of Directors of a company shall be one third of its total strength or two directors, whichever is higher, and the participation of the directors by video conferencing or by other audio visual means shall also be counted for the purposes of quorum under this sub-section. In case of Section 8 companies the quorum for the board meetings shall be either eight members or 25% of its total strength whichever is less. However, the quorum shall not be less than two members.</p>
15	Section 177(2)	<p>The words “with independent directors forming a majority” shall be omitted.</p> <p><i>Descriptive Note:</i></p> <p>Section 177(2) requires audit committee to have majority of independent directors. It is not required for Section 8 Companies.</p>

16	Section 178	<p>Shall not apply</p> <p>Descriptive Note:</p> <p>Section 178 pertains to nomination and remuneration committee and stakeholders' relationship committee. Section 178 is not applicable to section 8 companies.</p>
17	Section 179	<p>Matters referred to in clauses (d), (e) and (f) of sub-section (3) may be decided by the Board by circulation instead of at a Meeting.</p> <p>Descriptive Note:</p> <p>Section 179(3) deals with resolutions to be passed at meetings of the Board. Section 179(3)(d),(e) and (f) pertains to resolution to borrow monies, to invest funds of the company and to grant loans or give guarantee or provide security in respect of loans. These items may be decided by the Board by circulation in case of Section 8 companies.</p>
18	Sub-section (2) of section 184	<p>Shall apply only if the transaction with reference to section 188 on the basis of terms and conditions of the contract or arrangement exceeds one lakh rupees.</p> <p>Descriptive Note:</p> <p>Section 184(2) prohibits participation of interested directors. In case of Section 8 Companies it shall apply only if the transaction with reference to section 188 on the basis of terms and conditions of the contract or arrangement exceeds one lakh rupees.</p>
19	Sub-section (7) of section 186.	<p>Modification in Section 186(7) The provisions with respect to minimum rate of interest shall not apply to a company in which twenty-six per cent. or more of the paid-up share capital is held by the Central Government or one or more State Governments or both, in respect of loans provided by such company for funding Industrial Research and Development projects in furtherance of its objects as stated in its memorandum of association.</p>
20	Section 189	<p>Shall apply only if the transaction with reference to section 188 on the basis of terms and conditions of the contract or arrangement exceeds one lakh rupees.</p> <p>Descriptive Note:</p> <p>Section 189 deals with register of contracts or arrangements in which directors are interested. Section 189 is applicable to section 8 companies only if the transaction with reference to section 188 on the basis of terms and conditions of the contract or arrangement exceeds one lakh rupees.</p>

REGISTER, RETURNS, BOOKS AND OTHER RECORDS TO BE KEPT BY COMPANIES

Section/Rule	Particulars	Form No.
Rule 7 of the Companies (Registration Offices & Fees) Rules, 2014	<p>Original Documents duly stamped relating to incorporation and matters incidental thereto and changes in any of the clauses of MOA/AOA.</p> <p>In any other cases, the relevant / related documents for a minimum period of 8 years from the date of filing.</p>	
Section 42(9) and Rule 14(3) of Companies (Prospectus and Allotment of Securities) Rules, 2014	Maintenance of complete record of Private Placement Offers.	PAS-5

Section 46(3) and Rule 6 (3) (a) of Companies (Share Capital and Debentures) Rules, 2014	Register of Renewed and Duplicate Share Certificates. (Entries made should be authenticated by Company Secretary or the person authorized by the Board for sealing and signing the share certificate under Rule 5(3) of Chapter IV).	SH-2
Section 54 and Rule 8(14) (a) of Companies (Share Capital and Debentures) Rules, 2014)	Register of Sweat Equity Shares. (Entry shall be made forthwith on issue of sweat equity shares u/s.54. Authentication of the entries be made by company secretary or by any other person authorized by the Board in this behalf).	SH-3
Section 62(1)(b) and Rule 12 (10) (a) of Companies (Share Capital and Debentures) Rules, 2014	Register of Employees Stock Options. (Entry shall be made forthwith on issue of shares to employees under employees stock option scheme u/s. 62(b). Authentication of secretary or by any other person authorized by the Board in this behalf. The entries be made by company secretary or by any other person authorized by the Board in this behalf).	SH-6
Section 68(9) and Rule 17 (12) (a) of Companies (Share Capital and Debentures) Rules, 2014	Register of Shares or other Securities bought back. (Authentication of the entries be made by Company Secretary or by any other person authorized by the Board in this behalf).	SH-10
Section 73, 76 and Rule 14 (1) of Companies (Acceptance of Deposits) Rules, 2014	Register of Deposits. (Entry should be made within 7 days of the issue of duly authenticated receipt in this regard by director, secretary or the person authorized by the board in this behalf).	Particulars specified in Rule 14
Section 85 and Rule 10 (1) of Companies (Registration of Charges) Rules, 2014	Register of Charges	CHG- 7
Section 88 and Rule 3 (1), 5(1) & (2), 6, 8 & 15 of Companies (Management and Administration) Rules, 2014	Register of Members	MGT- 1
Section 88 and Rule 4 & 15 (2) of Companies (Management and Administration) Rules, 2014	Register of debenture holder and other security holders	MGT- 2
Section 88 and Rule 7 & 15 of Companies (Management And Administration) Rules, 2014	Foreign Register of Members	MGT- 1
Section 88 and Rule 7 & 15 of Companies (Management And Administration) Rules, 2014	Foreign Register of Debenture holders/other security holders with index of names	MGT- 2
Section 90(2) and Rule 5 of Companies (Management And Administration) Rules, 2014	Register of significant beneficial owners	BEN-3

Section 92 and Rule 11 & 15(3) of Companies (Management and Administration) Rules, 2014	Annual Return and attachments	MGT- 7 and MGT-7A
Section 105(7) and Rule 19 of Companies (Management and Administration) Rules, 2014	Proxy form	MGT-11
Section 118 and Rule 25 of Companies (Management and Administration) Rules, 2014	Minutes (General Meetings, Class Meetings of Shareholders, Creditors, Board & Committee Meetings or Resolution passed by Postal Ballot)	No format specified
Regulation 65- Table F- Schedule I & SS-1	Attendance Register – Board & Committee Meetings	No format specified
Section 118 and Rule 25 of Companies (Management and Administration) Rules, 2014	Minutes (General Meeting, Class of Shareholders, Creditors or Resolution passed by Postal Ballot)	No format specified
Section 128 and 129, Schedule III	Books of Account (together with the vouchers to any entry in such books of account)	Schedule III
Section 170 and Rule 17 of Companies (Appointment and Qualification of Directors) Rules, 2014	Register of Directors & Key Managerial Personnel and their shareholding	Particulars specified in Rule 17
Section 184(1) and Rule 9(1) of Companies (Meetings of Board and its Powers) Rules, 2014	Notice of interest by Director	MBP-1
Section 186(9) and Rule 12(1) of Companies (Meetings of Board and its Powers) Rules, 2014	Register of Loans, Guarantee, Security and in respect of Acquisition made by the company	MBP-2
Section 187(3) and Rule 14(1) of Companies (Meetings of Board and its Powers) Rules, 2014	Register of Investment not held in its own name by the company	MBP-3
Section 189(1) and Rule 16 of Companies (Meetings of Board and its Powers) Rules, 2014	Register of Contracts or arrangements with related party and with Bodies corporate etc. in which directors are interested	MBP-4

Compliances under SEBI (LODR) Regulations, 2015

Common Obligations to Listed Entity

Sl. No.	Compliance	Regulation	Time Period	Event
1	Submission of Compliance Certificate to the Exchange	7(3)	Within 30 days of end of each half of the financial year.	Submission of Compliance Certificate to Stock Exchange certifying that all activities in relation to both physical and electronic share transfer facility are maintained either in house or by Registrar to an issue and share transfer agent registered with the Board.

2	Appointment/ Alteration of Share Transfer Agent	7(5)	Intimate to the Stock Exchange such appointment or alteration within 7 days on entering into agreement and it shall be placed before the Board of Directors in subsequent Meeting.	Company can manage in house Share Transfer Facility. But as and when the total number of holders of securities of the listed entity exceeds one lac, the listed entity shall appoint Share Transfer Agent.
3	Grievance Redressal Mechanism	13(3)	Within 21 days of the end of each quarter. Same statement shall be placed before the Board of Director quarterly.	The listed entity shall file with the recognized stock exchange(s) a statement giving The number of investor complaints pending at the beginning of the quarter; Those received during the quarter, disposed of during the quarter and those remaining unresolved at the end of the quarter.

Obligations of listed entity which has listed its specified securities i.e. equity or convertible securities.

Sl. No.	Compliance	Regulation	Time Period	Event
1.	Annual Secretarial Compliance Report	24A (2)	Within 60 days of the end of the financial year.	The annual secretarial compliance report in the prescribed format shall be submitted by the listed entity to the stock exchanges.
2	Quarterly Compliance Report on Corporate Governance	27(2)	Within 21 days from the end of each quarter.	The listed entity shall submit a quarterly compliance report on corporate governance in the format as specified by the Board (SEBI). Details of all material transactions with related parties shall be disclosed. Report shall be sign either by compliance officer or chief executive officer of the listed entity.
3	Prior Intimation to SE about Board Meeting	29(1)	At least 5 (Five) days in advance excluding the date of intimation & date of board meeting.	Intimation about the Meeting in which Financial Results viz. quarterly, half yearly, or annual, as the case may be due for consideration.
4	Prior Intimation to SE about Board Meeting	29(2)	At least 2 working days in advance excluding the date of intimation & date of board meeting.	Intimation about the Meeting in which following matters are due to consideration: Proposal for Buyback of Securities Proposal for voluntary delisting of Listing entity from the Stock Exchange(s) Fund raising by following ways Further Public Offer, Rights Issue, American Depository Receipts/Global Depository Receipts/Foreign Currency Convertible Bonds, qualified institutions placement, debt issue, preferential issue or any other method and for determination of issue price:

				Declaration/Recommendation of Dividend Issue of Convertible Securities including convertible debentures or of debentures carrying a right to subscribe to equity shares or the passing over of dividend Proposal for declaration of Bonus Securities.
5	Prior Intimation to SE about Board Meeting	29(3)	At least 11 working days in advance.	Any Alteration in the form or nature of any of its securities that are listed on the stock exchange or in the rights or privileges of the holders thereof. Any Alteration in the date on which, the interest on debentures or bonds, or the redemption amount of redeemable shares or of debentures or bonds, shall be payable.
6	General Meeting Intimation			Intimation shall also be given in case of any Annual General Meeting or Extraordinary General Meeting or Postal Ballot that is proposed to be held for obtaining shareholder approval for further fund raising indicating type of issuance.
7	Outcome of Board Meeting	Second Proviso to 30(6)	The timelines specified therein. "Within 30 minutes of closure of meeting" is specified.	Disclosure with respect to events specified in sub-para 4 of Para A of Part A of Schedule III.
8	Disclosure of events or information	30(6)	As soon as reasonably possible and not later than twenty four hours from the occurrence of event or information.	The listed entity shall first disclose to stock exchange(s) of all events, as specified in Part A of Schedule III, or information.
9	Holding of securities & Shareholding Pattern separately for each class of securities.	31(1) read with Circulars	<ol style="list-style-type: none"> 1 day prior to listing of its securities. Within 21 days from the end of each quarter. Within 10 days of Capital restructuring 	All listed entities which have listed their specified securities, submit Statement of Share Holding.
10	Statement indicating deviation(s) or Variation(s)	32(1)	Quarterly basis to the stock exchange till such time the issue proceeds have been fully utilized or the purpose for which these proceeds were raised has been achieved.	Statement indicating deviation in use of proceeds from the objects stated in the offer document or explanatory statement to the notice for the general meeting (of public issue, rights issue, preferential issue).
11	Quarterly Financial Result	33(3)(a)	Within 45 days of end of each quarter, other than the last quarter.	The listed entity shall submit quarterly and year-to-date standalone financial results to the stock exchange.

12	Annual Financial Result	33(3)(d) & (e)	Within 60 days from the end of the financial year.	The listed entity shall submit annual audited standalone financial results for the financial year,
13	Half Yearly Financial Result	33(3)(f)	Half yearly submission.	submit as part of its standalone or consolidated financial results for the half year, by way of a note, a statement of assets and liabilities.
14	Annual Report	34(1)(a)	Not later than the day of commencement of dispatch to its shareholders	To the stock exchange and publish on its website a copy of the annual report sent to the shareholders along with the notice of the annual general meeting
		34(1)(b)	Not later than 48 hours after the annual general meeting.	In the event of any changes to the annual report, the revised copy along with the details of and explanation for the changes To the stock exchange
15	Annual Information Memorandum	35		The listed entity shall submit to the stock exchange(s) an Annual Information Memorandum in the manner specified by the Board from time to time.
16	Draft scheme of Arrangement & Scheme of Arrangement	37(1) read with Circulars	Before filling with Tribunal/ court as the case may be.	listed entity desirous of undertaking a scheme of arrangement or involved in a scheme of arrangement, shall file the draft scheme of arrangement,
17	Issue of Share Certificates	39(3)	Within 2 days of getting its information	Information regarding loss of share certificates and issue of duplicate certificates
18	Certificate from Practicing Company Secretary (PCS)	40(9)/(10)	Within 30 days of the end financial year.	Certifying that all certificates have been issued within thirty days of the date of lodgment for transfer, subdivision, consolidation, renewal, exchange or endorsement of calls/allotment monies.
19	Record Date	42(2)	At least 7 working days before the record date excluding the date of intimation & record date.	Notice to Stock Exchange for the record date and specifying the purpose of record date.
20	Intimation to Stock Exchange regarding result of General Meeting	44(3)	Within 2 working days of the conclusion of General Meeting	Details regarding the voting results in the format specified by the Board.

Obligations of Listed Entity Which has Listed Its Non-Convertible Debt Securities and Non- Convertible Redeemable Preference shares or both

Sl. No.	Compliance	Regulation	Time Period	Event
1	Interest/ Redemption due	50(1)	At least 11 working days before the date on which interest/ redemption amount of redeemable shares/ debentures shall be payable.	The listed entity shall give prior intimation to the stock exchange(s) regarding interest due and redemption due.

2	Intimation to raise fund	50(2)	prior to the meeting of board of directors	Intimation to raise funds to the stock exchange(s) wherein the proposal to raise funds through new non convertible debt prior to the meeting of board of directors securities or non-convertible redeemable preference shares shall be considered.
3	Recommendation to Board Meeting	50(3)	At least 2 working days before the board meeting excluding the date of the intimation and date of the meeting	Intimation to stock exchange about the Board Meeting at which the recommendation or declaration of below given matter is proposed to be considered <ul style="list-style-type: none"> • issue of non convertible debt securities, or • any other matter affecting the rights or • interests of holders of non convertible debt securities or • non convertible redeemable preference shares
4	Half yearly Result	52(1)	Within 45 days at the end of half financial year	The listed entity shall prepare and submit un-audited or audited financial results on a half yearly basis in the format as specified by the Board.
5	Annual Result	52(2)(a) proviso	Within 60 days at the end of financial year	The listed entity shall prepare and submit un-audited or audited financial results on a half yearly basis in the format as specified by the Board
6	Certificate	57(1)	Within 2 days of interest due	Certificate Regarding Payment of Interest And Principal.
7	Record Date	60(2)	At least 7 working days before the record date excluding the date of Intimation & record date.	The listed entity shall fix a record date for purposes of payment of interest, dividend and payment of redemption or repayment amount or for such other purposes as specified by the stock exchange.

Obligations of Listed Entity which has Listed its Indian Depository Receipts

Sl. No.	Compliance	Regulation	Time Period	Event
1	Indian Depository Receipt holding pattern & Shareholding details	69(1)	Within 15 days at the end of each quarter.	The listed entity shall file with the stock exchange the Indian Depository Receipt holding pattern on a quarterly basis.

2	Financial Result	70(1)	within such time as per the listing requirements of the home country	The listed entity shall file periodical financial results with the stock exchange.
3	Annual Report	71(1)	at the same time as it is disclosed to the security holder in its home country	The listed entity shall submit to stock exchange an annual report.
4	Corporate Governance	72(2)	within such time as per the listing requirements of the home country	The listed entity shall submit to stock exchange a comparative analysis of the corporate governance provisions that are applicable in its home country.
5	Record Date	78(2)	At least 4 working days before the record date.	Notice to stock exchange regarding record date.

Obligations of Listed Entity which has Listed its Securitised Debt Instruments

No. Sl.	Compliance	Regulation	Time Period	Event
1	Issue new securities	82(1)	Prior to issue new Securitised Debt Instrument.	Its intention to issue new securitized debt instruments either through a public issue or on private placement basis.
2	Intimation	82(2)	At least 2 working days before the board meeting excluding date of intimation & date of meeting	The meeting of its board of trustees, at which the recommendation or declaration of issue of securitized debt instruments or any other matter affecting the rights or interests of holders of securitized debt instruments is proposed to be considered.
3	Financial Information	82(3)	Within 7 days from the end of month/ actual payment date on monthly basis	Submit such statements, reports or information including financial information pertaining to Schemes to stock exchange.
4	Record Date	87(2)	At least 7 working days before the record date excluding the date of intimation & record date	Notice to stock exchange/s regarding record date.

DISCLOSURES TO BE MADE AT WEBSITE OF THE COMPANY

Under The Companies Act, 2013, the following disclosures are required to be made at the website, if any, of the company. However, as per Regulation 46 of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, it is mandatory for a listed entity to maintain a functional website containing the basic information about the listed entity.

Section/ Rule	Purpose	Mode
Section 8 and Rule 22 of the Companies (Incorporation) Rules, 2014	Companies registered under section 8 seeking conversion into any other kind	Notice in Form INC-19 shall be published on the website of the Company, if any, and as may be notified or directed by the Central Government.

Section 12 and Rule 26 of the Companies (Incorporation) Rules, 2014	Publication of name by company	Every company which has a website for conducting on line business or otherwise, shall disclose/publish its name, address of its registered office, the Corporate Identity Number, Telephone number, fax number if any, email and the name of the person who may be contacted in case of any queries or grievances on the landing/ home page of the said website.
Rule 4(3) of the Companies (Acceptance of Deposits) Rules, 2014	Circular for Inviting Deposits from the public	Every Company inviting deposits from the public shall upload a copy of the circular on its website, if any. In case of private company - Clause (a) to (e) of Sub-section 2 of Section 73 shall not apply to Private Companies which accepts from its members monies not exceeding 100%, of aggregate of the paid up share capital and free reserves, and such company shall file the details of monies so accepted to the Registrar in such manner as may be specified. Notification No. G.S.R.464 (E) dated 5th June, 2015. The requirement of publishing a circular pursuant to Section 73 (2) (a) also shall not apply in such a case.
Rule 10 of the Companies (Management and Administration) Rules, 2014	Closure of Register of Members or Debenture Holders or other Security Holders	Closure of Register of Members or Debenture Holders or other Security Holders. The company shall publish notice at least seven days prior to such closure as may be specified by SEBI in case of a listed company or intends to get its securities listed on the website as may be notified by the Central Government and on the website, if any, of the Company. Not applicable to a private company if the notice has been served on all members of the private company not less than seven days prior to closure of the register of members or debenture holders or other security holders.
Section 101 & Rule 18(3) (ix) of the Companies (Management and Administration) Rules, 2014	Notice of the General Meeting	The notice of the general meeting of the Company shall be simultaneously placed on the website of the Company and on the website as may be notified by the Central Government. In case of private company - Section 101 shall apply, unless otherwise specified in this section or the articles of the company provide otherwise. (Notification No. G.S.R. 464(E) dated 5th June, 2015). Section 122 provides that the provisions of section 101 shall not apply to a One Person Company.
Section 110 & Rule 22 (4) & 22 (13) & 22 (16) of the Companies (Management and Administration) Rules, 2014	Postal Ballot	The notice of the postal ballot shall be placed on the website of the company forthwith after the notice is sent to the members and such notice shall remain on such website till the last date for receipt of the postal ballots from the members. The results of the postal ballot shall be declared by placing it, along with the scrutinized report, on the website of the company. Note: One Person Company and other companies having members up to 200 are not required to transact any business through postal ballot.

Section 115 & Rule 23(4) of the Companies (Management and Administration) Rules, 2014	Resolutions Requiring Special Notice	Where it is not practicable to give the notice in the same manner as it gives notice of any general meetings, such notice shall be posted on the website, if any, of the company.
Section 124(2) Unpaid Dividend Account		The Company shall, within a period of 90 days of making any transfer of an amount under section 124(1) to the Unpaid Dividend Account, prepare a statement containing the names, their last known addresses and the unpaid dividend to be paid to each person and place it on the website of the Company, if any, and also on any other website approved by the Central Government for this purpose, in such form, manner and other particulars as may be prescribed.
Section 135(4) and Rule 9 of the Companies (Corporate Social Responsibility Policy) Rules, 2014	Disclosures about Corporate Social Responsibility Policy (by a company to whom CSR is applicable)	The Board of every Company shall disclose contents of Corporate Social Responsibility Policy in its report and also place it on the Company's website, if any. In case of Specified IFSC Private Company - Section 135 shall not apply for a period of five years from the commencement of business of a Specified IFSC private company (refer Notification No.G.S.R.9(E) Dated 4th January, 2017)
Section 136(1) Right of Member to Copies of Audited Financial Statement	Placing of audited accounts of companies.	A listed company shall also place its financial statements including consolidated financial statements, if any, and all other documents required to be attached thereto, on its website. Every listed company having a subsidiary or subsidiaries shall place separate audited accounts in respect of each of subsidiary on its website subject to the proviso related to foreign subsidiary.
Section 168 & Rule 15 of the Companies (Appointment and Qualification of Directors) Rules, 2014	Notice of Resignation of director	The Company shall within 30 days from the date of receipt of notice of resignation from a director, intimate the Registrar in Form DIR-12 and post the information on its website, if any.
Section 230(3) & Rule 7 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016	Advertisement of the notice of the meeting pursuant to exercise of power to Compromise or make arrangements with creditors and members.	The notice of the meeting under section 230(3) of the Act, shall be placed on the website of the company, if any in Form No. CAA.2 at least 30 days before the date fixed for the meeting and in case of listed companies, also on the website of SEBI and recognized stock exchanges where the securities of the company are listed.

Newspaper Advertisements required to be given/ published by the private companies under the provisions of Companies Act, 2013

Section / Rule	Relevant Purpose	Mode
Rule 20(3) of the Companies (Incorporation) Rules, 2014	Application for Grant of License under section 8 by existing company.	The company shall within one week from the date of application, publish a notice in Form No. INC- 26 at least once in a one vernacular newspaper in the principal vernacular language of the district in which the registered office of the proposed company is to be situated or is situated, and circulating in that district, and at least once in English language in an English newspaper circulating in that district.

Section 13(4) read with Rule 30(6) of the Companies (Incorporation) Rules, 2014	Change in registered office from One State or Union Territory to another.	Every listed company having a subsidiary or subsidiaries shall place separate audited accounts in respect of each of subsidiary on its website subject to the proviso related to foreign subsidiary.
Section 73(2)(a) read with Rule 4(1) of the Companies (Acceptance of Deposits) Rules, 2014	Acceptance of Deposits.	<p>Circular in Form DPT-1 may be published in English language in an English newspaper and in vernacular language in a vernacular newspaper having wide circulation in the State in which the registered office of the company is situated.</p> <p>In case of private company - Clause la) to le) of Sub-section 2 of Section 73 shall not apply to Private Companies which accepts from its members monies not exceeding one hundred percent, of aggregate of the paid up share capital and free reserves, and such company shall file the details of monies so accepted to the Registrar in such manner as may be specified. (Notification No. G.S.R. 464(E) dated 5th June, 2015).</p>
Section 88 (4) read with Rule 7(5) of the Companies (Management and Administration) Rules, 2014	Closure of Foreign Register	A foreign register shall be open to inspection and may be closed, and extracts may be taken there from and copies thereof may be required, in the same manner, mutatis mutandis, as is applicable to the principal register, except that the advertisement before closing the register shall be inserted in at least two newspapers circulating in the place wherein the foreign register is kept.
Section 91(1) read with Rule 10(1) of the Companies (Management and Administration) Rules, 2014	Closure of Register of Members or debenture holders, Shareholders or other Security holders.	A company should publish a 7 days prior notice for the closure of the register of members or shareholders or other security holders at least once in a vernacular newspaper in the principal vernacular language of the district and having a wide circulation in the place where the registered office of the company is situated, and at least once in English language in an English newspaper circulating in that district and having wide circulation in the place where the registered office of the company is situated.
Section 103 (2)	Quorum at the meeting.	<p>If the Quorum is not present within half an hour in respect of meeting of members, such meeting shall stand adjourned to the same day in the next week at the same time and place, or to such other date, time and place as the Board may determine by giving not less than three day's notice to the members either individually or by publishing an advertisement in the newspapers (one in English and one in vernacular language) which is in circulation at the place where the registered office of the company is situated.</p> <p>In case of private company, Section 103 shall apply, unless otherwise specified in such section or the articles of the company provide otherwise vide Notification No. G.S.R.464(E) dated 5th June, 2015.</p>

Section 108 read with Rule 20(4)(v) of the Companies (Management and Administration) Rules, 2014	Voting through Electronic means	A company shall cause a public notice by way of an advertisement to be published, immediately on completion of dispatch of notices for the meeting under clause (i) of sub-rule (4) but at least twenty-one days before the date of general meeting, at least once in a vernacular newspaper in the principal vernacular language of the district in which the registered office of the company is situated, and having a wide circulation in that district, and at least once in English language in an English newspaper having country-wide circulation, and specifying the matters prescribed in the said sub-rule.
Section 110 read with Rule 22(3) of the Companies (Management and Administration) Rules, 2014	Postal Ballot	An advertisement shall be published at least once in a vernacular newspaper in the principal vernacular language of the district in which the registered office of the company is situated, and having a wide circulation in that district, and at least once in English language newspaper having a wide circulation in that district, about having dispatched the ballot papers and specifying the matters prescribed in the said sub-rule.
Section 115 read with Rule 23(4) of the Companies (Management and Administration) Rules, 2014	Resolution requiring Special Notice	Where it is not practicable to give the notice in the same manner as it gives notice of any general meetings, the notice shall be published in English language newspaper and in vernacular language newspaper, both having wide circulation in the state where the registered office of the Company is situated.
Section 230(3) read with Rule 7 of the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016	Power to compromise or make arrangements with creditors and members	The notice of the meeting under subsection (3) of section 230 of the Act shall be advertised in Form No. CAA.2 in at least one English newspaper and in at least one vernacular newspaper having wide circulation in the State in which the registered office of the company is situated, or such newspapers as may be directed by the Tribunal.

Question: If ABCD LLP has a total contribution of Rs. 2, 00,000/- being undertaken by the Partner AB and CD in equal proportion i.e. Rs. 1,00,000/- each but AB has transferred the amount of Rs. 1,11,000/- in ABCD LLP's Bank Account stated the contribution.

- (a) What will be the contribution of CD in the LLP?
- (b) What will happen to the excess contribution contributed by AB?

LESSON ROUND UP

- The entity wise compliances of the companies categorized as listed company, Public company, Private company, Section 8 company, which is further sub-categorized as One Person company, Small company, Government company.
- The activity wise compliances are the compliances relating to the Business Activities of the company such as Banking Company, Insurance Company, Housing Development Company, IFSC Company, NBFC, Section 8 Company, Producer Company, Chit Fund Company, Plantation Company etc.

- The sector wise compliances includes the various sectors such as Agriculture & Allied Activities, Manufacturing, Construction, Power, Electricity; Gas & Water; Mining & Quarrying, Business Services, Real Estate and Renting, Trading, Community; personal & Social Services, Transport; storage & communications, Finance, Insurance etc.
- For identification of the industries specific compliance, it requires the correlation the business activity of the company and the various sector specific laws applicable to such business activity.

GLOSSARY

Perpetual Succession	It means that the continuity of a business organization or any other association will not be affected by way of demise, insanity, liquidation, or a change in enrollment of any of its members.
Pari-Passu	It means at the same level or at the same footing. In legal maxim it means that all unsecured creditors in insolvency processes must share equally any available assets of the company, or individual, or any proceeds from the sale of any of those assets, in proportion to the debts due to each creditor.
Sweat Equity Shares	They are the shares which are issued by the Company to its Directors or employees for non-cash consideration or at discount for making available rights in the form of intellectual property rights or providing any value additions in any form.
Key Managerial Personnel (KMP)	According to section 2(51) of the Companies Act, 2013 means: <ul style="list-style-type: none"> (a) Chief executive Officer (CEO) OR the Managing Director (b) Chief Financial Officer (CFO), and (c) Company Secretary (CS)
Officer in Default	Section 2(60) of the Companies Act, 2013 mentions officers such as whole-time director, KMP, directors, etc. who shall be liable to any penalty or punishment in case of default committed by the company under the Companies Act, 2013.

TEST YOURSELF

(These are meant for recapitulation only, Answer to these questions are not to be submitted for evaluation)

1. Illustrate the compliance requirement relating to-
 - Signing of the financial statement of the private company
 - Signing of Directors report
2. List out the records which are required to be maintained by the LLPs under the LLP Act, 2008.
3. Discuss the various exemption availed to the Section 8 companies under the Companies Act, 2013
4. Describe the procedure for identification of the activity wise compliances, Sector wise compliances and Industry specific compliance in a company.
5. Why does compliance management crucial to any business?
6. List out the disclosures to be made at the website of the Company.
7. Explain the process of Corporate Compliance Reporting with the help of a flow chart.

LIST OF FURTHER READINGS**ICSI Publication:**

- Guidance note on Secretarial Audit
- Secretarial Standards
- Referencer on Boards Report
- FAQs on Companies Act, 2013, Section 8 company, Small Companies, One Person Companies
- SEBI (Listing Obligations And Disclosure), Regulations, 2015.
- Ready Reckoner for Private companies
- CS as Corporate Saviour for various Industries

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- www.mca.gov.in
- www.sebi.gov.in
- https://static.mygov.in/rest/s3fs-public/mygov_160975438978977151.pdf
- <https://prsindia.org/policy/report-summaries/revised-draft-non-personal-data-governance-framework>

Lesson 3

Documentation and Maintenance of Records

Key Concepts One Should Know

- Repository
- Portability
- Hierarchical structures
- Litigation
- Proprietary information
- Trade secrets

Learning Objectives

To understand:

- How documentation provides a thorough knowledge of the history and present status of any activity.
- How documentation provides a historical backgrounds what has already been done in past and what is yet to be done in future.
- That effective documentation provides easy access to the required information on time for the effective and timely utilization of the Information.
- The importance of the documentation and record maintenance and the principles of the good documentations

Regulatory Framework

- The Companies Act, 2013
- SEBI (LODR) Regulations, 2015
- The Companies (Management & a documentation) Rules 2014

Lesson Outline

- Introduction
- Purpose of Documentation
- Electronic Repository of Documents
- Maintenance and Inspection of documents in electronic form under Companies Act, 2013
- Physical Repository
- Virtual and Physical data room – A comparison
- Coding and Nomenclature
- Circulation of Documents
- Safety & Retrieval of Records
- Preservation of Records
- Setting up of a record room
- Privacy of Records and its control
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

INTRODUCTION

The primary responsibility of a company secretary is to prepare and maintain the secretarial and other records, which are required to be kept by the company and in many cases the role is extended towards creating & execution of the critical corporate records. This requires a good understanding of what documents need to be created, what is the purpose of such documentation, how much details are required to be disclosed in any documents etc.

At the next level of the documentation, it is the duty of the company secretary to ensure the confidentiality of the documents and check whether or not the document requires any further action, also to check whether it is consistent with prior records (in both substance and form), or if it conflicts with corporate policies, may create concerns under existing agreements, may result in a violation of law, or may have tax implications etc.

The Company secretary is also responsible for storing, maintaining, retrieving, certifying, and explaining corporate documents. Many issues are implicated relating to document storage, including the span of time the records need to be retained, ensuring the documents are stored in a safe place, whether documents are backed up, either in hard copy or electronically, and their timely access. A company secretary is often responsible for documents relating to subsidiaries, joint ventures, consortiums, and other entities also, many of which may be at locations other than corporate headquarters, including locations around the world. In such cases, the company secretary must consider whether and to what extent, he should rely on local partners in maintaining and creating corporate records, as well as to what extent he or she must exercise oversight. The secretary may also execute documents on behalf of the company and may be involved in maintaining or advising with respect to the corporate website and social media.

PURPOSE OF DOCUMENTATION



Client Service: Documentation is a tool for professionals to serve better to their clients in a timely and effective manner.

Communication as: Documentation is the base for better communication between professionals. Clear, complete, accurate and factual documentation provides a reliable permanent record of client.

Accountability: Documentation demonstrates Professional accountability and records the work of the professional. It may be used in relation to performance management, internal inquiries, regulatory proceedings and/or legal proceedings.

Professional Responsibility: Documentation is an integral part of professional practice and forms the basis for evidence of professional conduct.

Legal Requirement: Professionals are required to make and keep records of their professional work in accordance with practice standards followed and organisational policy. However, the laws mandate specific information to be recorded and maintained.

Quality: Documentation may be used to evaluate professional practice in terms of Peer reviews, Quality reviews, audits and accreditation processes, Regulatory inspections or critical incident reviews.

Research: Documentation is a valuable source of data for researchers. It provides information to professional, evaluates client outcomes and is a concise record, essential for accurate research data and evidence based practice.

Resource Management: Accurate and comprehensive documentation is a valuable source of evidence and provide basis for resource management.

Guiding Principles of Good Documentation

The term documentation includes any and all forms of documentation recorded by a person in professional capacity in relation to his professional duties and includes written and electronic records, audio and video tapes, emails, facsimiles, images (photographs and diagrams), charts, check lists, communication books, management reports, incident reports and working notes or any other type or form of documentation. The good documentation promotes good corporate governance practices and compliance level of the company and also improves communication and dissemination of information between and across various stakeholders. These guiding principles support professionals, employers, policy makers and managers in assessment, planning, execution and evaluation. Also, the good documentation practices and policies demonstrate the professional obligation, accountability and legal requirement to communicate and record client information and good secretarial practice.

The guiding principles for good documentation are as under:

- Clear
- Concise
- Complete
- Contemporary
- Consecutive
- Correct
- Comprehensive
- Collaborative
- Client Centric
- Confidential

Examples of Poor Documentation Practices

The following are the some of the examples of poor documentations practices:

- Document with errors, correction, not signed/dated, and didn't include a reason for the correction;
- Write-overs, multiple line-through and use of "White-out" or other masking device;
- Recording of events is not in sequence & tabled;
- Standards operating procedures as adopted by the professional is not authorised;
- The delegation of work is not recorded / documented;
- Out-of-specification procedure not detailed enough; flow chart and /or check list not available.

Examples of Good Documentation Practices

The following are some of the examples of good documentations practices:

- Records should be completed at time of activity or when any action is taken;
- Superseded documents should be retained for a specific period of time;
- Concise, legible, accurate and traceable;
- Picture is worth a thousand words;
- Clear examples;
- Don't assume knowledge.

Question: Which of the following is an example of Poor Documentation?

- Options:** (A) Not assuming the knowledge
(B) Adding of Pictures
(C) Recording of events is non-sequentially
(D) Concise, legible, accurate and traceable

Answer: (C)

ELECTRONIC REPOSITORY OF DOCUMENTS

Document management refer the process of managing and tracking of the documents and records through an electronic or physical source of documents.

In an electronic repository, Document Management Systems (DMS) works by using a computer system and software to store, manage and track electronic documents and electronic images of paper based information captured through the use of a scanner.

The term document management system can be defined as the software that controls and organizes documents of an organization. It incorporates document and content capture, workflow, document repositories and output systems, and information retrieval systems. Also, the processes used to track, store and control documents.

Advantages of DMS

- Tracking on check-in/check-out by various officers
- Locking and unlocking of Document
- Simultaneous editing
- Document Version Control
- Roll-back options / Retrieve option
- Ease in Audit trail
- Annotation and Stamps

Advantages of the electronic records

- **Cost Effective:** Storing and maintaining records in digital form is much cheaper than in any other format. With the increase in the technology advancement, the Digital media costs drop every day. Today, digital storage costs a 1000th of what it cost just a few decades ago, so the storage costs are continually dropping for electronic images.
- **Ease of use:** It's very easy to locate and share electronic documents through Computers aid searching now a days the process of filing doesn't exist anymore. The Document management system take care for finding and maintaining Records consistent locations.
- **Labor savings:** The labor required to locate, manage and dispose of electronic documents is almost nil and minimum. With electronic documents, all the steps like filing collating, stapling etc. can be automated and that labor completely disappears.
- **Search ability:** Electronic documents can be made searchable by doing OCR of a document and make the whole text keyword searchable. That is not possible with paper documents.

- **Portability:** It's very easy to transport electronic documents. No more boxes of records and trucks and semi-trucks to haul records archives. They can easily be stored on a removable hard drive or thumb drive and taken to the courthouse or to the field office.
- **Version tracking:** In case of the version tracking it is very easy with electronic documents, making it easy to see who has made changes to a document, when they made those and what the document looked like before the change. Version tracking and document management in the hard copy world is much more complex and much more costly.

Question: Which of the following is not an advantage of DMS?

- Options:** (A) Tracking on check-in/check-out by various officers
(B) Locking and unlocking of Document
(C) Simultaneous editing
(D) Difficult Audit Trials

Answer: (D)

Disadvantage of Electronic records

- **Software risk:** Storing records in an electronic document management system, have a risk that the system being no longer supported by the software company; that the company will cease to exist; and that the documents will be locked in an unsupported system and have to pay conversion costs to recover them. So, the person is somewhat at risk to the software vendor that manages the records.
- **Format risk:** When storing the records in electronic format, a person run the risk of not being able to read them at some point. For example, some of the software are become the standard storage format now a days like PDF, JPEG, etc., but there is a risk that such software will cease to exist, be purchased or no longer support PDF format, and then it will be difficult in the future to read those PDF documents. Though such software provides to address this with their PDF or archive PDF format, which is supported by software code escrow and other measures that should make it forward and backwards compatible for years and years to come, but it is a risk.
- **Reliability:** Paper is an agnostic format. All person needs to have is a light source and some eyes to be able to read paper. It's a good idea to have most vital documents imaged, but keeping a paper copy assures that the person have access to them anytime. A person should keep a paper copy of vital documents - deeds, corporate documents-stored in a safe off-site location.
- **Portability:** The portability is an advantage for digital images. It's very easy to misplace or accidentally delete large amounts of data. It's very easy mode for data to duplicated and transported outside of any organization without permission or knowledge. It's very easy for it to be misplaced or corrupted as well. The very properties that make it easy to use, also make it easy to steal and easy to delete if the proper safeguards aren't in place but those safeguards are expensive.

MAINTENANCE AND INSPECTION OF DOCUMENTS IN ELECTRONIC FORM UNDER COMPANIES ACT, 2013

Section 120 of the Companies Act, 2013 read with Rule 27 & 28 of Companies (Management and Administration) Rule, 2014 provides for maintenance of documents in electronic form. The provisions also provide for inspection of documents maintained in electronic form. It states that any document, record, register, minutes, etc. that are required to be kept by a company or allowed to be inspected or copies to be given to any person by a company under the Act, may be kept or inspected or copies given, as the case may be, in electronic form. Rule 27 provides that every listed company or a company having not less than one thousand shareholders, debenture holders and other security holders, may maintain its records in electronic form.

Section 2(36) of the said Act relates to the definition of "document" which includes summons, notice, requisition, order, declaration, form and register, whether issued, sent or kept in pursuance of Companies Act or under any other law for the time being in force or otherwise, maintained on paper or in electronic form.

The term “records” means any register, index, agreement, memorandum, minutes or any other document required by the Act or the Rules made thereunder to be kept by a company. Therefore, such documents and records can also be maintained in electronic form.

However, the records in electronic form shall be maintained in such manner as the Board of directors of the company may think fit, Provided that -

- (a) the records are maintained in the same formats and in accordance with all other requirements as provided in the Act or the rules made there under;
- (b) the information as required under the provisions of the Act or the rules made there under should be adequately recorded for future reference;
- (c) the records must be capable of being readable, retrievable and reproducible in printed form;
- (d) the records are capable of being dated and signed digitally wherever it is required under the provisions of the Act or the rules made there under;
- (e) the records, once dated and signed digitally, shall not be capable of being edited or altered;
- (f) the records shall be capable of being updated, according to the provisions of the Act or the rules made there under; and the date of updating shall be capable of being recorded on every updating.

Security of Records Maintained in Electronic Form- Rule 28

- (1) The Managing Director, Company Secretary or any other director or officer of the company as the Board may decide shall be responsible for the maintenance and security of electronic records.
- (2) The person who is responsible for the maintenance and security of electronic records shall-
 - (a) provide adequate protection against unauthorized access, alteration or tampering of records;
 - (b) ensure against loss of the records as a result of damage to, or failure of the media on which the records are maintained;
 - (c) ensure that the signatory of electronic records does not repudiate the signed record as not genuine;
 - (d) ensure that computer systems, software and hardware are adequately secured and validated to ensure their accuracy, reliability and consistent intended performance;
 - (e) ensure that the computer systems can discern invalid and altered records;
 - (f) ensure that records are accurate, accessible, and capable of being reproduced for reference later;
 - (g) ensure that the records are at all times capable of being retrieved to a readable and printable form;
 - (h) ensure that records are kept in a non-rewriteable and non-erasable format like pdf. version or some other version which cannot be altered or tampered;
 - (i) ensure that at least one backup, taken at a periodicity of not exceeding one day, are kept of the updated records kept in electronic form, every backup is authenticated and dated and such backups shall be securely kept at such places as may be decided by the Board;
 - (j) limit the access to the records to the managing director, company secretary or any other director or officer or persons performing work of the company as may be authorized by the Board in this behalf;
 - (k) ensure that any reproduction of non-electronic original records in electronic form is complete, authentic, true and legible when retrieved;
 - (l) arrange and index the records in a way that permits easy location, access and retrieval of any particular record; and
 - (m) take necessary steps to ensure security, integrity and confidentiality of records.

PHYSICAL REPOSITORY

The term Physical repository refers to a central place where data is stored and maintained. A repository can be a place where multiple databases or files are located for distribution over a network, or a repository can be a location that is directly accessible to the user without having to travel across a network. The comparison between the virtual and Physical data room is illustrated as under:

VIRTUAL AND PHYSICAL DATA ROOM - A COMPARISON

Sl.No.	Particulars	Physical Data Room	Virtual Data Room
1	Form of documents	Papers, files, boxes or other tangible thing	Electronic/Digital/soft copies of documents including video/audio documents
2	Security of documents	Lies with the integrity of person who is in-charge of the data room	More secured through specific log-in id and pass word. In addition facilities like internet fire walls are there.
3	Time required for creation of data room	Longer time required.	Can be created within 48 hours once demands of prospective bidders are identified.
4	Cost	Cost is high because of reasons like- Requirement of one person to take care of data room. Requires bidders to travel from their place to the place of location of data room, etc.	Cost is Low as the documents can be viewed from any location with internet security.
5	Convenience	Searching the documents is time consuming	More convenient as it enables multiple bidders to review documents at the same time with search facility also.
6	Accessibility to data room	Timings to access data may be restricted	Data may be accessed nearly any time.
7	Facility to restrict access of specific document	Difficult to implement any Restriction	Access can be restricted.
8	Facility to check who has reviewed what documents and how many times	Available with high cost	Available with negotiable cost
9	Facility to highlight new information	To be conveyed manually to all bidders	A highlight can be made in the website created as data room
10	Ability to copy documents	Possible	Not possible always
11	One to one communication with the seller or his representatives	Available	Not available

CODING AND NOMENCLATURE

For naming of any documents Adopting good file naming conventions can help ensure that files will work with different operating systems. Further, the file names can be either self-descriptive or non-descriptive.

The **Descriptive file** names are useful for small, well-defined projects with existing identification schemes that link the digital object to the source material. However, inconsistent application of terms or typos will increase to indexing and sorting errors.

Non-descriptive file names are usually system-generated sequential numerical string or the system based, such as a digital ID number, combination of Date and time, name of original file and are often linked to meta data stored elsewhere. Non-descriptive file names are often created for large scale digitization projects and may employ a digital ID number and numerical sequences to indicate batch or parent-child relationships. The advantage of non-descriptive names is that there is less chance of repeated or non-unique file names within a data structure.

Some applications and computer scripts could not recognize spaces or process files differently when using spaces. A best practice is to replace spaces in file names with an underline (_) or hyphen (-).

However, the punctuation, symbols, or special characters (periods, commas, parentheses, ampersands, asterisks, etc.) should be avoided. The following are best practices for file naming.

The File names should:

- Be unique and consistently structured;
- Be persistent and not tied to anything that changes over time or location;
- Limit the character length to no more than 25-35 characters;
- Use leading 0s to facilitate sorting in numerical order if following a numeric scheme “001, 002, 010, 011 ... 100, 101, etc.” instead of “1, 2, ...10, 11 ... 100, 101, etc.”;
- Contain a file format extension;
- Use a period followed by a file extension (for example, .tif, .jpg, .gif, .pdf, .wav, .mpg);
- Use lowercase letters. However, when a name has more than one word, start each word with an uppercase letter for example, “File_Name_Convention_001.doc”;
- Use numbers and/or letters but not characters such as symbols or spaces that could cause complications across operating platforms;
- Use hyphens or underscores instead of spaces;
- Use standard date notation (YYYY-MM-DD or YYYYMMDD);
- Avoid blank spaces anywhere within the character string; and
- Not use an overly complex or lengthy naming scheme that is susceptible to human error during manual input, such as “filenameconventionjoesfinalversioneditedfinal.doc”.

The strength of a folder and file naming convention is dependent on the proposed naming structure and the quality and quantity of the data elements chosen to build it. It should be of no surprise that for any business activity there is always an ideal naming structure. However, any structured naming convention that attempts to be all encompassing may result in overkill and unwieldiness.

The ten basic rules that could serve as a general guideline in structuring folder and file naming are:

S.No.	Particulars	Dos	Don'ts	Reason
1	Avoid extra long folder names and complex hierarchical structures but use information-rich filenames instead.	D:\ABC\FY\16-17\AR\MGT-7.doc	D:/ Alfa Botanicals Private\Financial Year\2016-2017\Annual Return\Form MGT-7.doc	Complex hierarchical folder structures require extra browsing at time of storage and at the time of file retrieval. By having all the essential information concisely in the file name itself, both the search and identification of the file is streamlined and more precise.
2	Put sufficient elements in the structure for easy retrieval and identification but do not overdo it.	ABC_SearchReport_Invoice 20.07.2018.pdf	ABC_Report_Invoice.pdf	Precision targeted retrieval requires sufficient elements to avoid ambiguous search results but too much information adds undue effort at file naming time with little or no returns at retrieval time.

3	Use the underscore (_) as element delimiter. Do not use spaces or other characters such as: ! # \$ % & ' @ ^ ` ~ + , . ; =) (SMITH-J_ AXA_7654-6_ POLICY_20120915. pdf FUJITSU_ S1500_SPEC_ Scanner.pdf	SMITH-J AXA 7654-6 POLICY 20120915.pdf FUJITSU \$S1500\$ SPEC\$Scanner.pdf	The underscore (_) is a quasi standard for field delimiting and is the most visually ergonomic character. Some search tools do not work with spaces and should be especially avoided for internet files. Other characters may be interesting but visually confusing and awkward.
4	Use the hyphen (-) to delimit words within an element or capitalize the first letter of each word within an element.	Smith-John_AIG _7654-6_POLI- CY_2009-09-15. pdf WhitePaper_ Structured File Naming Strategy.doc	Smith John AIG 7654 6 POLICY 2009 09 15.pdf White Paper Structured file naming strategy.doc	Spaces are poor visual delimiters and some search tools do not work with spaces. The hyphen (-) is a common word delimiter. Alternatively, capitalizing the words within an element is an efficient method of differentiating words but is harder to read
5	Elements should be ordered from general to specific detail of importance as much as possible.	FY2009_Acme- Corp_Q3_ TrialBal_20091015_ V02.xls Production_ Paint-Shop_ WorkOrder_775-2. xls	TrialBal _Q3_20091015_ Acme-Corp_V02_ FY2009.xls Paint-Shop_775-2_ WorkOrder_ Production.xls	In general the elements should be ordered logically, in the same sequence that you would normally search for a targeted file.
6	The order of importance rule holds true when elements include date and time stamps. Dates should be ordered: YEAR, MONTH, DAY. (e.g. YYYYMMDD, YYYYMMDD, YYYYMM). Time should be ordered: HOUR, MINUTES, SECONDS (HHMMSS).	RFQ375_Cables- Unlimited _BID_20091015- 1655.pdf 2009- 11-20_AMATProj_ Phase1_Report.doc	RFQ375_Cables- Unlimited _BID_10152009- 1655.pdf Nov-20- 2009_AMATProj_ Phase1_Report.doc	To ensure that files are sorted in proper chronological order the most significant date and time components should appear first followed with the least significant components.
7	Personal names within an element should have family name first followed by first names or initials.	Tate-Peter_SunLife _1-7566-2_ POLICY_10YrTerm. pdf SmithJ_ ID3567_ADMIN_ WageReview.xls	Peter-Tate_SunLife _1-7566-2_POLI- CY_10 Year Term.pdf JSmith_ID3567_ ADMIN_Wage Review.xls	The family name is the standard reference for retrieving records. Having the family name first will ensure that files are sorted in proper alphabetical order.
8	Abbreviate the content of elements whenever possible.	RevQC_ QST_2009-Q2.xls MCIM_27643_POD. doc	Minister of Revenue Quebec_Quebec- Sales-Tax_2009- 2ndQuarter. xls MultiCIM- Technologies- Inc_27643_Proof-Of- Delivery.pdf	Abbreviating helps create concise file names that are easier to read and recognize.
9	An element for version control should start with V followed by at least 2 digits and should be placed as the last most element. To distinguish between working drafts (i.e. minor revisions) use Vx-01->Vx-99 range and for final draft (i.e. major version release) use V1-00-> V9-xx. (where x=0-9)	MCIM_Proposal_ V09.doc eXadox_ UserManual_V1-02. doc	MCIM_Proposal_9. doc eXadox_ UserManual_ V2FinalDraft.doc	The "V" helps denote that the element pertains to a version number. A minimum of 2 digits with a leading zero is required to ensure that search results are properly sorted. The intent is to avoid the situation where for example, a filename with a "V1-13" will wrongly appear before an identical filename with a "V1-2" version number when sorted in

				ascending alphabetical/numerical order. To distinguish between working, review and final draft a single digit prefix followed by hyphen "-" is preferred to facilitate proper sorting; using words in the file name such Final, Draft or Review in the filename affect the order and should be avoided.
10	Prefix the names of the pertinent sub-folders to the file name of files that are being shared via email or portable storage devices.	Prod_PS_AssL7_WO_Suzuki_J3688-20090725.xls FY2009_Acme-Corp_Q3_TrialBal_20091015_V02.xls	WO_Suzuki_J3688-20090725.xls Q3_TrialBal_20091015_V02.xls	Attached files and files shared through portable devices include only the file name and can be totally devoid of the context that is generally provided by the folder structure of origin. To compensate and avoid confusion it is sometimes essential to prefix the name of the subfolder(s) to such file names.

Case Law

14.07.2020	Arjun Panditrao Khotkar vs. Kailash Kushanrao Gorantayal and Ors.	Supreme Court of India
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The premise that Certificate under section 65-B(4) cannot be secured by persons who are not in possession of an electronic device is wholly incorrect. An application can always be made to a Judge for production of such a certificate

Facts: These Civil Appeals were referred to a Bench of Judges of Supreme Court by a Division Bench, dealing with the interpretation of Section 65B of the Indian Evidence Act, 1872 by two judgments. It was found by the court that a Division Bench judgment in Shafhi Mohammad v. State of Himachal Pradesh (2018) 2 SCC 801 may need reconsideration by a Supreme Court Bench of a larger strength. In the case of Shafhi Mohammad (supra) . it was observed by Supreme Court that it can be safely held that electronic evidence is admissible and provisions under Sections 65-A and 65-B of the Evidence Act are by way of a clarification and are procedural provisions. If the electronic evidence is authentic and relevant the same can certainly be admitted subject to the Court being satisfied about its authenticity and procedure for its admissibility may depend on fact situation such as whether the person producing such evidence is in a position to furnish certificate under Section 65-B(4).

Decision: The supreme court observed that the major premise of Shafhi Mohammad (supra) that the certificate under section 65-B(4) cannot be secured by persons who are not in possession of an electronic device is incorrect. An application can always be made to a Judge for production of such a certificate from the requisite person under Section 65B(4) in cases in which such person refuses to give it.

Reference: https://main.sci.gov.in/supremecourt/2017/39058/39058_2017_34_1501_22897_Judgement_14-Jul-2020.pdf

Question: Description file names are usually system-generated sequential numerical string or the system based, such as a digital ID number, combination of Date and time, name of original file and are often linked to meta data stored elsewhere.

Options: (A) True (B) False (C) Partly True

Answer: (B)

According to 65A of Indian Evidence Act, 1872, the contents of electronic records may be proved in accordance with the provisions of section 65B.

CIRCULATION OF DOCUMENTS

In a company efforts shall be established to control the issuance of documents, such as instructions, procedures, and drawings, including changes thereto, which prescribe all activities affecting quality of the document & record. These measures shall assure that documents, including changes, are reviewed for adequacy and approved for release by

authorized personnel and are distributed to and used at the location where the prescribed activity is performed. Changes to documents shall be reviewed and approved by the same authority that performed the original review and approval unless the organization designates another responsible Authority.

SAFETY AND RETRIEVAL OF RECORDS

To assure the best quality of documents, it is to be assured that sufficient records are maintained to furnish evidence of the activities affecting quality. The records should incorporate the following:

- **Operating logs :** the names of the individuals who all have worked on the same documents
- **Results of reviews:** the recording of the changes suggested by each reviewer and basis of the rejection on Non agreement
- **Inspections:** list of individuals who have access of the records and have inspection rights of the same.
- **Monitoring of work performance :** will ease in the monitoring of work performed by the person to whom the file is shared,
- **Information analyses:** Provide ease in the Information system of the organization and tracking of files.

Records should be identifiable and retrievable and should consistent with applicable regulatory requirements; the company should comply with requirements concerning record retention, such as duration, location, and assigned responsibility. Every record must be well managed in order to ensure that they are protected for both administrative purposes and to serve as evidence of the organization's work. Records management provides a professional approach to caring for records. The care of records and archives is governed by three key concepts.

(i) Keeping together

The records must be kept together according to the department / Section responsible for their creation or accumulation, in the original order established at the time of their creation. This gives them their 'evidential' nature and distinguishes them from other kinds of information. It is the basis for retrieving information from records. Knowing who created or used a record, and where, when and why, is the key to retrieval rather than their format, subject matter or content. This is true for paper-based records as well as the electronic records.

(ii) Ensure life cycle

Every records follow a 'life-cycle', in that they are created, used for so long as they have continuing value and then disposed of by destruction or by transfer to an archival institution. Every record pass through three main phases, i.e. current phase, semi-current phase and non-current phase.

In the **current phase**, they are used regularly in the conduct of current business and maintained in their place of origin or in the file store of an associated records office or registry.

In the **semi-current phase**, they are used infrequently in the conduct of current business and are maintained in a records center.

In the non-current phase they are destroyed unless they have a continuing value which merits their preservation as archives in an archival institution. The effective management of records throughout this life-cycle is a key issue in civil service reform.

(iii) Record Preservation

The care of records and archives is that the care should be managed through a coherent and consistent range of actions from the development of record-keeping systems, through the creation and preservation of records to their use as archives.

The concept suggests that four actions continue or reappear throughout the life of a record: i.e., identification of records; intellectual control; provision of access; and physical control. The management of this continuum of actions provides the basis for a strategic approach to records management.

PRESERVATION OF RECORDS

Preservation of records refers to the implementation of strategies that enhance and prolong the useable life of records and archives. Preservation encompasses storage and handling. Responsibility for the preservation of records is vested in the creating office during the active and semi-active phases of the records life-cycle. The other offices are charged with ensuring accessibility in the short and medium terms. However, where it is evident that records will be required as archives, and to assist the organization in long-term preservation, standards in the storage and handling of records should refer to the long term rather than short or medium terms. The provisions of Regulation 9 and 30(8) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 state the provisions of preservations of records as under:

Preservation of Documents

Regulation 9 provides that the listed entity shall have a policy for preservation of documents, approved by its board of directors, classifying them in at least two categories as follows-

- (a) documents whose preservation shall be permanent in nature ;
- (b) documents with preservation period of not less than eight years after completion of the relevant transactions:

Provided that the listed entity may keep documents specified in clauses (a) and (b) in electronic mode.

Regulation 30(8) provides that the listed entity shall disclose on its website all such events or information which has been disclosed to stock exchange(s) under regulation 30(Disclosure of events or information by listed entities), and such disclosures shall be hosted on the website of the listed entity for a minimum period of five years and thereafter as per the archival policy of the listed entity, as disclosed on its website.

Accordingly, the companies are required to prepare a policy statement relating to the preservation of its documents and archival of documents in the website. The following factors need to be considered in the preparation of the preservation and archival policy of the company.

- Analysis and Restructuring Existing Systems
 - reviewing and revising legislation and policies
 - reviewing and revising organizational policies and structures
 - determining resource requirements, such as facilities and staffing
 - developing strategic and business plans.
- Organizing and Controlling Records
 - building sound record-keeping systems
 - managing the creation, maintenance, and use of files.
- Providing Physical Protection for Records
 - implementing and maintaining preservation measures
 - developing emergency plans to protect records
 - identifying and protecting vital records.
- Managing Records in Records Centers
 - developing and maintaining records center facilities
 - transferring, storing and retrieving records according to disposal schedules
 - disposing of records as indicated by the schedules.
- Managing Archives
 - acquiring and receiving archives
 - arranging and describing archives according to archival principles
 - providing public access to the archives.

- Supporting and Sustaining the Program
 - promoting records services to the government and the public
 - promoting education for records and archives personnel
 - developing and expanding the records and archives professions.

Question : Which of the following regulation of SEBI (LODR) Regulations, 2015 provides for disclosures to be hosted on the website of the listed entity for a minimum period of five years and thereafter as per the archival policy of the listed entity, as disclosed on its website.

Options: (A) Regulation 9(8) (B) Regulation 30(8)
(C) Regulation 19 (D) Regulation 91

Answer: (B)

Preservation of Litigation Documents

Documents arising out of various litigation wherein a company is a party in any manner, shall need to be preserved as per the directions/orders of the court/s/tribunal/s/judicial/other authority/ies as may be applicable, in absence of which the documents shall be preserved for a period of not less than eight consecutive calendar years after conclusion of the litigation.

Deviation from the Policy

Any court/s/tribunal/s/judicial/other authority/ies shall have the power to direct a company to produce / preserve and/or destroy any document/s, however, if any document/s has/have been destroyed pursuant to the Policy followed as per the SEBI Regulations, herein, it may not be possible for the company to produce such document/s, therefore, necessary permission to that effect has to be taken by the company and/or a statement to that effect shall be given by the company from/to the relevant authorities. Any other action/s shall need to be taken as may be advised by these authorities.

Model Policy

The model policy on preservation of Documents and archival of documents is as under:

POLICY ON PRESERVATION OF DOCUMENTS AND ARCHIVAL OF DOCUMENTS IN THE WEBSITE

[Under Regulation 9 and 30(8) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015]

1. PURPOSE AND SCOPE

The purpose of this document is to present a policy statement for (Company) regarding preservation of its documents and archival of documents on the website in accordance with the provisions of the Companies Act, 2013 and Regulation 9 and 30(8) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR").

The policy is framed for the purpose of systematic identification, categorization, maintenance, review, retention and destruction of documents received or created in the course of business. The policy gives guidelines on how to identify documents that need to be maintained, how long certain documents should be retained, how and when those documents should be disposed of, if no longer needed and how the documents should be accessed and retrieved when they are needed.

2. CLASSIFICATION OF DOCUMENTS TO BE PRESERVED / RETAINED

The Company's physical and electronic documents shall be classified for the purpose of preservation as follows:

- A. Documents whose preservation shall be permanent in nature;
- B. Documents whose preservation period shall not be less than eight years after completion of the relevant transactions;

- C. Documents whose preservation shall be for a minimum period of three years after completion of the event.

The details of documents for the above three categories are given in the Annexure.

3. PRINCIPLE OF RESPONSIBILITY OF EMPLOYEES FOR PRESERVATION OF DOCUMENTS

All the Employees in the permanent rolls of the Company are responsible for taking into account the potential impacts on preservation of the documents in their work area and their decision to retain/preserve or destroy documents pertaining to their area.

4. PERIODICAL REVIEW OF THE POLICY

The Chief Executive Officer/ Managing Director/ Whole-time Director of the Company is authorised to periodically review the policy and make such changes as considered necessary.

5. SUSPENSION OF RECORD DISPOSAL IN THE EVENT OF LITIGATION OR CLAIMS

In case the Company is served with any notice for request of documents or any employee becomes aware of a governmental investigation or audit concerning the Company or commencement of any litigation against the Company, any further disposal of documents connected with the matter shall be suspended until such time the investigation / litigation ends.

6. STATUTORY REQUIREMENTS

If as per any other law of land including Information Technology Act, a physical or electronic record should be preserved for a longer period than what has been stipulated in this policy, then the document shall be preserved as per the applicable statutory stipulations.

7. WEB ARCHIVAL POLICY

The Company shall disclose on its website all events or information which has been disclosed to stock exchange(s). <<Not required>> We should be specific.

Such disclosures shall be retained on the website of the Company for a minimum period of five years.

At the end of the fifth year the information shall be archived and preserved for a further period of three years.

ANNEXURE

A. Documents whose preservation shall be permanent in nature:

1. Property records including purchase and sale deeds, licences, copyrights, patents & trademarks
2. Corporate Records including Certificate of Incorporation, Common Seal, Minutes of Board, Committee and Shareholders' Meetings, Register of Members and other Statutory Records
3. Personal files of all live employees
4. Any other record as may be decided by the Chief Executive Officer/ Managing Director/ Whole-time Director of the Company from time to time.

B. Documents whose preservation period shall not be less than eight years after completion of the relevant transactions:

1. Books of Account, Bank Statements and vouchers.
2. Filings with Stock Exchanges, Registrar of Companies and other statutory authorities.
3. Payroll Records, Employee deduction authorisations, attendance records, employee medical records, leave records, Pension and retiral related Records, etc.
4. Corporate Social Responsibility Records
5. Sponsorship Projects Records
6. Correspondence and Internal Memoranda
7. Any other record as may be decided by the Chief Executive Officer of the Company from time to time.

C. Documents whose preservation shall be for a minimum period of three years after completion of the event:

1. Tender Documents
2. Lease Deeds and Contracts
3. Legal files
4. Insurance Records including policies and claims
5. All e-mail correspondence, internal & external <<Where it is coming from>>
6. Documents under Secretarial Standards

Proof of sending Notice of the meetings of the Board / Committee and General meetings and its delivery.

Proof of sending Agenda and Notes on Agenda and their delivery.

Proof of sending and delivery of the draft of the Resolution.??

Proof of sending draft Minutes of the Board / Committee and its delivery.

Proof of sending signed Minutes of the Board / Committee and its delivery.

7. Any other record as may be decided by the Chief Executive Officer/ Managing Director/ Whole-time Director of the Company from time to time.

SETTING UP OF A RECORD ROOM

The Records room must be located at convenient location to the accesses of the record. The record room should be kept separate from other administrative units and should be large enough to house the relevant files. The accommodation must be secure and well maintained, and it must be of strong construction so that it can bear the weight of the records.

Sometimes the Due to the absence of the proper record room, the documents were stored for years in a basement or in an attic which are the worst places to preserve them. The best conditions for conservation of Physical Records are a neat environment, free of dust, with controlled light, humidity and temperature. The following factors should be considered while setting up the Data Room:

Humidity: It's a very important factor. An excess of humidity creates fungus and produces a proliferation of corrosive insects. The lack of humidity, on the other hand, produces brittle and fragile sheets of paper. A controlled humidity between 30% and 40% is the best standard for preservation. With the less possible variation, and the maximum of stability, because variations of humidity provoke more damages than a stable low or medium range.

Temperature: The lower is the temperature, the better is for preservation of Records. However, it is suggested to maintain normal temperature in the record room, which is required for comfortable standard for human beings in public places.

Light: Light has a considerable impact on document's preservation. Not only the visible light to the human eye, but the infrared or ultraviolet radiation, could cause damages. At the environments exposed to the daylight, should be installed curtains with UV filters. Documents exposed to more luminance, should be stored in dark places until its public exposition.

Fire extinguisher, particular paint to be used in the room, security checks etc. need to be mentioned here.

PRIVACY OF RECORD AND ITS CONTROL

The most official communication now a days done electronically and most corporate documents are kept in digital form yet there are plenty of physical data which cannot be circulated electronically and are need to be circulated around various branches and other offices in the form of documents, thumb drives, hard disks or log books. Such physical data needs to be protected and handled responsibly; especially if the data contains personal or confidential information. Just like companies have protocols, firewalls, passwords and other security measures to protect their digital data, they need to put in place the right processes and procedures to ensure their data is secure.

For the managing the confidential and privacy, the first step in the process is to identify what constitutes confidential documents at the workplace, and what to share securely. For any business house the following documents are primarily considered as confidential and need complete privacy:

(i) Customer's & Employees' Information

Safe guarding of the personal data is information about an individual that can be used to identify him/her. Information like Aadhar number, Mobile numbers, Residential addresses, Name, credit card numbers, etc. can all be considered personal information.

In India, by the majority of the business, the strong mechanism for safe guarding the personal information is not yet adopted. Even when the documents or data cease to be useful to the organisation, this doesn't mean that the information is no longer confidential. In such cases the data needs to be disposed of securely and cannot be placed freely on the public platform or mixed with other kinds of data in the office. In such cases the business should work with a trusted information destruction agency to physically destroy both electronic and physical data.

The Customer's & Employees Confidential Information includes discussions about employee relations issues, disciplinary actions, impending layoffs/reductions-in-force, terminations, workplace investigations of employee misconduct, etc.

(ii) Office Plans, Office IDs and Internal Procedure Manuals

For every organisation internal planning & procedures is the key aspect for controlling business and the organisation should ensure the protection of the same. It is important to place the documents with detailed office layouts throughout offices to identify key exits in case of emergency but the other documents and forms related to internal processes and procedures should be kept electronically on secure network drives and encourage employees to limit print-outs.

(iii) Contracts and Commercial Documents and Trade Secretes

In case of the business contracts, every detail of the arrangement should be treated with the utmost confidentiality for both organization itself and the third party's benefit. If the contract has a confidentiality agreement, it could be rendered obsolete if an unauthorised person got their hands on the physical copy of the contract. The contracts are full of commercially sensitive information such as the nature of the arrangement, the value of the services offered/received in the agreement, the names of the main contracting parties, etc.

The business should avoid sharing contracts broadly unless strictly required, and limit physical copies; consider using tools to sign contracts electronically in order to reduce unnecessary print-outs. While these documents are some of the most important to securely store and shared, the easiest and safest way to reduce the risk of a data breach is to implement a secure document retention policy specific to organisation's needs.

The confidential business information as "proprietary information" or "trade secrets." Which is not generally known to the public and would not ordinarily be available to competitors except via illegal or improper means. Common examples of "trade secrets" include manufacturing processes and methods, business plans, financial data, budgets and forecasts, computer programs and data compilation, client/customer lists, ingredient formulas and recipes, membership or employee lists, supplier lists, etc. "Trade secrets" does not include information that a company voluntarily gives to potential customers, posts on its website, or otherwise freely provides to others outside of the company. If such Confidential information is available in the wrong hands, confidential information can be misused to commit illegal activity (e.g., fraud or discrimination), which can in turn result in costly lawsuits for the Company. The disclosure of sensitive employee and management information can lead to a loss of employee trust, confidence and loyalty. This will almost always result in a loss of productivity.

SUGGESTIVE STEPS FOR PROTECTING CONFIDENTIAL INFORMATION

For every business/organization it is important to have a written confidentiality describing both the type of information considered confidential and the procedures employees must follow for protecting confidential information and dealing with the confidential information's. However, the company may adopt the following procedures for protecting confidential information:

- All confidential documents should be stored in locked file cabinets or rooms accessible only to those who are authorized.
- All electronic confidential information should be protected via firewalls, encryption and passwords.
- Employees should clear their desks of any confidential information before going home at the end of the day.
- Employees should refrain from leaving confidential information visible on their computer monitors when they leave their work stations.
- All confidential information, whether contained on written documents or electronically, should be marked as “confidential.”
- All confidential information should be disposed of properly (e.g., employees should not print out a confidential document and then throw it away without shredding it first.)
- Employees should refrain from discussing confidential information in public places.
- Employees should avoid using e-mail to transmit certain sensitive or controversial information.
- Limit the acquisition of confidential client data (e.g., social security numbers, bank accounts, or driver’s license numbers) unless it is integral to the business transaction and restrict access on a “need-to-know” basis.
- Before disposing of an old computer, use software programs to wipe out the data contained on the computer or have the hard drive destroyed.

PERSONAL DATA PROTECTION BILL, 2019

The Personal Data Protection Bill, 2019 was introduced in Lok Sabha by the Minister of Electronics and Information Technology, Mr. Ravi Shankar Prasad, on December 11, 2019. The Bill seeks to provide for protection of personal data of individuals, and establishes a Data Protection Authority for the same.

Applicability: The Bill governs the processing of personal data by: (i) government, (ii) companies incorporated in India, and (iii) foreign companies dealing with personal data of individuals in India. Personal data is data which pertains to characteristics, traits or attributes of identity, which can be used to identify an individual. The Bill categorises certain personal data as sensitive personal data. This includes financial data, biometric data, caste, religious or political beliefs, or any other category of data specified by the government, in consultation with the Authority and the concerned sectoral regulator.

Obligations of data fiduciary: A data fiduciary is an entity or individual who decides the means and purpose of processing personal data. Such processing will be subject to certain purpose, collection and storage limitations. For instance, personal data can be processed only for specific, clear and lawful purpose. Additionally, all data fiduciaries must undertake certain transparency and accountability measures such as: (i) implementing security safeguards (such as data encryption and preventing misuse of data), and (ii) instituting grievance redressal mechanisms to address complaints of individuals. They must also institute mechanisms for age verification and parental consent when processing sensitive personal data of children.

Rights of the individual: The Bill sets out certain rights of the individual (or data principal). These include the right to: (i) obtain confirmation from the fiduciary on whether their personal data has been processed, (ii) seek correction of inaccurate, incomplete, or out-of-date personal data, (iii) have personal data transferred to any other data fiduciary in certain circumstances, and (iv) restrict continuing disclosure of their personal data by a fiduciary, if it is no longer necessary or consent is withdrawn.

Grounds for processing personal data: The Bill allows processing of data by fiduciaries only if consent is provided by the individual. However, in certain circumstances, personal data can be processed without consent. These include: (i) if required by the State for providing benefits to the individual, (ii) legal proceedings, (iii) to respond to a medical emergency.

Social media intermediaries: The Bill defines these to include intermediaries which enable online interaction between users and allow for sharing of information. All such intermediaries which have users above a notified threshold, and whose actions can impact electoral democracy or public order, have certain obligations, which include providing a voluntary user verification mechanism for users in India.

Data Protection Authority: The Bill sets up a Data Protection Authority which may: (i) take steps to protect interests of individuals, (ii) prevent misuse of personal data, and (iii) ensure compliance with the Bill. It will consist of a chairperson and six members, with at least 10 years' expertise in the field of data protection and information technology. Orders of the Authority can be appealed to an Appellate Tribunal. Appeals from the Tribunal will go to the Supreme Court.

Transfer of data outside India: Sensitive personal data may be transferred outside India for processing if explicitly consented to by the individual, and subject to certain additional conditions. However, such sensitive personal data should continue to be stored in India. Certain personal data notified as critical personal data by the government can only be processed in India.

Exemptions: The central government can exempt any of its agencies from the provisions of the Act: (i) in interest of security of state, public order, sovereignty and integrity of India and friendly relations with foreign states, and (ii) for preventing incitement to commission of any cognisable offence (i.e. arrest without warrant) relating to the above matters. Processing of personal data is also exempted from provisions of the Bill for certain other purposes such as: (i) prevention, investigation, or prosecution of any offence, or (ii) personal, domestic, or (iii) journalistic purposes. However, such processing must be for a specific, clear and lawful purpose, with certain security safeguards.

Offences: Offences under the Bill include: (i) processing or transferring personal data in violation of the Bill, punishable with a fine of Rs 15 crore or 4% of the annual turnover of the fiduciary, whichever is higher, and (ii) failure to conduct a data audit, punishable with a fine of five crore rupees or 2% of the annual turnover of the fiduciary, whichever is higher. Re-identification and processing of de-identified personal data without consent is punishable with imprisonment of up to three years, or fine, or both.

Sharing of non-personal data with government: The central government may direct data fiduciaries to provide it with any: (i) non-personal data and (ii) anonymised personal data (where it is not possible to identify data principal) for better targeting of services.

Amendments to other laws: The Bill seeks to amend/amends the Information Technology Act, 2000 to delete the provisions related to compensation payable by companies for failure to protect personal data.

Expert Committee chaired by Mr. Kris Gopalakrishnan constituted by the Ministry of Electronics and Information Technology had published a draft report for public consultation. The Committee observed that non-personal data should be regulated to: (i) enable a data-sharing framework to tap the economic, social, and public value of such data, and (ii) address concerns of harm arising from the use of such data. Based on the feedback received from this consultation, the Committee released a revised version of the draft for public consultation in December 2020. A Draft Report by the Committee of Experts on Non-Personal Data Governance Framework was also published on 16.12.2020.

Reference. https://static.mygov.in/rest/s3fs-public/mygov_160975438978977151.pdf

<https://prsindia.org/policy/report-summaries/revised-draft-non-personal-data-governance-framework>

LESSON ROUND UP

- The good documentation promotes good corporate governance practices and compliance level of the company and also improves communication and dissemination of information between and across various stakeholders.

- The General principles for documentation provide that the document should Clear, Concise, Complete, Contemporary, Consecutive, Correct, Comprehensive, Collaborative, Client Centric and should maintain Confidentiality.
- Responsibility for the preservation of records is vested with the creator of the document during the active and semi-active phases of the records life-cycle.
- For any business house the following documents are primarily considered as confidential and need complete privacy i.e. Customer's & Employees' Information; Office Plans, Office IDs and Internal Procedure Manuals; Contracts and Commercial Documents and Trade Secretes.
- The confidential policy should describe the type of information considered confidential and the procedures employees must follow for protecting confidential information and dealing with the confidential information's.
- The objective of the Data (Privacy and Protection) Bill, 2017 is to secure personal data and ensure better security by creating a statutory obligation to safeguard data and individuals.

GLOSSARY

Document Management System	The process of managing and tracking of the documents and records through an electronic or physical source of documents.
Version tracking	It is a way of finding out who has made the changes.
Format risk	When storing the records in electronic format, a person has the risk of not being able to read them at some point due to the format.
Media compatibility	When a document saved in a hard drive is compatible with the available technologies.
Physical repository	Physical repository is a central place where data is stored and maintained.
Descriptive file names	Small, well-defined projects with existing identification schemes that link the digital object to the source material.
Non-descriptive file names	System-generated sequential numerical string or the system based, such as a digital ID number; combination of Date and time, name of original file and are often linked to meta data stored elsewhere.

TEST YOURSELF

(These are meant for recapitulation only. Answers to these questions are not to be submitted for evaluation)

1. Before drafting any document, it is the most essential to familiar with the purpose of document. comment?
2. Briefly explain the advantage and disadvantage of the electronic records.
3. Describe the guideline for the naming of the documents.
4. To assure the best quality of documents, the records should maintained of the activities affecting quality of the records. Comment.
5. Media compatibility is one of the biggest challenge in saving the documents electronically. Comment.
6. Briefly explain the provisions relating to maintenance of documents in electronic form under Companies Act, 2013 and rules made thereunder.
7. Draft a policy on preservation of Documents and archival of Documents in the website under SEBI (LODR) Regulations, 2015.

LIST OF FURTHER READINGS

- The Companies Act, 2013 and Rules made thereunder
- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- https://static.mygov.in/rest/s3fs-public/mygov_160975438978977151.pdf
- <https://prsindia.org/policy/report-summaries/revised-draft-non-personal-data-governance-framework>

Lesson 4

Search and Status Report

Key Concepts One Should Know

- Chain documents
- Mortgage
- Bankruptcy
- Property Zoning
- Assignment
- Federation
- Corporate Actions
- Charge

Learning Objectives

To understand:

- How a search report provides the history of the company which is based on the records available with the various regulators.
- The purpose of search report from the perspective of providing comfort to the stakeholder while dealing with the company and to get correct information about various assets of the company. As well as the status of the company in the records of the Regulators.
- Meaning, nature, scope and importance of search and status report, legal provisions involved under the Companies Act, 2013 relating to creation, modification and satisfaction of charges.
- Processes and formats of various search and status reports.
- Search and Status reports required under SEBI, IPR and Stock Exchanges laws, bye regulations and bye-laws.

Regulatory Framework

- Chapter VI and other provisions of Companies Act, 2013
- The Companies (Registration of Charges) Rules, 2014

Lesson Outline

- Introduction
- Purpose and objective of Search & Status Report
- Search Report under Companies Act, 2013
- Search Report under IPR Laws
- Property title Search
- Examination of Documents
- Inspection of Document
- Verification of Documents
- Stock Exchange Search Report
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

INTRODUCTION

Company as a separate entity has a facility of raising capital for earning large-scale profits, which is normally not within the purview of individual efforts and means. In the past, the companies used to raise money by way of issue of equity or preference shares. However, with the increasing pressure of capital requirements, different and alternative modes of financing were explored and the concept of loan capital came into being.

The loan requirements of a company to be met, had to be raised frequently and also by a number of individuals as in the case of share capital. This brought the concept of *pari passu* ranking. A charge is created when the security on the property of the company is conferred on another person. Where in a transaction for value, both parties evidence an intention that the property existing or future, shall be made available as security, the charge on the property is created.

The Companies Act, 2013 provides for the registration of charge on assets of the Company and the consequences for non-registration. The Charge is to be registered with ROC and once it is registered, a certificate is issued by the Registrar of Companies and that certificate is the conclusive proof that the document creating charge is properly registered under the Companies Act, 2013. Whenever a charge is created on any property of a Company, against any borrowing of the Company, and the same is duly recorded on the MCA website, it acts as a red herring for any prospective acquirer of such property. It intimates the person acquiring the property about the charge so created on the property before acquisition.

Search and Status Report helps lenders to assess the exact position of the Company in terms of compliance and its standing in terms of loan service history. Through these Search and Status Reports, lenders get to know the details of the charges created on the property of the Company and the attendant compliances and registration status with the Registrar of Companies. Foreseeing where the Company would stand if it goes into liquidation at that particular point of time also becomes easy.

The Report, *inter alia*, informs the lenders, about the status of charges held by them vis-à-vis charges, if any held by others. The Search and Status Report acts as a tool to confirm and evidence information and contains information on status of charges. It is basically a report furnished based on the information gathered by a search of specific records made available for inspection in a Public Office or in any other convenient form. It is not merely verbatim reporting of the information as made available but also supplemented by observations/ comments by the person who furnishes the report.

As a general practice, banks these days demand Search Reports from companies as a pre-requisite for opening a bank account or giving loans. The Search Report gives master data regarding the Company including its history & details about its directors and an assurance that neither the company nor its directors are defaulters in any of the earlier loans and borrowings. It also evidences the existing charges created on the property of the company. Basically, a report made on the basis of information gathered by a search of specific records is made available for inspection in a public office or in any other convenient form and is supplemented by the comments and inspection done by the person furnishing the report.

PURPOSE AND OBJECTIVE OF SEARCH AND STATUS REPORT

A Search and Status Report traces the history of a Company's property and how it has charged / mortgaged its assets with various Banks/Financial Institutions/Lenders over a period of time, before reaching the present bank that has demanded for the Search and Status Report. A Search and Status Report assists the Bank/ Financial Institution/ Lender to evaluate the extent up to which the Company has already borrowed funds and created charges against its movable and/or immovable properties. This information is vital for considering the Company's request for grant of loans and other credit facilities.

The Search and Status Reports of a Company enable Banks / Financial Institutions / Lenders / Investors in making their lending and investment decisions. They also give an overview to such Lenders / Investors on the control and management of the Company and help them in deciding whether or not to enter into a lending / investment contract with the Company.

Therefore, the main objective of a Search and Status Report is to help Lenders and Investors take an informed decision. It gives Lenders/Investors an insight into the Company, through its history & provides all the necessary details of the Company and its directors as well as the credit history of the company and its directors. It helps Lenders and Investors to take rational decisions on the quantum of loan/investment, sufficiency of security and its nature and other such requirements. As the Report provides historical information about the past charges created in favor of earlier lenders, it enables new Lenders / Investors to assess the exact position of the company and to foresee where they would stand, if the company were to get into liquidation. Thus, such Search and Status Reports act as a basis for Lenders / Investors to take correct lending / investment decisions.

Question: The Search and Status Report is merely verbatim reporting of the information as made available.

Options: (A) True (B) False

Answer: (A)

SEARCH AND STATUS REPORT

The Search and Status Report is not merely verbatim reporting of the information as made available but also, supplemented by observations/comments by the Company Secretary or such other professional who furnishes the Report. It has two facets. The first being 'search' involving physical inspection of documents and the second activity 'status' which comprises of reporting of the information as made available by the search. Thus, it acts as a 'Progress Report' of the company and gives ready reference to the exact situation.

SCOPE AND IMPORTANCE

The scope of Search and Status report depends upon the requirements of the Bank/Financial Institution/Lender/ Investor concerned. A Search and Status report prepared by a Company Secretary in Practice helps Banks/ Financial Institutions/Lenders/ Investors to take conscious decision regarding the quantum of loan/ credit facility to be sanctioned and investment to be made. It also helps in taking an informed and speedy decision assuring the credit- worthiness or otherwise of the company. Search and Status Report is generally sought by following entities.

Search status report is generally sought by:

1. **Banks**
2. **Directors**
3. **Shareholders**
4. **Government Authorities**
5. **Customers and Suppliers**

1. **By Banks:** Search and Status Report are basic tools for banks to know the viability of their customer who approach the bank for Cash Credit Limits, Term Loans or otherwise. The sole motto of banks is to provide loans against interest. Hence, knowing the current position of the assets being pledged by the companies become important and the only way to know whether such property is already pledged to some other bank or not is the Search Report. The following basic information about the existing loans taken by the Company is given by the Company Secretary through such reports:
 - (i) The date of loan taken by the company and the charge created in such respect.
 - (ii) The name and address of the charge holders.
 - (iii) The type of charge i.e. whether joint charge or consortium charge.
 - (iv) The amount of loan.
 - (v) The property charged / pledged against such loan.
 - (vi) The terms and conditions of such loan i.e. rate of interest, terms of repayment, margin money and extent of operation.
2. **By Directors:** An individual before becoming the Director of the Company may get the Search Report prepared from a Professional for following reasons:
 - (i) To know the present directors of the company.
 - (ii) To know the assets and liabilities of the company.
 - (iii) To know the complete history as per ROC records since incorporation.

- 3. By Shareholders:** Shareholders may also demand the Search Report of the company for the following reasons:
- (i) To know the status of the company.
 - (ii) To know the status of their shares held in the company i.e. how many shares they are holding, on which date their shares were transferred, from whom the shares were transferred.
 - (iii) To know the Directors of the company.
 - (iv) To know the complete history as per ROC records since incorporation
- 4. Government Authorities:** Government Authorities like Income Tax Authorities, RBI, SEBI etc. can also get the Search Report prepared discerning the present status of the Company and various other financials filed by the company with the concerned Registrar of Companies.
- 5. Customers and Suppliers:** Before entering into any agreement/ contract with the company, the suppliers or the Customers get the Search Report prepared.

Question: Which of the following is not a reason for the shareholder's demanding search report.

- Options:** (A) To know the status of the company
 (B) To know the Directors of the company
 (C) To know the Income Tax Payable
 (D) To know the status of their shares held in the company

Answer: (C)

SEARCH OF CHARGES REGISTERED UNDER COMPANIES ACT, 2013

Section 77(1) of Companies Act, 2013 provides that it shall be the duty of every company creating a charge within or outside India, on its property or assets or any of its undertakings, whether tangible or otherwise, and situated in or outside India, to register the particulars of the charge signed by the company and the charge-holder together with the instruments, if any, creating such charge in such Form CHG-1 (for other than debentures) or Form CHG-9 (for debentures including rectification), on payment of fees and in such manner as may be prescribed in the Rules, with the Registrar within 30 days of its creation.

The Registrar of Companies may, on an application by the company, allow such registration to be made (1st Proviso) Provided that the Registrar may, on an application by the company, allow such registration to be made:

- (a) in case of charges created before the commencement of the Companies (Amendment) Ordinance, 2019, within a period of three hundred days of such creation; or
- (b) in case of charges created on or after the commencement of the Companies (Amendment) Ordinance, 2019, within a period of sixty days of such creation, on payment of such additional fees as may be prescribed:

(2nd Proviso) Provided further that if the registration is not made within the period specified;

- (a) in clause (a) to the first proviso, the registration of the charge shall be made within six months from the date of commencement of the Companies (Amendment) Ordinance, 2019, on payment of such additional fees as may be prescribed and different fees may be prescribed for different classes of companies;
- (b) in clause (b) to the first proviso, the Registrar may, on an application, allow such registration to be made within a further period of sixty days after payment of such advalorem fees as may be prescribed.

Application to Registrar of Companies

For the purposes of the first proviso and clause (b) of the second proviso above, the Registrar may, on being satisfied that the company had sufficient cause for not filing the particulars and instrument of charge, if any, within a period of thirty days of the date of creation of the charge including modification thereto, allow the registration of the same after thirty days but within the period as specified in the said provisos, on payment of such fee as prescribed in the Companies (Registration Offices and Fees) Rules, 2014.

The application shall be made in Form No.CHG-1 and Form No.CHG-9 supported by a declaration from the company signed by its company secretary or a director that such belated filing shall not adversely affect the rights of any other intervening creditors of the company.

Rectification by Central Government in Register of Charges

The Central Government on being satisfied that -

- (a) the omission to give intimation to the Registrar of Companies of the payment or satisfaction of a charge, within the time required under Chapter VI; or
- (b) the omission or misstatement of any particulars with respect to any such charge or modification or with respect to any memorandum of satisfaction or other entry made in pursuance of section 82 or section 83, was accidental or due to inadvertence or some other sufficient cause or it is not of a nature to prejudice the position of creditors or shareholders of the company, it may, on the application of the company or any person interested and on such terms and conditions as the Central Government deems just and expedient, direct that the time for the giving of intimation of payment or satisfaction shall be extended or, as the case may require, that the omission or misstatement shall be rectified.

Section 77(2) of Companies Act, 2013 states that when a charge is registered with the Registrar under section 77(1), he shall issue a certificate of registration of such charge in Form CHG-2 and for registration of modification of Charge in Form CHG-3, to the person in whose favour the charge is created.

Further, the Act provides that no charge created by the company shall be taken into account by the liquidator or any other creditor unless it is duly registered and certificate of registration of such charge is given by the Registrar. However this does not prejudice any contract or obligation for the repayment of the money secured by a charge. [Section 77(3) & (2)]

According to Section 82 of the said Act the company shall give intimation to the Registrar of Companies of the payment or satisfaction in full of any charge within a period of 30 days from the date of such payment or satisfaction in Form CHG-4 along with the fee.

The Registrar of Companies may, on an application by the company or the charge holder, allow such intimation of payment or satisfaction to be made within a period of three hundred days of such payment or satisfaction on payment of such additional fees.

Question: Certificate of charge shall be issued by the Registrar of Companies on form

Options: (A) CHG-1 (B) CHG-2 (C) CHG-3 (D) CHG-4

Answer: (B)

Transaction Requiring Charge Registration

Every company creating a charge has to register the particulars of the charge signed by the company and the charge-holder together with the instrument, when:

- the company is acquiring any property or assets whether tangible or not, which are subject to any charge;
- a charge is created within or outside India, any of its undertakings;
- there is any modification in the terms or conditions or the extent or operation of any charge already registered;
- there are charges on properties which are created or acquired by any foreign company.

Every company has to keep at its registered office a register of charges in form CHG-7, which shall include therein all charges and floating charges affecting any property or assets of the company or any of its undertakings.

SEARCH REPORT UNDER THE COMPANIES ACT, 2013

A Search and Status Report as is apparent from, its name contains two aspects. The first being 'search' which involves physical/online inspection of documents and the second activity 'status' which comprises of reporting of the information as made available by the search.

Thus a search and status report de facto acts as a 'Status Report' on the legal aspects and also a ready reckoner of the exact position of the company on the affairs of the company. In general the Scope of Search report is according to the requirement and purpose of the Report. While issuing the ROC Search report the following process is performed by the professionals.

(a) Examination of documents Registered on MCA 21 portal

The MCA website provides many information relating to the Company. Some information are available without payment of fees like Name of the Company, CIN, Authorised and paid up capital, Name and address of the Directors etc. The website also provides for the viewing of document by public on payment of requisite fee. Public documents include the following:

- a. Incorporation documents
- b. Certificates, including Incorporation certificate and Charge creation, modification and satisfaction certificates.
- c. Charge documents,
- d. annual returns and balance sheet,
- e. change in directors and other e-forms

However, there are certain documents which are not allowed for public inspection. For example, no person shall be entitled to inspect or obtain copies of the resolutions filed under section 179(3) of Companies Act, 2013 and rules made thereunder.

MCA-21 offers the facility to view documents and also search and other facilities of public documents. This facility is handy for users and banks and financial institutions while sanctioning loans. This facility enables viewing of public documents of companies for which payment has been made by user. The document can be viewed only within 7 days after the payment has been confirmed. Also, the documents are available for only 3 hours after the user has started viewing the first document of the company-

(b) Inspection of Various Documents maintained by the company:

According to the scope of the Search report, the professional should go through the various documents required for the purpose of the report, some of the documents which may require are as under:

- Various clauses of Memorandum and Articles of Association
- Forms filed with the Registrar of Companies with receipts.
- All statutory registers.
- Verification of financial statement along with notes to accounts and Auditor Report. .
- Report of Internal Auditor.
- Copies of contracts made between the company and any of the related parties
- Transfer and Transmission of Share.
- Instruments creating, modifying or satisfying charges.
- Various Disclosures from Directors
- Related Party Transactions.
- Corporate Social Responsibility (CSR)
- Directors and Key Managerial Personnel (KMP)

(c) Cross Verification of Documents from the MCA Records

Some financial institutions require a Report by Company Secretaries in Practice, on certain additional points relevant and important for them. A separate Report can be given after inspecting or verifying the documents and records available with the Registrar and/or the company. The points normally covered under such Report are:

S.No	Item	Records to be verified
1	Name of the Company	Memorandum of Association Certificate of Incorporation or Fresh Certificate of Incorporation/Change of Name.

2	Date of Incorporation	Certificate of Incorporation
3	Company Number/Corporate Identity Number	Certificate of Incorporation/Fresh Certificate upon change of name/ Certificate of registration of *CLB Order for shifting registered office to another State
4	Address of Registered Office	INC-22, MGT-14 Resolution(s) of Board/ General Body, INC-28 with copy of NCLT Order.
5	Name and address of present directors (with their date of joining)	Articles of Association, DIR-12, Register of Directors
6	Authorized Share Capital of the company divided into _____ Shares of Rs. _____ Each	Memorandum of Association, SH-7, MGT-14
7	Paid-up Capital of the company divided into _____ Shares of Rs. _____ Each	MGT-14, PAS-3, Register of Members, Annual Return
8	List of Members with details as to shares held by each of them. The names of directors to be specifically mentioned in such list of shareholders (List of members holding shares of a specified monetary threshold is also asked for in some cases).	PAS-3, Annual Return, Register of Members, Register of Directors.
9	Provision in the Articles of Association as to affixation of common seal of the company. (Particulars as to the persons in whose presence the seal of the company can be affixed to any deed).	Articles of Association. If there is no specific cause and the Articles have adopted Table F, Clause 79 of Table F of Schedule-I of Companies Act, 2013 may be referred.
10	Main Objects of the company.	Memorandum of Association
11	Whether the Articles of the company contains provisions for nomination by the corporation a director on the board of the company.	Articles of Association of the company

(Note: If capital is raised other than by cash, it should be shown separately).

Steps suggested for Preparation of Search Report

- 1 Professionals inspect the documents available on the MCA's portal or at registrar.
- 2 Before doing the inspection, nominal fees has to be paid via MCA's portal and then inspector can inspect the documents either online on MCA's portal or physically at registrar.
- 3 If person inspecting doing physically inspection of documents than he/she shall have to visit regional registrar with the challan paid for fees.
- 4 Challan must be in the name of the person who is going to visit registrar or shall have an authority letter with him/her if challan is paid in the name of company.
- 5 At the time of inspection at registrar usage of pencil is a good practice to note down the details.

Suggested List of Documents available for inspection/Search

- INC-13 (Memorandum of Association)
- INC-11 (Certificate of Incorporation)
- MGT-1 (Register of members)
- MGT-7 (Annual Return)
- CHG-1 (Application for registration of creation, modification of charge)
- CHG-2 (Certificate of Registration of Charge)
- CHG-3 (Certificate of Registration modification of Charge)
- CHG-4 (Particulars of Satisfaction of Charge)
- CHG-7 (Register of Charges)
- Index of Charge on MCA's Portal
- Sanction of Letters of existing loans and limits.

Ref.: <https://www.companysuggestion.com/roc-search-report/>

Apart from the above the master data, available at the MCA portal that can be resorted to mere reproduction of the particulars of charges in form of Search and Status Report, is not sufficient. It also requires:

- A thorough study of the particulars relating to the amount secured by the charge and the terms and conditions governing the charge.
- An analysis of the security available to a particular lender for its advances.
- A comparison of charges created in favour of a particular lender vis-à-vis other lenders.

In other words, it does not necessary mean verbatim reporting of the information as made available but also supplemented by observations/comments by the person who furnishes the Report. In nutshell, while providing search report the following factor should be taken care by the professional:

- The Search and Status Report should give exact details of particulars of charges/modifications/satisfactions as effected, filed and registered from time to time.
- Identify those charges and modification of charges, which have been created in favour of a particular lender.
- Take the particulars of the documents creating the charge as specified in CHG-1 and CHG-9 under the Companies Act, 2013 or Form 8 under the Companies Act, 1956
- Ascertain as to whether the amount secured by the charge as per the documents executed has been duly mentioned.
- Ascertain as to whether 'properties' offered as security are mentioned as per the documents creating the charge and attached with the Forms and verify whether they are as per the terms of Sanction.
- Check whether the terms and conditions governing the charge have been mentioned.
- Ascertain whether the name of the lender is properly mentioned.
- In case of modification of charge ascertain whether the names of documents effecting the modification are mentioned and whether the particulars of modification are clearly mentioned.
- In case of charge, the particulars of documents attached with forms, amount secured by the charge as per the documents and/or sanction ticket, the properties/assets secured by the charge, the terms and conditions governing the charge and the name of the lender is properly mentioned in the relevant columns of Form CHG-1.

Further, a Search and Status Report should always be supported by expert observations on the charges created by the borrower in respect of the subject lender. It is necessary to peruse the observations/comments offered

and the same should be read in conjunction with the Report. The observations/comments of the experts/professional (company secretary in practice) will certainly help to throw additional light on certain points which would have missed the attention of the “lenders” when the Form CHG-1 was presented before them for signature.

(d) Compilation and Preparation of Search Report

Search Report compiled on the basis of the scrutiny of the above documents is, therefore, related and restricted to only those documents which are available for the inspection on the date(s) when the search is carried out.

An index of the charges is prepared at the website of MCA. This index provides, charge ID, the date of filing of the document charge amount secured, name of charge holder and its address. In order to view index of charges, it is primarily necessary to quote CIN/FCRN of the company. This number will primarily be available at the website of the ministry.

It is advisable to note down from the index, the short particulars of all Form CHG-1, 4, 9 for the purpose of cross-checking and ensuring that no document is missed in the Search Report.

Question: It is advisable to give Search Report to the Banks and Financial Institution in generalized format prepared by the Practising Company Secretary for their firms in place of format provided by the them .

Options: (A) True (B) False

Answer: (B)

Also, it would be advisable to mention in the Search Report by way of a footnote as to what was the last document which was available for inspection when the scrutiny was taken/completed. This information can be helpful in identifying the forms and based on which the Search Report is given.

(e) Format of Search Report and its Preparation

Some of the banks and financial institutions insist that the Search Report be given in their own format. It would, therefore, be advisable to know if any specific format is insisted upon by the client.

SEARCH REPORT UNDER IPR LAWS

The World Intellectual Property Organization (“WIPO”) refers to Intellectual Property (IP) as the creations of the mind, inventions, literary and artistic works, and symbols, names, images, and designs used in commerce. Intellectual property is divided into two categories:

- (i) Industrial property, which includes inventions (patents), trademarks, industrial designs, and geographic indications of source; and
- (ii) Copyright, which includes literary, artistic, dramatic and musical works such as novels, poems, lyrics, plays, films, drawings, paintings, photographs, etc. Rights related to copyright include those of performing artists in their performances, producers of phonograms in their recordings, and those of broadcasters in their radio and television programs.

While preparing the Search and Status Report, it is important for professionals to conduct due diligence of the intellectual property rights, as tremendous worth is associated with the intangible assets of the business.

During any corporate transaction, which involves acquiring a business or a stake, the acquirer conducts due diligence of the targets’ assets and liabilities. With the help of an appropriate due diligence exercise, the acquirer weighs the assets, liabilities and potential risks associated with the transaction.

This process involves analysing intangible assets of a business, checking valid intellectual property rights subsisting therein, scope of their protection, analyzing the risks involved with respect thereto and in turn, assessing their potential value.

Procedure for Search Report under IPR Laws

1. **Preparing checklist:** The checklist should contain a list of information required to understand the company’s business and its existing protected and protectable IP rights, namely;
 - questions on registered and pending applications for patent and design rights;
 - information regarding brand identities, whether registered, applied for, merely used or created;
 - details on the proprietorship aspects from the target.

2. **Segregating the IP assets relevant for the transaction from irrelevant ones:** This activity should be done as soon as the preliminary perusal of the target's business assets is done. Also, at times, there could be associated and/or supplementary IP rights involved in addition to the main IP rights. Hence, it is important to connect such additional IP rights with the main IP rights for the transaction.
3. **Analysing all documents carefully :** This activity is important as it helps in analysing the nature of documents, whether they are registration documents or agreements in the nature of licensing and franchising agreements, consultancy agreements, technology transfer agreements, other contracts where IP clauses are included, like joint venture agreements, master services agreements, employment agreements, etc.
4. **Verifying facts and confirm that the information is correct:** This activity is important to verify the legality of documents. It is not prudent to merely rely on all details without cross-checking the same from other available sources, like, from public records of the IP Offices and Google database.
5. **Analyzing protected and protectable IP rights:** After receiving full information/ documents, IP rights, already subsisting or potential ones is required to be analyzed. Status check, validity check, ownership check, claim check and conflict check should be conducted in a proper manner.
6. **Drafting of status and search report:** The final report should contain all the observations in relation to IP rights that would be the part of the transaction, before the prospective buyer / investor. It should also contain all the associated risks and liabilities along with strategies to deal with such issues which will help the prospective buyer / investor understand the pros and cons of the transaction.

Key areas to be analysed while preparing the search and status report relating to IPR:

- (i) What domestic and foreign patents (and patents pending) does the company have?
- (ii) Has the company taken appropriate steps to protect its intellectual property (including confidentiality and invention assignment agreements with current and former employees and consultants)?
- (iii) Are there any material exceptions from such assignments (rights preserved by employees and consultants)?
- (iv) What registered and common law trademarks and service marks does the company have?
- (v) What copyrighted products and materials are used, controlled, or owned by the company?
- (vi) Does the company's business depend on the maintenance of any trade secrets, and if so what steps has the company taken to preserve their secrecy?
- (vii) Is the company infringing on (or has the company infringed on) the intellectual property rights of any third party, and are any third parties infringing on (or have third parties infringed on) the company's intellectual property rights?
- (viii) Is the company involved in any intellectual property litigation or other disputes (patent litigation can be very expensive), or received any offers to license or demand letters from third parties?

PROPERTY TITLE SEARCH

A Property Title Search is the process of retrieving the history of a property right from the original owner of the property to the current owner over a period of time. It provides documents which help determine relevant interests in property of the owner and other individuals, if any.

It is usually prepared by an Expert, who after visiting the Registrar's office and inspecting the property documents, issues a title certificate.

It is mandatory for a developer to annex a copy of the report in the 'agreement to sell' with the intended purchaser. This document will state if there is any existing mortgage, litigation, condition or claim, which is likely to affect the title of the buyer adversely. In the same way, a bank is also assured of the title of the property. Banks usually do not finance an encumbered property or one under legal dispute because it reduces its security and increases risk exposure. In order to avail a housing loan, one of the preconditions is that the title of the property should be clear and marketable.

Property Title Search includes:

1. **Ownership:** Status of ownership- sole or joint and the documents stating the same.
2. **Deed Copy:** Recent deeds in respect to the property.
3. **Legal Description:** Description of the property in legal parlance.
4. **Chain documents:** Previous owner of the property.
5. **Possession:** Actual Possession of the property.
6. **Right of way:** Easementary Right - the Right of way given to the owner.
7. **Leases:** Leases on the property which can affect the property status.
8. **Mortgage:** Whether the property has been mortgaged.
9. **Tax Payment:** Details of tax payment in relation to the property.
10. **Bankruptcy Search:** Report of bankruptcy of the owner of the property.
11. **Municipal Service Lien:** Report of unpaid municipal dues like water, sewer, trash etc.
12. **Property Restriction:** Restriction on sale of property like sale in case of unsound owner.
13. **Plot Map:** Official copy of Map of the plot.
14. **Property Zoning:** Property lying under which zone like Ecological Zone, Flood Zone, Earthquake Zone etc.
15. **Civil Court Record:** Any order of the Civil Court against the property.
and other things like Spousal Support Lien Search, Child Support Lien search, Power of Attorney, Special Assessment etc.

Question:

XYZ Limited is newly incorporated company under Companies Act, 2013. PQR Limited intends to sell its premises located in Delhi to XYZ Limited. XYZ Limited has requested you to provide a title search report to the company.

As a practicing company secretary, prepare the title search report.

EXAMINATION OF DOCUMENTS FROM REGULATORS WEBSITE**Examination, Verification and Compilation of Data Published by MCA 21, SEBI, RBI, Stock Exchange, Other Regulators/ Authorities/ Websites and Other Sources.**

Prior to the launch of MCA-21, documents filed in the office of the ROC from time to time were taken-up for examination according to the date of filing. However, after the launch of MCA -21, it offers the facility to view documents and also search and other facilities of public documents. This facility is handy for users and Banks and Financial institutions while sanctioning loans.

The general process to do inspection of public documents on MCA21 is as under:

- (a) User has to access My MCA portal and login to the My MCA portal.
- (b) Click on the 'My Documents' tab after logging into the system.
- (c) List of company names will be displayed, for which user have already paid for public viewing. It also displays:
 - (i) Date of request i.e. the date, when user made the request to view the company document.
 - (ii) Status of the request i.e. whether viewed or to view.
- (d) Click on the view link under status field.
- (e) The documents are grouped under five categories, user has to click on the desired category under which the document falls.
- (f) If more than one document is listed, the user can arrange them name wise or date wise.
- (g) On clicking on the document name, the document shall be displayed for viewing.

This facility enables viewing of public documents of companies which includes incorporation documents, charge documents, annual returns and balance sheet, change in directors and other documents on payment of requisite fee by the user. The document can be viewed only within 7 days after the payment has been confirmed. Also, the documents are available for only 3 hours after the user has started viewing the first document of the company.

INSPECTION OF REGISTER OF CHARGES

As per Section 85 of the Companies Act, 2013, every company is mandatorily required to keep at its registered office, a register of charges in Form No. CHG-7 which shall include therein all charges and floating charges affecting any property or assets of the company or any of its undertakings, indicating in each case such particulars as may be prescribed in the Rules.

Further, it is also required to keep a copy of the instrument creating the charge at the registered office of the company along with the register of charges. The register of charges and instrument of charges, kept under section 85 shall be open for inspection during business hours -

- (a) By any member or creditor without any payment of fees; or
- (b) By any other person on payment of such fees as may be prescribed, subject to such reasonable restrictions as the company may, by its articles, impose.

Question: Which of the following section of companies Act, 2013 mandates a company to keep a register of charges in Form no. CHG - 7.

Options: (A) 85 (B) 86 (C) 87 (D) 88

Answer: (A)

VERIFICATION OF DOCUMENTS

A Company Secretary in Practice should confirm from the concerned Bank/Financial Institution or the client before proceeding with the inspection about their preference of any specific format for the Search and Status Report.

As per Rule 3(4) of the Companies (Registration of Charge) Rules, 2014, a copy of every instrument evidencing any creation or modification of charge required to be filed with the Registrar in pursuance of Section 77, 78 or 79 of the Companies Act, 2013 should be verified in the following manner:

- (a) where the instrument or deed relates solely if any, to the property situated outside India, the copy shall be verified by a certificate issued either under the seal of the company, or under the hand of any director or company secretary of the company or an authorised officer of the charge holder or under the hand of some person other than the company who is interested in the mortgage or charge;
- (b) where the instrument or deed relates, whether wholly or partly, to the property situated in India, the copy shall be verified by a certificate issued under the hand of any director or company secretary of the company or an authorised officer of the charge holder.

The following particulars are required to be netted from the Register of Charges:

- (i) Date of registration (preferably with the serial number) of the document
- (ii) Date and nature of the document creating the charge
- (iii) Amount of the charge
- (iv) Brief particulars of the property charged
- (v) Name and address of the person in whose favour the charge is created.

Further, the modifications in respect to the charges which have effected from time to time are required to be identified and noted in chronological order in following manner:

- (i) Date of registration of the document (preferably with the serial number)
- (ii) Nature and date of the instrument modifying the charge
- (iii) Effect of Modification.

With regard to the satisfaction of charge, the following particulars are required to be noted chronologically after cross-checking that the charge has been fully satisfied:

- (i) Date of registration (preferably with the serial number) of the document
- (ii) Date of satisfaction.

The gist of points which are normally covered under the Search and Status Report is tabulated hereunder for ready reference:

S.No	Item	Records to be verified
(a)	Name of the Company	Memorandum of Association, Certificate of Incorporation or Fresh Certificate of Incorporation/ Change of Name.
(b)	Date of Incorporation	Certificate of Incorporation.
(c)	Company Number/Corporate Identity Number	Certificate of Incorporation/Fresh Certificate upon change of name/ Certificate of Registration, CLB Order/NCLT Order for shifting registered office to another State.
(d)	Address of Registered Office	INC-22, MGT-14 Resolution(s) of Board/ General Body, INC-28 with copy of CLB/NCLT Order.
(e)	Name and address of present directors (with their date of joining)	Articles of Association, DIR-12, Register of Directors.
(f)	Authorized Share Capital of the company divided into _____ Shares of Rs. _____ each	Memorandum of Association, SH-7, MGT-14
(g)	Paid-up Capital of the company divided into _____ Shares of Rs. _____ each	MGT-14, PAS-3, Register of Members, Accounts Ledger
(h)	List of Members with details as to shares held by each of them. The names of directors to be specifically mentioned in such list of shareholders (List of members holding shares of a specified monetary threshold is also asked for in some cases).	PAS-3, Annual Return, Register of Members, Register of Directors.
(i)	Provision in the Articles of Association as to affixation of common seal of the company. (Particulars as to the persons in whose presence the seal of the company can be affixed to any deed).	Articles of Association. If there is no specific clause and the Articles have adopted Table F, Clause 79 of Table F may be referred.
(j)	Main Objects of the company	Memorandum of Association
(k)	Whether the Articles of the company contains provisions for nomination by the corporation a director on the board of the company.	Articles of Association of the company.

Further, a Search and Status Report should always be supported by expert observations on the charges created by the borrower in respect of the subject lender. It is necessary to peruse the observations/comments offered and the same should be read in conjunction with the Report.

COMPILATION OF INFORMATION GATHERED THROUGH EXAMINATION AND VERIFICATION OF DOCUMENTS

A Search and Status Report is required to be compiled on the basis of the scrutiny of all the available documents during inspection on the date when the search was carried out. An index of the charges is prepared at the website of

MCA which provides, charge ID, the date of filing of the document, charge amount secured, name of charge holder and its address. The index of charges can be viewed by quoting CIN/FCRN of the company which is primarily available at the website of the ministry. It is advisable to note down from the index, the short particulars of all Form CHG-1, 4, 9 for the purpose of cross-checking and ensuring that no document is missed in the Search Report.

FORMAT OF SEARCH REPORT AND ITS PREPARATION BASIS

Some of the banks and financial institutions insist that the Search Report be given in their own format. It would, therefore, be advisable to know if any specific format is insisted upon by the client. In the absence of any specific format, the Search Report may be given in the format given at **Annexure 1** explained with the help of a case study for better understanding.

The following table depicts the manner of verifying **Forms CHG 1/4/9** relating to charges:

TABLE A
Charges Requiring Registration

S.No.	Relevant Provisions	Charges under Reference	Instruments	To Verify whether or not
1.	Section 77 of the Companies Act, 2013	(a) a charge for the purpose of securing any issue of debentures	(a) hypothecation or mortgage including floating charge	*The instrument is executed and is dated.
		(b) a charge on uncalled share capital of the company	(b) Deed of assignment	*The common seal is affixed and if yes, the authority thereof is mentioned.
		(c) a charge on any immovable property, wherever situated, or any interest therein	(c) Mortgage	*The instrument bears adequate stamps in accordance with the applicable Stamp Act
		(d) a charge on any book debts of the company	(d) Hypothecation	The instrument creates the charge specifying the amount of charge and the assets charged.
		(e) a charge, not being a pledge, on any movable property of the company	(e) Hypothecation	*The instrument modifying a charge refers to the original charge under modification and spells the extent of modification.
		(f) a floating charge on the undertaking or any property of the company including stock-in-trade	(f) Hypothecation	*The instrument bears names of the persons in whose favour the charge is created or modified.
		(g) a charge on calls made but not paid	(g) Deed of assignment	*The instrument contains the terms relating to (a) mode of repayment, (b) applicable rate/s of interest, (c) margin and (d) priority or precedence of charge/s.
		(h) a charge on a ship or any share in ship	(h) Hypothecation	
		(i) a charge on goodwill, or on a patent or a license under a patent, or on a trademark, or on a copyright, or a license under a copyright	(i) Deed of assignment	

2.	Section 79 of the Companies Act, 2013	Charges on properties acquired subject to any charge thereon	Relevant instrument and also the instrument, evidencing the acquisition of the property which is subject to charge.	
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*The instrument bears adequate stamps in accordance with the applicable Stamp Act.

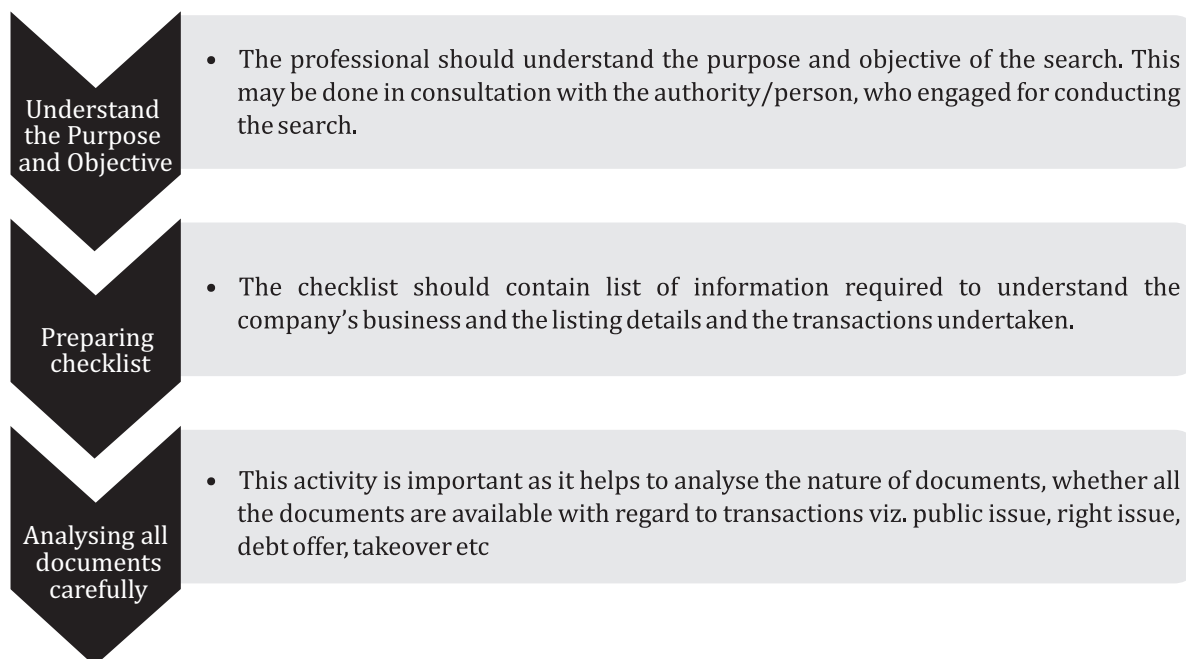
TABLE B
Time for Filing Forms

S. No.	Event	Relevant provisions	Time limit	Effect
1.	Creation of charge or modification of charge or acquisition of property which is subject to charge	Sections 77 and 79 of the Act.	Within thirty days from the date of creation, modification or acquisition Within a further period of sixty days after payment of advalorem fees	The date when the event takes place is also included while calculating the limit
2.	Satisfaction of the charge.	Section 82 of the Act.	Within a period of thirty days from the date of satisfaction the Registrar of Companies may, on an application by the Company or charge holder, allow such intimation of payment or satisfaction to be made within a period of 300 days of such payment or satisfaction.	The date when the event takes place is to be excluded while calculating thirty days

SEARCH REPORT UNDER SEBI, RBI, STOCK EXCHANGES

The Securities and Exchange Board of India ("SEBI") is the designated regulatory body for finance and investment markets in India. The Board plays a vital role in maintaining stable and efficient financial and investment markets by creating and enforcing effective regulation in India's financial marketplace. While preparing the Search and Status Report, it is important for professionals to conduct due diligence of documents in relation to listed companies which are available in public domain on the SEBI website. This process involves analysing documents which are related to various transactions undertaken by the listed company be it public issue, right issue, debt offer, takeover, mutual funding, buy back and Public issue.

Procedure for preparing search report



Verifying facts
and confirm
that the
information

- Verifying facts and confirming that the information is correct is important to verify the legality of documents.

Drafting of
status and
search
report

- The final report should contain all observations in relation to transaction undertaken by the company, before the prospective buyer / investor. It should also contain all associated risks and liabilities along with strategies to deal with such issues which will help the prospective buyer / investor understand the pros and cons of the transaction.

Key documents to be analysed while preparing the search and status report relating to the transactions undertaken by the company:

1. In case of Public Issues -

- Draft Offer Documents filed with SEBI
- Red Herring Prospectus filed with SEBI
- Final Offer Documents filed with SEBI

'Offer document' is a document which contains all relevant information about the company, promoters, projects, financial details, objects of raising the money, forms of the issue etc. used for inviting subscription to the issue being made by the issuer. Offer document is called 'Prospectus' in case of a public issue and letter of offer in case of rights issue.

'Red Herring Prospectus' is a prospectus, which does not have details of either price or number of shares being offered, or the amount of issue. This means that in case price is not disclosed, the number of shares and the upper and lower price bands are disclosed.

2. In case of Right Issues -

- Draft Letters of Offer filed with SEBI
- Final Letters of Offer filed with Stock Exchanges

3. In case of Debt Offer Document -

- Draft filed with SE
- Final filed with ROC

4. In case of Takeovers -

- Letter of Offer
- Formats as per SEBI (SAST) Regulations 2011
- Other Documents

5. In case of Mutual Funds -

- Draft document
- Statement of Additional Information (SAI)
- Scheme Information Document (SID)
- Key Information Memorandum (KIM)

6. **In case of Buybacks -**
 - (a) Tender Offers
 - (b) Open Market through Stock Exchanges
7. **In case of InvIT Public Issues -**
 - (a) Draft offer documents filed with SEBI
 - (b) Offer Documents fled with SEBI
 - (c) Final Offer Documents fled with SEBI
8. **In case of InvIT Private Issues -**
 - (a) Placement Memorandum filed with SEBI
 - (b) Final Placement Memorandum filed with SEBI

STOCK EXCHANGES SEARCH REPORT

The National Stock Exchange (NSE) is the leading stock exchange in India and the fourth largest in the world by equity trading volume in 2015, according to World Federation of Exchanges (WFE). It began operations in 1994 and is ranked as the largest stock exchange in India in terms of total and average daily turnover for equity shares every year since 1995, based on annual reports of SEBI.

The Bombay Stock Exchange (BSE) is the first and largest securities market in India and was established in 1875 as the Native Share and Stock Brokers' Association. Based in Mumbai, India, the BSE lists close to 6,000 companies and is one of the largest exchanges in the world, along with the New York Stock Exchange (NYSE), NASDAQ, London Stock Exchange Group, Japan Exchange Group, and Shanghai Stock Exchange.

While preparing the Search and Status Report regarding Stock Exchanges, it is important for the professionals to conduct due diligence of the documents available in public domain on the NSE and BSE website in relation to the listed companies.

Procedure:

1. **Preparing checklist:** The checklist should contain list of information required to understand the company's business, listing details, board meetings, results calendar, corporate actions, financial results, shareholding data, pledge data, scheme of arrangement etc.
2. **Analysing all documents carefully :** This activity is important as it helps to analyse the nature of documents which are available on public domain with respect to listing details, corporate actions, public notices, financial resultants, XBRL, sustainability reports, disclosures, offer document etc.
3. **Verifying facts and confirm that the information is correct:** This activity is important to verify the legality of documents or information.
4. **Drafting of status and search report:** The final report should contain all observations based on the information available, before the prospective buyer / investor. It should also contain all associated risks and liabilities along with strategies to deal with such issues which would help the prospective buyer / investor understand the pros and cons of the transaction.

Key documents to be analysed while preparing the search and status report on information/ documents available on NSE and BSE website:

1. Corporate Announcements
2. Corporate Actions
3. Financial Results
4. Documents of Board Meetings

5. Documents of Shareholders Meetings
6. Voting Results
7. Results Calendar
8. Shareholding Patterns
9. Corporate Governance
10. Disclosures
11. Offer Documents
12. Information Memorandum
 - (a) QIP
 - (b) Scheme of Arrangement
 - (c) Companies listed under Direct Listing
 - (d) Revocation
13. Pledge Data
14. Sustainability Reports
15. Buyback / Redemption
16. Public Notice - Compulsory Delisting

ANNEXURE - 1

[FORMAT OF SEARCH REPORT]
TO WHOMSOEVER IT MAY CONCERN

We have carried out inspection vide **MCA CHALLAN No. 123AAA2** dated _____ in respect of XYZ PRIVATE LIMITED (hereinafter referred as ***“the Company or XYZ”***) having **CINU 11101 DL1993 PTC000000**. We do hereby clarify and confirm that we have perused the documents uploaded on the website of MCA i.e. www.mca.gov.in under the provision of the Companies Act 1956 and 2013 as Company registered by Registrar of Companies.

On the basis of such perusal of documents available on the website of MCA i.e. www.mca.gov.in., we do hereby certify and confirm that the Company has complied with the provisions under the provision of Companies Act 2013 (erstwhile Companies Act, 1956).

This certificate has been issued on the specific request made by the Company on the basis of documents available on the website of MCA.

Search Report

No. of the company (CIN)	U11101DL1993PTC000000
Name of the company	XYZ PRIVATE LIMITED
Registered Office	00, Hauz Khas Apartment. Safdarjung Enclave, New Delhi - 110 016
Authorized Capital	Rs. 1,00,00,000/- (One Crore Rupees)
Paid Up Capital	Rs. 1,00,000-(One Lakh Rupees)
Date of Incorporation	27.11.1993

Present Directors (As per detail available on List of Signatories on MCA Portal)

DIN	Name	Designation	Date of appointment
0123456	A	Director	05.09.2015
0223344	B	Director	01.02.2016
00145274	C	Additional Director	22.05.2017
07895421	D	Additional Director	22.05.2017

Number of Shareholders : Two

Charge Id. : 10016444	Document Date	Registration Date:
Creation of Charge	17-07-2006	17-07-2006
Modification of Charge	21-08-2009	
Details of Agreements creating charge	Equitable mortgage or mortgage of property by depositing the title deeds	
Bank/Financial Institution/ NBFC	SBI	
Amount Secured	470000000	
Terms & Conditions	Rate of Interest:- 15% Margin: - Repayment:	

Security and other particulars: (At the time of creation)

1. Premises on the 1st floor of building, admeasuring about 25,480.69 sq. feet (built up) constructed on Plot bearing survey No. 124 to 128.

Security and other particulars: (First Modification dated)

1. In aggregate 4713.782 sq. meters, situated at International Airport Road, Narol, Delhi.

Details of Charges Satisfied

S.No.	Charge ID	Date of Creation	Date of Satisfaction	Amount
1.	10016444	17-07-2006	21.12.2017	470000000

Details of shareholders

S.No.	Ledger Folio	Name	Address	Number of Equity shares	Face Value	Total
1	001	A	211, Ground Floor, Sarvapriya Vihar, Hauz Khas, Delhi	5,000	10	50,000
2	002	B	332, Ground Floor, Sarvapriya Vihar, Hauz Khas, Delhi	5,000	10	50,000

List of Forms filed on MCA portal

S.No.	Name and purpose of form filed	Date of filing
1.	ADT-2	—
2.	CHG- 4	—
3.	MGT- 14	—

4.	FORM- 20 B	—
5.	AOC- 4	—
6.	MGT- 7	—
8.	DIR- 12	—
9.	FORM 1	—
10.	FORM 23 AC	—

Non Filing of Forms

Forms	Purpose
Form DIR-12 in respect of regularization of appointment of Directors not filed since incorporation	In accordance with the applicable provisions of the Companies Act, every director who is being appointed in the meeting of Board is required to be regularized in the upcoming shareholders meeting and intimation of such regularization will be given to MCA by filing Form 3 or DIR-12.
Form MGT-14 in respect of disclosure of shareholders not filed for F.Y. 2013-14	Required as per the provisions of section 179(3) of The Companies Act, 2013.
Form MGT-14 in respect of adoption of accounts and board report approval not filed for F.Y. 2013-14	Required as per the provisions of section 179(3) of The Companies Act, 2013.
Form ADT-1 is not found on the MCA.	Required as per the provisions of section 139 of The Companies Act, 2013.

Questions: A private sector bank is considering to advance loan to a private limited company. The said bank has requested you to provide a search report of a that public limited company.

As a Practicing Company Secretary, prepare the said report after doing the necessary inspection from the website of regulators. Assume the name of the company.

LOAN ON THE COMPANY

As per the latest report of auditor of the Company, it states that the following:

The Company is a wholly owned subsidiary of ABC Pvt Ltd, a company incorporated in India and has taken an advance of Rs 21,12,000/- from its holding company.

AND

As per the Form AOC-2, the loan from Mr. G, Director is 1 lakh.

LEGAL CASE PENDING ON XYZ PRIVATE LIMITED

As per the information shared with the ministry of corporate affairs, there are no legal cases pending on the Company.

DISCLAIMER: The said Search Report is purely a summary of the contents and status of documents examined on an inspection of the Company's documents available on the official website of the Ministry of Corporate Affairs (www.mca.gov.in) on the xx.03.xx18 vide SRN No. U0xxxx324 dated xx.03.xx18. The report is not based on any personal judgments or opinion of any individual or professional.

On the basis of the documents examined, the facts and figures as stated in the said report seem true and correct to the best of our knowledge and belief. We however disclaim any responsibility on account of any implications, decisions or actions taken on the basis of some inadvertent mistake in the said report.

MODEL TRADEMARK SEARCH REPORT

Client:					
Mark:	NUTRIENT				
Type of Search:	Word marks and design marks				
Classes:	Classes: 3, Section 9,				
Indices:	Trademarks, Index Headings, Figurative Elements, Foreign Character Translations, Descriptions of Marks				
Status:	Application, Registered, Active				
Reference No:					
Goods/Services:					
Data Sources:					
Category Summary:					
S.No.	Name	Information			
1	Goods Conflict	You should review the goods listed.			
2	Service Conflict	You should review the services listed.			
3	Phonetically Similar	This mark sounds the same.			
4	Partial Wares	Some of your wares form part of this class.			
5	Partial Services	Some of your services form part of this class			
6	Similar Design	The desing elements appear to be a conflict.			
7	Advertised	This mark has been advertised			
8	Oppose	You should oppose the registration of this mark.			
9	Infringe	This mark infringes on your rights			
Item Information					
S.No.	Trademark	Reg	App/Ser	Status	Category
<p>DISCLAIMER:</p> <p>This report is designed to uncover trademark rights that have the potential to conflict with the Mark and Goods/Services list <<>> above.</p> <p><<>> has taken reasonable steps to ensure that this report includes complete and accurate information. However, because trademark searching is highly subjective and data from numerous third-party sources may be incomplete, inaccurate, or out-of-date, WE CANNOT AND DO NOT WARRANT THE ACCURACY OF THIS REPORT OR THAT THIS REPORT IS ERROR FREE OR COMPLETE. AS A RESULT, WE ALSO DISCLAIM ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.</p> <p>This report in no way constitutes a legal opinion. Any analysis and determination about the availability of a Mark is solely the responsibility of the search customer.</p> <p>ANY LIABILITY ARISING FROM THE PREPARATION OF OR YOUR USE OF THIS REPORT IS LIMITED TO A REFUND OF THE SEARCH FEE PAID. Acceptance of this search constitutes an acceptance of the aforesaid terms, conditions and limitations. The search is valid only for the exact Mark and Goods/Services listed above.</p> <p>Except for those materials supplied by third-parties, this report constitutes the intellectual property of <<>>. You own the copy or copies of the report provided to you by<<>>, but otherwise enjoy only a limited license to use the copyrighted and otherwise protected materials in the copy or copies provided to you.</p> <p>Copyright 20<<><>>. All rights reserved. Name:</p> <p>Address:</p> <p>Telephone:</p>					

PROPERTY TITLE SEARCH REPORT

Property Information Owner name: Country: Property Address:	Report created on:
--	---------------------------

Legal Description:					
Deed Information :		Type:			
Title is vested in :					
Title received from:					
Dated:		Recorded:		Book & Page:	

1st Mortgage:		Dated:		Recorded:	
Lender:					
Borrower:					
2nd Mortgage:		Dated:		Recorded:	
Lender:					
Borrower:					

Lien Judgment and Comments	Tax Information				
	Tax ID:				
	Tax Year:				
	Date paid:		Amount:		
	Assessed Value:		Exemption:		
	Annual:		Installments:	Deliquent:	

LESSON ROUND UP

- The Search Report gives the master data about the Company including its history & details about its directors and an assurance that neither the company nor its directors are defaulters in any of the earlier loans and borrowings.
- MCA21 offers the facility to view documents relating to charges created by the company which is handy for banks and financial institutions while granting loans.
- The scope of search report depends upon the requirements of the bank or financial institution concerned.
- The main objective of a Search and Status Report is to help the Lenders and Investors to take an informed decision.

GLOSSARY

Pari passu	Treating on same footing.
Inter alia	Including but not limited to.
Industrial designs	A design used for manufacture of product in any industry.
Geographic indications	An indication used to identify the product of the basis of location. For. Eg. Darjeeling Tea
Easementary Right	Right of beneficial enjoyment.
Vested	An right transferred completely.
Advalorem	According to the value.

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)

1. What is a Search/ Status Report? Discuss the content of the report in case of the ROC Search Report.
2. State the point to kept in mind by a professional while preparing the Search / Status Report.
3. Discuss the Key documents to be analysed while preparing the Stock Exchange search and status report
4. You are requested by a Financial Institution to provide search and status report of a company . Prepare a checklist for preparing the search and status report.

LIST OF FURTHER READINGS

- The Companies Act, 2013
- The Companies Rules
- Premier on Companies Act, 2013
- SEBI Manual
- Regulations/Rules/Guidelines/Circulars issued by SEBI, RBI, MCA etc. from time to time
- Articles by the professionals and Firms

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- www.mca.gov.in
- www.sebi.gov.in
- www.rbi.org.in
- www.icsi.edu

[illegible]

Lesson 5

Know Your Customer (KYC)

Key Concepts One Should Know

- Anti Money Laundering (AML)
- Benchmark
- NBFCs
- Illicit Purposes
- DIN(Directors Identification Number)
- Reputational Risk
- Operational Risk
- Risk that arises legally
- Financial Risks
- Enhanced Due Diligence(EDD)
- Customer Due Diligence (CDD)
- OVDs(Officially Valid Documents)

Learning Objectives

To understand:

- How continuous regulatory actions on Anti-Money Laundering (“AML”), involving a number of high profile fines and investigations, the Know Your Customer (“KYC”) became a key focus area for the financial Institutions, management, and professional firms.
- The objectives of Know Your Customer (KYC) i.e. prevent Companies, Financial Institutions and other form of Business structure from being used, intentionally or unintentionally, by criminal elements for money laundering activities.
- How Regular KYC helps these institutions for better understanding of their customers, clients and Directors and their financial dealings.
- Various KYC requirements and consequences of the incomplete KYC or for Non performing KYC before accepting any engagement.

Lesson Outline

- Introduction
- Objective of KYC
- Types of KYC
- KYC of Directors by MCA
- ICSI KYM Guidelines
- KYC Norms for CS in Practice
- Enhanced due diligence in KYC
- Frauds due to incomplete KYC
- KYC Documents for various entities
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

INTRODUCTION

KYC stands for 'Know Your Customer' or 'Know your Client'. Which is a process for every professionals, bank or financial & lending institution and it is a process to get information about the identity and address of the customer. This process has been made compulsory for Bank by RBI before opening an account, to guarantee that there must not be any misuse of any service provided by the banks. As per the order by RBI, banks have to update the KYC details information at regular intervals depending on the risk of the profile of the customer.

KYC is aimed to make it easier for business institutions to know and understand their customers. Implementation of KYC guidelines for every new bank account was made compulsory by RBI in the year 2002, Subsequently, these standards have become the international benchmark for framing Anti Money Laundering and combating financing of terrorism policies by the regulatory authorities. Compliance with these standards by the banks/ financial institutions/NBFCs in the country have become necessary for international financial relationships.

The Corporate structure play an essential role in the economic system, the issue of the misuse of corporate structure entities for illicit purposes has drawn increasing attention from policy makers and regulators. There has been growing concern that these vehicles may be misused for illicit purposes, such as money laundering, bribery and corruption, shielding assets from creditors, illicit tax practices, market fraud, and other illicit activities.

In view of this, the Ministry of Corporate Affairs has commenced the verification for Directors wherein every Director who has been allotted DIN would be mandatorily required to file form DIR-3 KYC. By filing DIR-3 eKYC, form the Director would have to provide a unique personal mobile number and personal email address which would both be verified with an OTP code and the in case of the non-compliance of the same such DINs will be deactivated by the MCA.

OBJECTIVES OF KYC

The objectives of KYC is to stop the corporate vehicles to be used intentionally or unintentionally, by criminal elements for illicit purposes such as money laundering activities, Fraud, bribery and corruption, shielding assets from creditors, illicit tax practices, Market fraud, Terrorist Funding, avoiding future risk and the KYC related procedures also enable institution to better understand their customers and their financial dealings. This helps in managing associated risks prudently.

Meaning of Customer under KYC

For the purpose of KYC, a 'Customer' includes a

- a person who is engaged in a financial transaction or activity with a reporting entity and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting;
- director who has been allotted DIN issued by the Ministry of Corporate Affairs;
- a person or entity that maintains an account and/or has a business relationship with the bank;
- beneficiaries of transactions conducted by professional intermediaries such as stockbrokers, Chartered Accountants, Company Secretaries or solicitors, as permitted under the law; or
- any person or entity connected with a financial transaction which can pose significant reputational or other risks to the bank, for example, a wire transfer or issue of a high-value demand draft as a single transaction;
- one on whose behalf the account is maintained (i.e. the beneficial owner).

KYC Requirement in various transaction

1	<ul style="list-style-type: none"> • Incorporation of Company
2	<ul style="list-style-type: none"> • Obtaining DIN

3	• Opening of Bank Account / D-mat Account/ Wallet.
4	• Deposit /Withdrawal of Cash.
5	• Purchase of Gold/ Silver/Property.
6	• Employment, Provident Fund etc.
7	• Opening a subsequent account where documents as per current KYC standards not been submitted while opening the initial account.
8	• Opening a Locker Facility where these documents are not available with the bank for all the Locker facility holders.
9	• When the bank feels it necessary to obtain additional information from existing customers based on conduct of the account.
10	• When there are changes to signatories, mandate holders, beneficial owners etc. KYC will also be carried out in respect of non-account holders approaching the bank for high value one-off transactions.

TYPES OF KYC

C-KYC

C- KYC stands for Central KYC which provide the uniform norms and inter-usability. The central KYC registry across all financial sectors has been set up as a depository for KYC records. This new process, without asking customers to provide multiple KYC undertakings will help banks, mutual funds, brokerage firms and depository participants offer services. After complying with the new CKYC norms, a unified customer identification code is generated, and which is used whenever KYC is required. This initiative has been started for the purpose of centralizing and streamlining KYC process and also to avoid the duplication of KYC and less scope of forgery. The government has authorised the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) for performing the functions of Central KYC Records Registry (CKYCR), also the duty of receiving the details and safely storing them and retrieving the KYC records in the digital form of a 'client'. Earlier customers have to provide KYC documents separately to every financial institution but after the introduction of one-time centralization process CKYC, customers will only have to complete the process once and it can be used for all different processes like opening savings bank accounts, buying life insurance or investing in mutual fund products.

e-KYC

e-KYC stands for electronic KYC. The service of e-KYC can only be used by those who have Aadhar numbers. Customers by their own consent needs to authorize Unique Identification Authority of India (UIDAI), to reveal their identity or address information through biometric authentication to their respective bank branches or business correspondent (BC). After this the UIDAI sends the customers data comprising of customer name, age, gender, and photograph electronically to the bank. It is a valid process for KYC verification and under Prevention of Money Laundering (PML) Rules, information provided under e-KYC process will be considered as a 'Valid Document'.

KYC of Directors by MCA

The KYC of Directors had been conducted by the MCA at the time of the Allotment of the Director Identification Number and earlier it is not mandatory for the Director to update their KYC on the subsequent change. With the insertion of Rule 12A in the Companies (Appointment and Qualification of Directors) Rules, 2014, Every individual who holds a Director Identification Number (DIN) as on 31st March of a financial year as per these rules shall, submit e-form DIR-3-KYC for the said financial year to the Central Government on or before 30th, September of immediate next financial year. However, where an individual who has already submitted e-form DIR-3 KYC in relation to any previous financial year, submits web-form DIR-3 KYC-WEB through the web service in relation to any subsequent financial year it shall be deemed to be compliance of the provisions of this rule for the said financial year:

In case an individual desires to update his personal mobile number or the e-mail address, as the case may be, he shall update the same by submitting e-form DIR-3 KYC only.

The fee for filing e-form DIR-3 KYC or web-form DIR-3 KYC-WEB through the web service, as the case may be, shall be payable as provided in Companies (Registration Offices and Fees) Rules, 2014.

Some important points to be noted in respect of DIR-3 KYC

KYC of Companies

Applicability if DIR - 3 KYC	<ul style="list-style-type: none"> DIR-3 KYC is required to be filed by every Director who holds DIN on or before 31st March, of a Financial Year and whose DIN status is 'Approved'.
Due Date	<ul style="list-style-type: none"> Due date of filing of DIR-3KYC is on or before 30th September of immediate next financial year.
Prerequisites	<ul style="list-style-type: none"> Prerequisite Mandatory Information DIR-3 : (1) Unique Personal Mobile Number(2) Personal Email ID (3) Email ID and Mobile Number for receiving OTP
Certifications	<ul style="list-style-type: none"> Certification of DIR-3 KYC (1) First by the affixing Registered Digital Signature of respective person / Director (2) Certification by practicing professional by affixing Digital Signature (CS/CA/CMA)
Applicability of disqualified Directors	<ul style="list-style-type: none"> Filing of DIR-3 KYC would be mandatory for Disqualified Directors as well.
Deactivation	<ul style="list-style-type: none"> If director fails to file DIR-3 KYC the MCA21 system will mark all approved DINs against which DIR-3 KYC form has not been filed as 'Deactivated' with reason as 'Non-filing of DIR-3 KYC'
Fees	<ul style="list-style-type: none"> MCA has notified 'Nil Fee' and 'late Fee' of Rs. 5,000 (Applicable after the due date) for Filing e-Form DIR-3 KYC under rule 12A of the Companies (Appointment and Qualification of Directors) Rules, 2014.
Form of restoration	<ul style="list-style-type: none"> MCA has also notified format of e-form DIR-3 KYC under new Rule 12A (Directors KYC) along with procedure for restoration of deactivated DINs of Directors, applicable.

Question: Who can file KYC through DIR-3 KYC web-service?

Any DIN holder who has already submitted eForm DIR-3 KYC in any of the previous financial years and who does not require update in any of his KYC details as submitted, may perform his annual KYC by accessing DIR-3 KYC web service. No fee is payable up to the due date of each financial year. After the due date, a fee of Rs.5000 shall be payable.

Requirement of Filing e-form ACTIVE	Rule 25A of the Companies (Incorporation) Rules, 2014 provides that every company incorporated on or before the 31st December, 2017 shall file the particulars of the company and its registered office, in e-Form ACTIVE (Active Company Tagging Identities and Verification) on or before 15th June, 2019.
Exclusions by reason of non-compliance	The company which has not filed its due financial statements under Section 137 or due annual returns under Section 92 or both with the Registrar are restricted from filing e-Form-ACTIVE, unless such company is under management dispute and the Registrar has recorded the same on the register.
ACTIVE-non- compliant by reason of non-compliance	In case a company does not intimate the said particulars, such Companies are marked as “ACTIVE-non- compliant” on or after 16th June, 2019 and shall be liable for action under sub-section (9) of section 12 of the Companies Act, 2013.
Disadvantages for ACTIVE-non- compliant companies	<p>Provided also that no request for recording the following event based information or changes shall be accepted by the Registrar from such companies marked as “ACTIVE-non-compliant”, unless “ e-Form ACTIVE” is filed-</p> <ul style="list-style-type: none"> (i) SH-07 (Change in Authorized Capital); (ii) PAS-03 (Change in Paid-up Capital); (iii) DIR-12 (changes in Director except in case of : <ul style="list-style-type: none"> (a) cessation of any director or; (b) appointment of directors in such company where the total number of directors are less than the minimum number provided in clause (a) of sub-section (1) of section 149 on account of disqualification of all or any of the director under section 164; (c) appointment of any director in such company where DINs of all or any its director(s) have been deactivated; (d) appointment of director(s) for implementation of the order passed by the Court or Tribunal or Appellate Tribunal under the provisions of this Act or under the Insolvency and Bankruptcy Code, 2016). (iv) INC-22 (Change in Registered Office); (v) INC-28 (Amalgamation, de-merger).
Restoration of Status	Where a company files “e-Form ACTIVE”, on or after 16th June, 2019, the company shall be marked as “ACTIVE Compliant”, on payment of fee of ten thousand rupees”.

ICSI Guidelines on Know Your Members

Members of the Institute are presumably aware about the Regulation 3 of The Company Secretaries Regulations, 1982, wherein every member is required to communicate to the Institute any change of professional address, within one month of such change. Further, to have updated members KYC the ICSI has provided a “Know Your Member” (KYM) proforma which to be submitted by all the members of the Institute w.e.f. payment of annual membership fee for the year 2016-17. The KYM proforma has to be submitted by the members once in three years starting with payment of annual membership fee for the year 2016-17 and thereafter every time there is a change in job/ profession/professional address. The fee shall be accepted only on receipt of the proforma duly filled in and signed.

Introduction of “Know Your Member” (KYM) proforma for ICSI members w.e.f. FY 2016-17

The “Know Your Member” (KYM) proforma submitted by the members of the Institute, is required to verify their identity/details on similar lines with that of KYC used by banks. This KYM facility is expected to prevent identity theft of members by fraudulent elements and help the Institute to maintain updated information about the members.

The members should submit two documents along with the KYM proforma duly filled and signed – one document which serves as Proof of Identity (PoI)) and another document which serves as Proof of Address (PoA). A member should submit any one of the following five documents notified as ‘Officially Valid Documents (OVDs)’ by the Government of India as proof of identity:

Passport	Driving Licence	Voters’ Identity Card
	PAN Card	Aadhaar Card issued by UIDAI

If any of these documents also contain the address details, then same is accepted as a ‘proof of address’. If the document(s) submitted by the member for proof of identity does not contain address details, then the member should submit another document which contains address details such as Water bill, Telephone (landline or post-paid mobile bill), Electricity bill, Income Tax Assessment Order, Proof of Gas Connection, Certificate from Employer of reputed companies on letter head, Applicant’s current and valid ration card, Photo Passbook of running Bank Account (Scheduled Public Sector Banks, Scheduled Private Sector Indian Banks and Regional Rural Banks only).

Know Your Client (KYC) Norms for Company Secretary in Practice

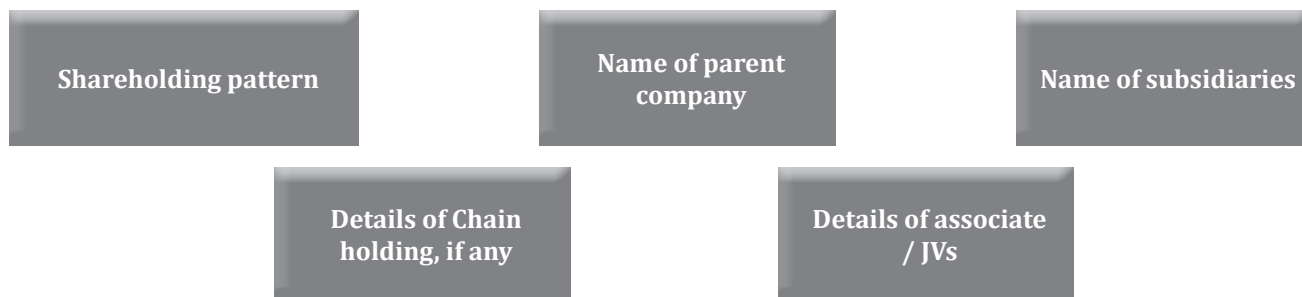
For a Practicing Company Secretary, the Client Information as well as due diligence on clients has become a necessity under the complex business scenario and the current regulatory environment. Such an exercise can be made possible in a structured way and the various professional bodies advise their members to conduct KYC about their clients so that professionals can freely exercise and deliver their professional services in the best suited way.

The ICSI KYC norms are recommendatory in nature and every Company Secretary in Practice carrying out attestation function is encouraged to follow the KYC Norms.

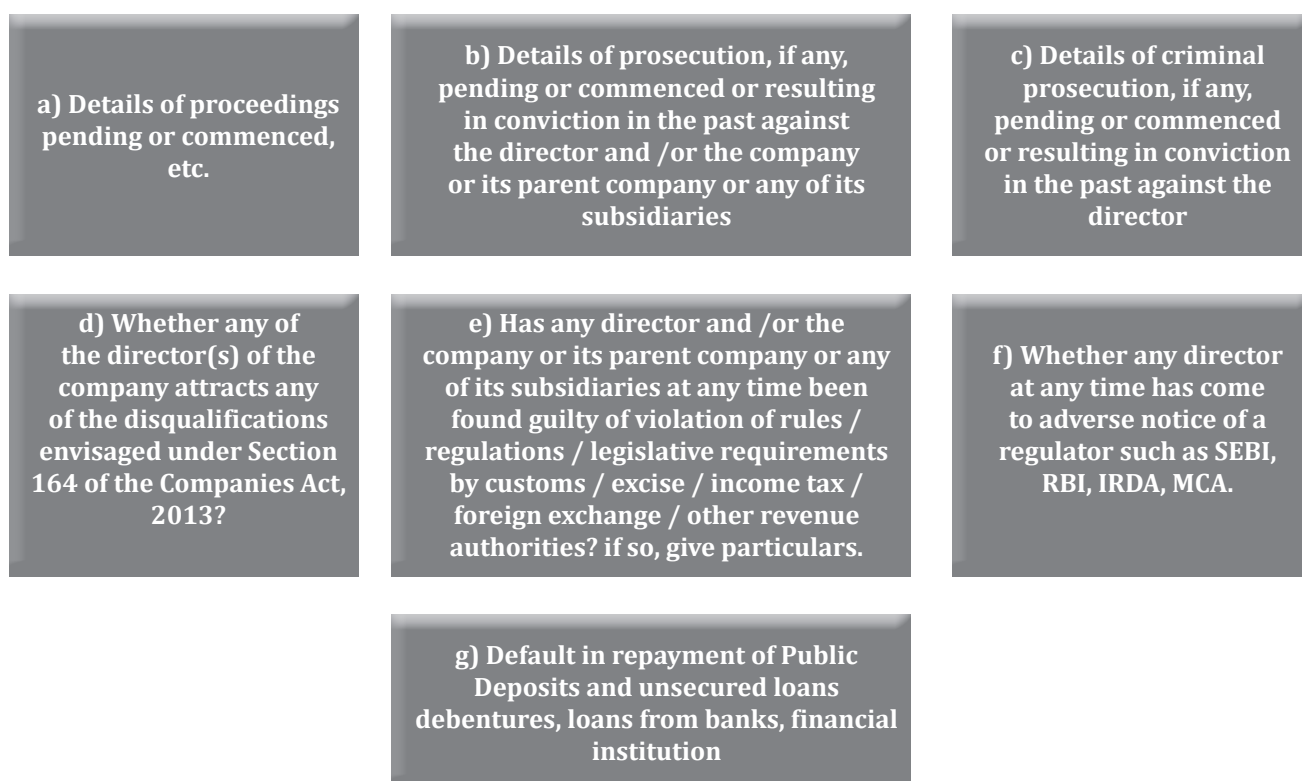
The illustrative list of KYC Information is as under:

1. Client Information

a) Name of Entity	b) CIN / Registration No.	c) Date of Incorporation / Registration No.	d) Type of Entity
e) Business Description	f) Address of Registered Office	g) Address of Corporate Office	h) Address(es) of Branch Office(s)
i) PAN and Name & Address of Income Tax Circle	j) Email id	k) Telephone No (s)	l) Fax No (s)
	m) Banker(s) of the Entity	n) Major Client customers information	

2. Corporate Structure**3. Permissible Business information as per Memorandum of Association****4. Board Structure/ Organization Structure****5. Transaction with Business entities in which Directors are interested****6. Creation, modification and satisfaction of charges****7. FOREX Exposure and overseas borrowings****8. Payment status of statutory dues and arrears****9. Name of the CEO, Company Secretary and CFO****10. Engagement Information**

(a) Details of assignment proposed by the Entity

11. Proceedings against the company or any of its director

12. Other Information

a) Details of last IPO/FPO/
Rights Issue

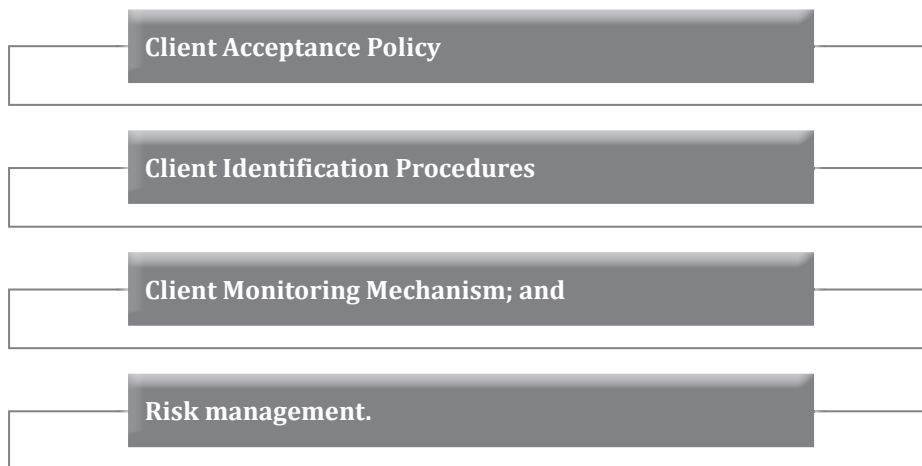
b) Name, address and CoP No.
of Statutory Auditor

c) Name, address and CoP No.
of Secretarial Auditor

13. Undertaking from the client to confirm that the information provided is to the best of knowledge and belief true and complete. I undertake to keep the PCS informed, as soon as possible, of all event which take place subsequent to his engagement which are relevant to the information provided above.

Suggested criteria to be adopted by Professional as KYC Norms

Generally, the KYC policies incorporating the following four key elements:



These are suggested measures, to be adopted by the professional while dealing with client and undertaken any assignment from a client/ prospective client. As a Code for good practice, every professional should ensure that no fraud has been take place due to adoption of the poor KYC norms. It is the duty of the professional proper checking of documents will be done in order to complete the requirement of KYC Norms.

Case Study

X is a director of ABC Ltd. ABC limited is a listed entity in NSE and BSE. X stays in India for 30 Days in a year. He is in India from 1st June to 30th June every year.

As a PCS, prepare a checklist mentioning the details of compliances citing provisions and consequences of non-compliances.

Though, there is no settled manner for doing KYC by the professional, However the ICSI has prepared a policy on KYM, KYC norms, However, variation in the procedure for KYC of one time assignment and or for the regular client may be there.

The Professionals should take extra care with the foreign client, to ensure that all the rules and regulations are followed, according to the specified procedures for dealing with the foreign clients.

RISKS UPON DUE KYC

There are different types of risk involved in non-implementation of KYC:

1. Reputational Risk

Some instances like if a company entered into fraudulent transaction and later on if the public will come to know about it then this would create a sense of insecurity among the public and this would harm the reputation and it would be hard for the professional to attract client in future. Hence, it is advisable to keep proper KYC of Client.

2. Operational Risk

This can be considered as a risk of loss due to failed internal processes, poor documentation, litigation, disputes and due diligence, people and systems or also from external events.

3. The Risk that arises legally

In case, any client would get involved with any illegal activity it will also attract penalties and adjudications on professional. If a body does not follow KYC norm it would be subject to penalty.

4. Financial Risks

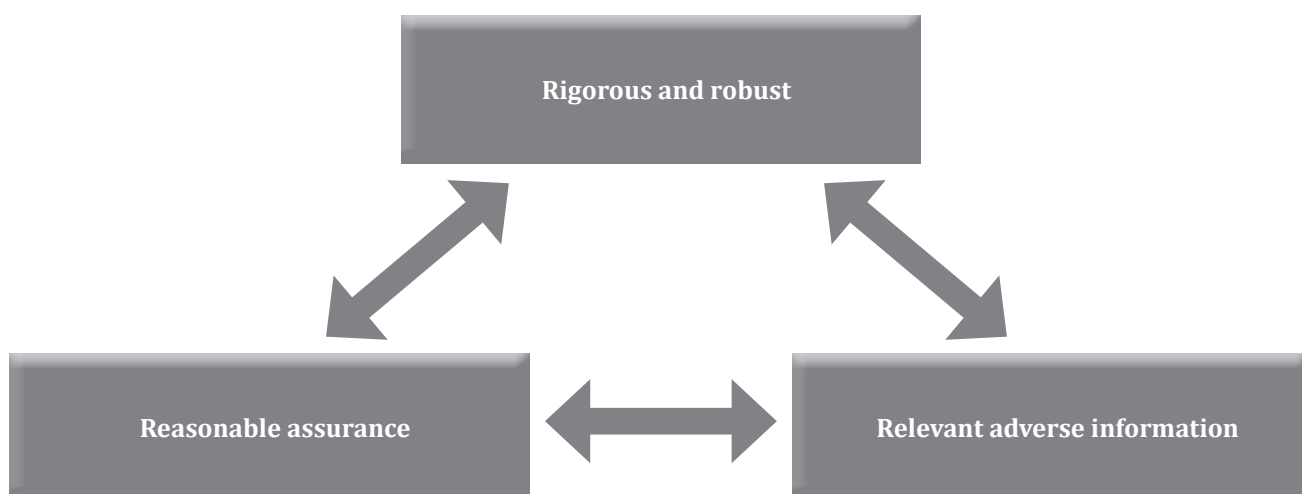
If any professional without complying with KYC Norms, provides its services relating to certification, declarations and the financial institution gives loan to a customer and later the bank fails to identify the customer then it will be hard for the bank to retrieve its money, which will result into a financial loss.

ENHANCED DUE DILIGENCE (EDD) IN KYC

EDD has not been internationally defined. As a result financial institutions are at risk of being held to differing standards dependent upon their jurisdiction and regulatory environment. An article published by Peter Warrack in the July 2006 edition of ACAMS Today (Association of Certified Anti Money Laundering Specialists) suggests the following:

“A rigorous and robust process of investigation over and above (KYC) procedures, that seeks with reasonable assurance to verify and validate the customers identity; understand and test the customers profile, business and account activity; identify relevant adverse information and risk assess the potential for money laundering and/or terrorist financing to support actionable decisions to mitigate against financial, regulatory and reputational risk and ensure regulatory compliance.

CHARACTERISTICS OF EDD



1. **Rigorous and robust:** Generally this means consistent, thorough and accurate. The process must be documented and available for inspection by regulators. The process must be SMART (Specific, Measurable, Achievable, Relevant and Time bound), scalable and proportionate to the risk and resources. A Ball workflow system ensuring that the KYC process and procedures are Defined, Repeatable and Measurable is recommended.
2. **Reasonable assurance:** Reasonableness depends upon factors including jurisdiction, risk and resources. For sanction matches it depends upon information provided by regulators. In all cases the suggested standard is to the civil standard of proof i.e. on the balance of probability.
3. **Relevant adverse information:** Information obtained from any source, including the Internet, free and subscription databases and the media, which is directly or indirectly indicative of involvement in money laundering, terrorist financing or predicate offenses.

CUSTOMER DUE DILIGENCE IN KYC

Banks and financial institutions (FIs) have been advised by Reserve Bank of India to follow certain customer identification procedure for opening of accounts and monitor transactions of suspicious nature for the purpose of reporting the same to appropriate authority. These 'Know Your Customer' (KYC) guidelines have been revisited in the context of the recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT). Detailed guidelines based on the recommendations of FATF and the paper issued on Customer Due Diligence (CDD) for banks by the Basel Committee on Banking Supervision (BCBS), with suggestions wherever considered necessary, have been issued. Banks/FIs were advised to ensure that a proper policy framework on 'Know Your Customer' and Anti-Money Laundering measures is formulated and put in place with the approval of their Boards.

"Customer Due Diligence (CDD)" means identifying and verifying the customer and the beneficial owner, CDD refers to the monitoring of clients and their activities to see if the client does not change its status over time. In effect this contains the possibility that an individual (or more often an organization) that has passed KYC is still the same as was the earlier and doing the same what they have declared that what they would do when they underwent KYC checks.

For example changes in the signatory of the account, changes in the partners, changes in the object, changes in the source of income, revenue etc. Hence without CDD the services provider would not know that there is changes in the ownership.

Changes in KYC regime

RBI issued Master Direction on KYC dated February 25, 2016. Government of India, vide Gazette Notification G.S.R. 582(E) dated August 19, 2019 and Gazette Notification G.S.R. 840(E) dated November 13, 2019, notified amendment to the Prevention of Money-laundering (Maintenance of Records) Rules, 2005. Further, with a view to leveraging the digital channels for Customer Identification Process (CIP) by Regulated Entities (REs), the Reserve Bank decided to permit Video based Customer Identification Process (V-CIP) as a consent based alternate method of establishing the customer's identity, for customer onboarding.

The changes are as under:

A. Changes due to amendments to the PML Rules

- (a) "Digital KYC" is defined in Section 3 as capturing live photo of the customer and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with the latitude and longitude of the location where such live photo is being taken by an authorised officer of the Reporting Entity (RE) as per the provisions contained in the Act. Steps to carry out the Digital KYC process have also been stipulated.
- (b) "Equivalent e-document" has been defined in Section 3 as an electronic equivalent of a document, issued by the issuing authority of such document with its valid digital signature including documents issued to the digital locker account of the customer as per Rule 9 of the Information Technology (Preservation and Retention of Information by Intermediaries Providing Digital Locker Facilities) Rules, 2016.
- (c) Section 16 is amended and accordingly,
 - I. Customer, for the purpose of Customer Due Diligence (CDD) process, shall submit:
 - (i) the Aadhaar number where he is desirous of receiving any benefit or subsidy under any scheme notified under section 7 of the Aadhaar (Targeted Delivery of Financial and Other subsidies, Benefits and Services) Act, 2016 (18 of 2016); or he decides to submit his Aadhaar number voluntarily to a banking company or any reporting entity notified under first proviso to sub-section (1) of section 11A of the PML Act; or
 - (ii) the proof of possession of Aadhaar number where offline verification can be carried out; or
 - (iii) the proof of possession of Aadhaar number where offline verification cannot be carried out; or
 - (iv) any Officially Valid Document (OVD) or the equivalent e-document thereof containing the details of his identity and address; and
 - (v) the Permanent Account Number or the equivalent e-document thereof or Form No. 60 as defined in Income-tax Rules, 1962; and

- (vi) such other documents including in respect of the nature of business and financial status of the client, or the equivalent e-documents thereof as may be required by the RE.
- II. Provided that where the customer has submitted,
 - (i) Aadhaar number under paragraph (c.I.i) above to a bank or to a RE notified under first proviso to sub-section (1) of section 11A of the PML Act, such bank or RE shall carry out authentication of the customer's Aadhaar number using e-KYC authentication facility provided by the Unique Identification Authority of India.
 - (ii) proof of possession of Aadhaar under clause (c.I.ii) above where offline verification can be carried out, the RE shall carry out offline verification.
 - (iii) an equivalent e-document of any OVD, the RE shall verify the digital signature as per the provisions of the Information Technology Act, 2000 (21 of 2000) and any rules issues thereunder and take a live photo as specified under Annex I of the Master Direction.
 - (iv) proof of possession of Aadhaar number where offline verification cannot be carried out under clause (c.I.iii) above or any OVD under clause (c.I.iv), the RE shall carry out verification through digital KYC as specified under Annex I of the Master Direction.

Provided, for a period not beyond such date as may be notified by the Government for a class of REs, instead of carrying out digital KYC, the RE pertaining to such class may obtain a certified copy of the proof of possession of Aadhaar number or the OVD and a recent photograph where an equivalent edocument is not submitted.

B. Changes due to introduction of Video based Customer Identification Process (V-CIP)

- (a) Definition of V-CIP is inserted in Section 3 of the Master Direction
- (b) The process of V-CIP is specified in Section 18 in terms of which, REs may undertake live V-CIP, to be carried out by an official of the RE, for establishment of an account based relationship with an individual customer, after obtaining his informed consent and shall adhere to the following stipulations:
 - (i) The official of the RE performing the V-CIP shall record video as well as capture photograph of the customer present for identification and obtain the identification information as below:
 - Banks: can use either OTP based Aadhaar e-KYC authentication or Offline Verification of Aadhaar for identification. Further, services of Business Correspondents (BCs) may be used by banks for aiding the V-CIP.
 - REs other than banks: can only carry out Offline Verification of Aadhaar for identification.
 - (ii) RE shall capture a clear image of PAN card to be displayed by the customer during the process, except in cases where e-PAN is provided by the customer. The PAN details shall be verified from the database of the issuing authority.
 - (iii) Live location of the customer (Geotagging) shall be captured to ensure that customer is physically present in India.
 - (iv) The official of the RE shall ensure that photograph of the customer in the Aadhaar/PAN details matches with the customer undertaking the V-CIP and the identification details in Aadhaar/PAN shall match with the details provided by the customer.
 - (v) The official of the RE shall ensure that the sequence and/or type of questions during video interactions are varied in order to establish that the interactions are real-time and not pre-recorded.
 - (vi) In case of offline verification of Aadhaar using XML file or Aadhaar Secure QR Code, it shall be ensured that the XML file or QR code generation date is not older than 3 days from the date of carrying out V-CIP.
 - (vii) All accounts opened through V-CIP shall be made operational only after being subject to concurrent audit, to ensure the integrity of process.
 - (viii) RE shall ensure that the process is a seamless, real-time, secured, end-to-end encrypted audiovisual interaction with the customer and the quality of the communication is adequate to allow identification of the customer beyond doubt. RE shall carry out the liveliness check in order to guard against spoofing and such other fraudulent manipulations.

- (ix) To ensure security, robustness and end to end encryption, the REs shall carry out software and security audit and validation of the V-CIP application before rolling it out.
- (x) The audiovisual interaction shall be triggered from the domain of the RE itself, and not from third party service provider, if any. The V-CIP process shall be operated by officials specifically trained for this purpose. The activity log along with the credentials of the official performing the V-CIP shall be preserved.
- (xi) REs shall ensure that the video recording is stored in a safe and secure manner and bears the date and time stamp.
- (xii) REs are encouraged to take assistance of the latest available technology, including Artificial Intelligence (AI) and face matching technologies, to ensure the integrity of the process as well as the information furnished by the customer. However, the responsibility of customer identification shall rest with the RE.
- (xiii) RE shall ensure to redact or blackout the Aadhaar number in terms of Section 16.
- (xiv) BCs can facilitate the process only at the customer end and as already stated in para B(b) above, the official at the other end of V-CIP interaction should necessarily be a bank official. Banks shall maintain the details of the BC assisting the customer; where services of BCs are utilized. The ultimate responsibility for customer due diligence will be with the bank.

REGULATORY ACTIONS ON VIOLATION OF KYC NORMS

The penalties have been imposed in exercise of powers vested in the Reserve Bank under the provisions of Section 47(A) (1) (c) read with Section 46(4)(i) of the Banking Regulation Act, 1949, taking into account the violations of the instructions/directions/guidelines issued by the Reserve Bank from time to time. The Reserve Bank of India has imposed monetary penalty on the following banks for violation of regulatory directions / instructions / guidelines, among other things, on KYC norms. The details of the penalty are:

S. No.	Name of the bank	Penalty Amount (in ₹ million)
1.	Allahabad Bank	20
2.	Bank of India	10
3.	Bank of Baroda	50
4.	Canara Bank	20
5.	Corporation Bank	10
6.	HDFC Bank	20
7.	IndusInd Bank	20
8.	Punjab National Bank	30
9.	RBL Bank	10
10.	SBBJ	20
11.	SBM	10
12.	Syndicate Bank	30
13.	UCO Bank	20

Further, the Reserve Bank of India (RBI), by an order dated June 25, 2019, imposed monetary penalty on four banks for non-compliance with certain provisions of directions issued by RBI on Know Your Customer (KYC) norms / Anti Money Laundering (AML) Standards and Opening of Current Accounts, as detailed below:

Sl. No.	Name of the bank	Amount of penalty (₹ in million)
1.	Allahabad Bank	5
2.	Corporation Bank	2.5
3.	Punjab National Bank	5
4.	UCO Bank	5

Eight other banks, namely, Axis Bank, Federal Bank, ICICI Bank, Kotak Mahindra Bank, OBC, Standard Chartered Bank, SBI and Union Bank of India have been advised to put in place appropriate measures and review them from time to time to ensure strict compliance of KYC requirements and FEMA provisions on an ongoing basis.

These actions are based on deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank and its customers.

Grounds for Actions:

On the basis of inputs received from a public sector bank, the Reserve Bank undertook a scrutiny on advance import remittances in 21 banks in October/November 2015. The scrutiny examined the alleged irregularities in opening and monitoring of accounts including violations under FEMA provisions. It also looked into the effectiveness of systems and processes for implementation of KYC norms / AML standards. The findings revealed weaknesses in the internal control systems, management oversight and violation of certain regulatory guidelines issued by the Reserve Bank as detailed below:

- non-adherence to KYC requirements like customer identification and risk categorization
- non-adherence to the Reserve Bank's instructions on monitoring of transactions in customer accounts and prompt filing of STRs
- non-adherence to the directions / guidelines issued under FEMA provisions

Based on the findings, the Reserve Bank issued a show cause notice to 21 banks. After considering their replies, the facts of each case, as also personal submissions, information submitted and documents furnished, the Reserve Bank came to the conclusion that some of the violations of serious nature were substantiated and warranted imposition of monetary penalty on thirteen banks, as the failure on the part of these banks to take timely remedial measures had aggravated the seriousness of the contraventions and its impact.

In respect of eight other banks, as detailed above, based on written and oral submissions, it was decided to advise them to put in place appropriate measures and review the same from time to time to ensure strict adherence to KYC / AML requirements as well as FEMA provisions on an ongoing basis.

Airtel Payments Bank Limited

Facts: Based on the complaints and adverse media reports alleging that the bank had opened customer accounts without a clear/specific consent of the customers, a supervisory visit to the bank was undertaken by RBI between November 20 and 22, 2017. The supervisory visit report and other relevant documents, revealed, inter alia, contraventions of 'Operating Guidelines for Payments Banks' and the directions issued by RBI on Know Your Customer (KYC) norms. Based on the documents, a Notice dated January 15, 2018 was issued to the bank advising it to show cause as to why penalty should not be imposed for non-compliance with guidelines and directions issued by RBI. After considering the bank's reply and oral submissions made in the personal hearing, RBI came to the conclusion that the aforesaid charges of non-compliance with RBI guidelines/directions were substantiated and warranted imposition of monetary penalty.

Consequence: The Reserve Bank of India (RBI) has imposed, on March 07, 2018, a monetary penalty of ₹ 50 million on Airtel Payments Bank Limited (the bank) for contravening the 'Operating Guidelines for Payments Banks' and directions issued by RBI on Know Your Customer (KYC) norms. This penalty has been imposed in exercise of powers vested in RBI under the provisions of Section 47A(1)(c) read with Section 46(4)(i) of the Banking Regulation Act, 1949, taking into account failure of the bank to adhere to the aforesaid guidelines/directions issued by RBI. This action is based on deficiencies in regulatory compliance and is not intended to pronounce upon the validity of any transaction or agreement entered into by the bank with its customers.

DEBIT CARD FRAUD ON ACCOUNT OF DUE KYC

A complainant's card was used 68 times at ATMs in various locations during the period of two months. He complained about it to the bank after two months and the card was blocked. The bank replied that an auto renewed card and the PIN was dispatched to his registered address by two different courier agencies and was received by him. It was only when the complainant came forward with the complaint it was learnt that he had changed his address and mobile number since the time of opening the account. The bank also pleaded that the customer's account was classified under low risk category, and therefore as per bank's policy, the KYC updating of the customer was due after seven years. However, the BO opined that there was deficiency in service by the bank in so far as the bank did not exercise due care in updating the customer's address/contact number before dispatching the renewed card. Also, without ascertaining the receipt of the card by the complainant, the bank mechanically dispatched the PIN. While using the services of outsourcing agency, the bank did not put into place appropriate risk management framework. The bank failed to monitor the pattern of customer transactions before and after issue of renewed card. The sudden surge of transactions after dispatch of renewed card should have raised suspicion. The bank was advised to pay the total amount of all the disputed transactions.

Major frauds which took place with the help of incomplete KYC

- To evade taxes, an individual routes savings transactions through multiple bank accounts.
- An individual illegally obtains personal information/ documents of another person and takes a loan in the name of that person.
- He/she provides false information about his/her financial status, such as salary/IT return and other assets, and takes a loan for an amount that exceeds his / her eligible limits with the motive of non-repayment.
- A person takes a loan using a fictitious name and there is a lack of a strong framework pertaining to spot verifications of address, due diligence of directors/promoters, pre-sanction surveys and identification of faulty/incomplete applications and negative/criminal records in client history.
- Fake documentation is used to grant excess overdraft facility and withdraw money.
- A person may forge export documents such as airway bills, bills of lading, and Export Credit Guarantee Cover and customs purged numbers/orders issued by the customs authority.
- Frauds related to the advances portfolio accounts for the largest share of the total amount involved in frauds in the Indian banking sector.
- deficient appraisal system, poor post disbursement supervision and inadequate follow up.
- Siphoning of funds wherein the borrowed funds from banks are utilised for purposes unrelated to the operations of the borrower.
- **Diversion of funds by :**
 - Using of short-term working capital funds for long-term commitments not in conformity with the terms of sanction
 - Using borrowed funds for creation of assets other than those for which the loan was sanctioned
 - Transferring funds to group companies
 - Investment in other companies by acquiring shares without the approval of lenders
 - Shortage in the usage of funds as compared to the amounts disbursed/ drawn, with the difference not being accounted for
 - Over-valuation or absence of requisite collaterals
- **Concealing liabilities:** Borrowers concealing obligations such as mortgage loans on other properties or newly acquired credit card debts in order to reduce the amount of monthly debt declared on the loan application.
- **Misstatement:** Deliberately overstating or understating the property's appraised value.
- **Shot gunning:** Multiple loans for the same property being obtained simultaneously for a total amount greatly in excess of the actual value of the property.
- Delay in Action (higher lag time) by the Institutions for declaration of frauds resulting the borrower gets considerable time to erase the money.

Online Fraud through Incomplete KYC

In last few years, the majority fraud cases reported were reported as technology-related frauds (covering frauds committed through / at an internet banking channel, ATMs and other payment channels like credit/debit/prepaid cards).

Business and technology innovations that the banking sector is adopting in their quest for growth are in turn presenting heightened levels of cyber risks. These innovations have probably introduced new vulnerabilities and complexities into the system. For example, the continued adoption of web, mobile, cloud, and social media technologies has increased opportunities for attackers. Similarly, the waves of outsourcing, offshoring, and third-party contracting driven by a cost reduction objective may have further diluted institutional control over IT systems and access points. These trends have resulted in the development of an increasingly boundary-less ecosystem within which banking companies operate, and thus a much broader “attack surface” for the fraudsters to exploit.

Hacking: Hackers/fraudsters obtain unauthorized access to the card management system of the respective bank. Counterfeit cards are then issued for the purpose of money laundering. For eg. X hacked the system of a bank and issued counterfeit cards for the purpose of using the money unlawfully.

Phishing: A technique used to obtain your card and personal details through a fake email. For eg. X send an email with a data collecting form which promises to pay after the details are submitted.

Pharming: A similar technique where a fraudster installs malicious code on a personal computer or server. This code then redirects clicks you make on a Website to another fraudulent Website without your consent or knowledge. For eg. X surf a website, he clicked on a linked for intended website but that link takes him to another fraud website.

Vishing: Fraudsters also use the phone to solicit your personal information. For eg. X makes a call to obtain the data and intends to use it for illicit purpose.

Smishing: It uses cell phone text messages to lure consumers in. Often the text will contain an URL or phone number. The phone number often has an automated voice response system and again just like phishing, the smishing message usually asks for your immediate attention. For eg. X send message that a car is won by the receiver to get his details.

Debit card skimming: A machine or camera is installed at an ATM which picks up card related information and PIN numbers when customers use their cards. For eg. X installs a camera in an ATM to obtain the card number, PIN etc.

Computer viruses: With every click on the internet, a company’s systems are open to the risk of being infected with nefarious software that is set up to harvest information from the company servers. For eg. A virus is developed for destroying or locking the data of Internet users.

Counterfeit instruments: Fake cheques / Demand Drafts that look too good to be true are being used in a growing number of fraudulent schemes, including foreign lottery scams, cheque overpayment scams, internet auction scams and secret shopper scams. For eg. A cheque is drawn by forging the signature of the customer.

IDENTITY THEFT

Identity theft is making fraud identity of a real person for the purpose of defraud. The maker of the identity uses the information of victim and try to obtain undue gains. For eg. X represents a bank that he is sunil, an account holder of the bank for the purpose of withdrawing money.

<https://publications.anveshanaindia.com/wp-content/uploads/2016/09/THE-STUDY-OF-FRAUDS-AND-SAFETY-IN-E-BANKING.pdf>

Possible frauds with Mobile Wallets

Increased risk of money laundering: Transfer of money into and out of a mobile wallet (with open and semi open wallet option available) from or to a bank account is now possible. Cash-in from the bank account of an individual and cash-out to a different bank account of another individual can be used as a platform for laundering unaccounted money.

Fake merchants: If the merchant on-boarded by the service provider is a fraudster, and the payment is made by the customer for fictitious goods or services from the merchant, cash can be debited from the account.

Adoption of mobile commerce is dependent on customers' perceptions about how safe their virtual money is from fraud. Over time, the ability to successfully counter frauds can become a key business differentiator for mobile wallet companies. Fraud, therefore needs to be considered as a critical business risk rather than just a one-off financial loss.

Illustrative list of KYC Documents: Checklist of Document Submission

Case Study

X, is a Non resident living abroad most of the time. Y created a clone of his Debit card and forged the cheque book of account of X. Y also obtained a fraud SIM with the bank registered mobile number. Y opened an fake account without his KYC being properly done for the purpose of withdrawing money. Y did a fraud of Rs. 50 Lakh and disappeared.

Discuss, the liability of telecom company and Bank.

Hint: *Sh. Sanjay Govind Dhande v. ICICI Bank; Vodafone India*

- Sole Proprietary Firm

1. For opening an account in the name of a sole proprietary firm, CDD of the individual (proprietor) shall be carried out.
2. Any two of the following documents or the equivalent e-documents there of as proof of business/ activity in the name of the proprietary firm.
 - (a) Registration certificate
 - (b) Certificate / licences issued by the municipal authorities under Shop and Establishment Act
 - (c) Sales Tax and income tax returns
 - (d) CST/VAT/GST certificate(provisional/final)
 - (e) Certificate/registration document issued by Sales Tax / Service Tax / Professional Tax authorities
 - (f) IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT Or Licence / certificate of practice issued in the name of the proprietary concern by any professional body incorporated under a statute
 - (g) Complete Income Tax Return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/acknowledged by the Income Tax authorities.
 - (i) Utility bills such as electricity, water, and landline telephone bills.
 - (ii) If the bank is satisfied that it is not possible to furnish two such documents, at its discretion, accept only one of those documents as proof of business/activity subject to field verification of the authenticity of address and business activity.

Provided REs undertake contact point verification and collect such other information and clarification as would be required to establish the existence of such firm, and shall confirm and satisfy itself that the business activity has been verified from the address of the proprietary concern.

- Account of a Partnership firm

Certified copies or the equivalent e-documents thereof of

- (a) Registration certificate;
- (b) Partnership deed;
- (c) Permanent Account Number of the partnership firm;

Documents, as specified in Section 16 of the Master Directions, relating to beneficial owner, managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.

- **Account of a company**

Certified copies or the equivalent e-documents thereof of each of the following –

- (a) Certificate of incorporation;
- (b) Memorandum and Articles of Association;
- (c) Permanent Account Number of the company;
- (d) A resolution from the Board of Directors and authority granted to its managers, officers or employees to transact on its behalf; and
- (d) In addition, documents for CDD of individuals in respect of managers, officers or employees holding an attorney to transact on its behalf are to be obtained.

Documents, as specified in Section 16 of the Master Directions, relating to beneficial owner, the managers, officers or employees, as the case may be, holding an attorney to transact on the company's behalf.

- **Account of a Trust**

Certified copies or the equivalent e-documents thereof of each of the following documents to be obtained:

- (a) Registration certificate;
- (b) Trust deed; and
- (c) Permanent Account Number or Form No.60 of the trust.

Documents as specified in Section 16 of the Master Directions, relating to beneficial owner, managers, officers or employees, as the case may be, holding an attorney to transact on its behalf.

- **Account of an unincorporated association or a body of individuals.**

Certified copies or the equivalent e-documents thereof of each of the following documents to be obtained:

- (a) Resolution of the managing body of such association or body of individuals;
- (b) Authority granted to transact on its behalf (Resolution);
- (c) Permanent Account Number or Form No. 60 of the unincorporated association or a body of individuals;
- (d) Power of attorney granted to transact on its behalf;

Documents as specified in Section 16, relating to beneficial owner, managers, officers or employees, as the case may be holding an attorney to transact on its behalf and Such information as may be required by the RE to collectively establish the legal existence of such an association or body of individuals.

(Note: Unregistered trusts/ partnership firms shall be included under the term 'unincorporated association'. The term 'body of individuals' includes societies.)

- **Accounts of juridical persons not specifically covered in the earlier part, societies, universities and local bodies like village panchayats.**

Certified copies or the equivalent e-documents thereof of the following documents to be obtained:

- (a) Document showing name of the person authorized to act on behalf of the entity;
- (b) Documents, for CDD, of the person holding an attorney to transact on its behalf; and

Any other document bank may require establishing the legal existence of such an entity / juridical person such as orders of the concerned Government Department.

KYC documents for FPIs

Accounts of FPIs which are eligible/ registered as per SEBI guidelines, for the purpose of investment under Portfolio Investment Scheme (PIS), shall be opened by accepting KYC documents as detailed below, subject to Income Tax (FATCA/CRS) Rules. Provided that banks shall obtain undertaking from FPIs or the Global Custodian acting on behalf of the FPI that as and when required, the exempted documents as detailed below need to be submitted.

Category	Eligible Foreign Investors
I.	Government and Government related foreign investors such as Foreign Central Banks, Governmental Agencies, Sovereign Wealth Funds, International/ Multilateral Organizations/ Agencies.
II.	(a) Appropriately regulated broad based funds such as Mutual Funds, Investment Trusts, Insurance/ Reinsurance Companies, Other Broad Based Funds etc. (b) Appropriately regulated entities such as Banks, Asset Management Companies, Investment Managers/ Advisors, Portfolio Managers etc. (c) Broad based funds whose investment manager is appropriately regulated. (d) University Funds and Pension Funds. (e) University related Endowments already registered with SEBI as FII/Sub Account.
III.	All other eligible foreign investors investing in India under PIS route not eligible under Category I and II such as Endowments, Charitable Societies/Trust, Foundations, Corporate Bodies, Trusts, Individuals, Family Offices, etc.

Document Type		FPI Type		
		Category I	Category II	Category III
Entity Level	Constitutive Documents (Memorandum and Article of Association, Certificate of Incorporation etc.)	Mandatory	Mandatory	Mandatory
	Proof of Address	Mandatory (Power of Attorney mentioning the address is acceptable as address proof)	Mandatory (Power of Attorney mentioning the address is acceptable as address proof)	Mandatory other than Power of Attorney
	PAN	Mandatory	Mandatory	Mandatory
	Financial Data	Exempted *	Exempted*	Mandatory
	SEBI Registration Certificate	Mandatory	Mandatory	Mandatory
	Board Resolution @@	Exempted*	Mandatory	Mandatory

Senior Management (Whole Time Directors/ Partners/ Trustees/ etc.)	List	Mandatory	Mandatory	Mandatory
	Proof of Identity	Exempted*	Exempted*	Entity declares* on letter head full name, nationality, date of birth or submits photo identity proof
	Proof of Address	Exempted*	Exempted*	Declaration on Letter Head*
	Photographs	Exempted	Exempted	Exempted*
Authorized Signatories	List and Signatures	Mandatory – list of Global Custodian signatories can be given in case of PoA to Global Custodian	Mandatory - list of Global Custodian signatories can be given in case of PoA to Global Custodian	Mandatory
	Proof of Identity	Exempted*	Exempted*	Mandatory
	Proof of Address	Exempted*	Exempted*	Declaration on Letter Head*
	Photographs	Exempted	Exempted	Exempted*

Ultimate Beneficial Owner (UBO)	List	Exempted*	Mandatory (can declare "no UBO over 25%")	Mandatory
	Proof of Identity	Exempted*	Exempted*	Mandatory
	Proof of Address	Exempted*	Exempted*	Declaration on Letter Head*
	Photographs	Exempted	Exempted	Exempted*

* Not required while opening the bank account. However, FPIs concerned may submit an undertaking that upon demand by Regulators/Law Enforcement Agencies the relative document/s would be submitted to the bank.

@@ FPIs from certain jurisdictions where the practice of passing Board Resolution for the purpose of opening bank accounts etc. is not in vogue, may submit 'Power of Attorney granted to Global Custodian/Local Custodian in lieu of Board Resolution'

Note : For detail on KYC, please refer study material of Paper No. 9.1 (Banking Law & Practice of Professional Programme)

LESSON ROUND UP

- The corporate vehicles may be misused for illicit purposes, such as money laundering, bribery and corruption, shielding assets from creditors, illicit tax practices, market fraud, and other illicit activities.
- Every individual who holds a Director Identification Number (DIN) as on 31st March of a financial year as per these rules shall, submit e-form DIR-3-KYC for the said financial year to the Central Government on or before 30th, September of immediate next financial year.
- Central KYC which provide the uniform norms and inter-usability of the KYC Documents.

GLOSSARY

Central KYC Registry (CKYCR)	Central KYC Registry is a centralized repository of KYC records of customers in the financial sector with uniform KYC norms and inter-usability of the KYC records across the sector with an objective to reduce the burden of producing KYC documents and getting those verified every time when the customer creates a new relationship with a financial entity.
KYC	It means the due diligence procedure prescribed by the regulator for identifying and verifying the proof of address, proof of identity and compliance with rules, regulations, guidelines and circulars issued by the regulator or any other statutory authority under the Act from time to time.
eKYC	It is a paperless Aadhaar based process for fulfilling your KYC requirements to start investing in Mutual. Funds. SEBI has recently allowed Aadhaar based KYC to be used for MF investments, for the convenience of investors.
DIR-3 KYC	This form is provided by Ministry of Corporate Affairs for identification of Directors. This is similar to KYC of customers by the bank.
CERSAI	The government has authorised the Central Registry of Securitization Asset Reconstruction and Security Interest of India (CERSAI) for performing the functions of Central KYC Records Registry(CKYCR).
e-form ACTIVE	Rule 25A of the Companies (Incorporation) Rules, 2014 provides that every company incorporated on or before the 31st December, 2017 shall file the particulars of the company and its registered office, in e-Form ACTIVE (Active Company Tagging Identities and Verification) on or before 15th June, 2019.

Hacking	Hackers/fraudsters obtain unauthorized access to the card management system of the respective bank. Counterfeit cards are then issued for the purpose of money laundering.
Debit card skimming	A machine or camera is installed at an ATM which picks up card related information and PIN numbers when customers use their cards.
Fake merchants	If the merchant on-boarded by the service provider is a fraudster, and the payment is made by the customer for fictitious goods or services from the merchant, cash can be debited from the account.
Phishing	A technique used to obtain your card and personal details through a fake email.
Vishing	Fraudsters use the phone to solicit your personal information.

TEST YOURSELF

(These are meant for recapitulation only. Answers to these questions are not to be submitted for evaluation)

1. What is KYC & Why it is important for a company secretary to conduct KYC procedure?
2. What are the documents to be given as proof of identity and proof of address?
3. Provide the list of document required for the KYC of the Foreign Government Bank willing to invest as Foreign Portfolio Investor (FPI).
4. Brief about the regulatory framework of the KYC of the directors by MCA.
5. Discuss the importance of KYCs in modern era of digitalization.

LIST OF FURTHER READINGS

- The Companies Act, 2013 and rules made thereunder
- RBI Guidelines/Master circulars/Notifications

OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

- www.mca.gov.in
- https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11566
- <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12089&Mode=0>
- <https://www.icsi.in/kym/?Request=68>

Lesson 6

Signing and Certification

Key Concepts One Should Know

- Certification
- Authentication
- Scrutiny
- E-forms
- Digital signatures
- Professional misconduct
- Peer review

Learning Objectives

To understand:

- Certification
- Pre-certification & its importance
- Usage of Digital Signatures
- Impact of false certification
- Key considerations for certifications
- The list of certifications by PCS
- Peer review
- Professional misconduct

Regulatory Framework

- The Companies Act, 2013
- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- The Company Secretaries Act, 1980
- SEBI (Depositories and Participants) Regulations, 2018

Lesson Outline

- Concept of pre-certification
- Pre-certification and its importance
- Various certifications by Company Secretaries
- Authentication of Documents
- Signing and Certification of Annual Return
- Certification of Annual Return (MGT-8)
- Concept of different Professionals for Signing and Certification
- Corporate Governance Certifications
- Obligations and Penal Provisions
- Peer Review
- Professional Misconduct
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

CONCEPT OF PRE-CERTIFICATION

Pre-certification means certification of correctness of any document by a professional including Company Secretary in Practice, before the same is filed with the Registrar in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as “the Act”). Pre-certification was introduced to avoid registration delays and eventually evolved to check correctness of documents filed by professionals. The professional checks the correctness of the particulars stated in the prescribed forms after due consideration of the provisions of the Act and the Rules made thereunder. He also ensures that the particulars stated in the form are in agreement with the books and records of the company. If he notices any defect or finds that the information provided in the form is incomplete or defective, he appropriately advises/provides guidance for completion of document/rectification of defect and makes pre-certification only after completion of documents/rectification of such defects.

Pre-certification acts as a pre-emptive check to ensure that the particulars stated in the form or return are as per the books and records of the company and are true and correct. This would mean that the Registrar can rely on the certification of the Company Secretary in practice and may take the document on record without further examination. Thus, Pre-certification by a Company Secretary in practice ensures that no form or return is filed in the Office of Registrar of Companies which is defective or incomplete.

On the other hand, disclosure of information to shareholders is a very important requirement under the good governance mechanism with a view to protect the interests of the shareholders and other stakeholders and to ensure better governance. Accordingly, the Act has stipulated stringent measures and requirements for disclosure, included in financial statements, Board’s report and annual return. The Act has also prescribed onerous duties and responsibilities on the Director of a company as well as the Company Secretaries. The punishment for violation of provisions of the Act has also been enhanced under the Act to ensure the correctness of information filed becomes very critical.

The introduction of pre-certification by an independent professional in the e-form is aimed at self-regulations of companies and reduce the involvement of government machinery, i.e. the Registrar of Companies. Once an e-form has been pre-certified by a professional towards its authenticity based on the particulars contained in the books of accounts and records of the company, same can be taken on record without further examination.

If a professional gives a false certificate or omits any material information knowingly, he is liable to punishment under the provisions of the Act as well as liable for professional or other misconduct under Company Secretaries Act, 1980.

WHAT IS CERTIFICATION?

As per Cambridge dictionary, ‘Certification’ means the process of earning an official document, or the act of providing an official document, as proof that something has happened or been done. In ordinary parlance, certification means authentication of the document by an independent professional. Such a certification provides more reliability about the genuineness and contents of the document. In India, the certified documents are essential part of filings with various regulators.

PRE-CERTIFICATION AND ITS IMPORTANCE

Pre-certification means certification of correctness of any document by a professional including Company Secretary in Practice, before the same is filed with the Registrar in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as “the Act”). Company Secretaries are recognized to pre-certify the e-forms which are required to be filed with the Registrar.

Initially, pre-certification was introduced to avoid registration delays and eventually evolved to check correctness of documents filed by professionals.

From a Company’s perspective and also from regulators standpoint, pre-certification is important to:

Ensure correctness: The professional checks the correctness of the particulars stated in the prescribed forms after due consideration of the provisions of the Act and the Rules made thereunder. He also ensures that the particulars stated in the Forms are in agreement with the books and records of the company. If he notices any defect or finds

that the information provided in the form is incomplete or defective, he appropriately advises/provides guidance for completion of document/rectification of defect and makes pre-certification only after completion of documents/rectification of such defects.

Pre-emptive step: Pre-certification acts as a pre-emptive check to ensure that the particulars stated in the form or return are as per the books and records of the company and are true and correct. This would mean that the Registrar can rely on the certification of the Company Secretary in practice and may take the document on record without further examination. Thus, Pre-certification by a Company Secretary in practice ensures that no form or return filed with the Registrar of Companies is defective or incomplete.

Aids good governance: Disclosure of information to shareholders is a critical requirement of good governance mechanism with a view to protect the interests of the shareholders and other stakeholders and to ensure better governance. Accordingly, the Act has stipulated stringent measures and requirements for disclosure, included in financial statements, Board's report and annual return. The Act has also prescribed onerous duties and responsibilities on the Director of a company as well as the Company Secretaries. The punishment for violation of provisions of the Act has also been enhanced under the Act, to ensure the correctness of information filed by the corporates.

Self-regulation: The introduction of pre-certification by an independent professional in the e-form was aimed at self-regulations of companies and to reduce the involvement of government machinery, i.e. the Registrar of Companies. Once an y form has been pre-certified by a professional based on the particulars contained in the books of accounts and records of the company, same can be taken on record without further examination.

If a professional gives a false certificate or omits any material information knowingly, he is liable to punishment under the provisions of the Act as well as liable for professional or other misconduct under Company Secretaries Act, 1980.

HISTORICAL BACKGROUND

Pre-certification was introduced after detailed deliberations and it has been refined over time. Though it initially aimed at avoiding delays in Registration of charge and other Documents, its scope was expanded to authentication and verification of documents being filed with the MCA, in view of the benefits arising out of it.

With a view to avoid delay in the Registration of documents, MCA (the then Department of Company Affairs) on the initiative taken by the Institute of Company Secretaries of India issued two circulars advising the Registrars of Companies to take on record documents that are filed by companies or the creditors concerned, duly certified as correct by a Company secretary/ Chartered accountant/ Cost Accountant in practice. The circulars read as under: -

Delay in Registration of Charges (Issued by the Ministry of Industry, Department of Company Affairs, vide No. 1/1/90 CL.V. dated 5-9-1990; Circular No. 14/90)	'I am directed to say that with a view to taking on record the documents relating to charges/modification of charges/satisfaction of charges, it has been decided that as and when the aforesaid documents are filed by the companies or the creditors concerned, duly certified as correct by a Chartered Accountant/Cost Accountant/ Company Secretary in practice, the same may be taken on record within a reasonable period of say, ten (10) days. You are also advised that in case the relevant certificate of charge, etc. is not collected by the company's representative concerned within seven (7) days thereafter, the same may be sent by post. A copy of this circular is being endorsed to all the three professional Institutes with a request to suitably advise their members to ensure that the documents certified by them have been completely and correctly filled in.'
Delay in Registration of Documents (Issued by the Ministry of Industry, Department of Company Affairs, vide Nos.1/3/ 91-CL.V; Circular No.5/91 dated 26-2-1991)	'This has reference to this Department's Circular No. 14/90 dated 5-9-1990 on the above-mentioned subject. It has been decided that all documents required to be filled with you by companies be taken on record within a reasonable period, say, ten days, if the same are duly certified as correct by a Company Secretary/ Chartered Accountant/ Cost Accountant, in practice.'

The Department Related Parliamentary Standing Committee, which examined the Companies (Second Amendment) Bill, 1999, while endorsing the pre-certification in its 64 Report in 2000, had observed that verification of compliances with the provisions of the Companies Act, 1956 by a Company Secretary in practice was necessary.

The High Level Committee on Corporate Audit and Governance (Naresh Chandra Committee) in its report in 2002, while observing wide gap between prescription and practice, recommended a system of pre-certification by Company Secretaries to remove defect in documents so that these could be taken on record immediately and to reduce workload on Ministry.

It was also recommended that the system should provide for monetary and other penalties on Company Secretaries who certify the forms incorrectly, even though error or oversight.

Accordingly, the Companies (Amendment) Bill, 2003 introduced in the Rajya Sabha sought to add a new Section 383C to provide that all documents, returns, forms required to be filed with the Registrar or any statutory authority shall be pre-certified by a company secretary in practice.

In the meantime, the Government issued a Concept Paper for revamping of Company Law in the year 2004, containing a model codified company law which incorporated the provisions of section 383C of the Companies (Amendment) Bill, 2003.

After enactment of the Companies Act, 2013, the provision of Pre-certification was introduced in the Companies (Registration Offices and Fees) Amendment Rules, 2014 [Sub-rule (12) of Rule 8, inserted by Notification No. G.S.R. 297(E) dated 28th April, 2014].

The requirement of authentication of documents prescribed under Rule 8 of the Companies (Registration Offices and Fees) Rules, 2014, elaborates on the responsibility of professionals certifying the forms. The professional certifying the form must verify whether all the requirements as per the provisions of the Act and the rules made thereunder have been complied with and all the attachment to the forms have been duly signed/authenticated, scanned and attached completely and legibly in the PDF Format.

VARIOUS CERTIFICATIONS BY COMPANY SECRETARY IN PRACTICE

The e-form should be certified by a Company Secretary or Cost Accountant or Chartered Accountant, (who are in whole-time practice) by digitally signing the E-Form.

Overview of the Certifications

Companies Act, 2013	SEBI Regulations	Other Acts
<p>Certifications is required forms filed by Companies other than One Person Companies (OPC) and Small Companies:</p> <ul style="list-style-type: none"> • Incorporation related Forms • Shares related Forms -PAS-3, SH-7, • Charges related forms – CHG 1, CHG-4, CHG-9, • Director relat-ed forms -MGT-14, DIR-6, DIR-12, MR-1, MR-2, • Other forms - MSC-1, MSC-3, MSC-4, GNL-3, ADT-1, NDH-1, NDH-2, NDH-3 <p>Pre-Certifications is required forms filed by Companies other than One Person Companies (OPC) and Small Companies:</p> <ul style="list-style-type: none"> • GNL -1 • DPT -3 • AOC-4 	<p>SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015</p> <ul style="list-style-type: none"> • Regulation 40(9) • Regulation 24A • Compliance certificate under scheduled clause <p>SEBI (Depositories and Participants) Regulations, 2018</p> <ul style="list-style-type: none"> • Regulation 55A • Regulation on 76 SEBI (Delisting of Equity shares) Regulation, 2021. 	<p>Certification under Limited Liability Partnership Act, 2008</p> <ul style="list-style-type: none"> • Form 3 • Form 4 • Form 11 • Form 15

Certifications under the Companies Act, 2013

- Secretarial Audit/Compliance Audit
- Signing of Annual Return
- Pre-certification of e-Forms
- Other declarations, attestations and certifications under the Companies Act.

Rules	Certifications
Companies Act, 2013 and the Rules made thereunder	To certify whether the merger and amalgamation scheme is being complied with in accordance with the orders of the Tribunal or not. {Section 232 (7)}
	Authorised to conduct internal audit of Companies (Section 138)
	To be appointed as an expert (Section 2(38))
	To be appointed as Technical Member of NCLT (Section 409)
Companies (Incorporation) Rules, 2014	To make declaration that all the requirements of the Companies Act, 2013 and the rules made thereunder in respect of registration and matters precedent or incidental thereto have been complied with. {Section 7(1)(b) & (b) Rule 14 of the Companies (Incorporation) Rules, 2014}
	To make declaration that the draft memorandum and articles of association have been drawn up in conformity with the provisions of Section 8 of the Companies Act, 2013 and rules made thereunder and that all the requirements of the Act and the rules made thereunder relating to registration of the company under section 8 and matters incidental or supplemental thereto have been complied with. [Section 8 read with Rule 19 of the Companies (Incorporation) Rules, 2014]
Companies (Prospectus and Allotment of Securities) Third Amendment Rules, 2019	Every unlisted public company governed by this rule shall submit Form PAS-6 to the Registrar with such fee as provided in Companies (the Registration Office and Fees) Rules, 2014 within sixty days from the conclusion of each half year
Companies (Share Capital and Debenture) Rules, 2014	To certify that the buyback of securities has been made in compliance with the provisions of the Act and rules made thereunder. [Sub rule (14) of rule 17 of Companies (Share Capital and Debenture) Rules, 2014.]
Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014	To issue Secretarial Audit Report to every listed company and every public company having a paid-up share capital of fifty crore rupees or more; or every public company having a turnover of two hundred fifty crore rupees or more. {Section 204 & Rule 9 of Companies (Appointment and Remuneration Personnel) Rules, 2014}
Companies (Management and Administration) Rules, 2014	To certify annual return of a listed company or a company having paid up share capital of ten crore rupees or more or turnover of fifty crore rupees or more. {Section 92(2) read with Rule 11 of the Companies (Management and Administration) Rules, 2014}
	To be appointed as a scrutinizer in every listed company or a company having not less than one thousand shareholders to scrutinize the Administration) Rules, e-voting process in a fair and transparent manner [Rule 20 of Companies (Management and Administration) Rules, 2014]
Nidhi Rules, 2014	To certify half yearly return {Rule 21}.
	To certify return of Statutory compliances with the Registrar filed by Nidhi. [Section 406 read with rule 5 of Nidhi Rules, 2014.

Rule 8(12) the Companies (Registration Offices and Fees) Rules, 2014 inserted by the Companies (Registration Offices and Fees) Amendment Rules, 2014 vide G.S.R 297(E) dated 28 April, 2014 reads as under:

- (12) (a) The following e-forms filed by companies, other than one person companies and small companies, under rule 9(1), shall be pre-certified by the Chartered Accountant or the Company Secretary or as the case may be the Cost Accountant, in whole-time practice, namely: -

INC-21, INC-22, INC-28, PAS-3, SH-7, CHG-1, CHG-4, CHG-9, MGT-14, DIR-6, DIR-12, MR-1, MR-2, MSC-1, MSC-3, MSC-4, GNL-3, ADT-1, NDH-1, NDH-2, NDH-3.

- (b) The following e-forms filed by companies, other than one person companies and small companies, under rule 9(1), shall be pre-certified in the following manner, namely: -

GNL-1	This form is used for filing an application seeking approval from Registrar of Companies in e-form GNL- 1 for different purposes under Companies Act, 2013. Optional pre-certification by the Chartered Accountant or the Company Secretary or as the case may be the Cost Accountant in whole-time practice.
DPT-3	This form contains Return of Deposits and is to be certified by Auditors of the company
AOC-4	This form is used for filing financial statements and other documents with the Registrar. Certification by the Chartered Accountant or the Company Secretary or as the case may be by the Cost Accountant, in whole-time practice

Other forms

E-form DIR-3	The Form shall be filed along with attestation of photograph, identity proof and proof of residence of the applicant by the Chartered Accountant or the Company Secretary or as the case may be the Cost Accountant, in practice.
MGT-7	Section 92 of the Companies Act, 2013 provides that the Annual Return of the company in form MGT-7 shall also be signed the Company Secretary, or where there is no Company Secretary, by a Company Secretary in practice
Form No. MGT-8	Rule 11(2) of the Companies (Management and Administration) Rules, 2014 provides that the annual return, filed by a listed company or a company having paid-up share capital of ten crore rupees or more or turnover of fifty crore rupees or more, shall be certified by a Company Secretary in practice and the certificate shall be in Form No. MGT-8
E-Form DIR-3-KYC	E-Form DIR-3-KYC under Rule 12A of The Companies (Appointment and Qualification of Directors) Rules, 2014 digitally signed by a Chartered Accountant/ Cost Accountant or Company Secretary in whole-time practice
Form PAS-6	Form PAS-6 under Rule 9A (8) of the Companies (Prospectus and Allotment of Securities) Rules, 2014 provides that every unlisted public company governed by this rule shall submit Form PAS-6 [Reconciliation of Share Capital Audit Report (Half Yearly)] to the Registrar with such fee as provided in Companies (Registration Offices and Fees) Rules, 2014 within sixty days from the conclusion of each half year duly certified by a Company Secretary in practice or Chartered Accountant in practice

Under SEBI Regulations:

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

- **Certificate regarding transfer of securities under Regulation 40 (9):** Every listed company needs to produce a certificate from a practicing Company Secretary within 30 days the end of the financial year, certifying that all certificates have been issued within thirty days of the date of lodgment for transfer, sub-division, consolidation, renewal, exchange or endorsement of calls/allotment monies.

- **Secretarial Audit Report incase of listed Company and its material unlisted subsidiaries as per Regulations 24A:** every listed entity and its material unlisted subsidiaries incorporated in India are required to undertake secretarial audit and annex with its annual report, a secretarial audit report, given by a Company Secretary in practice, in form MR-3 as prescribed under section 204 of the Companies Act, 2013.
- **Annual Secretarial Compliance Report:** The regulations also require for the Annual secretarial compliance report on an annual basis covering a broad check on compliance with all laws applicable to the entity, SEBI Regulations and circulars/ guidelines issued thereunder; consequent to which, the PCS shall submit a report to the listed entity in the format prescribed by SEBI. The annual secretarial compliance report shall be submitted by the listed entity to the stock exchanges within 60 days of the end of the financial year.
- **Regulation 76 of SEBI (Depositories and Participants) Regulation, 2018**

The issuers are required to submit audit report on a quarterly basis, starting from September 30, 2003, to the concerned stock exchanges. This Audit may be conducted by practicing Company Secretary. The Audit is for the purposes of reconciliation of the total issued capital, listed capital and capital held by depositories in dematerialized form, the details of changes in share capital during the quarter and the in-principle approval obtained by the issuer from all the stock exchanges where it is listed in respect of such further issued capital.

- **Other Certifications**
 - Certificate regarding Compliance of Conditions of Corporate Governance (Schedule V, Clause E)
 - Certificate under Schedule V (10)(i) pertaining to directors' disqualification. [Regulation 34(3)]
 - Certification by PCS in case of Offer/allotment of securities to more than 49 to up to 200 investors (SEBI Circular No. CFD/DIL3/CIR/P/2016/53 dated May 03, 2016)
 - To issue certificate of compliance to an investment adviser under SEBI (Investment Advisers) Regulations, 2013
 - To conduct annual audit of Research analyst or research entity in respect of Compliance with SEBI (Research Analysts) Regulations, 2014
 - Certification of net worth to be registered as Trading Member/ Clearing Member.
 - Certification of shareholding pattern for registration as authorised person & Board Resolution in case the applicant is a Corporate body/ Sharing Pattern of Profit/loss in case the applicant is Partnership Firm / LLP.
 - Certifications required during IPO's - certifying basis of allotment, allotment of shares from employees quota, etc.
 - Certifying that the SEBI (ICDR) Regulations, 2018 for bonus issue has been complied with.
 - Certificate for receipt of money specifically certifying that the company has received the application/ allotment monies from the applicants of these shares.
 - Quarterly certificate specifically certifying that the company has received the application/ allotment monies from the applicants of these shares
 - Certifying that the floor price for the proposed placement to QIBs is based on the pricing formula prescribed under Chapter VI of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.
 - Certifying that debenture holders have provided their consent for changing the terms of the Debentures whereby mentioning the existing as well as revised terms.
 - Listing of units of REITs - Certifying that:
 - Allotment of units has been made as per the basis of allotment approved by designated Stock Exchange.
 - All the funds have been received before the allotment of units of REITs.
 - The certificates corresponding to Securities under lock in have been enfaced with non-transferability condition.

- **Internal Audit:** To conduct internal audit of
 - Registrar and Share Transfer Agent
 - Portfolio Managers
 - Stock brokers/Trading Members/Clearing Members
 - Central Rating Agencies
 - operations of the Depository Participants, at intervals of not more than three months and furnish a copy of the internal audit report to the depository.
 - Depository Participants

Apart from the above the Company Secretaries also provide various other reports and certification services including the Valuations report, Corporate Governance certificate, Search Reports, Due diligence Report, etc.

Under other Acts:

The following forms are to be filed under Limited Liability Partnership Act, 2008 (LLP Act)

Form 3	The Form 3 under Rule 21 of LLP Rules relating to Information with regard to Limited Liability Partnership Agreement and changes shall be signed by Company Secretary in practice/ Chartered Accountant in practice / Cost Accountant in practice
Form 4	Form 4 under Rule 8, 10(8), 22(2) and 22(3) relating to Notice of appointment of partners/ designated partner and changes among them, intimation of DPIN by the LLP to Registrar and consent of partner to become a partner /designated partner signed by Company Secretary in practice/Chartered Accountant in practice/Cost Accountant in practice.
Form 11	Form 11 under Rule 25(1) of LLP Rules relating to Annual Return of Limited Liability Partnership certified by the Company Secretary in practice where the total obligation of contribution of partners of the LLP exceeds fifty lakh rupees or turnover of LLP exceeds five crore rupees, then the e-Form needs to be certified by a Company Secretary in whole time practice
FORM 15	Form 15 under Rule 17 of the LLP Rules relating to Notice of change of place of registered office certified by Company Secretary in practice/ Chartered Accountant in practice /Cost Accountant in practice

AUTHENTICATION OF DOCUMENTS

As per the Rule 8(1), (2) & (5) of Companies (Registration Office and fee) Rules, 2014 provides that all electronic forms are required to be authenticated by authorised signatories using digital signatures. The e-forms are required to be authenticated on behalf of the company by the Managing Director or Director or Company Secretary or other key managerial personnel. In case of any change in directors or Company Secretary, the form relating to appointment of such directors or Company Secretary is required to be filed by continuing director or Secretary of the company or other Key Managerial Personnel.

As per Rule 8(6), scanned image of documents must be of the original signed documents relevant to the e-forms and the scanned document image shall not be left blank without bearing actual signature of authorised person.

As per rule 8(7), the person signing the form and the professional certifying the form are responsible to ensure that all the required attachments relevant to the form have been attached completely and legibly to the forms or applications or returns filed as per the Act and the rules.

POINTS TO BE KEPT IN MIND WITH REGARD TO PRE-CERTIFICATION

It is duty of the Company Secretary in practice to check and verify thoroughly the correctness of the contents of the form before certifying it. The members in practice are, accordingly, expected to exercise due care, diligence and skill, while performing pre-certification.

Pre-certification of forms is, therefore, not a routine or mechanical exercise but a serious task and involves sound application of mind in verifying the statements made in the respective forms after due consideration of the provisions of the Act read with the relevant rules.

Before undertaking the work relating to pre-certification of forms, a Company Secretary in practice should thoroughly read the requirements of the provisions of the Act, the Rules made there under and familiarize himself with the actual practices that are followed in this regard. He should also:

- Ensure that letter of engagement/Board Resolution authorizing the professional for the particular assignment by the company is obtained.
- Maintain a physical/scanned copy of all documents verified (subject to confidentiality requirement).
- Also have the draft forms approved by the Company's personnel before the forms are filed, as part of documentation.
- Obtain the signature(s) of the authorised signatories on the e-forms in presence of the professional.
- Ensure that all relevant documents and attachments in the form are legible and visible.

CONSIDERATIONS IN FILING OF E-FORMS

- Before filling of e-forms, the professional should go through the instruction kit of the respective e-form provided by the MCA on MCA-21 portal;
- Ensure that latest version of the e-forms has been downloaded from the MCA Website;
- DIN is mandatory for e-filing of documents. Therefore, the professional should ensure that the details related to DIN of the Directors has been updated on the MCA Portal;
- Digital Signature (DSC) is mandatory and same shall be registered on the MCA Portal before it first use
- Check Master Data of the company before filing any documents;
- The attachments to the e-forms should be complete and all pages of the attachment should be page numbers and shall be attached in order;
- It would be advisable to file the forms early, without waiting for the last days or the due date of the filing of e-forms;
- Adequate care shall be taken in filing the forms, ensure that the all the entries in the forms are correct and as per the supporting documents to be attached;
- Option for revision/cancellation of e-forms is not available on MCA Portal once it is taken on Record;
- If the pay later option is selected, ensure that the filing fees is paid before the expiry date of the challan as non-payment of fees liable for cancellation of transaction;
- As a trusted advisor of the Company, keep track of various reportable events and advise the Company regularly to file requisite forms to avoid penalties and regulatory actions;
- Select correct category to download e-Form for respective services;

Common errors noticed in E-Filing:

- Digital signature is not registered / expired;
 - Payment of challan not done before the expiry date;
 - Duplicate Payments have been made;
 - The size of the form is in excess of the size requirements;
 - The e-forms are not verified before filing;
 - Use of outdated version of e-form;
 - Incorrect particulars in the e-form;
 - Using older versions of Adobe and Java
-

- Attach the required documents duly scanned or converted into PDF with minimum size as possible;
- Use various inbuilt utilities like “PREFILL” and complete the form by clicking on “CHECK” and “PRE- SCRUTINY” options;
- Check the date of resolution and minute book, which authorizes the Director/Secretary before filling the date of resolution in the form;
- DSC used by Director/ Secretary/Signatory should be same as per authority delegation by the Board etc., as the case may be;

PREPARATION BEFORE CERTIFICATION

Professionals like Company Secretary in Practice (PCS) before undertaking the work relating to pre-certification should thoroughly read the requirements of the provisions of the Companies Act, 2013 and Rules made thereunder and be familiar with the actual practices that are being followed in this regard. He should particularly ensure the following:

- Ensure that Letter of Engagement/Board Resolution authorizing the professional for the assignment by the company to be obtained (where the statutory requirement is there for the board resolution or general meeting resolution then a copy of the extract of such resolution shall be obtained by PCS. Wherever the instance is possible it is recommended to record such appointment in the Minutes of the Board meetings);
- Maintain a physical/scanned copy of all documents verified (subject to confidentiality requirement);
- Ensure that all relevant documents and attachments are legible and visible;
- Verify the documents from the original records of the company and then seek the soft copies for form filing;
- Correctness of the records and the material departure from the facts;
- The form to be digitally signed by the Director or person authorized by the company;
- Before certification of any form, the person should be aware about the relevant provisions under the Act and Rules made thereunder;
- Due procedures to be followed before the certification, including approval by the Company, if any.

REGISTER OF CERTIFICATION

For the purpose of maintaining quality of attestation /certification services provided by Company Secretaries in Practice, every PCS should maintain a register regarding attestation/certification services provided by him including:

1. Signing of Annual Return (MGT-7);
2. Certification of Annual Return (MGT-8);
3. Issue of Secretarial Audit Report (MR-3);
4. Certification of E forms of MCA under Companies Act, 2013 / LLP Act, 2008;
5. Internal Audit of Depository Participants/ portfolio Manager/ Stock Broker;
6. Annual Compliance auditor under SEBI (Research Analyst) Regulations, 2014;
7. Issue of certificate of Securities Transfers in compliance with the Listing Agreement with Stock Exchanges;
8. Certificate of reconciliation of capital, updation of Register of Members, etc. as per the SEBI Circular D&CC/ FITTC/Cir-16/2002 dated December 31, 2002.
9. Conduct of Internal Audit of Operations of the Depository Participants;
10. Corporate Governance Certification under SEBI (LODR) Regulations, 2015;
11. Information relation to E-forms certified and signed;
12. Register of various reports issued.

PEER REVIEW

The Institute of Company Secretaries of India provides a mechanism of Peer Review of their Members in Practice to enhance the quality of attestation services, to enhance credibility and provide competitive advantage and provide a forum for Guidance and knowledge sharing.

It is a process for examining the work performed by one's equals (peers) and to understand the systems, practices and procedures followed by the Practice Unit and to give suggestions, if any, for further improvement. Each Practice Unit would be required to be peer reviewed at least once in a block of five years. The Practising Company Secretary/ Firm may apply voluntarily to be peer reviewed or it may be done through random selection by the Peer Review Board.

The Attestation Services under peer review guidelines includes the following services by the company secretaries in practice:

1. Annual Returns Certified/Signed
2. Certificates Issued under Regulation 40 (9) of SEBI (LODR) Regulations, 2015
3. Secretarial Audit Reports issued Section 204 of the Companies Act, 2013 / Regulation 24A of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
4. Issuance of Annual Secretarial Compliance Reports
5. Internal Audits under Section 138 of the Companies Act, 2013
6. Audit Reports issued under Clause 76 of SEBI (Depositories & Participant Regulations) 2018
7. No. of Certificate issued under Regulation 56 of LODR Regulation 34(3) read with Schedule V, Para C, Clause (b) (i)
8. No. of Compliance Certificates issued under Clause E, Schedule V of SEBI (LODR) Regulations, 2015
9. Internal Audit of Registrar and Share Transfer Agent (RTA) under SEBI Circular No. SEBI/HO/MIRSD/CIR/P/2018/73
10. Internal Audit of Credit Rating Agencies under SEBI Circular No. SEBI/MIRSD/CRA/Cir-01/2010
11. Issuance of Internal Audit Certificate for operations of the Depository Participants
12. Number of half yearly bank due diligence certificates issued
13. Such other services as decided by the Council of ICSI under the scope of peer review from time to time.

Thus, every Company Secretary in Practice/ Firm should maintain adequate records and documents evidencing that precertification/ attestation and other professional engagements have been done with due care and diligence.

The main objective of Peer Review is to ensure that in carrying out their attestation services and professional assignments, the PCS:

- (a) comply with the Technical Standards laid down by the Institute and
- (b) have in place proper systems (including documentation systems) for maintaining the quality of the attestation services work they perform.

The Council has specified in the guidelines for Peer Review, the Technical Standards in relation to which peer review is to be carried out. Peer review does not seek to redefine the scope and authority of the Technical Standards specified by the Council, but seeks to enforce them within the parameters prescribed by the Technical Standards.

Peer Review is directed towards maintenance as well as enhancement of quality of attestation services and to provide guidance to members to improve their performance and adhere to various statutory and other regulatory requirements. Essentially, through a review of attestation services engagement records, peer review identifies the areas where a practising member may require guidance in improving the quality of his performance and adherence to various requirements as per applicable Technical Standard.

SIGNING AND CERTIFICATION OF ANNUAL RETURN

The Companies Act, 2013 provides a new and significant area of practice for Company Secretaries, it also casts immense responsibility on the Company Secretaries. As they are the professionals certifying the critical documents line Annual Return, Company Secretaries must exercise adequate diligence and care in certification. Any failure or lapse on the part of PCS may attract penalty both under the Companies Act, 2013 as well as under the Company Secretaries Act, 1980 for professional or other misconduct.

Time and Mode of Appointment of Practicing Company Secretary

With a view to carry out the voluminous work involved in certifying the Annual Return and considering the fact that an extract of annual return is also required to be prepared before the annual general meeting which forms part of Board's report, it will be advisable that the PCS is appointed by the Board, at the beginning of the respective financial year. The contents to be verified are quite exhaustive and the facts and figures in the Annual Return should match with the financial statements and other statutory registers, records and documents maintained by the Company.

Scope and Extent of work for Practicing Company Secretary

For the purpose of certification, PCS should carry out a detailed scrutiny of the information available and check the correctness of the same. Since almost all the events taking place between closure of two financial years i.e., between 1 April to 31 March or as approved by Tribunal are captured in the Annual Return, the PCS should be prudent in understanding the events and its impact and consequences, while certifying the same.

PCS should carry out detailed scrutiny and extensive verification of the documents. For ensuring the correctness of information contained in the Annual Return, the primary source documents should be looked into. While scrutinizing the documents, he may rely on certified copies of the resolutions, forms, and agreements as also certificates from the management.

Method of Verification

PCS shall seek access to company's documents and books including the Annual Reports of the previous financial years, Register of Members/ debenture holders and all other statutory registers, the minutes books, copies of forms and returns filed with the Registrar of Companies etc. and other documents which he considers essential for the purpose of verification.

Documents to be obtained/ verified before Certification of Annual Return by Company Secretary in Practice

1. Memorandum and Articles of Association.
2. Forms & receipts filed with the Registrar of Companies.
3. Statutory Registers
 - Record of Private Placement under PAS-5 (Section 42)
 - Register of Members (Section 88)
 - Register of Shareholders -MGT-1
 - Register of Debenture holders / other securities holders-MGT-2
 - Register of Directors & their Shareholding (Section 170)
 - Register of Key Managerial Personnel (Section 170)
 - Register of Related Party Contracts under MBP -4 (Section 188)
 - Register of Loan and Investment under SH-12 (Section 186)
 - Register of Deposit- (Section 73 and 76 read with rule 14)
 - Register of Charge under CHG-10. (Section 85)
 - Register of Securities
 - Register of Employee Stock Option under SH-6 (Section 62)

- Register of Buyback under SH-10 (Section 68)
 - Register of Sweat Equity shares under SH-3 (Section 62)
4. Minutes of the Meetings
 - Board Meeting
 - General Meeting
 - Committee Meeting
 - Creditors Meeting
 - Debenture holders Meeting
 - Court convened meetings for the purpose of Restructuring and Amalgamation
 - Postal ballot minutes
 5. Notices and agenda papers for convening meetings of the Board and Committees thereof.
 6. Attendance Registers of all meetings.
 7. Copy of Latest Financial Statements along with the Boards Report and Auditors Reports.
 8. Copy of Notice of Annual General Meeting/ Extraordinary General Meetings/Postal Ballots/Court convened meetings/Creditors meetings and debenture holders meeting.
 9. Shareholder List in Compact Disc (CD) in PDF Format, details of Share Transfers taken place between close of the previous financial year and close of the financial year to which Annual Return relates, Controls of the Data as on the Date of Annual General Meeting of the Company or the Beneficial Positions as on close of financial year downloaded from the records of the Depository participants by Registrar Transfer Agent (RTA) of the Company on record / book closure date prior to AGM.
 10. Certificate from RTA stating the number of shareholders as on the close of the financial year.
 11. Indebtedness Certificate signed by Company Secretary/ CFO/Statutory Auditors of the Company.
 12. Change of name of the company, change in the face value of the shares of the company, new ISIN No of the Company in respect of the allotment or as a result of any change in capital structure due to any corporate action taken by the Company during the Financial year.
 13. Board Resolution for any type of corporate actions taken by the Company.
 14. Corporate Action Forms filed by the Company with Depositories.
 15. Shareholding pattern and its break up.
 16. Any orders received by the company, Director or officer from the High court or from any other regulatory body under any act.
 17. Other Statutory Registers and Records.
 18. List of Promoters.
 19. Listing and Trading Approval(s) from Stock Exchanges, Credit Confirmation from Depositories namely NSDL and CDSL respectively/ confirmation from both depositories in respect of allotment of equity shares of the Company during the period between the previous AGM date and current AGM date. Intimation to Stock Exchanges, Confirmation from National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for change of the name of the company, change in the face value of equity shares, change in ISIN of the Company and the Scrip Code/ Symbol of the Company, etc.

Detailed Scrutiny of Annual Return

The PCS is required to exercise due caution and care, since he/she is bound by the certification in the Annual Return. A very pertinent question which arises for consideration is the extent of detailed verification that has to be performed for certifying the Annual Return.

Where as in case of a financial statements audited by the Statutory Auditor, the Cost audit records certified by a Cost Auditor, the statement of consumption of materials certified for the Customs and Central Excise Authorities, or the statement of exports for the purpose of export incentives, etc., a major question which arises for the professional concerned is the determination of the extent of detailed scrutiny to be performed for certification.

It is a well-established principle in any auditing practice that an auditor is not expected to carry out a 100% checking of company's documents, in arriving at the final facts and figures represented in the certified document. In financial audit, for instance, the auditor is not expected to do vouching of each and every invoice raised / voucher created by the company before accepting the sales figure given in the Financial Statements. Similarly, while certifying the list of past and present shareholders given in the Annual Return, a PCS cannot be expected to check every folio of the Registrar of Members, whose number could run into lakhs. Similarly, the number of share transfers registered in a year could run into thousands. If one is expected to check every transaction in these matters, it could be well almost impossible to meet the statutory time limits for filing the documents.

Therefore, certain techniques of sampling and test checks should be applied for forming a reasonable opinion that the document being certified reflects a true and correct view of the state of affairs. There are no specific modalities or stringent test practices applicable for certification of Annual Return. However, the following guiding principles can be adopted while deciding about the extent of checking that is required.

- (i) **Internal Controls:** The PCS shall perform a detailed review of the internal controls, checks and balances built into the systems and procedures of the Company. If appropriate internal controls exist, and operate effectively, the need for detailed checking is reduced to a large extent. For instance, the procedure for registration of share transfers could be so designed that the mistakes and errors committed at one stage are automatically detected and corrected by another before the whole process is complete. The system could also provide for inherent checks, particularly in cases where the process is automated/computerized.
- (ii) **Materiality:** Similar to any audits, the principle of materiality is another important and relevant concept. The sample chosen for detailed checking should be representative of the whole, or the 'population', in statistical parlance. For example, in share transfers, instances of transfer of large blocks of shares could be chosen for detailed scrutiny. Or, the 'busy' period for transfer of shares in the year could be identified and selected for sample checking.
- (iii) **Risk assessment:** The PCS shall have an overall understanding of the Company, the industry in which it operates, corporate governance practices, etc., and perform risk assessment to identify the 'high risk' areas. These 'High risk' areas shall be subjected to more extensive verifications. For instance, in the case of shares on which there are restrictions on transfer statutory or otherwise, a more extensive examination is warranted.

In conclusion, it may be noted that the ultimate responsibility of the document certified will rest with the professional. While the extent of checking is a matter of professional judgment, he should safeguard himself against any possible charge of negligence in respect of inaccurate or incomplete statements certified by him, by adequately documenting the procedures performed and conclusions drawn.

CERTIFICATION WITH RESERVATION /QUALIFICATION /OBSERVATIONS /ADVERSE REMARKS

A PCS may certify the Annual Return subject to certain reservations /qualifications/ observations/adverse remarks by way of an annexure to his certificate. However, this course of action can only be resorted to in case where material facts are not stated correctly and completely in the Annual Return or where the company has not complied with the applicable provisions of the Companies Act.

While signing of the Annual Return of a company by a Company Secretary or a Company Secretary in practice shall ensure compliance with the guidance note on the Certification of the Annual Return as published by the ICSI and make appropriate professional judgments, wherever necessary.

It is the duty of the certifying professional to take the copy of the relevant documents and record such facts, based on which he has certified the Returns.

While the certification of Annual Return in Form No MGT-8, the certifying professional should observe all the statements in a true and fair manner. It is the duty of the professional to give the observation, limitation and disclaimer as may be required and appropriate for the certification.

SIGNING OF ANNUAL RETURN (MGT-7)

Annual Return is required to be signed by a Director and the Company Secretary, or where there is no Company Secretary, by a Company Secretary in practice.

As per the proviso to section 92(1), the Annual Return of One Person Company and Small Company shall be signed by the Company Secretary or where there is no company secretary, by the director of the company.

While signing the Form MGT-7 (Annual Return) Company Secretary/Company Secretary in practice and Director certifies that:

1. The return state the facts, as they stood on the date of the closure of the financial year aforesaid correctly and adequately.
2. Unless otherwise expressly stated to the contrary elsewhere in this return, the Company has complied with applicable provisions of the Act during the financial year.

(Further, the Form MGT-7 also requires to report, “Whether the company has made Compliances and Disclosures in respect of applicable provisions of the Companies Act, 2013 during the year”)

In case of the Private Company:

3. The company has not, since the date of the closure of the last financial year with reference to which the last return was submitted or in the case of a first return since the date of the Incorporation of the company, issued any invitation to the public to subscribe for any securities of the company.
4. Where the annual return discloses the fact that the number of members, (except in case of a one person company) of the company exceed two hundred, the excess consists of persons who under second proviso to section 2(68)(i) of the Act are not to be included in reckoning the number of two hundred.

Also, Company Secretary/ Company Secretary in Practice and Authorised Director declares that -

1. Whatever is stated in this form and the attachments thereto are true, correct and complete and no information material to the subject matter of this form has been suppressed or concealed and is as per the original records maintained by the Company.
2. All the required attachments to the form, are complete and legible.

When a Company Secretary or the PCS signs the annual return, he certifies that the facts stated and the material furnished as attachment to the form are fully correct and adequate.

Further, he has to state that the company has made compliances as well as disclosures in respect of applicable provisions of the Companies Act during the year, also he should give reasons or observations in respect of non-compliances.

CERTIFICATION OF ANNUAL RETURN (MGT-8)

While certifying the Form No. MGT 8, the PCS shall certify that:

- A. the Annual Return discloses the facts as at the close of the financial year correctly and adequately; and
- B. the Company has complied with the provisions of the Act & Rules made there under during the financial year in respect of:
 1. Its status under the Act;
 2. Maintenance of registers/records & making entries therein within the time prescribed therefore
 3. Filing of forms and returns as stated in the Annual Return, with the Registrar of Companies, Regional Director, Central Government, the Tribunal, Court or other authorities within / beyond the prescribed time;
 4. Calling/ convening/ holding meetings of Board of directors or its committees if any, and the meetings of the members of the company on due dates as stated in the annual return in respect of which meetings,

proper notices were given and the proceedings including the circular resolutions and resolutions passed by postal ballot, if any, have been properly recorded in the Minute Book / registers maintained for the purpose and the same have been signed;

5. Closure of Register of Members / Security holders, as the case may be.
6. Advances/loans to its directors and/or persons or firms or companies referred in section 185 of the Act;
7. Contracts/arrangements with related parties as specified in section 188 of the Act;
8. Issue or allotment or transfer or transmission or buy back of securities/ redemption of preference shares or debentures/ alteration or reduction of share capital/ conversion of shares/ securities and issue of security certificates in all instances;
9. Keeping in abeyance the rights to dividend, rights shares and bonus shares pending registration of transfer in compliance with the provisions of the Act;
10. Declaration/ payment of dividend; transfer of unpaid/ unclaimed dividend/ other amounts as applicable to the IEPF in accordance with section 125 of the Act;
11. Signing of audited financial statement and report of directors is as per section 134 of the Act;
12. Constitution/ appointment/ re-appointments/ retirement/ filling up casual vacancies/ disclosures of the Directors, Key Managerial Personnel and the remuneration paid to them;
13. Appointment/ reappointment/ filling up casual vacancies of auditors as per the provisions of section 139 of the Act;
14. Approvals required to be taken from the Central Government, Tribunal, Regional Director, Registrar, Court or such other authorities under the various provisions of the Act;
15. Acceptance/ renewal/ repayment of deposits;
16. Borrowings from its director, members, public financial institutions, banks and others and creation / modification /satisfaction of charges in that respect, wherever applicable;
17. Loans and investments or guarantees given or providing of securities to other bodies corporate or persons falling under the provisions of section 186 of the Act;
18. Alteration of the provisions of the memorandum and / or articles of association of the Company.

Return Certification - Threshold

As per Section 92(2) of the Act read with rule 11(2) of the Companies (Management and Administration) Rules, 2014, the Annual Return of the following companies shall be certified by Company Secretary in practice in the Form No. MGT-8:

- Every listed company
- Every company having
 - paid-up capital of Rs. 10 crore or more; or
 - turnover of 50 crore rupees or more.

CONCEPT OF DIFFERENT PROFESSIONALS FOR SIGNING AND CERTIFICATION

As a good practice, it is advisable to have the Annual Return reviewed/verified by a different professional before it is certified, as part of maker and checker concept for independent verification of the Returns being certified. These two different signing mechanisms include one for the purpose of signing under section 92(1) and the other for certification under section 92(2) of the Companies Act, 2013.

However, where a company is having a Company Secretary then signing of the annual return as per section 92(1) shall be done by the Company secretary in employment only, but not by the Company Secretary in Practice.

The return has to be filed with the Registrar of Companies within 60 days from the date of Annual General Meeting. If the Annual General Meeting (AGM) is not held in any year, the return has to be filed within 60 days from the date on which AGM should have been held together with the statement specifying the reasons for not holding the AGM, on payment of such fee or additional fee as prescribed (Rule 12 of the Companies (Registration Offices and Fees) Rules, 2014).

Whether non-filing of Annual Return is a compoundable

Offence in respect of default in filing Annual Return is compoundable (section 441), in accordance with the procedure laid down in this section for compounding of offences. If any company fails to file its annual return under section 92 (4), before the expiry of the period specified therein, such company and its every officer who is in default shall be liable to penalty of ten thousand rupees and in case of continuing failure, with further penalty of Rs.100 for each day during which such failure continues, subject to a maximum of Rs.2 lakh in case of a company and Rs.50,000 in case of officer in default.

Filing Annual Return when Annual General Meeting is not held

Where no AGM is held in a particular year, the Annual Return has to be filed within 60 days from the last day on which the meeting should have been held together with the statement specifying the reasons for not holding the annual general meeting, with such fees or additional fees as may be prescribed, within the time as specified, under section 403. [Section 92(4)]

Consequently, the company cannot excuse itself from the obligation on the plea that AGM was not held. As per Section 403, if the Annual return under section 92 is not filed within the due date the same can be filed on payment of additional fee as may be prescribed, which shall not be less than one hundred rupees per day and different amounts may be prescribed for different classes of companies:

Where the document, fact or information, as the case may be, in cases other than referred to in the first proviso, is not submitted, filed, registered or recorded, as the case may be, within the period provided in the relevant section, it may, without prejudice to any other legal action or liability under this Act, be submitted, filed, registered or recorded as the case may be, on payment of such additional fee as may be prescribed and different fees may be prescribed for different classes of companies.

Further, where there is default on two or more occasions in submitting, filing, registering or recording of such document, fact or information, as may be prescribed, it may, without prejudice to any other legal action or liability under this Act, be submitted, filed, registered or recorded, as the case may be, on payment of such higher additional fee, as may be prescribed

In case a company fails or commits any default to submit, file, register or record any document, fact or information under Section 92 (1) before the expiry of the period specified, the company and the officers of the company who are in default, shall, without prejudice to the liability for the payment of fee and additional fee, be liable for the penalty or punishment provided under this Act for such failure or default.

Thus the management of the company cannot escape from the responsibility of filing the return, even if the AGM is not held or the company is inoperative. This section casts an important obligation on the part of management to file the returns and can be relinquished only when the company is wound-up or its name is struck-off from the Register maintained by the Registrar of Companies.

CORPORATE GOVERNANCE CERTIFICATION

This certificate on the compliance of conditions of Corporate Governance by the Company, is issued under the regulations 17 to 27 and clauses (b) to (i) of regulation 46(2) and para C and D of Schedule V of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('SEBI(LODR)'). The certificate can be issued either by the Statutory auditors or PCS and shall be annexed to the director's report.

Further, Regulation 27(2) of SEBI(LODR), specifies that the listed entity shall submit quarterly compliance report on corporate governance in the format specified by the Board from time to time to recognized Stock Exchange(s) within fifteen days from close of the quarter.

Accordingly, different formats for Compliance Report on Corporate Governance have been prescribed for Quarterly reporting, and the report to be submitted at the end of the financial year (for the whole of financial year) and also for reports which are to be submitted within six months from end of financial year, which may be submitted along with second quarter report.

Regulation 17(3) of the SEBI (LODR) provide that the Board of Directors shall periodically review compliance reports pertaining to all laws applicable to the listed entity, as prepared by the company as well as steps taken by the company to rectify instances of non-compliance, if any.

The following reports should also be placed before the Board of Directors of the listed entity as per Regulation 17(3) of SEBI(LODR):

- Periodical Compliance Reports prepared by the company;
- Secretarial Audit Report prepared in accordance Section 204 of the Companies Act, 2013 read with Rule 9 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 in so far as it pertains to Securities Laws.

FORMAT OF THE QUARTERLY REPORTS

The Format of Quarterly Reports on Corporate Governance under SEBI(LODR) regulation is as under:

1. Name of Listed Entity
2. Ending
3. Composition of Board of Director

I. Composition of Board of Directors								
Title (Mr./ Ms.)	Name of the Director	PAN & DIN	Category (Chair- person/ Executive/ Non- Executive/ independent/ Nominee)	Date of Appoin- tment in the current term/ Cession	Tenure*	No of Directorship in listed Entities Including this Listed Entity (Refer Regulation 25(1) of Listing Regulations	Number of memberships in Audit/ Stake- Holder Committee(s) Including this Listed Entity (Refer Regulation 26(1) of Listing Regulations)	No of post of Chairperson in Audit/ Stake- Holder Committee held in listed Entities including this listed entity (Refer Regulation 26(1) of Listing Regulations)
<p>\$ PAN number of any director would not be displayed on the website of Stock Exchange & Category of directors means executive/non-executive/independent/Nominee. If a director fits into more than one category write all categories separating them with hyphen</p> <p>* to be filled only for Independent Director. Tenure would mean total period from which Independent director is serving on Board of directors of the listed entity in continuity without any cooling off period.</p>								

II. Composition of Committees		
Name of Committee	Name of Committee Members	Category (Chairperson/ Executive/ Non-Executive/ independent Nominee)
1. Audit Committee		
2. Nomination & Remuneration Committee		
3. Risk Management Committee (if applicable)		
4. Stakeholders Relationship Committee		
<p>& Category of directors means executive/non-executive/independent/ Nominee. If a director fits into more than one category write all categories separating them with hyphen</p>		

III. Meeting of Board of Directors			
Date(s) of Meeting (if any) in the previous quarter	Date(s) of Meeting (if any) in the relevant quarter	Maximum gap between any two consecutive (in number of days)	
IV. Meeting of Committee			
Date(s) of meeting of the committee in the relevant Quarter	Whether requirement of Quorum met (details)	Date(s) of meeting of the committee in the previous quarter	Maximum gap between any two Consecutive meetings in number of days*
* This information has to be mandatorily be given for audit committee, for rest of the committees giving this information is optional			
V. Related Party Transactions			
Subject		Compliance status (Yes/No/NA) refer note below	
Whether prior approval of audit committee obtained			
Whether shareholder approval obtained for material RPT			
Whether details of RPT entered into pursuant to omnibus approval have been reviewed by Audit Committee			
Note In the column "Compliance Status", compliance or non-compliance may be indicated by Yes/ No/N.A. For example, if the Board has been composed in accordance with the requirements of Listing Regulations, "Yes" may be indicated. Similarly, in case the Listed Entity has no related party transactions, the words "N.A." may be indicated. If status is "No" details of non-compliance is to be provided			
VI. Affirmations			
1. The composition of Board of Directors is in terms of SEBI (Listing obligations and disclosure requirements) Regulations, 2015. 2. The composition of the following committees is in terms of SEBI(Listing obligations and disclosure requirements) Regulations, 2015 (a) Audit Committee, (b) Nomination & remuneration committee (c) Stakeholders relationship committee (d) Risk management committee (applicable to the top 100 listed entities) 3. The committee members have been made aware of their powers, role and responsibilities as specified in SEBI (Listing obligations and disclosure requirements) Regulations, 2015. 4. The meetings of the board of directors and the above committees have been conducted in the manner as specified in SEBI (Listing obligations and disclosure requirements) Regulations, 2015. 5. This report and/or the report submitted in the previous quarter has been placed before Board of Directors. Any comments/observations/advice of Board of Directors may be mentioned here.			
Name & Designation			
Company Secretary / Compliance Officer / Managing Director / CEO			

Note:

Information at Table I and II above need to be necessarily given in 1st quarter of each financial year. However if there is no change of information in subsequent quarter(s) of that financial year, this information may not be given by Listed entity and instead a statement “same as previous quarter” may be given.

Format to be submitted by listed entity at the end of the financial year (For the whole of financial year)

I. Disclosure on website in terms of Listing Regulations

Item	Compliance status Yes/ No/NA) refer note below
Details of business	
Terms and conditions of appointment of independent directors	
Composition of various committees of board of directors	
Code of conduct of board of directors and senior management personnel	
Details of establishment of vigil mechanism/ Whistle Blower policy	
Criteria of making payments to non-executive directors	
Policy on dealing with related party transactions	
Policy for determining ‘material’ subsidiaries	
Details of familiarization programmes imparted to independent directors	
Contact information of the designated officials of the listed entity who are responsible for assisting and handling investor grievances	
email address for grievance redressal and other relevant details	
Financial results	
Shareholding pattern	
Details of agreements entered into with the media companies and/or their associates	
New name and the old name of the listed entity	

II. Annual Affirmations

Particulars	Regulation Number	Compliance status (Yes/ No/NA) refer note below
Independent director(s) have been appointed in terms of specified criteria of ‘independence’ and/or ‘eligibility’	16(1)(b) & 25(6)	
Board composition	17(1)	
Meeting of Board of directors	17(2)	
Review of Compliance Reports	17(3)	
Plans for orderly succession for appointments	17(4)	
Code of Conduct	17(5)	
Fees/compensation	17(6)	
Minimum Information	17(7)	

Compliance Certificate	17(8)	
Risk Assessment & Management	17(9)	
Performance Evaluation of Independent Directors	17(10)	
Composition of Audit Committee	18(1)	
Meeting of Audit Committee	18(2)	
Composition of nomination & remuneration committee	19(1) & (2)	
Composition of Stakeholder Relationship Committee	20(1) & (2)	
Composition and role of risk management committee	21(1),(2),(3),(4)	
Vigil Mechanism	22	
Policy for related party Transaction	23(1),(5),(6),(7) & (8)	
Prior or Omnibus approval of Audit Committee for all related party transactions	23(2), (3)	
Approval for material related party transactions	23(4)	
Composition of Board of Directors of unlisted material Subsidiary	24(1)	
Other Corporate Governance requirements with respect to subsidiary of listed entity	24(2),(3),(4), (5) & (6)	
Maximum Directorship & Tenure	25(1) & (2)	
Meeting of independent directors	25(3) & (4)	
Familiarization of independent directors	25(7)	
Memberships in Committees	26(1)	
Affirmation with compliance to code of conduct from members of Board of Directors and Senior management personnel	26(3)	
Disclosure of Shareholding by Non- Executive Directors	26(4)	
Policy with respect to Obligations of directors and senior management	26(2) & 26(5)	

Note:

1. In the column “Compliance Status”, compliance or non-compliance may be indicated by Yes/ No/N.A. For example, if the Board has been composed in accordance with the requirements of Listing Regulations, “Yes” may be indicated. Similarly, in case the Listed Entity has no related party transactions, the words “N.A.” may be indicated.
2. If status is “No” details of non-compliance may be given here. 3 If the Listed Entity would like to provide any other information the same may be indicated here.

III. Affirmations:

The Listed Entity has approved Material Subsidiary Policy and the Corporate Governance requirements with respect to subsidiary of Listed Entity have been complied.

Name & Designation**Company Secretary / Compliance Officer / Managing Director / CEO***Format to be submitted by listed entity at the end of 6 months after end of financial year along-with second quarter report of next financial year***I. Affirmations**

Broad heading	Regulation Number	Compliance status (Yes/No/NA) refer note below
Copy of the annual report including balance sheet, profit and loss account, directors report, corporate governance report, business responsibility report displayed on website	46(2)	
Presence of Chairperson of Audit Committee at the Annual General Meeting	18(1)(d)	
Presence of Chairperson of the nomination and remuneration committee at the annual general meeting	19(3)	
Whether "Corporate Governance Report" disclosed in Annual Report	34(3) read with para C of Schedule V	

Note

1. In the column "Compliance Status", compliance or non-compliance may be indicated by Yes/No/N.A. For example, if the Board has been composed in accordance with the requirements of Listing Regulations, "Yes" may be indicated. Similarly, in case the Listed Entity has no related party transactions, the words "N.A." may be indicated.
2. If status is "No" details of non-compliance may be given here.
3. If the Listed Entity would like to provide any other information the same may be indicated here.

Name & Designation**Company Secretary / Compliance Officer / Managing Director / CEO****OBLIGATIONS AND PENAL PROVISIONS**

Company Secretaries must exercise due care and diligence while certifying the Annual Return as any failure or lapse on the part of PCS may attract penalty under-

(i) The Companies Act, 2013:

As per Section 92(6) of the Act, if a company secretary in practice certifies the Annual Return otherwise than in conformity with the requirements of this section or the rules made thereunder, he shall be liable to a penalty of two lakh rupees.

Further, Company Secretary in practice may also attract the provisions of Section 447, sections 448 and 449 of Companies Act, 2013.

Section 447 deals with punishment for fraud which provides that any person who is found to be guilty of fraud involving an amount of at least ten lakh rupees or one percent of the turnover of the company, whichever is lower shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud:

Provided that where the fraud in question involves public interest, the term of imprisonment shall not be less than three years.

Provided further that where the fraud involves an amount less than ten lakh rupees or one per cent. of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to fifty lakh rupees or with both.

Section 448 provides that if in any return, report, certificate, financial statement, prospectus, statement or other document required by, or for, the purposes of any of the provisions of this Act or the rules made thereunder, any person makes a statement, -

- (a) Which is false in any material particulars, knowing it to be false; or
- (b) Which omits any material fact, knowing it to be material,

He shall be liable under section 447 of the Act.

In view of this, a professional will be penalised under section 448 in case he makes the statement, which is false in any material particulars, knowing it to be false, or which omits any material fact knowing it to be material.

Authority to initiate action against Professionals

MCA vide its circular no. 10/2014 dated 07.05.2014 has clarified that Regional director/ ROC would initiate action under section 448 and 449 of the Act in the cases of submitting false or misleading or incorrect information.

Further, the cases u/s 448 and 449 may also be referred to the concerned Institute for conducting disciplinary proceedings against the errant member and the MCA may debar the concerned professional from filing any document on the MCA portal in future.

(ii) The Company Secretaries Act, 1980

The Disciplinary Directorate of ICSI on receipt of any information or complaint arrive at a prima facie opinion on the occurrence of the alleged misconduct and where the Director (Discipline) is of the opinion that a member is guilty of any professional or other misconduct mentioned in the First Schedule, the matter is placed before the Board of Discipline and where the Director (Discipline) is of the opinion that a member is guilty of any professional or other misconduct mentioned in the Second Schedule or in both the Schedules, the matter is placed before the Disciplinary Committee of ICSI. In other words, if the Director (Discipline) is of the view that:

Misconduct mentioned in	The matter is placed before
First Schedule	Board of Discipline
Second Schedule	Disciplinary Committee

Matters placed before the Board of Discipline: Where the board is of the opinion that a member is guilty of a professional or other misconduct mentioned in the First Schedule, it provides to the member an opportunity of being heard before making any order against him and may thereafter take any one or more of the following actions, namely:

- (a) reprimand the member;
- (b) remove the name of the member from the Register up to a period of three months;
- (c) impose such fine as it may think fit which may extend to Rs.1 lakh.

Matters placed before the Disciplinary Committee: Where the Disciplinary Committee is of the opinion that a member is guilty of a professional or other misconduct mentioned in the Second Schedule or both the First Schedule and the Second Schedule, it afford to the member an opportunity of being heard before making any order against him and may thereafter take any one or more of the following actions, namely:

- (a) reprimand the member;
- (b) remove the name of the member from the Register permanently or for such period, as it thinks fit;
- (c) impose such fine as it may think fit, which may extend to Rs. 5 lakhs.

PROFESSIONAL MISCONDUCT COVERED UNDER THE FIRST SCHEDULE

PART I: Professional misconduct in relation to Company Secretaries in Practice

A Company Secretary in Practice shall be deemed to be guilty of professional misconduct, if he-

1. Allows any person to practice in his name as a Company Secretary unless such person is also a Company Secretary in practice and is in partnership with or employed by him;
2. pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional business, to any person other than member of the Institute or a partner or a retired partner or the legal representative of a deceased partner, or a member of any other professional body or with such other persons having such qualifications as may be prescribed for the purpose of rendering such professional services from time to time in or outside India.

Explanation. - In this item, "partner" includes a person residing outside India with whom a Company Secretary in practice has entered into partnership which is not in contravention of item (4) of this Part;

3. accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute:

Provided that nothing herein contained shall be construed as prohibiting a member from entering into profit sharing or other similar arrangements, including receiving any share commission or brokerage in the fees, with a member of such professional body or other person having qualifications, as is referred to in item (2) of this part;

4. enters into partnership, in or outside India, with any person other than a Company Secretary in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed, including a resident who but for his residence abroad would be entitled to be registered as a member under clause (e) of sub-section (1) of section 4 or whose qualifications are recognized by the Central Government or the Council for the purpose of permitting such partnerships;
5. secures, either through the services of a person who is not an employee of such company secretary or who is not his partner or by means which are not open to a Company Secretary, any professional business:

Provided that nothing herein contained shall be construed as prohibiting any arrangement permitted in terms of items (2), (3) and (4) of this Part;

6. solicits clients or professional work, either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means:

Provided that nothing herein contained shall be construed as preventing or prohibiting-

- (a) any company secretary from applying or requesting for or inviting or securing professional work from another company secretary in practice; or
- (b) a member from responding to tenders or enquiries issued by various users of professional services or organizations from time to time and securing professional work as a consequence;
7. advertises his professional attainments or services, or uses any designation or expressions other than Company Secretary on professional documents, visiting cards, letterheads or sign boards, unless it be a degree of a University established by law in India or recognized by the Central Government or a title indicating membership of the Institute of Company Secretaries of India or of any other institution that has been recognized by the Central Government or may be recognized by the Council:

Provided that a member in practice may advertise through a write up setting out the services provided by him or his firm and particulars of his firm subject to such guidelines as may be issued by the Council;

8. accepts a position as a Company Secretary in practice previously held by another Company Secretary in practice without first communicating with him in writing;
9. charges or offers to charge, accepts or offers to accept, in respect of any professional employment, fees which are based on a percentage of profits or which are contingent upon the findings, or result of such employment, except as permitted under any regulation made under this Act;

10. engages in any business or occupation other than the profession of Company Secretary unless permitted by the Council so to engage:

Provided that nothing contained herein shall disentitle a Company Secretary from being a director of a company except as provided in the Companies Act, 1956;

11. allows a person not being a member of the Institute in practice, or a member not being his partner to sign on his behalf or on behalf of his firm, anything which he is required to certify as a Company Secretary, or any other statements relating thereto.

PART II - Professional misconduct in relation to members of the Institute in service

A member of the Institute (other than a member in practice) shall be deemed to be guilty of professional misconduct, if he, being an employee of any company, firm or person-

1. pays or allows or agrees to pay, directly or indirectly, to any person any share in the emoluments of the employment undertaken by him;
2. accepts or agrees to accept any part of fees, profits or gains from a lawyer, a Company Secretary or broker engaged by such company, firm or person or agent or customer of such company, firm or person by way of commission or gratification.

PART III - Professional misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he -

1. not being a Fellow of the Institute, acts as a Fellow of the Institute;
2. does not supply the information called for, or does not comply with the requirements asked for, by the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority;
3. while inviting professional work from another Company Secretary or while responding to tenders or enquiries or while advertising through a write up, or anything as provided for in items (6) and (7) of Part I of this Schedule, gives information knowing it to be false.

PART IV - Other misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if-

1. he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term not exceeding six months;
2. in the opinion of the Council, he brings disrepute to the profession or the institute as a result of his action whether or not related to his professional work.

PROFESSIONAL MISCONDUCT COVERED UNDER THE SECOND SCHEDULE

PART I - Professional misconduct in relation to Company Secretaries in Practice

A Company Secretary in practice shall be deemed to be guilty of professional misconduct, if he-

1. discloses information acquired in the course of his professional engagement to any person other than his client so engaging him, without the consent of his client, or otherwise than as required by any law for the time being in force;
2. certifies or submits in his name, or in the name of his firm, a report of an examination of the matters relating to company secretarial practice and related statements unless the examination of such statements has been made by him or by a partner or an employee in his firm or by another Company Secretary in practice;
3. permits his name or the name of his firm to be used in connection with any report or statement contingent upon future transactions in a manner which may lead to the belief that he vouches for the accuracy of the forecast;
4. expresses his opinion on any report or statement given to any business or enterprise in which he, his firm, or a partner in his firm has a substantial interest;

5. fails to disclose a material fact known to him in his report or statement but the disclosure of which is necessary in making such report or statement, where he is concerned with such report or statement in a professional capacity;
6. fails to report a material mis-statement known to him and with which he is concerned in a professional capacity;
7. does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;
8. fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;
9. fails to invite attention to any material departure from the generally accepted procedure relating to the secretarial practice;
10. fails to keep moneys of his client other than fees or remuneration or money meant to be expended in a separate banking account or to use such moneys for purposes for which they are intended within a reasonable time.

PART II - Professional misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of professional misconduct, if he -

1. contravenes any of the provisions of this Act or the regulations made thereunder or any guidelines issued by the Council;
2. being an employee of any company, firm or person, discloses confidential information acquired in the course of his employment, except as and when required by any law for the time being in force or except as permitted by the employer;
3. includes in any information, statement, return or form to be submitted to the Institute, Council or any of its Committees, Director (Discipline), Board of Discipline, Disciplinary Committee, Quality Review Board or the Appellate Authority any particulars knowing them to be false;
4. defalcates or embezzles moneys received in his professional capacity.

PART III- Other misconduct in relation to members of the Institute generally

A member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct, if he is held guilty by any civil or criminal court for an offence which is punishable with imprisonment for a term exceeding six months.

Further, with a view to ensure that the Company Secretary in practice carries out his work with due diligence, the Registrar may carry out scrutiny of Forms on random basis.

As per Rule 8(9) of the Companies (Registration Officers and Fees) Rules, 2014, where any instance of filing document, application or return etc. containing a false or misleading information or omission of material fact, requiring action under section 448 or section 449 is observed, the person shall be liable under section 448 and 449 of the Act.

Further as per Rule 8(10), without prejudice to any other liability, in the case of certification of any form, document, application or return under the act containing wrong or false or misleading information or omission of material fact or attachments by the person, the Digital Signature Certificate shall be de-activated by the central government till a final decision is taken in this regard.

As per MCA circular no. 10/2014 dated 07.05.2014, where any instance of filing of documents, application or return or form etc., containing false or misleading information or omission of material fact or incomplete information is observed, the Regional Director or the Registrar as the case may be, shall conduct a quick inquiry against the professionals who certified the form and signatory thereof including an officer in default who appears prima facie responsible for submitting false or misleading or incorrect information pursuant to requirement of above said Rules, 15 days' notice may be given for the purpose.

The Regional Director or the Registrar will submit his/her report in respect of the inquiry initiated, irrespective of the outcome, to the E-Governance cell of the Ministry within 15 days of the expiry of period given for submission of an explanation with recommendation in initiating action under section 447 and 448 of the Act wherever applicable and also regarding referral of the matter to the concerned professional Institute for initiating disciplinary proceedings.

The E-Governance cell of the Ministry shall process each case so referred and issue necessary instructions to the Regional Director/ Registrar of Companies for initiating action under section 448 and 449 of the Act wherever prima facie cases have been made out. The E-Governance cell will thereafter refer such cases to the concerned Institute for conducting disciplinary proceedings against the errant member as well as debar the concerned professional from filing any document on the MCA portal in future.

The Registrar shall forward a fortnightly report to the concerned Regional Director as well as to the E-Governance Division. Thereafter, the Regional Director shall forward a consolidated report to the Joint Secretary E-Governance Division on or before 7th of every month.

CONSEQUENCES OF NON-FILING ANNUAL RETURN

For the Director

- **Penalty for default:** If the company has not filed its Annual Return from the date by which it should have been filed with fee and additional fees, every officer who is in default shall be liable to a penalty of Rs.10,000 and in case of continuing failure, with further penalty of Rs.100 for each day during which such failure continues, subject to a maximum of Rs.2 lakh in case of a company and Rs.50,000 in case of officer in default. (Section 92)
- **Disqualification:** If the company has not filed its financial statement or Annual Return for continuous period of three financial years, then every person who is or has been director of that company shall not be eligible for re-appointment as Director of that company or appointed in any other company for a period of five years from the date on which the said company fails to do so. (Section 164(2))
- **Penalty for Misstatement:** If in Annual Return, any Director or any Person makes a statement (a) which is false in any material particulars, knowing it to be false; or (b) which omits any material fact, knowing it to be material, he shall be punishable with imprisonment for a term which shall not be less than 6 months but which may extend to 10 years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud. (Section 448)
- **Class action suits:** Under section 245, the class of shareholders or depositors may file an application with the Tribunal alleging that the management or conduct of the affairs of any company are being conducted in a manner prejudicial to the interest of the company, its members or depositors. Such class action may include suite against the company, its directors, officers, experts or any other person for wrongful or fraudulent act. The order passed by the Tribunal shall be binding on the Company, its directors and officers.

For the Company

- **Penalty:** If the company has not filed its Annual Return from the date by which it should have been filed with fee and additional fees, every officer who is in default shall be liable to a penalty of Rs.10,000 and in case of continuing failure, with further penalty of Rs.100 for each day during which such failure continues, subject to a maximum of Rs.2 lakh in case of a company and Rs.50,000 in case of officer in default. (Section 92)
- **Winding up:** If the Company has defaulted in filing Annual Returns for the immediately preceding five financial years, the Company may be wound up by the Tribunal. (Section 271)
- **Inactive status:** If the Company has not filed its Annual Return for last two financial years, it will be termed as “inactive company” [Section 455(1)]
- **Dormant status:** If the Company has not filed its Annual Return for two financial years consecutively, the Registrar shall issue notice to the Company and enter its name in the Register of Dormant Companies. [Section 455(4)]
- **Compounding of Offences:** Provisions and procedure for compounding of offences, which are punishable under Companies Act, 2013 are stipulated under Section 441.

Under section 441 of the Companies Act, 2013, any offence punishable under this Act (whether committed by a company or any officer thereof) not being an offence punishable with imprisonment only, or punishable with imprisonment and also with fine, may, either before or after the institution of any prosecution, be compounded by -

- (a) The Tribunal; or
- (b) where the maximum amount of fine which may be imposed for such offence does not exceed Rs. 25 lakh, by the Regional Director or any officer authorised by the Central Government.

Further, the offence punishable with imprisonment or fine, or with imprisonment or fine or with both, shall be compoundable and the offence which is punishable with imprisonment only or with imprisonment and also with fine are not compoundable.

Only those offences which are punishable with either penalty or with penalty or imprisonment are compoundable under Section 441. Therefore, offence which is specifically punishable only with imprisonment or with imprisonment and fine is non-compoundable.

Any offences punishable with fine only may be compounded by the Tribunal or where the maximum amount of fine which may be imposed for such offence does not exceed twenty-five lakh rupees, by the Regional Director or any officer authorized by the Central Government.

LESSON ROUND UP

- While pre-certification of e-forms the professional checks the correctness of the particulars stated in the prescribed forms after due consideration of the provisions of the Act and the Rules made thereunder.
- The e-form is required to be authenticated by authorised signatories such as Managing Director or Director or Company Secretary or other key managerial personnel as any be required in the form using digital signatures.
- Every professional before filling of e-forms should go through the respective provisions of the act and the instruction kit of respective e-form.
- Annual Return of every listed company, or company having paid-up capital of Rs.10 crore or more, or company having turnover of Rs.50 crore or more, shall be certified by the Company Secretary in practice.
- Company Secretaries must take care while certifying the e-forms as any failure or lapse may also attract action under section 447, 448 and 449 of Companies Act, 2013
- Peer review is a process for examining the work performed by one's equals (peers) and to understand the systems, practices and procedures followed by the Practice Unit and to give suggestions, if any, for further improvement.

GLOSSARY

Certification	Certification means the process of giving official or legal approval to a document, that has complied with the required standards, legislative or regulatory requirements.
Pre-certification	Pre-certification refers to examination and authentication of various forms required to be filled with Authorities governed under various laws. In other words, Pre-certification means to check the form by the Independent Professional before filling it with the Ministry of Corporate Affairs.
Professional misconduct	Professional misconduct is the behavior outside the bounds of what is considered acceptable or worthy of its membership by the governing body of a profession. Professional misconduct refers to disgraceful or dishonorable conduct not befitting a professional.
Disciplinary Proceedings	Disciplinary proceedings means the institution of formal discipline procedures against a member by way of the laying of a written charge or allegation for any misconduct.

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation).

1. Describe the various forms which are exclusively certified by the company secretary in practice under the Companies Act, 2013.
2. How the scrutiny of the annual return take place and what are the guiding principles for scrutiny of annual return.

3. Describe the points covered in the from MGT- 8 which are need to be certified,
4. List out the various disclosure required to be placed on website of the company in terms of listing regulations.
5. Describe the various action covered under the first schedule as professional misconduct under Company Secretaries Act, 1980.
6. “Communication with previous secretarial auditor is critical before accepting any engagement”. Comment.
7. Explain ‘Peer Review’. Indicate the services covered under the scope of peer review.
8. Azra Limited has not been compliant in filing the Annual Returns for more than two years. Explain in brief the penal provisions which will apply to the directors of the Company for not filing the annual returns.
9. Nixal Limited has a paid-up equity share capital of Rs.8 Crores and for the year ended March 31, 2021 the Company reported a turnover of Rs.55 crores. The Managing Director is of the view that the Company does not require a Company Secretary to sign its annual return. Is the MD’s view correct?

LIST OF FURTHER READINGS

ICSI Publications:

- Referencer on Pre-certification of e-forms
- Guidance Note on the Annual Return
- Guidance Note on Secretarial Audit
- Guidance Note on Annual Secretarial Compliance Report

OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

- www.mca.gov.in
- www.sebi.gov.in
- www.icsi.edu
- www.ebook.mca.gov.in

[illegible]

Lesson 7

Segment-wise Role of Company Secretaries

Key Concepts One Should Know

- Compliance Officer
- Corporate Manager
- IPR Expert
- Scrutinizer
- Liquidator
- ADR/ GDR/FCCBs/ FCEBs/ ECB
- Conflict of Interest
- Representation services

Learning Objectives

To understand:

- The status of a Company Secretary as Key Managerial Personnel along with the Managing Director / CEO & CFO under Companies Act, 2013.
- The role of a Company Secretary as a Insolvency Professionals.
- The role of a Company Secretary as Registered Valuers.
- Few of the other roles played by Company Secretaries.
- How a Company Secretary as a governance professional is vital to nation-building.
- Those activities by Company Secretaries which fall within the ambit of the responsibility structure ranging from ensuring compliance with the applicable laws and secretarial standards to guiding the directors, from conducting secretarial audits to representing the company before Regulators, from obtaining requisite approvals from designated authorities to assisting the Board.
- Various roles played by the company secretaries in employment as well as in practice.

Regulatory Framework

- The Companies Act, 2013 and rules made thereunder
- The SEBI (LODR) Regulations, 2015
- The Insolvency and Bankruptcy Code, 2016 and rules & regulations made thereunder
- The Companies (Registered Valuer and Valuation) Rules, 2017

Lesson Outline

- Introduction
- Company Secretary in Employment
- Company Secretary in Practice
- Overview of Various Industries
- National and International Development
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

INTRODUCTION

The Company Secretaries play an important role as governance professionals in all types of corporates, whether it is a private company, public company, section 8 company, government company or so. In the recent international development in corporate governance, the role of Company Secretaries is not limited to the doing compliance with laws, regulations, standards, and codes; it is also about creating cultures of good practice.

With the increased role, the Company Secretaries require increased technical skills and experience to know what corporate governance practices are needed in an organization and why. They also need emotional intelligence, skills, and experience to ensure that they know how the practices typically would be implemented to work effectively.

In the later 90's the Company Secretaries were recognized as a designated officer of the company to maintain the record of the company, whereas in the current scenario is Company Secretary is expected to provide professional guidance to shareholders, boards, individual directors, management and other stakeholders on the governance aspects of strategic decisions.

The Company Secretary acts as a bridge for information, communication, advice, and arbitration between the board and management and between the organization and its stakeholders including shareholders.

To fulfill this role, the Company Secretary needs to be fully aware of the powers, rights, duties, and obligations of his entire business portfolio. In addition to providing advice and communication, the corporate secretary often called on to create and manage relationships between these different players in the corporate governance system. To carry out this role effectively, a Company Secretary needs to act with the highest integrity and independence in protecting the interests of the organization, its shareholders, and others with a legitimate interest in the organization's affairs. This level of responsibility calls for a thorough knowledge of the business environment in which the organization operates as well as of the laws, rules, and regulations that govern its activities. Company Secretaries typically provide practical support to the chairman of the organization to ensure that board meetings are managed effectively. This typically would entail assisting the chairman with agenda development, ensuring that meetings are conducted in line with good governance and statutory and regulatory requirements, drafting minutes, and following up on implementation of decisions made by the board.

Accordingly, to understand the role of Company Secretary in the various segments, it is required to understand the role of company secretary in different capacities. Broadly the Company Secretary is having the opportunities in the following two domains:

1. Company Secretary in Employment
2. Company Secretary in Practice

The lesson covers the various roles of company secretaries based on the above categories.

COMPANY SECRETARY IN EMPLOYMENT

The following companies shall have a whole -time company secretary as per section 203 of Companies Act, 2013 and rules made thereunder.

Every listed company under Rule 8 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014	Every public company having a paid-up share capital of ten crore rupees or more under Rule 8 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014	Every private company which has a paid up share capital of ten crore rupees or more Rule 8A of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014
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• Appointment as Whole time Company Secretary

As per Section 203 read with Rule 8A of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, Every private company which has a paid up share capital of ten crore rupees or more shall have a whole -time company secretary.

• Company Secretary as Key Managerial Personnel (KMP)

Company Secretary has been recognized as Key Managerial Personnel and has placed along with Managing Director (MD) or Chief Executive officers (CEO) or Manager, Whole time director(s) or Chief Financial Officer (CFO) under Section 203 of the Companies Act, 2013. Accordingly, every listed company and every other public company having paid-up share capital of ten crore rupees or more is required to appoint the whole time Company Secretary as the Key Managerial Personnel.

Question: Which of the following rule of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 provides the requirement of appointing a company secretary under Companies Act, 2013?

Options: (A) Rule 8 (B) Rule 8A (C) Both (A) & (B) (D) None of these

Answer: (C)

Functions & Duties of the Company Secretary includes -

Section 205 read with rule 10 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, provide the following functions & duties on the Company Secretary includes-

1. to report to the Board about compliance with the provisions of the Companies Act, 2013, the rules made thereunder and other laws applicable to the company;
2. to ensure that the company complies with the applicable secretarial standards;
3. to discharge such other duties which include:
 - to provide to the directors of the company, collectively and individually, such guidance as they may require, with regard to their duties, responsibilities and powers;
 - to facilitate the convening of meetings and attend board, committee and general meetings and maintain the minutes of these meetings;
 - to obtain approvals from the board, general meeting, the government and such other authorities as required under the provisions of the Companies Act, 2013;
 - to represent before various regulators, and other authorities under the Companies Act, 2013 in connection with discharge of various duties under the Companies Act, 2013;
 - to assist the Board in the conduct of the affairs of the company;
 - to assist and advise the Board in ensuring good corporate governance and in complying with the corporate governance requirements and best practices;
 - to discharge such other duties as have been specified under the Companies Act, 2013 or rules made thereunder; and
 - such other duties as may be assigned by the Board from time to time.

Further, the Board of the company generally assigns the following duties to the company Secretaries:

1. Secretarial Functions:

- To ensure compliance of the provisions of the Corporate Law, Secretarial Standards and other statutes and bye-laws of the company.
- To ensure that business of the company is conducted in accordance with its objects as contained in its memorandum of association.
- To ensure that affairs of the company are managed in accordance with its articles of association and the provisions of the Companies Law.
- To prepare the agenda in consultation with the Chairman and the other documents for all the meetings of the board of directors.
- To arrange with and to call and hold meetings of the board and to prepare a correct record of proceedings.
- To attend the board meetings for ensuring that the legal requirements are fulfilled, and provide such information as are necessary.

- To prepare, in consultation with the chairman, the agenda and other documents for the general meetings.
- To arrange with the consultation of chairman the annual and extraordinary general meetings of the company and to attend such meetings to ensure compliance with the legal requirements and to make correct record thereof.
- To carry out all matters concerned with the allotment of shares, and issuance of share certificates including maintenance of statutory Share Register and conducting the appropriate activities connected with share transfers.
- To prepare, approve, sign and seal agreements leases, legal forms, and other official documents on the company's behalf, when authorised by the board of directors or the executive responsible.
- To advise, in conjunctions with the company's solicitors, the chief executive or other executives, in respect of the legal matters, as required.
- To engage legal advisors and defend the rights of the company in Courts of Law.
- To ensure effective compliance management.
- To have custody of the seal of the company.

2. Management and Reporting functions of Company Secretary:

- Filling of various documents/returns as required under the provisions of various Corporate Laws.
- Proper maintenance of books and registers of the company as required under the provisions of the applicable laws.
- To see whether legal requirements of the allotment, issuance and transfer of share certificates, mortgages and charges, have been complied with.
- To convene/arrange the meetings of Directors, on their advice.
- To issue notice and agenda of board meetings to every director of the company.
- To carry on correspondence with the directors of the company on various matters.
- To record the minutes of the proceedings of the meetings of the directors.
- To implement the policies formulated by the directors.
- To deal with all correspondence between the company and the shareholders.
- To issues notice and agenda of the general meetings to the shareholders.
- To keep the record of the proceedings of all general meetings.
- To make arrangements for the payment of dividend within the prescribed period as provided under the provisions of the Companies Law.

3. To maintain the following statutory books:

- Register of Transfer of Shares;
- Register of Buy-Backed Shares by A Company;
- Register of Mortgages, Charges etc.;
- Register of Members and Index thereof;
- Register of Debenture-Holders;
- Register of Directors and Other Officers;
- Register of Contracts;
- Register of Directors' Shareholdings and Debentures;
- Register of Local Members, Directors and Officers, In Case of a Foreign Company;
- Minute Books;

- Proxy Register;
- Register of Beneficial Ownership;
- Register of Deposits;
- Register of loans, investments, guarantee or security;
- Register of Director's Share Holding; and
- Register of Contracts, Arrangements and Appointments in which Directors etc. are interested.

4. Other duties:

The company secretary usually undertakes the following duties:

- Ensuring that statutory forms are filed promptly.
- Ensuring the Compliance with the Secretarial Standards.
- Providing members and auditors with notice of a meeting.
- Filing of copy of special resolutions in prescribed form within the specified time.
- Supplying a copy of the accounts to every member of the company, every debenture holder and every person who is entitled to receive notice of general meetings.
- Keeping the minutes of directors' meetings and general meetings. Apart from monitoring the Directors and Members minutes books, copies of the minutes of board meetings should also be provided to every director.
- Ensuring that people entitled to do so, can inspect company records. For example, members of the company are entitled to a copy of the company's register of members, and to inspect the minutes of its general meetings and to have copies of these minutes.
- Custody and use of the common seal. Companies are required to have a common seal and the secretary is usually responsible for its custody and use. (Common seals can be bought from seal makers)

Question: Which of the following provision of Companies Act, 2013 provides the functions of a Company Secretary?

Options: (A) 203 (B) 204 (C) 205 (D) 206

Answer: (C)

• Company Secretary as Compliance Officer

Under Regulation 6 of the SEBI (LODR) Regulations, 2015, a listed company is required to appoint a qualified company secretary as the compliance officer. The compliance officer of the Company is responsible for

- (a) ensuring conformity with the regulatory provisions applicable to the listed entity in letter and spirit.
- (b) co-ordination with and reporting to the Board, recognised stock exchange(s) and depositories with respect to compliance with rules, regulations and other directives of these authorities in the manner as specified from time to time.
- (c) ensuring that the correct procedures have been followed that would result in the correctness, authenticity and comprehensiveness of the information, statements and reports filed by the listed entity under these regulations.
- (d) monitoring email address of grievance redressal division as designated by the listed entity for the purpose of registering complaints by investors:

However, the company secretary is also entrusted with the duties for ensuring compliance with SEBI (Prohibition of Insider Trading) Regulations, 2015 including maintenance of various documents and also to ensure compliance of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. The requirement for appointment of Compliance officer is not applicable in case of units issued by mutual funds which are listed on recognised stock exchange(s) governed by the provisions of the Securities and Exchange Board of India (Mutual Funds) Regulations 1996.

- **Company Secretary as a part of Senior Management**

The Regulation 16 of the SEBI (LODR) Regulations, 2015 provides that the senior management mean the officers/personnel of the listed entity who are members of its core management team excluding board of directors and normally comprise all members of management one level below the executive directors, including all functional heads.

As per the revised definition w.e.f. 1st April, 2019, the senior management will also include chief executive officer/managing director/whole time director/manager (including chief executive officer/manager, in case they are not part of the board) and specifically include company secretary and chief financial officer.

Certificate regarding Transfer of Securities

- **Certificates under SEBI Listing Regulations**

Certification to the effect that all transfers have been completed within the stipulated time. [Regulation 40(9)]

Certificate Regarding Compliance of Conditions of Corporate Governance under SEBI Listing Regulations

SEBI listing regulations authorize Practising Company Secretary to issue certificate regarding compliance of conditions of Corporate Governance. [Schedule V, clause E].

Certificate Regarding Maintenance of 100% Asset Cover

To issue half yearly certificate regarding maintenance of 100% security cover in respect of listed non-convertible debt securities. [Regulation 56(1)] (d)]

Compliance Certificate by a Practising Company Secretary for Listing on BSE SME platform

BSE vide its circular dated 26th November, 2012 requires that Companies seeking listing on BSE SME Platform through IPO are required to comply with the quantitative eligibility norms as prescribed by BSE. Additionally, it will be desirable for the company to file a compliance certificate by a Practicing Company Secretary as per the guidance note issued by the Institute of Company Secretaries of India as and when such a certification is made applicable by the SME Platform of BSE Ltd.

Certification by Practising Company Secretary in case of offer/allotment of securities to more than 49 and up to 200 investors

To issue a certificate regarding Issuance of securities to more than 49 and up to 200 investors, that the refund procedure as prescribed by SEBI has been duly complied with. [SEBI Circular No. CFD/DIL3/CIR/P/2016/53 dated May 03, 2016].

- **The SEBI (Real Estate Investment Trusts) Regulations, 2014**

Practising Company Secretary who is a Valuer is recognised under Regulation 2 sub- regulation (1) Clause zz of SEBI (Real Estate Investment Trusts) Regulations, 2014 to act as valuer.

- **The SEBI (Infrastructure Investment Trusts) Regulations, 2014**

Practising Company Secretary who is a valuer is recognised under Regulation 2 sub- regulation Clause (zzf) of SEBI (Infrastructure Investment Trusts) Regulations, 2014 to act as valuer.

- **Company Secretary as Technical Member in NCLT**

Company Secretary who has been practice for at least fifteen years may be appointed as a technical member in tribunal. [Section 409 of the Companies Act, 2013]

- **The Limited Liability Partnership Act 2008.**

Annual Return

The annual return of LLP having turnover of more than 5 crore rupees or contribution more than 50 lakh rupees shall be accompanied with a certificate from a Company Secretary in practice to the effect that he has verified the particulars from the books and records of the LLP and found them to be true and correct. [Rule 25(2) of Limited Liability Partnership Rules, 2009]

Pre-certification of e-form

Certification by a Company Secretary in practice in the following forms:-

Incorporation Document and Subscriber's Statement in LLP Form No. 2. [Pursuant to rule 8 and Rule 11 of Limited Liability Partnership Rules, 2009]

Information with regard to limited liability partnership agreement and changes, if any, made therein in LLP Form No. 3. [Pursuant to rule 21(1) & (2) of Limited Liability Partnership Rules, 2009]

- **Company Secretary as Corporate Manager**

The Company Secretary in a role of corporate manager have an in-depth knowledge and understanding of the company and its history and also develops relationship with the board and management, the services of company secretary as corporate manger is available at all times to discuss issues in-depth and provide an immediate response to queries. In a small company, a wide role can be played by a company secretary and is able to take on other responsibilities likewise Finance Manager, Legal officer, HR Manager etc. Further, the Company Secretary also assists the chairman in preparing for meetings and truly act as the "conscience of the company" and with no Conflict of Interest and reliable to deal with the confidential documents of the company.

- **The Telecom Regulatory Authority of India Act, 1997**

Company Secretaries are authorised to certify the documents for Other Service Providers (OSP) Registration for the entities which propose to provide the services such as telebanking, tele-medicine, tele-trading, e-commerce Call Centers, both International and Domestic, Network Operation Centers and Vehicle Tracking Systems etc. (Section 17 under The Telecom Regulatory Authority of India Act, 1997)

- **Company Secretary to act as authorized representative of a company and or its Board**

The Company Secretary of a company can appear before the following authorities as a authorized representative of the company and its board:

National Company Law Tribunal	Competition Commission of India	Securities Appellate Tribunal
Registrar of Companies	Securities and Exchange Board of India	Consumer Forums
Telecom Disputes Settlement and Appellate Tribunal	Tax Authorities	Other quasi-judicial bodies and Tribunals

COMPANY SECRETARY IN PRACTICE

- **Company Secretary as Secretarial Auditor**

Section 204 of the Companies Act, 2013 requires that the following classes of companies are required to obtain Secretarial Audit Report from Company Secretary in practice and shall annex the same with its Board's report made in terms of sub-section (3) of Section 134 of Companies Act, 2013:

- Every listed company;
- Every public company having a paid-up share capital of 50 crore rupees or more; or;
- Every public company having a turnover of 250 crore rupees or more.
- Every company having outstanding loans or borrowings from banks or public financial institutions of one hundred crore rupees or more.

Explanation :- For the purposes of sub-rule 9 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, it was clarified that the paid up share capital, turnover, or outstanding loans or borrowings as the case may be, existing on the last date of latest audited financial statement shall be taken into account.

Further, pursuant to Regulation 24A of the SEBI (LODR) Regulations, 2015, every listed entity and its material unlisted subsidiaries incorporated in India shall undertake Secretarial Audit and shall annex with its Annual Report, a Secretarial Audit Report, given by a Company Secretary in Practice, in such form as may be specified.

The Board of the company is required to explain in full any qualification or observation or other remarks made by the Company Secretary in Practice in his report.

- **Company Secretary as an Expert**

Section 2(38) of the Companies Act, 2013 includes the company secretaries in the definition of expert and the definition of the expert under Companies Act, 2013 is as under:

“Expert” includes an engineer, a valuer, a chartered accountant, a company secretary, a cost accountant and any other person who has the power or authority to issue a certificate in pursuance of any law.

- **Company Secretary as Registered Valuer**

A Company Secretary in practice is recognized to be registered valuer for the asset class “Securities or Financial Assets” under the Companies (Registered Valuer and Valuation) Rules, 2017.

Where valuation is required to be made in respect of any stocks, shares, debentures, securities, etc. of a company under the provisions of Companies Act, 2013, it shall be valued by a person having such qualifications and experience and registered as a valuer in such manner, on such terms and conditions as prescribed under Section 247 of the Companies Act, 2013 read with Companies (Registered Valuers and Valuation) Rules, 2017.

To act as a Registered valuer in the Securities or Financial Assets the person should be the Member of the Institute of Chartered Accountants or The Institute of Cost Accountants of India or the Institute of Company Secretaries of India; or MBA / PGDBM specialization in finance or; Post Graduate Degree in Finance and should have at least three years of experience in the discipline. Further, the person needs to complete and pass the Valuation Specific Education Course as per syllabus specified under Rule 5 of the Companies (Registered Valuers and Valuation) Rules, 2017.

According to Rule 3 of the Companies (Registered Valuers and Valuation) Rules, 2017, a person is eligible to be a registered valuer if he/she-

- (a) is a valuer member of a registered valuers organisation;

Explanation.— For the purposes of this clause, “a valuer member” is a member registered valuers organisation who possesses the requisite educational qualifications and experience for being registered as a valuer;

- (b) is recommended by the registered valuers organisation of which he is a valuer member for registration as a valuer;
- (c) has passed the valuation examination under rule 5 within three years preceding the date of making an application for registration under rule 6;
- (d) possesses the qualifications and experience as specified in rule 4;
- (e) is not a minor;
- (f) has not been declared to be of unsound mind;
- (g) is not an undischarged bankrupt, or has not applied to be adjudicated as a bankrupt;
- (h) is a person resident in India;
- (i) has not been convicted by any competent court for an offence punishable with imprisonment for a term exceeding six months or for an offence involving moral turpitude, and a period of five years has not elapsed from the date of expiry of the sentence:

- (j) Provided that if a person has been convicted of any offence and sentenced in respect thereof to imprisonment for a period of seven years or more, he shall not be eligible to be registered; has not been levied a penalty under section 271j of Income Tax Act, 1961 (43 of 1961) and time limit for filing appeal before commissioner of income-tax (appeals) or income-tax appellate tribunal, as the case may be has expired, or such penalty has been confirmed by income-tax appellate tribunal, and five years have not elapsed after levy of such penalty; and
- (k) is a fit and proper person:

Explanation: - For determining whether an individual is a fit and proper person under these rules, the authority may take account of any relevant consideration, including but not limited to the following criteria-

- (i) Integrity, reputation and character,
- (ii) Absence of convictions and restraint orders, and
- (iii) Competence and financial solvency.

• **Company Secretary as Insolvency Professional**

Company Secretaries having passed necessary examination, possessing prescribed number of years of experience, enrolled with an insolvency professional agency and registered with Insolvency and Bankruptcy Board of India (IBBI) as an insolvency professional, can take up matters relating to corporate insolvency resolution process as Interim Resolution Professionals/Resolution Professionals, as well as also take up voluntary liquidation cases. They can also act as authorized representatives for a class of creditors in a meeting of Committee of Creditors in a resolution process.

As per Regulation 5 of Insolvency and Bankruptcy Board of India (Insolvency Professionals) Regulations, 2016, an individual shall be eligible for registration, if he -

- (a) has passed the Limited Insolvency Examination within twelve months before the date of his application for enrolment with the insolvency professional agency;
- (b) has completed a pre-registration educational course, as may be required by the Board, from an insolvency professional agency after his enrolment as a professional member; and has
 - (i) successfully completed the National Insolvency Programme, as may be approved by the Board;
 - (ii) successfully completed the Graduate Insolvency Programme, as may approved by the Board;
 - (iii) fifteen years' of experience in management, after receiving a Bachelor's degree from a university established or recognised by law; or
 - (iv) ten years' of experience as -
 - (a) Chartered Accountant registered as a member of the Institute of Chartered Accountants of India,
 - (b) Company Secretary registered as a member of the Institute of Company Secretaries of India,
 - (c) Cost Accountant registered as a member of the Institute of Cost Accountants of India, or
 - (d) Advocate enrolled with the Bar Council.

Question: A Company Secretary in practice is recognized to be registered valuer for the asset class under the Companies (Registered Valuer and Valuation) Rules, 2017.

- Options:** (A) Securities or Financial Assets
(B) Land and Building
(C) Plant and Machinery
(D) All of these

Answer: (A)

The Resolution Professional are entrusted with the duty of to preserve and protect the assets of the corporate debtor under section 25 of Insolvency and Bankruptcy Code, 2016. The resolution professional shall undertake the following actions for this purpose:

- take immediate custody and control of all the assets of the corporate debtor, including the business records of the corporate debtor;
- represent and act on behalf of the corporate debtor with third parties, exercise rights for the benefit of the corporate debtor in judicial, quasi-judicial or arbitration proceedings;
- raise interim finances subject to the approval of the committee of creditors under section 28 of IBC;
- appoint accountants, legal or other professionals in the manner as specified by Board;
- maintain an updated list of claims;
- convene and attend all meetings of the committee of creditors;
- prepare the information memorandum in accordance with section 29 of IBC;
- invite prospective resolution applicants according to prescribed area to submit a resolution plan or plans.
- present all resolution plans at the meetings of the committee of creditors;
- file application for avoidance of transactions in accordance with Chapter III, if any; and
- such other actions as may be specified by the Insolvency and Bankruptcy Board of India.

• **Company Secretary as Internal Auditor**

Section 138 of Companies Act, 2013 read with Rule 13 of the Companies (Accounts) Rules, 2014 provides that the following class of companies are required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely:-

- (a) every listed company;
- (b) every unlisted public company having-
 - (i) paid-up share capital of fifty crore rupees or more during the preceding financial year; or
 - (ii) turnover of two hundred crore rupees or more during the preceding financial year; or

- (iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or
- (iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and
- (c) every private company having-
 - (i) turnover of two hundred crore rupees or more during the preceding financial year; or
 - (ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year:

Such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, to conduct internal audit of the functions and activities of the company.

Further, under the various securities laws, company secretary in practice is authorized to undertake internal audit of:

- Portfolio Managers
- Stock Brokers/Clearing Members/ Trading Members
- Credit Rating Agencies
- Registrar and Share Transfer Agents (RTAs)
- Internal Audit & Concurrent Audit of Depository Participants
- Yearly Audit of Investment Advisors
- Annual Compliance Audit of Research Analyst
- Reconciliation of Share Capital Audit
- **Company Secretary as GST Professional**

Company Secretaries can play an important role in being an advisor and facilitator for due compliances under GST laws and be an asset to the general business community and corporate world. With their expertise in interpreting laws and skills to tackle and manage regulatory compliances under GST, Company Secretaries render value added services to the trade and industry while acting as extended arms of regulatory mechanism. A person having passed CS final examination is eligible for enrolment as GST Practitioner. Company Secretaries can provide guidance and advisory services to business entities to interpret GST laws and assist in effectively discharging various compliances under GST while undertaking activities like tax planning, maintenance of GST records, drafting legal documents like replying to show cause notices, impact analysis, etc.

Though, the Company Secretaries cannot perform Audit in matters related to GST, but he can provide the following services:

- (i) **Advisory services or strategic advisor:** A Company Secretary can comprehensively interpret the law of GST and provide complete guidance and advisory to the business entities. Company Secretaries are more suited for their services because of their knowledge of laws and good communication skills.
- (ii) **Tax Planning:** Company Secretaries are competent to understand the impact of laws and its various alternatives and can be helpful in proper tax planning under GST.
- (iii) **Procedural Compliances:** Procedural Compliance includes registration, filing of returns, payments of taxes, assessment etc. Since a Company Secretary is already playing the role of a Compliance Officer under various other laws, he can assist in the same under GST law also.
- (iv) **Book / Record Keeping:** Like any other tax laws, introduction of GST would also require proper record keeping and maintaining systematic records of credit of input/input service and its proper utilisation etc.
- (v) **Representation:** A Company Secretary can provide the service of representation with confidence because of practical exposure due to appearing before various competent authorities.
- (vi) **Appellate work:** Because of their legal bent of mind, a Company Secretary can provide better services in the field of appellate work.

• **Company Secretary in Certification Services**

Rule 8 (12) of the Companies (Registration office and fees) Rules, 2014 provides that the following e-forms filed by companies, other than one person companies and small companies, under sub-rule (1) of rule 9, shall be pre-certified by the Chartered Accountant or the Company Secretary or as the case may be the Cost Accountant, in whole-time practice, namely:- INC-21, INC-22, INC-28, PAS-3, SH-7, CHG-1, CHG-4, CHG-9, MGT-14, DIR-6, DIR-12, MR-1, MR-2, MSC-1, MSC-3, MSC-4, GNL-3, ADT-1, NDH-1, NDH-2, NDH-3;

The following e-forms filed by companies, other than one person companies and small companies, under sub-rule (1) of rule 9, shall be pre-certified in the following manner, namely:—

- (i) GNL-1 - optional pre-certification by the Chartered Accountant or the Company Secretary or as the case may be the Cost Accountant, in whole-time practice;
- (ii) DPT-3 – certification by Auditors of the company;
- (iii) AOC-4 certification by the Chartered Accountant or the Company Secretary or as the case may be by the Cost Accountant, in whole-time practice.

MGT-7 CS in practice or in whole time manegment

E-form DIR-3 shall be filed along with attestation of photograph, identity proof and proof of residence of the applicant by the Chartered Accountant or the Company Secretary or as the case may be the Cost Accountant, in whole-time practice.

E from DIR-3 KYC: Every Director who has been allotted DIN on or before the end of the financial year, and whose DIN status is 'Approved', would be mandatorily required to file form DIR-3 KYC before 30th September of the immediately next financial year which also require certification.

If the DIN holder does not file his annual KYC within the due date of each financial year, such DIN shall be marked as 'Deactivated due to non-filing of DIR-3 KYC' and shall remain in such Deactivated status until KYC is done with a fee of Rs.5000.

Further, the company secretaries also provide the following certification services under various other regulations:

- Certification to the effect that all transfers have been completed within the stipulated time.
- Half-yearly certificate regarding maintenance of 100% security cover in respect of listed non-convertible debt securities.
- Certificate regarding compliance of conditions of corporate governance.
- Certification in case of offer/allotment of securities to more than 49 and up to 200 investors.
- Certificate that none of the directors on the board of the company have been debarred or disqualified from being appointed or continuing as directors of companies by the Securities Exchange Board of India/ Ministry of Corporate Affairs or any such statutory authority under Regulation 34(3) read with Schedule V Para-C Sub clause 10 (i) of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015..

• **Company Secretary in Representation services**

- Company Secretaries have been authorized to represent before:
 - Registrar of Companies and Regional Directors
 - National Company Law Tribunal and National Company Law Appellate Tribunal
 - Competition Commission of India
 - Securities and Exchange Board of India
 - Securities Appellate Tribunal
 - Telecom Disputes Settlement and Appellate Tribunal
 - Authorities under Real Estate (Regulation & Development) Act, 2016
 - Consumer Forums

- Telecom Disputes Settlement and Appellate Tribunal
- Tax Authorities, and Other Quasi-judicial bodies and Tribunals.

- **Company Secretary as IPR Expert**

The Company Secretaries can act as registered Trade Marks Agent and also advise their client on matters related to:

- IPRs under TRIPs Agreement of WTO
- Anti-dumping, subsidies and countervailing duties
- Foreign Trade Policy and Procedures (also can issue certificates thereunder)
- Intellectual Property licensing and drafting of Agreements

- **Company Secretary as Expert beyond Company Law**

Corporate Laws Advisory Services extend beyond the boundaries of Companies Act, 2013, which inter-alia includes the following laws and activities:

- SEBI Act, 1992
- Securities Contracts (Regulation) Act and Rules and Regulations made thereunder
- Depositories Act
- Foreign Exchange Management Act
- Environmental and Pollution Control Laws
- Labour and Industrial Laws
- Co-operative Societies Act
- Competition Policy and Laws pertaining to Anti Competitive Practices
- Intellectual Property Rights – Protection, Management, Valuation and Audit
- Drafting of Legal Documents

- **Company Secretary as Other Services Provider**

Appointments on the basis of expert knowledge:

- Scrutinizer for e-voting process in a fair and transparent manner
- Company Liquidator/ Provisional Liquidator
- Technical Member of National Company Law Tribunal
- Part of Expert Panels of various Government, Judicial and Quasi-Judicial Bodies

Under other laws:

Issue of shares and other securities:

- Advisor/consultant in issue of shares and other securities
- Drafting of prospectus/offer for sale/letter of offer/ other documents related to issue of securities and obtaining various approvals
- Listing/delisting of securities with recognized stock exchange
- Private placement of shares and other securities
- Buy-back of shares
- Raising of funds from international markets ADR/ GDR/FCCBs/FCEBs/ ECB
- Due diligence.

Banking Services:

- Diligence Report and Certification in respect of Consortium/Multiple banking arrangement made by Scheduled Commercial Banks/Urban Co-operative Banks
- Loan Syndication and Documentation, registration of charges, status and search reports.

Corporate Restructuring and Compliances:

- Foreign Collaborations and Joint Ventures
- Setting-up Joint Ventures/Wholly owned subsidiaries abroad
- Ensuring compliance of the Takeover Regulations and other applicable laws
- Acting as Compliance Officer and ensuring compliance with Prohibition of Insider Trading Regulations.

Finance, Accounting and Taxation Services:

- Determination of appropriate capital structure
- Analysis of capital investment proposals
- Budgetary controls
- Preparation of Project Reports and Feasibility Studies.
- Advisory services on tax management and tax planning under Income-Tax, GST and other taxation laws
- Preparing/reviewing various Returns and Reports required for compliance with the tax laws and regulations.

Arbitration and Conciliation Services:

- Advising in commercial disputes between parties
- Acting as Arbitrator/Conciliator in domestic and international commercial disputes
- Drafting Arbitration/Conciliation Agreement/Clauses.

OVERVIEW OF VARIOUS INDUSTRY

As part of a strategy to boost the services sector, the central government has identified 12 Champion Services Sectors for promoting their development and realising their potential. These include Information Technology & Information Technology enabled Services (IT & ITeS), Tourism and Hospitality Services, Medical Value Travel, Transport and Logistics Services, Accounting and Finance Services, Audio Visual Services, Legal Services, Communication Services, Construction and Related Engineering Services, Environmental Services, Financial Services and Education Services.

However, the India Brand Equity Foundation (IBEF), a Trust established by the Department of Commerce, Ministry of Commerce and Industry, Government of India having objective to promote and create international awareness of the Made in India label in markets overseas and to facilitate dissemination of knowledge of Indian products and services. the Industries on which the IBEF focus include the Agriculture And Allied Industries, Auto Components, Automobiles, Aviation, Banking, Cement, Consumer Durables, Ecommerce, Education And Training, Engineering And Capital Goods, Financial Services, FMCG, Gems And Jewellery, Health care Infrastructure, Insurance, IT & ITeS, Manufacturing, Media And Entertainment, Metals And Mining, Oil And Gas, Pharmaceuticals, Ports, Power, Railways, Real Estate, Renewable Energy, Retail, Roads, Science And Technology, Services, Steel, Telecommunications, Textiles, Tourism And Hospitality. The Overview of the some of the Industries have been detailed under, however the student should also refer the various other sources to get the updated overviews of such industry updates.

(1) Banking Industry

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalized and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world.

The Indian banking system consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks, 1485 urban cooperative banks and 96,000 rural cooperative banks in addition to cooperative credit institutions. As of November 2020, the total number of ATMs in India increased to 209,282.

During the period of FY16-FY20, bank credit grew at a (Compound Annual Growth Rate) CAGR of 3.57%. As of FY20, total credit extended surged to US\$ 1,698.97 billion. During FY16-FY20, deposits grew at a CAGR of 13.93% and reached US\$ 1.93 trillion by FY20. As per RBI, bank credit stood at Rs. 108.41 trillion (US\$ 1.45 trillion) and bank deposits stood at Rs. 152.98 trillion (US\$ 2.05 trillion), as of June 25, 2021.

As of June 23, 2021, the number of bank accounts—opened under the government's flagship financial inclusion drive 'Pradhan Mantri Jan Dhan Yojana (PMJDY)'—reached 42.55 crore and deposits in Jan Dhan bank accounts totalled >Rs. 1.44 lakh crore (US\$ 19.31 billion). Further, the Government of India planned to inject Rs. 42,000 crore (US\$ 5.99 billion) in public sector banks.

The number of transactions through immediate payment service (IMPS) reached 303.76 million (by volume) and amounted to Rs. 2.84 trillion (US\$ 38.07 billion) in June 2021.

As per Union Budget 2019-20, the Government proposed fully automated GST refund module and an electronic invoice system that will eliminate the need for a separate e-way bill.

The advancement in technology has brought mobile and internet banking services to the fore. The banking sector is laying greater emphasis on providing improved services to their clients and upgrading their technology infrastructure to enhance customer's overall experience as well as give banks a competitive edge.

Reference: <https://www.ibef.org/industry/banking-india.aspx>

In India, there are various types of banks and they were set up under different Acts passed by the Central and State Governments, the various types constitution under the Banking industries includes:

- Listed Private Sector Banks incorporated as Companies
- Listed Public Sector Banks constituted under Banking Companies (Acquisition and Transfer of Undertaking) Act, 1970 and 1980.
- Unlisted Public Sector Banks
- Cooperative banks

The Banking Companies are regulated by the following Laws:

- The Companies Act, 2013
- The Banking Companies (Acquisition and Transfer of Undertaking Act, 1970 and 1980 and Regulations made thereunder
- The Insolvency and Bankruptcy Code, 2016
- The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
- The Recovery of Debts Due to Banks and Financial Institutions Act, 1993
- Banking Regulation Act, 1949
- RBI ACT, 1934
- State wise Registrars of Cooperative Societies and laws made there under
- Circulars issued by RBI
- The Consumer Protection Act, 2019.
- Payment and Settlement Systems Act, 2007
- The Bankers' Books Evidence Act, 1891
- Credit Information Companies (Regulation) Act, 2005
- Prevention of Money Laundering Act, 2002
- The Deposit Insurance and Credit Guarantee Corporation Act, 1961

- Industrial Disputes (Banking and Insurance Companies) Act, 1949
- Information Technology Act, 2000

The banking Concerned Tribunals are

- RBI
- Debt Recovery Tribunal
- NCLT and NCLAT
- Banking Ombudsman
- The Banking Codes and Standards Board of India

India's financial sector comprises commercial banks, insurance companies, non-banking financial companies, co-operatives, pension funds, mutual funds and other smaller financial entities.

The Government and the Reserve Bank of India (RBI) have taken various measures to facilitate easy access to finance for Micro, Small and Medium Enterprises (MSMEs). These measures include launching Credit Guarantee Fund Scheme for MSMEs, issuing guideline to banks regarding collateral requirements and setting up a Micro Units Development and Refinance Agency (MUDRA). With a combined push by Government and private sector.

As of June 2021, Asset under Management (AUM) managed by the mutual funds industry stood at Rs. 33.67 trillion (US\$ 449.29 billion). In June 2021, the total number of accounts stood at 102.6 million. In May 2021, the mutual fund industry crossed over 10 crore folios.

Another crucial component of India's financial industry is the insurance industry. Insurance industry has been expanding at a fast pace. The total first year premium of life insurance companies reached Rs. 2.59 lakh crore (US\$ 36.73 billion) in FY20. The government has approved 100% FDI for insurance intermediaries and increased FDI limit in the insurance sector to 74% from 49% under the Union Budget 2021-22.

Furthermore, India's leading bourse, Bombay Stock Exchange (BSE), will set up a joint venture with Ebix Inc to build a robust insurance distribution network in the country through a new distribution exchange platform. In FY21, US\$ 4.25 billion was raised across 55 initial public offerings (IPOs). In FY21, the number of listed companies on the NSE and BSE were 1,920 and 5,542, respectively.

India is expected to be the fourth largest private wealth market globally by 2028. The relaxation of foreign investment rules has received a positive response from the insurance sector, with many companies announcing plans to increase their stakes in joint ventures with Indian companies. Over the coming times, there could be a series of joint venture deals between global insurance giants and local business houses.

Reference: <https://www.ibef.org/industry/financial-services-india.aspx>

International Banking: Foreign Exchange Management Act 1999

To conserve foreign exchange and to it to facilitate external trade and payments and also to misuse develop foreign exchange markets in India violation of FERA was a criminal offence violation of FEMA is a civil offence. Some of the Offences under FERA which were not compoundable are compoundable offences under FEMA. While many restrictions were part of FERA in respect almost all current account transactions are free except of transfer of funds a few FERA was draconian criminal law FEMA is a civil law, FERA was replaced by FEMA.

(2) Tourism and Hospitality

India fares much better as a business destination due to economic growth. The Indian tourism and hospitality industry have emerged as one of the key drivers of growth among the services sector in India. Tourism in India has significant potential considering the rich cultural and historical heritage, variety in ecology, terrains and places of natural beauty spread across the country.

Tourism is also a potentially large employment generator besides being a significant source of foreign exchange for the country.

In FY20, tourism sector in India accounted for 39 million jobs, which was 8.0% of the total employment in the country. By 2029, it is expected to account for about 53 million jobs and Indian tourism sector is likely to grow at 6.7% per annum and achieve 9.2% of GDP with USD 488 bn.

100% FDI is allowed under the automatic route in the Tourism and hospitality industry in India, subject to applicable regulations and laws.

A National Tourism Policy was formulated in 2002. However, considering the widespread interrelated global advancements, a new draft National Tourism Policy has been formulated, which is yet to be approved with salient features.

Reference: <https://www.ibef.org/industry/tourism-hospitality-india.aspx>

<https://www.makeinindia.com/sector/tourism-and-hospitality>

Specific Laws Applicable to Travel & Tourism Industry:

The laws applicable to the tourism industry can broadly be classified in to the following categories:

1. **Legal and Regulatory Framework in Travel and Tourism:** Relating to consumer protection; health; safety and security of travel and tourism customers. Legal Liability and Risk Management: Legal liability concepts; owner and director liability; guide and leader liability; risk assessment and controlling; risk mitigation; risk financing and insurance.
2. **Transport Legislation:** Surface; sea and air transport laws in relation to carriage of passengers.
3. **Contract legislation in relation to Travel and Tourism customers:** Contract Act & Partnership Act; Sale of Goods Act, Consumer Protection Act & Companies Act:
4. **Business Ethics in Travel and Tourism Sector:** CSR policy for travel and tourism businesses; corporate responsibility to shareholders versus stakeholders; personal versus social responsibility; stakeholder theory; determinants of social Responsibility of individuals and social groups; role of governance system. Emergence of corporate governance code; development of corporate governance code; development of Indian corporate governance.
5. **Forex Management:** Regulation and Management of foreign exchange: FEMA - realization and repatriation of foreign exchange; Foreign Exchange Rules in India.
6. **Medical Tourism:** Certification and Accreditation in Health and Medical Tourism, Ethical, Legal, Economic and Environmental issues in Health and Medical Tourism. Role of the National Accreditation Board for Hospitals & Healthcare (NABH) and Joint Commission International (JCI).
7. **Event Laws & Permissions:** Permissions required for holding an event, general details, police permissions, traffic police, ambulance, fire brigade, municipal corporation, Indian Performing Rights Society(IPRS), Phonographic Performing License, Entertainment Tax, Permissions for open ground events, license for serving liquor.
8. **Laws relating to Management of Tourism in Tribal Areas**
9. **Laws relating to Setting up Travel Agency & Tour Operation Unit**

(3) Telecommunication

Currently, India is the world's second-largest telecommunications market with a subscriber base of 1.16 billion and has registered strong growth in the last decade.

The Indian mobile economy is growing rapidly and will contribute substantially to India's Gross Domestic Product (GDP) according to a report prepared by GSM Association (GSMA) in collaboration with Boston Consulting Group (BCG).

The Government has enabled easy market access to telecom equipment and a fair and proactive regulatory framework that has ensured availability of telecom services to consumer at affordable prices. The deregulation of Foreign Direct Investment (FDI) norms have made the sector one of the fastest growing and the top five employment opportunity generator in the country.

India is also the world's second-largest telecommunications market. The total subscriber base in the country stood at 1,203.47 million in April 2021. Gross revenue of the telecom sector stood at Rs. 68,228 crore (US\$ 9.35 billion) in the third quarter of FY21.

Reference: <https://www.ibef.org/industry/telecommunications.aspx>

Specific Laws applicable to Telecommunication Industry

- Indian Telegraph Act
- Information technology Act 2000
- India Wireless Act 1933
- Telecom Regulatory Authority of India (TRAI) Act, 1997

Reference: <https://dot.gov.in/act-rules>

(4) Cement

India is the second largest producer of cement in the world. It accounts for more than 7% of the global installed capacity.

India's overall cement production accounted for 294.4 million tonnes (MT) in FY21 and 329 million tonnes (MT) in FY20.

On an average in FY21, net profits of 10 key listed cement firms increased by 29.6%, driven by the government's push on infrastructure and housing construction activities.

Due to the increasing demand in various sectors such as housing, commercial construction and industrial construction, cement industry is expected to reach 550-600 million tonnes per annum (MTPA) by the year 2025.

Cement Manufacturers Association (CMA) is the main association of major cement plants in India. As per CMA The total Installed capacity in the Indian cement sector is approximately 545 million tonnes per annum, it accounts for nearly 7 per cent of the global installed capacity.

The Perform Achieve and Trade (PAT) scheme of Ministry of Power, Government of India has so far covered 126 numbers of cement plants in India targeting in reduce specific energy consumption.

Reference: <https://www.ibef.org/industry/cement-india.aspx>

<https://www.crisil.com/en/home/our-analysis/reports/2017/09/sector-report-cement.html>

<https://www.cmaindia.org/about-us/introduction/>

https://www.business-standard.com/article/economy-policy/prospects-for-cement-industry-in-fy22-look-bright-says-kumar-birla-121072700612_1.html

Specific Laws applicable to the cement sector includes:

- Cement Control Order, 1967
- Cement Cess Rule, 1993
- Cement (Quality Control) Order 1995
- Cement (Quality Control) Order 2003
- Bureau of Indian Standards Rules, 1987
- Limestone and Dolomite Mines Labour Welfare Fund Act, 1972
- Mines and Minerals (Development and Regulation) Act, 1957
- Mineral Conservation and Development Rules, 1988
- Metalliferous Mine Regulations, 2012.

(5) Gems and Jewellery Industry

India is deemed to be the hub of the global jewelry market because of its low costs and availability of high skilled labour. As of February 2021, India's gold and diamond trade contributed ~7.5% to India's Gross Domestic Product (GDP) and 14% to India's total merchandise exports. The gem and jewelry sector is likely to employ ~8.23 million persons by 2022, from ~5 million in 2020.

Based on its potential for growth and value addition, the Government declared gems and jewelry sector as a focus area for export promotion. The Government has undertaken various measures recently to promote investment and upgrade technology and skills to promote 'Brand India' in the international market.

The Government has permitted 100% FDI in the sector under the automatic route, wherein the foreign investor or the Indian company do not require any prior approval from the Reserve Bank or Government of India.

In FY21, exports of gems & jewellery stood at US\$ 25.30 billion. In March 2021, exports of gems & jewellery stood at US\$ 3.42 billion.

In FY21, imports of gems & jewellery stood at US\$ 16.49 billion. Imports of gold jewellery recorded US\$ 262.25 million from April 2020 to February 2021.

In the coming years, growth in gems and jewellery sector would largely be contributed by the development of large retailers/brands. Established brands are guiding the organised market and are opening opportunities to grow.

Reference: <https://www.ibef.org/industry/gems-jewellery-india.aspx>

(6) Automobile

The Automobile industry in India is a significant driver of macroeconomic growth and technological development. India was the world's fifth largest manufacturer of cars and seventh largest manufacturer of commercial vehicles in 2019.

Indian automotive industry (including component manufacturing) is expected to reach Rs. 16.16-18.18 trillion (US\$ 251.4-282.8 billion) by 2026.

The Government of India encourages foreign investment in the automobile sector and has allowed 100% foreign direct investment (FDI) under the automatic route.

The Indian automotive industry is expected to reach US\$ 300 billion by 2026.

Automobile export reached 4.77 million vehicles in FY20, growing at a CAGR of 6.94% during FY16-FY20. Two wheelers made up 73.9% of the vehicles exported, followed by passenger vehicles at 14.2%, three wheelers at 10.5% and commercial vehicles at 1.3%.

The electric vehicle (EV) market is estimated to be a Rs. 50,000 crore (US\$ 7.09 billion) opportunity in India by 2025. Several technology and automotive companies have expressed interest and/or made investments into the India EV space.

Reference: <https://www.ibef.org/industry/india-automobiles.aspx>

<https://www.makeinindia.com/sector/automobiles>

Specific Laws applicable to the automobile sector includes:

- The Motor Vehicles Act, 1988
- The Central Motor Vehicle Rules, 1989
- Respective State Automobile Laws
- The Motor Vehicle (Driving) Regulation, 2017.

(7) Automobile Components

The Automotive industry in India is leading in many segments- primarily in Passenger Cars, Utility Vehicles, Vans and two Wheelers. The auto components industry accounted for 2.3 per cent of India's Gross Domestic Product (GDP) and 25 per cent to its manufacturing GDP, providing employment to 50 lakh people in 2018-19. The Automobile component in India contributes 2.3% to India's GDP. The contribution of the Automobile component industry in India's GDP will account for as much as 5% to 7% by 2026. The Automobile component in India contributes 2.3% to India's GDP.

The Indian auto component industry aims to achieve US\$ 200 billion in revenue by 2026. Turnover of automotive component industry stood at Rs 1.79 lakh crore (US\$ 25.61 billion) in FY20 (till September 2019) and export of auto components grew 2.7 per cent to Rs 51,397 crore (US\$ 7.35 billion) during same time.

India was the world's fourth largest manufacturer of cars and seventh largest manufacturer of commercial vehicles in 2019. 100% Foreign Direct Investment (FDI) is allowed under the automatic route in the Automobile component industry in India, subject to all the applicable regulations and laws.

The Union Cabinet approved PLI scheme (Production-Linked Incentive Scheme) in November 2020, in automobile and auto components with an approved financial outlay over a five-year period of Rs. 57,042 crore.

Reference: <https://www.ibef.org/industry/auto-components-presentation-august-2020>

<https://www.makeinindia.com/sector/automobile-components>

Specific Laws applicable to the automobile Component sector includes:

- The Motor Vehicles Rules, 1989
- Safety standards by Automotive Industry Standard Committee & Bureau of Indian Standards etc.

(8) Aviation

The civil aviation industry in India has emerged as one of the fastest growing industries in the country during the last three years.

To cater to the rising air traffic, the Government of India has been working towards increasing the number of airports. As of 2020, India had 153 operational airports. India has envisaged increasing the number of operational airports to 190-200 by FY40.

The government has allowed 100% FDI under the automatic route in scheduled air transport service, regional air transport service and domestic scheduled passenger airline. However, FDI over 49% would require government approval.

India's aviation industry is expected to witness Rs. 35,000 crore (US\$ 4.99 billion) investment in the next four years. The Indian Government is planning to invest US\$ 1.83 billion for development of airport infrastructure along with aviation navigation services by 2026. With the right policies and relentless focus on quality, cost and passenger interest, India would be well placed to achieve its vision of becoming the third-largest aviation market by 2020.

Reference: <https://www.ibef.org/industry/indian-aviation.aspx>

<https://www.acma.in/about-us.php>

<https://www.makeinindia.com/sector/aviation>

Specific Laws applicable to the Aviation sector includes

- Aircraft Act, 1934
- Aircraft Rules, 1937
- Aircraft Public (Health Rules) 1954
- Drones Rles 2021
- Unlawful Seizure Against Safety of Civil Aviation ,1982
- Anti-hijacking Act, 1982
- Anti-hijacking (Amendment) Act, 1994

- Air corporations (transfer of undertakings and Repeal) Act, 1994
- The Suppression of unlawful acts against safety of civil aviation Act, 1982
- The Suppression of unlawful acts against safety of civil aviation Rules, 1994
- Aircraft security Rules, 2011
- Tokyo convention Act, 1975
- The Aircraft (Carriage of Dangerous Goods) Rules, 2003
- The Air Corporations Act, 1953
- The Airports Authority of India Act, 1994
- The Airports Authority of India (Amendment) Act, 2003
- The Carriage by Air Act (Amended), 2009

(9) Biotechnology

The Biotechnology industry in India is divided into the following segments – Biopharmaceuticals, Bio-services, Bio-agriculture, Bio-Industrials and Bio-IT

India is among the top 12 destinations for biotechnology worldwide. The industry comprises more than 2,700 biotech start-ups and more than 2,500 biotech companies in the country. India has 665 FDA-approved plants the US; 44% of the global abbreviated new drug applications (ANDA) and more than 1400 manufacturing plants, which are compliant with WHO.

The country is also the world's third-largest producer of recombinant Hepatitis B vaccine and second-largest producer of BT cotton (genetically modified pest resistant plant cotton).

The Indian biotechnology industry amounted to US\$ 63 billion in 2019 and is forecast to reach US\$ 150 billion by 2025, with a CAGR of 16.4%.

India allows 100% FDI under the automatic route (a non-resident or Indian company will not require any approval from the government) for greenfield pharmaceuticals and manufacturing medical devices.

74% FDI is permitted under the automatic route for Brownfield projects. Beyond 74% FDI, in Brownfield projects, is permitted under the Government route, 100% FDI under the automatic route is allowed for the manufacturing of medical devices, 100% FDI is allowed through the automatic route for investment in industrial parks – both new and existing.

India is working to boost the biotechnology sector under the flagship programmes such as 'Make in India' and 'Start-up India'. A Make in India Facilitation Cell (Biotechnology) has been established at Biotechnology Industry Research Assistance Council (BIRAC) to provide support to investors and enable the dissemination of government policies. Cell guides the investors, startups and entrepreneurs onto the gamut of business-related issues in biotechnology such as regulatory landscape in the country, entry options and procedures, investment opportunities and routes, FDI/ EXIM/ Industrial policies.

Reference: <https://www.ibef.org/industry/biotechnology-india.aspx>

Specific Laws applicable to the Biotechnology sector includes:

- Rules for the manufacture, Use/Import/Export and storage of hazardous micro organisms/ Genetically engineered organisms or cell, 1989
- Revised recombinant DNA safety guidelines
- Guidelines for research in transgenic plants and guidelines for toxicity and allergenicity evaluation of transgenic seeds, plants and plant parts, 1998
- The plants, Fruits and Seeds (Regulation of import in India) Order 1989 issued under the destructive Insects and Pests Act, 1914
- Guidelines for generating Preclinical and Clinical data for DNA Therapeutics, 1999
- National Seed policy 2002

- Seeds Act, 1966
- EXIM Policy Pertaining to Biotechnology
- Environment Protection Act, 1986 pertaining to Biotechnology
- Foreign Exchange Management Act, 1999 pertaining to Biotechnology
- Protection of Plant Varieties and Farmers' Rights Act, 2001.

10. Chemicals

India's Chemical Industry ranks at the 6th position in the world and 4th position in Asia in terms of size, Covering more than 80,000 commercial products, India's chemical industry is extremely diversified and can be broadly classified into bulk chemicals, specialty chemicals, agrochemicals, petrochemicals, polymers and fertilisers.

The Indian chemicals industry stood at US\$ 178 billion in 2019 and is expected to reach US\$ 304 billion by 2025 registering a CAGR of 9.3%. The demand for chemicals is expected to expand by 9% per annum by 2025. The chemical industry is expected to contribute US\$ 300 billion to India's GDP by 2025.

The domestic chemicals sector's small and medium enterprises are expected to showcase 18-23% revenue growth in FY22, owing to an improvement in domestic demand and higher realisation due to high prices of chemicals.

Fiscal incentives given by government, such as tax breaks and special incentives through PCPIRs or SEZs to encourage downstream units will enhance production and development of the industry. The dedicated integrated manufacturing hubs under Petroleum, Chemicals and Petrochemicals Investment Regions (PCPIR) policy to attract an investment of Rs. 20 lakh crore (US\$ 276.46 billion) by 2035.

Reference: <https://www.ibef.org/industry/chemical-industry-india.aspx>

<https://www.makeinindia.com/sector/chemicals>

Specific Laws applicable to the Chemicals sector includes:

- The Manufacture, Storage, Import of Hazardous Chemicals Rules, 1989
- (Ozone Depleting substance CR&C) Rules 2000.

11. Construction

The Construction industry in India consists of the Real estate as well as the Urban development segment. The Real estate segment covers residential, office, retail, hotels and leisure parks, among others. While Urban development segment broadly consists of sub-segments such as Water supply, Sanitation, Urban transport, Schools, and Healthcare.

100% FDI through the automatic route is permitted in the following construction (development) projects: Development of townships, Construction of residential/commercial premises, Construction of roads or bridges, hotels, resorts, hospitals 7 educational institutions etc. FDI Limit for real estate projects within Special Economic Zones (SEZs) raised to 100%.

This Industry in India is expected to reach \$1 Tn by 2030 and contributes to 13% of GDP

The objective of the Smart Cities Mission is to promote cities that provide core infrastructure and give a decent quality of life to their citizens, a clean and sustainable environment and the application of 'Smart' solution. Under the Smart Cities Mission till June 2021, 2,734 projects have been completed of the total 5,956 projects

Reference: <https://www.investindia.gov.in/sector/construction>

<https://www.makeinindia.com/sector/construction>

Specific Laws applicable to the Construction sector includes:

- The Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996
- The Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Central Rules, 1998

- The Building and Other Construction Workers' Welfare Cess Act, 1996
- Building and Other Construction Workers Welfare Cess Rules, 1998
- State Construction Laws

12. Defence Manufacturing

India has the second-largest standing army in the world, India is among the top five countries with the highest military spending in 2019. The Indian defence manufacturing industry is a significant sector for the economy. The industry is likely to accelerate with rising concerns of national security. Demand for defence equipment in India has been growing due to the ongoing territorial disputes.

As per the Union Budget for the financial year 2020-21, the total allocation for Defense is around USD 62.85 Bn. Around 1/4th of this amount is allocated for capital expenditure.

To modernise its armed forces and reduce dependency over external dependence for defence procurement, several initiatives have been taken by the government to encourage 'Make in India' activities via policy support initiatives. Government formulated the 'Defence Production and Export Promotion Policy 2020' to provide impetus to self-reliance in defence manufacturing under the 'Aatmanirbhar Bharat' scheme

India's defence manufacturing sector has been witnessing a CAGR of 3.9% between 2016 and 2020. The Indian government has set the defence production target at US\$ 25.00 billion by 2025 (including US\$ 5 billion from exports by 2025).

To increase defence manufacturing in India and make the country a reliable weapon supplier to friendly countries, the Indian government allowed the following FDI limits in September 2020. For new licensees - FDI allowed up to 74% through automatic route; FDI beyond 74% would need to be permitted under the Govt. route. For existing Licensees - Infusion of new foreign investments up to 49% can be added by making declarations of change/transfer within 30 days..

The Indian government is focussing on innovative solutions to empower the country's defence and security via 'Innovations for Defence Excellence (iDEX)', which has provided a platform for start-ups to connect to the defence establishments and develop new technologies/products in the next five years (2021-2026).

The Defence Ministry has set a target of 70% self-reliance in weaponry by 2027, creating huge prospects for industry players. Introduced Green Channel Status Policy (GCS) to promote and encourage private sector investments in defence production to promote the role of private sector in defence production.

Reference: <https://www.ibef.org/industry/defence-manufacturing.aspx>

<https://www.makeinindia.com/sector/defence-manufacturing>

13. Electrical Machinery

The electrical machinery sector consists of generation, transmission and distribution machinery

The sector contributes about 8% to the manufacturing sector in terms of value, and 1.5% to overall GDP. The sector is projected to provide employment, both directly and indirectly, to 3.5 Mn people by 2022

100% FDI is allowed under the automatic route in the electrical machinery sector, subject to all applicable regulations and laws.

It plans to set up the Electrical Equipment Skill Development Council (EESDC) which would focus on identifying critical manufacturing skills required for the electrical machinery industry.

The total market size of electrical machinery in India is anticipated to reach US\$ 100 billion by 2022 from US\$ 24 billion in 2013.

Reference: <https://www.ibef.org/industry/indian-electrical-machinery-industry-analysis-presentation>

<https://www.makeinindia.com/sector/electrical-machinery>

14. Electronic Systems

Electronics System Design & Manufacturing (ESDM) Industry

The Electronics System Design & Manufacturing (ESDM) industry includes electronic hardware products and components relating to information technology (IT), office automation, telecom, consumer electronics, aviation, aerospace, defence, solar photovoltaic, nano electronics and medical electronics. The industry also includes design-related activities such as product designing, chip designing, Very Large-Scale Integration (VLSI), board designing and embedded systems.

The Electronics System Design & Manufacturing (ESDM) sector plays a vital role in the government's goal of generating US\$ 1 trillion of economic value from the digital economy by 2025.

India witnessed a substantial spike in demand for electronic products in the last few years; this is mainly attributed to India's position as second-largest mobile phone manufacturer worldwide and surge in internet penetration rate. The Government of India attributes high priority to electronics hardware manufacturing, as it is one of the crucial pillars of Make in India, Digital India and Start-up India programmes.

Electronics market has witnessed a growth in demand with market size increasing from US\$ 145 billion in FY16 to US\$ 215 billion in FY19—the market witnessed a growth of 14% CAGR from 2016-19

100% Foreign Direct Investment (FDI) is allowed under the Automatic Route in the ESDM industry. For defence electronics, up to 100% FDI is allowed, subject to industrial license. Under the Automatic Route, up to 49% FDI is allowed. Above 49% is allowed under the Government Route on a case to case basis, wherever it is expected to result in access to modern and 'state-of-the-art' technology in the country.¹⁰

ESDM sector in India is predicted to reach US\$ 220 billion by 2025, expanding at 16.1% CAGR between 2019 and 2025.

Reference: <https://www.ibef.org/industry/indian-electrical-machinery-industry-analysis-presentation>
<https://www.makeinindia.com/sector/electronic-systems#>

15. Food Processing

The government through the Ministry of Food Processing Industries (MoFPI) is making all efforts to encourage investments in the business. It has approved proposals for joint ventures (JV), foreign collaborations, industrial licenses, and 100 per cent export oriented units.

The Indian food and grocery market is the world's sixth largest, with retail contributing 70 per cent of the sales. The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth.

100% FDI is permitted under the automatic route in the Food and Processing industry in India. 100% FDI is allowed through the government approval route for trading, including through e-commerce in respect of food products manufactured or produced in India.

Ministry of Food Processing Industries (MoFPI) provides a host of financial assistance to food processing companies in India, under the umbrella scheme of Pradhan Mantri Kisan Sampada Yojna (PMKSY). 22 Mega Food Park projects have been made operational and 19 projects are under various stages of implementation.

Going forward adoption of food safety and quality assurance mechanisms such as Total Quality Management (TQM) including ISO 9000, ISO 22000, Hazard Analysis and Critical Control Points (HACCP), Good Manufacturing Practices (GMP) and Good Hygienic Practices (GHP) by the food processing industry offers several benefits. It would enable adherence to stringent quality and hygiene norms and thereby protect consumer health, prepare the industry to face global competition, enhance product acceptance by overseas buyers and keep the industry technologically abreast of international best practices.

Reference: <https://www.ibef.org/industry/indian-food-industry.aspx>
<https://www.makeinindia.com/sector/food-processing>

Specific Laws applicable to the food processing sector includes:

- The Essential Commodities Act, 1955 (In Relation To Food)
- The Export Quality Control and Inspection Act, 1963

- The National Food Security Act, 2013
- The Food Safety & Standard Act, 2006
- The Food Safety and Standards Rules, 2011
- The Food Safety and Standards (Packaging and Labelling) Regulations, 2011
- The Food Safety and Standards (Licensing and Registration of Food Businesses) Regulations, 2011
- The Food Safety and Standards (Prohibition and Restrictions on Sales) Regulations 2011
- The Food Safety and Standards (Food Products Standards and Food Additives) Regulations, 2011
- The Food Safety and Standards (Contaminants, Toxins and Residues) Regulations, 2011
- The Meat Food Products Order, 1973
- The Meat and Meat Product Order, 1992 (MMPO)
- The Indian Fisheries Act 1897 and Amendments
- The Fruit Products Order, 1955
- The Fruit Products (1st Amendment) Order, 2006
- The Vegetables Product Order, 1967 (VPO)
- The Vegetable Oil Products (Control) Order, 1947
- The Edible Oils Packaging (Regulation) Order, 1998
- The Solvent Extracted Oil, De Oiled Meal and Edible Flour (Control) Order, 1967
- The Milk And Milk Products Order, 1992
- Respective State Food Laws

16. IT & BPM

The global sourcing market in India continues to grow at a higher pace compared to the IT-BPM industry. The IT-BPM industry in India constitutes 8% of India's GDP. The industry is the largest employer within the private sector, employing 3.9 mn people.

India's IT-BPM industry amounts to 55% of the global outsourcing market size

The domestic revenue of the IT industry is estimated at US\$ 45 billion and export revenue is estimated at US\$ 150 billion in FY21. Indian software product industry is expected to reach US\$ 100 billion by 2025.

The computer software and hardware sector in India attracted cumulative foreign direct investment (FDI) inflows worth US\$ 71.05 billion between April 2000 and March 2021. The sector ranked 2nd in FDI inflows as per the data released by Department for Promotion of Industry and Internal Trade (DPIIT). The government of India has allowed up to 100% Foreign Direct Investment (FDI) under the automatic route in the IT & BPM sector.

In 2020, the government released "Simplified Other Service Provider" (OSP) guidelines to improve the ease of doing business in the IT Industry, Business Process Outsourcing (BPO) and IT-enabled Services.

Reference: <https://www.ibef.org/industry/information-technology-india.aspx>

Specific Laws applicable to the Information Technology sector includes:

- The Patents Act, 1970 & Patent Rules, 2003
- Trade Marks Act, 1999
- Trade Marks Rules, 2001
- Information Technology Act 2000; Information Technology (Amendment) Act 2008 & Rules for the Information Technology Act 2000
- The Designs Act, 2000
- The Designs Rules, 2001

17. Leather

The Leather industry in India holds a significant place in the Indian economy.

The growth in demand for leather is driven by the fashion industry, especially footwear. Apart from this, furniture and interior design industries, as well as the automotive industry also demand leather. The leather industry has a place of prominence in the Indian economy due to substantial export earnings and growth.

The Leather industry in India is consistent in its high export earnings and is among the top 10 foreign exchange-earners for India. The Leather industry in India is an employment-focused industry, providing jobs to about 4.42 Mn people. Leather products manufacturing is allowed 100% FDI through an automatic route

Total leather and leather products export from India stood at US\$ 5.07 billion in 2019-20.

The Council for Leather Exports (CLE) is an autonomous non-profit organisation, which is entrusted with export promotion activities and the development of the leather industry in India.

Reference: <https://www.ibef.org/exports/leather-industry-india.aspx>

18. Media And Entertainment

The Indian Media and Entertainment (M&E) industry is a sunrise sector for the economy and is making significant strides

According to a FICCI-EY report, the advertising to GDP ratio is expected to reach 0.4% by 2025 from 0.38% in 2019.

According to an EY report, the Indian media and entertainment (M&E) sector stood at Rs. 1.38 trillion (~ US\$ 18 billion) in 2020 and is estimated at Rs. 1.79 trillion (~ US\$ 24 billion) in 2021.

FDI inflows in the information and broadcasting sector (including print media) stood at US\$ 9.5 billion between April 2000 and March 2021.

Government of India, in an attempt to boost reforms in the broadcasting sector has agreed to set up National Centre of Excellence for Animation, Gaming, Visual Effects and Comics industry in Mumbai.

The Indian and Canadian Government have signed an audio-visual co-production deal to enable producers from both the countries exchange and explore their culture and creativity, respectively.

As part of the expansion to include all digital platforms and digital (OTT) players under a single roof, in May 2021, the Indian Broadcasting Foundation (IBF) announced the move to be renamed as the Indian Broadcasting and Digital Foundation (IBDF).

The Indian Government has also allowed 100% under the Automatic route: FDI in teleports, DTH, cable networks, Multi-System Operators (MSOs), mobile TV, headend-in-the-sky broadcasting services, up-linking of 'Non-News and Current Affairs' TV channels/ down-linking of TV channels etc.

Reference: <https://www.ibef.org/industry/media-entertainment-india.aspx>

Specific Laws applicable to the Media and Entertainment sector includes:

- The Press And Registration of Books Act, 1867
- The Registration of Newspaper (Central) Rules, 1956
- Working Journalists and Other Newspaper Employees (Condition of Service) And Miscellaneous Provisions Act, 1955
- The Working Journalists (Conditions of Service) And Miscellaneous Provisions Rules, 1957
- The Working Journalists (Fixation of Rates of Wages) Act, 1958
- The Newspaper (Price and Page) Act, 1956
- The Delivery of Books 'And Newspapers' (Public Libraries) Act, 1954
- The Delivery of Books (Public Libraries) Rules, 1955.
- The Press Council Act, 1978

- The Sports Broadcasting Signals (Mandatory Sharing with PrasarBharti), 2007
- The Press (Objectionable Matters) Act, 1951
- The Copyright Act, 1957
- The Cine Workers and Cinema Theatre Workers (Regulation of Employment) Act, 1981
- The Cine Workers Welfare Cess Act, 1981
- The Cine Workers Welfare Fund Act 1981
- The Drugs And Magic Remedies (Objectionable Advertisements) Act, 1954
- The Drugs And Magic Remedies (Objectionable Advertisements) Rules, 1955
- The Young Persons (Harmful Publications) Act, 1956
- The Dramatic Performances Act, 1876 (Relevant Provisions)
- The Cinematograph Act, 1952
- The Cinematograph (Certification) Rules, 1983
- The Drug and Cosmetics Act, 1940
- The Drugs (Price Control) Order, 1995
- The Indecent Representation of Women (Prohibition) Act, 1986
- The Indecent Representation of Women (Prohibition) Rules, 1987
- The Prasar Bharati (Broadcasting Corporation of India) Act, 1990
- The Cable Television Network Regulation Act 1995
- The Cable Television Network Regulation Rule 1994

19. Mining

The Mining industry in India is one of the core industries of the economy. It provides basic raw materials to many important industries.

India has large reserves of Iron ore, Bauxite, Chromium, Manganese ore, Baryte, Rare earth and Mineral salts.

India is the world's second-largest coal producer and being the 5th largest country in terms of coal deposits. It is a net exporter of finished steel and has the potential to become a champion in certain grades of steel. Ministry of Steel aims towards achieving the vision of 300 MT capacity by 2030-31.

The rise in infrastructure development and automotive production is driving the growth of the metals and mining industry in India

As of FY21, the number of reporting mines in India were estimated at 1,229, of which reporting mines for metallic minerals were estimated at 545 and non-metallic minerals at 684.

Government of India allowed FDI up to 100% under the automatic route, subject to their applicable laws, for: Mining and exploration of metal and non-metal ores including diamond, gold, silver and precious ores, Coal and Lignite mining for captive consumption by power projects, iron and steel cement units, Setting up coal processing plans.

Reference: <https://www.ibef.org/industry/metals-and-mining.aspx>

<https://www.makeinindia.com/sector/mining>

The Mines & Minerals (Development & Regulation Act), which governs the mineral sector, has been amended recently, by the Government. The amendment removed discretion by instituting auction to be sole method of grant of major mineral concessions and, thereby bringing in greater transparency. It also provided the much-needed impetus to the mining sector by deemed extension of mining leases.

India has a liberalized FDI up to 100% in mining under automatic route

Transferability of captive leases, allowed by recent amendment in MMDR Act in 2016.

Specific Laws applicable to the Mining sector includes:

- The Mines Act, 1952
- The Mines Rules, 1955
- Coal Mines (Conservation and Safety) Act, 1952
- Coal Mines Regulations, 1957
- The Coal Mines Regulations, 2006
- The Mines and Mineral (Regulation and Development) Act, 1957 & Rules, 1988

20. Oil and Gas

The energy sector consists of Petroleum and Natural Gas, Coal, Renewable Energy sector and power sector in India. There is some or the other inter-linkages between themselves among all these sectors.

Oil and gas sector is among the eight core industries in India and plays a major role in influencing decision making for all the other important sections of the economy.

India is the 3rd largest consumer of oil in the world, after the United States & China.

The Government has adopted several policies to fulfil the increasing demand. It has allowed 100% Foreign Direct Investment (FDI) in many segments of the sector, including natural gas, petroleum products and refineries among others.

Several initiatives have been taken by the Government of India, including the launch of Open Acreage Licensing Policy (OALP) and Coal Bed Methane (CBM) policy.

According to IEA (India Energy Outlook 2021), primary energy demand is expected to nearly double to 1,123 million tonnes of oil equivalent, as the country's gross domestic product (GDP) is expected to increase to USD 8.6 trillion by 2040.

The government has allowed up to 100% Foreign Direct Investment (FDI) under the automatic route viz: Exploration activities of oil and natural gas fields Infrastructure related to marketing of petroleum products and natural gas, Marketing of natural gas and petroleum products, etc.

Reference: <https://www.ibef.org/industry/oil-gas-india.aspx>

<https://www.makeinindia.com/sector/oil-and-gas#:~:text=Bid%20Round%20DVI.,The%20Oil%20and%20Gas%20industry%20in,amongst%20India's%208%20core%20industries.&text=India%20has%20an%20e-estimated%20reserve,refiner%20in%20Asia%20after%20China.>

Applicable Specific Laws

Any Energy and Preser project in India is governed by various acts, rules and regulations set by Government at the national level and other regulatory agencies at the state and local level. Some of the acts applicable specifically to Oil and Gas sector are:

- The Petroleum Act, 1934 and the rules made there under:

An Act to consolidate and amend the law relating to the import, transport, storage production, refining and blending of petroleum [16th September, 1934]. Whereas it is expedient to consolidate and amend the law relating to import, transport, storage, production, refining and blending of petroleum. Therefore, this Act was passed in 1934 to address operational issues covering the entire value chain of oil production.

- The Oilfields (Regulation and Development) Act 1948.

Following the Petroleum Act, the next major legislation was the Oilfields (Regulation and Development) Act of 1948. Under this Act, the central government was granted the power to make rules for regulating the authorization of mining leases (for off shore blocks). Further, the Act also empowers the central government to determine rates of royalty payable by the holder of the mining lease for on shore as well as the offshore blocks.

- The Petroleum pipelines (Acquisition of Right of User in land) Act, 1962.

With regard to acquisition of user rights on a land where petroleum and/or mineral pipelines were to be laid, the Petroleum and Minerals Pipeline Act got passed in 1962. This Act has provisions relating to the acquisition and utilization of land for laying pipelines. The Central Government has been given the authority to acquire the land. Once the land has been acquired, the Central Government has the option of either keeping the acquired land or transferring it to either the state government or the corporation for which the land has been acquired. The Act also provides for compensation in case of any damage, loss or injury is sustained by any person interested in the land under which the pipeline is proposed to be, or is being, or has been laid. Further, the liability of paying the compensation lies with the concerned authority, i.e., the Central or State Governments or Corporation.

- The Oil Industry (Development) Act, 1974 (47 of 1974) and Rules 1975:

The Oil Industry (Development) Act was passed in 1974 under which the Oil Industry Development Board (OIDB) was created at a time when the need to promote self-reliance in the oil and gas sector was realized. The mandate of the Board is to facilitate development of the sector. The Board is responsible for collecting the oil industry development cess on the blocks that have been awarded to upstream oil companies on a nomination basis. It also extends financial assistance to companies in the sector in the form of loans.

Other Allied Acts regulating Oil and Gas Sector

- The Kerosene (Restriction on use and fixation of price) Order, 1993
- The Kerosene (Fixation of Ceiling prices) Order, 1970
- The Paraffin Wax (supply, Distribution and Price Fixation) Order, 1972
- The Light Diesel Oil (Fixation of Ceiling Price) Order, 1973
- The ESSO (Acquisition of Undertaking in India) Act, 1974 (4 of 1974)
- Furnace Oil (Fixation of Ceiling Price and Distribution) Order, 1974
- The Burmah-Shell (Acquisition of Undertaking in India) Act, 1976 (2 of 1976).
- The Caltex [Acquisition of shares of Caltex Oil Refining (India) Limited] and of the Undertakings in India Caltex (India) Limited Act, 1977 (17 of 1977).
- Domestic Gas Pvt, Limited and parcel Investment private Limited takeover of Management Act, 1979.
- Kosan Gas Acquisition Act, 1979.
- Lubricating Oils & Greases (Processing, Supply and Distribution) Regulation Order 1987.
- Liquefied Petroleum Gas (Regulation of supply and Distribution) Order, 1993.
- Motor Spirit and High Speed Diesel (Prevention of Malpractices in Supply and Distribution) Order, 1990.
- Explosives Act, 1884
- The Mines Act, 1952
- Mines and Minerals (Regulations and Development) Act, 1957
- The territorial Waters, Continental Shelf, Exclusive Economic Zone And Other Maritime Zones Act, 1976
- Offshore Areas Minerals (Development and Regulation) Act, 2002
- Specific policies applicable to oil and gas sector in India.

21. Pharmaceuticals

India is the largest provider of generic drugs globally.

Indian pharmaceutical sector supplies over 50% of global demand for various vaccines. Globally, India ranks 3rd in terms of pharmaceutical production by volume and 14th by value.

The domestic pharmaceutical industry includes a network of 3,000 drug companies and ~10,500 manufacturing units.

The country also has a large pool of scientists and engineers with a potential to steer the industry ahead to greater heights. Presently, over 80% of the antiretroviral drugs used globally to combat AIDS (Acquired Immune Deficiency Syndrome) are supplied by Indian pharmaceutical firms.

According to the Indian Economic Survey 2021, the domestic market is expected to grow by three times in the next decade.

Ayushman Bharat is National Health Protection Scheme, which will cover over 100 mn poor and vulnerable families (approximately 500 mn beneficiaries) providing coverage up to INR 5 lakh per family per year for secondary and tertiary care hospitalization.

'Promotion of Bulk Drug Parks' Scheme, the Union government aims to develop 3 mega Bulk Drug parks in India in partnership with the States

The Union Cabinet has given its nod for the amendment of existing Foreign Direct Investment (FDI) policy in the pharmaceutical sector in order to allow FDI up to 100% under the automatic route for manufacturing of medical devices subject to certain conditions.

The Indian Government has taken many steps to reduce costs and bring down healthcare expenses.

Reference: <https://www.ibef.org/industry/pharmaceutical-india.aspx>

<https://www.makeinindia.com/sector/pharmaceuticals>

Specific Laws applicable to the Pharmaceuticals sector includes

- The Drugs and Cosmetics Act, 1940 & Amendment 2008
- The drugs and cosmetics rules, 1945
- The Pharmacy Act, 1948
- The Drugs and Magic Remedies (Objectionable Advertisement) Act, 1954
- Drugs (Magic Remedies) Objectionable Advertisement Rules, 1955
- The Narcotic Drugs and Psychotropic Substances Act, 1985
- Special Permits and Licences Rules, 1952
- The Medicinal and Toilet Preparations (Excise Duties) Act, 1956
- The Drugs (Prices Control) Order 1995 (under the Essential Commodities Act)
- Essential Commodities Act, 1955
- The Clinical Establishments (Registration and Regulation) ACT, 2010
- The Clinical Establishments (Registration and Regulation) Rules, 2010
- Biological Diversity Act 2002
- Biological Diversity Rules, 2004
- Drug Policy 2002
- Plant Quarantine Order
- National Pharmaceutical Policy 2012
- Drugs (Prices Control) Order, 2013
- Rules for the Manufacture, Use, Import, Export and Storage of Hazardous micro-organisms / Genetically engineered organisms or cells.

Highlights of the Union Budget 2021-22

'Aatmanirbharta', implying self-reliance made a spirited ingress in the public lexicon and enjoys its prominence in the pathways of the nation in its bid to navigate the perils of pandemic.

Resting on six pillars, namely, health and well-being, physical, financial capital and infrastructure inclusive development for aspirational India, reinvigorating human capital, innovation and R&D and minimum government and maximum governance, the budget pageants a laser-like-focus on a tailored growth plan to revive the economy in the post COVID-19 milieu.

The first budget after the outbreak of Covid-19 has witnessed much emphasis on health and infrastructure. A holistic approach, strengthening areas of preventive, curative and wellbeing is seen adopted, amplifying pathways of the economic growth of the nation. Thumbs up to the proposed greater spending on health and infrastructure, which has a hailing effect on the ailing Indian economy.

The budget has been framed in such a fashion to revive the lost ground fully and restore the economic momentum into a flattering economy. With an echo to further liberalize avenues to global players, the budget heralded bold reforms to sectors including insurance, for underpinning the economy.

The budget carries with it, a slew of micro announcements, to provide better stability and offer more avenues for the industries. The move for removing the threshold for investments in Limited Liability Partnerships [LLP] and leniency in setting up of One Person Companies [OPC], doubling the budget for Micro Small and Medium Enterprises [MSME] add weightage to the small business sectors

Roaring out a promising roadmap of growth and opportunities for the aspirational India, measures of financial inclusion shall equally contribute to revitalise the economy. The key signal of the budget, 'Minimum Government, Maximum Governance' has been a hallmark providing its sustenance with the concept of ease of doing business. The proposals for Securities Market Code, Corporate Bond Market, Regulated Gold Exchange is well embedded with the 'more ease' of doing business thought.

Proposals for speedy assessment, constitution of a Dispute Resolution Committee and a Board for Advance Ruling embellishes the Tax regime and the overture for the National Faceless Income Tax Appellate Tribunal Centre stands apposite, simplifying the resolution process, especially in this juncture where the corporate professionals have rolled up their sleeves for the advanced digital transformation, stands much pertinent. Strengthening of National Company Law Tribunal [NCLT] framework, e-Courts system for faster resolution process, alternate methods of debt resolution and special framework for MSMEs, all in its entirety is a boost in this e-era.

Having completed the decriminalizing of the procedural and technical compoundable offences under the Companies Act, 2013, the decriminalization of the Limited Liability Partnership (LLP) Act, 2008 has been taken up.

Amidst the thorny economic conditions, the budget exhibits a delicate balanced bestow to the current business environment of the nation. With measures putting more onus on creation of a much vigilant ecosystem, the budget leverages long term growth with minimum compliance burden on tax payers, rationalizing provisions and promoting investments.

Ref: https://www.icsi.edu/media/webmodules/eBook_on_Union_Budget_2021_22.pdf

NATIONAL AND INTERNATIONAL DEVELOPMENTS

Company Secretaries are globally recognized as the part of the senior management of the company. However, the company secretaries are typically named a corporate secretary or secretary in the various countries according to the prevailing law in such country.

In any company, the role is not a clerical or limited to the secretarial one in the usual sense. Now the responsibilities of the company secretary have evolved from that of a "note taker" at board meetings or "administrative servant of the Board" to one which encompasses a much broader role of acting as "Board advisor" and having responsibility for the organisation's corporate governance. The company secretary ensures that an organisation complies with relevant legislation and regulation, and keeps board members informed of their legal responsibilities. Company secretaries are the company's named representative on legal documents and it is their responsibility to ensure that the company and its directors operate within the law.

The Board as a whole, particularly the chairman, relies on the company secretary to advise them not only on Role of the directors' and their statutory duties under the prevailing law and various disclosure obligations but also in respect of corporate governance requirements and practices and effective board processes. This specialized role of the company secretary has emerged to position them as one of the key managerial personnel within the organization.

It is also their responsibility to register and communicate with shareholders, to ensure that dividends are paid and to maintain company records, such as lists of directors and shareholders and annual accounts. In many countries, private companies have traditionally been required by law to appoint one person as a company secretary and this person will also usually be a senior board member.

1. Role as a Guide

Company Secretaries, with their knowledge and expertise, play a lead role in guiding promoters, directors and society at large in adopting good corporate governance practices, beyond the merely legal prescriptions that adds value to the business by enhancing its image among its customers. They provide support in conducting global business and managing global alliances. A company secretary is now:

- an active partner with the directors to ensure Board effectiveness and good governance
- an advisor to the Board to ensure that policy and intent are manifested correctly
- a resource to provide trends and information; and
- the ombudsman for all members of the co-operative community to ensure a commitment to the values that are important for the society.

The main strength of company secretary lies in his/ her legal knowledge especially in the fields of business, corporate and monetary laws. As law has various branches, it is seldom possible for a company to involve large number of professionals at a time. Company Secretary is rightly the profession which can provide a single window in legal matters. A company secretary ensures compliance in all internal rules and external laws and regulations applicable to the company. Thus, besides Company law, other laws generally applicable to the companies like Direct Tax, Indirect Tax, GST, Labour laws, FEMA, as well as laws relating to securities & SEBI Regulations (for listed companies) relevant for secretarial compliance report to the Board fall in his ambit.

Compliance needs to become part of the company culture, and as a governance professional, CS spearheads this effort.

2. Role as a Regulator

Company secretaries are highly valued and relied upon by regulators for compliances and they are considered as the first level regulators at the corporate level. The dynamics of the boardroom are changing and chairmen and directors are realising that they need specialist skills and technical knowledge in this area and they are looking to company secretaries to provide this expertise in effect, they are considered an extended arm of the regulatory mechanism. They act as the link and interface between industry and regulators. Laws are getting liberal as well as complex and changing very fast. CS must be updated about regulatory changes and must educate and update management about changes in the applicable laws and their likely impact on the company and the domestic environment as well as economy as a whole. Being corporate governance professionals, regulators depend and rely on company secretaries for implementation of good governance practices. Company secretaries enjoy the confidence of industry as well as regulators for their professional conduct, ethics and values.

3. Role as a Champion of Good Corporate Governance

Due to the separation of ownership and management, society depends largely upon professionals for the healthy growth of corporates and protection of the interests of the society. Also the responsibility for developing and implementing processes to promote and sustain good corporate governance has fallen largely within the remit of the company secretary. Therefore, Company Secretaries have played a vital role as a bridge between society and business. The profession of Company Secretaries is seen by society as the champion of good corporate governance, in ensuring that corporates:

- run their businesses in accordance with the laws of the land;
- follow ethical and honest practices in business;
- protect and promote the interests of investors who invest their hard earned savings in the capital of the company;
- maintain transparency and provide correct and adequate information and disclosures about their business activities;
- run their business in a sustainable manner; and
- work in the larger interests of society.

The Companies now are setting up specific departments and teams that develop policies, strategies and goals which are for their Corporate Social Responsibility (CSR) programs and allocate separate budgets to support them. These programs are based on well-defined social beliefs or are carefully aligned with the companies' business domain. The programs are put into practice by the employees who are crucial to this process. This means having policies and procedures in place which integrate social, environmental, ethical, human rights or consumer concerns into business operations and core strategy – all in close collaboration with stakeholders. Corporate Social Responsibility under the guidance of Company Secretary moving far ahead from its age old domain of philanthropy and charity, has now reached to a new hallmark of Corporate responsiveness and action to social issues in order to advance further towards a new era of a collective future.

4. Role in Investor Education and Protection

An informed investor is more precious than the investment. Investors provide the much needed capital which, combined with entrepreneurial skills, results in successful corporate. These corporates provide goods and services, taxes and employment, and fuel economic growth. Therefore, it is very important that investors are educated, enlightened and well informed to be able to take sound investment decisions and to protect their interests. Recognising the importance of shareholder rights and investor protection, the Companies Act, 2013 introduced some important changes to the company law regime in India and has plugged many loopholes. It upholds shareholders democracy and investor protection in many ways. A significant development has been the inclusion pertaining to 'Class Action Suit' (Section 245) to strengthen the concept of shareholders democracy.

The ICSI as a national body and its members as corporate governance professionals, have played a very significant role in the area of investor education and protection. Under various securities laws such as Securities Contracts (Regulation) Act, 1956, Depositories Act, 1996, regulations and guidelines issued by SEBI under SEBI Act, 1992 and the listing agreement of the stock exchanges for equity, debt listing, IDRs, company secretaries have been recognized to verify compliances and to issue certificates. A better regulated capital market automatically brings development for the country and a strong regulated capital market instils confidence among the investors that their money is safe. The company secretaries are expected to exercise sensitive professional and moral judgments in all their activities, while carrying out their professional responsibilities. They should accept the obligation to act in a way that will serve public interest, honour public trust and demonstrate commitment to professionalism. The CS is expected to maintain and broaden public confidence and perform all professional responsibilities with the highest sense of integrity.

5. Role as a Global Leader

The changing global business environment has not only brought changes in the role and responsibilities of the company secretaries but has transformed it into new dimensions obliterating almost the concept of their role in a company performed by them. The changes have thrown up new challenges and opportunities that have spurred the professional instincts of company secretaries to identify themselves with the totality of business and managerial responsibilities. The position of the company secretary enables them to have a holistic view of the governance framework and as a result they are generally tasked with the responsibility of ensuring that this framework and any supporting policies and procedures are clearly documented. Thus, a company secretary has emerged as a key professional in the corporate management providing solutions to the core management team and harmonise the basic decision making process to bring it in line with key factors of the corporate world.

Global leadership may be referred to as capacity to unify a diverse workforce around a single purposeful vision, through demonstration of personal mastery, thinking globally, anticipating opportunity and using shared leadership networks. A global leader must continuously practice personal mastery and provide organizational leadership through internal/external influence. Thus, a company secretary as a global leader thinks globally, anticipates opportunity, creates a shared vision, develops and empowers people, appreciates cultural diversity, builds teamwork and partnerships, embraces change, encourages constructive challenge, ensures customer satisfaction, achieves a competitive advantage, demonstrates personal mastery, shares leadership and lives the values.

6. Role of conscience keeper

Based on historical, socio-religious, political and economic factors, Indian society has its unique problems and characteristics. Poverty, illiteracy, employment, drinking water, sanitation and health, environment, regional imbalances etc., are problems which need to be addressed at all levels. The government is continuously making efforts to improve

the situation and the corporate sector, as it has the requisite size, resources and reach, has the social responsibility to augment and support the efforts of the government. The profession of company secretary plays the role of conscience keeper and torch bearer in educating and motivating corporates to play their role in promoting growth.

7. Role as support to the chairman

The company secretary has a duty to advise the Board, through the chairman, on all governance matters.

Together they should periodically review whether the Board and the company's other governance processes are fit for purpose and consider any improvements or initiatives that could strengthen the governance of the company. The relationship between the company secretary and the chairman is central to creating an efficient Board.

8. Role in board and committee processes

The company secretary plays a leading role in good governance by helping the Board and its committees function effectively and in accordance with their terms of reference and best practice. Providing support goes beyond scheduling meetings to proactively managing the agenda and ensuring the presentation of high quality up-to-date information in advance of meetings. This should enable directors to contribute fully in board discussions and debate and to enhance the capability of the Board for good decision making. Following meetings the company secretary should pursue and manage follow up actions and report on matters arising.

9. Role in Board development

All directors should have access to the advice and services of the company secretary. The company secretary should build effective working relationships with all board members, offering impartial advice and acting in the best interests of the company. In promoting board development the company secretary should assist the chairman with all development processes including board evaluation, induction and training. This should involve implementing a rigorous annual board, committee and individual director assessment and ensuring actions arising from the reviews are completed. Further, the company secretary should take the lead in developing tailored induction plans for new directors and devising a training plan for individual directors and the board. Although these tasks are ultimately the responsibility of the chairman, the company secretary can add value by fulfilling, or procuring the fulfilment of, these best practice governance requirements on behalf of the chairman.

10. Communication with stakeholders

The company secretary is a unique interface between the board and management and as such they act as an important link between the board and the business. Through effective communication they can coach management to understanding the expectations of and value brought by the board. The company secretary also has an important role in communicating with external stakeholders, such as investors and is often the first point of contact for queries. The company secretary should work closely with the chairman and the board to ensure that effective shareholder relations are maintained.

11. Disclosure and reporting

In recent years there has been increased emphasis in the quality of corporate governance reporting and calls for increased transparency. The company secretary usually has responsibility for drafting the governance section of the company's annual report and ensuring that all reports are made available to shareholders according to the relevant regulatory or listing requirements.

ROLE OF COMPANY SECRETARY IN UK

The company secretary is a strategic position of considerable influence at the heart of governance operations within an organisation.

Governance describes the way that an organisation is directed and controlled, which includes a company's strategy and decision making, how it achieves its aims, and ensuring that all activities undertaken comply with legal, ethical and regulatory requirements.

Company secretaries have a broad skill set – corporate law, finance, governance, strategy and corporate secretarial practice – and they advise a company's board in these key areas, providing support to the Chair, CEO and non-executive directors.

- By becoming a company secretary you will have:
- access to a wide variety of different job roles across many sectors
- a diversity of responsibilities
- a fast-track to high-level roles, working with the board
- the potential to earn six figure salaries
- the opportunity to work overseas.

Reference: <https://www.cgi.org.uk/professional-development/careers/being-a-company-secretary>

ROLE OF COMPANY SECRETARY IN SINGAPORE

The Company Secretary plays an important role within the corporate board and the company.

The Company Secretary has wide ranging responsibilities as a senior corporate officer, serving as the focal point for communication with the board of directors, senior management and the company' stakeholders. This is in addition to the Company Secretary playing a key role in the administration of important corporate matters. Often, the Company Secretary is the confidant and counsellor to the Board of Directors, Chief Executive Officer and members of senior management.

The role of the Company Secretary is as follows:

- Advisor to the Board of Directors
- Controller of Management Functions
- Corporate Governance and Compliance Officer
- Corporate Communications

Reference: <https://www.saicsa.org.sg/english/documents/RoleofcompanysecretariesAug2003.pdf>

ROLE OF COMPANY SECRETARY IN AUSTRALIA

As the conscience of the company, the company secretary holds a unique position as the link between the board and shareholder members and between employees and the board. The company secretary plays a key role in designing and implementing the company's ethical and legal framework and policies.

One of the primary roles of the company secretary is to help the company and the board tackle ethical questions such as, whether the company ought to pursue certain courses of action, regardless of whether they are legally feasible.

Reference: <https://www.governanceinstitute.com.au/news-media/blog/2018/nov/company-secretary-vs-risk-manager-vs-governance-professional/>

LESSON ROUND UP

- The Company Secretary act as a bridge for information, communication, advice, and arbitration between the board and management and between the organization and its shareholders and stakeholders.
- The Company Secretary in Employment can act as the Whole-time Company Secretary, Key Managerial Personnel (KMP), Compliance Officer, Senior Management in the companies.
- The Company Secretary in Practice can act as Secretarial Auditor, Expert, Registered Valuer, Insolvency Professional, Internal Auditor, GST Professional, Certification Services, Representation services, IPR Expert, Expert beyond Company Law etc.
- Company secretaries are globally recognized as the part of the senior management of the company.

GLOSSARY

Insolvency Resolution Professional	Company Secretaries having passed necessary examination, possessing prescribed experience, enrolled with an insolvency professional agency and registered with IBBI as an insolvency professional.
Registered Valuer	A Company Secretary in practice is recognized as a registered valuer for the asset class “Securities or Financial Assets” under the Companies (Registered Valuer and Valuation) Rules, 2017.
Public Credit Registry	An extensive database of credit information, accessible to all stakeholders.
Financial Services Industry	The country’s services sector which consists of capital markets, insurance sector and non-banking financial companies (NBFCs).

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation)

1. Explain the duties and functions of the company secretaries as provided under the Companies Act, 2013.
2. “The position of the company secretary is required to have holistic view on the governance framework of the company” Comment.
3. “India is the world’s fastest growing domestic aviation market” in the light of this statement highlight the recent developments in the Indian aviation industry.
4. Write short note on recognition of Company Secretaries under SEBI regulations.
5. Explain the opportunities for a Company Secretary as “Registered Valuer” and “Insolvency Professional”.

LIST OF FURTHER READINGS

- The Companies Act, 2013 and rules made thereunder
- SEBI Manual
- The Securities Contracts (Regulation) Act, 1956 and Rules made thereunder
- The Depositories Act, 1996
- The Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings
- The Secretarial Standards issued by ICSI
- The Auditing Standards issued by ICSI

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- www.icsi.edu
- https://www.icsi.edu/media/webmodules/eBook_on_Union_Budget_2021_22.pdf
- https://www.icsi.edu/media/webmodules/Recognition_to_Company_Secretary.pdf
- https://www.icsi.edu/media/webmodules/INTERNATIONAL_CS_BROCHURE.pdf
- <https://www.cgi.org.uk/professional-development/careers/being-a-company-secretary>
- <https://www.saicsa.org.sg/english/documents/RoleofcompanysecretariesAug2003.pdf>
- <https://www.governanceinstitute.com.au/news-media/blog/2018/nov/company-secretary-vs-risk-manager-vs-governance-professional/>

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Lesson 8

Audits

Key Concepts One Should Know

- Internal Control
- Financial Review
- Compliance Officer
- Combating
- Corporate veil
- Social Audit
- Marginalized
- Predecessor
- Audit Engagement
- Audit Documents
- Audit Evidence
- Risk Assessment
- Misstatement
- Materiality

Learning Objectives

To understand:

- The subject of Auditing as ancient as Accounting and Its traces in ancient civilization such as Mesopotamia, Greece, Egypt, Rome, U.K. and India.
- The traces of reference to accounts and auditing under Vedas.
- The detailed rules for accounting and auditing of public finances in Artha Sashthra by Kautilya.
- The widen scope of Company Secretaries in engagement as auditor under Companies Act, 2013.
- Various opportunities available in the field of auditing along with the principle and techniques of the auditing.
- The overview of various types of audits performed in corporates by the professionals.

Regulatory Framework

- The Companies Act, 2013 along with the rules made thereunder
- The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- The SEBI (Prohibition of Insiders Trading) Regulation, 2015
- The Company Secretaries Auditing Standards

Lesson Outline

- Overview and introduction of Various Audits
- Corporate Governance Audit
- CSR Audit
- Insider Trading Audit
- Labour Law Audit
- Cyber Audit
- Environment Audit
- Forensic Audit
- Social Audit
- Takeover Audit
- ICSI Auditing Standards
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

OVERVIEW AND INTRODUCTION OF VARIOUS AUDITS

An audit refers to a systematic and independent examination of books, accounts, statutory records, documents and vouchers of an organization to ascertain that how far the financial and non-financial statements and disclosures present a true and fair view of the company.

Broadly, the audit can be classified into two types of audit i.e. the Financial Audit and the Compliance Audit, the Financial Audit covers the Statutory Audit, Cost Audit and Internal Audit whereas the Compliance Audit covers the Secretarial Audit, CSR Audit, and Corporate Governance Audit, Take over Audit, Insider trading Audit, Labour law Audit, Cyber Audit, System Audit, Social Audit and Forensic Audit, Related Party Audit etc. The company as a part of the internal review periodically conducts the audits of other functions of the organization like Stock Audit, HR Audit, Branch Audit, Performance Audit, IT Audit and Environment Audit etc. which helps in the development of the internal function of the company.

Sections 139 to 147 under chapter X of the Companies Act, 2013 along with the Companies (Audit and Auditors) Rules, 2014 contain provisions regarding audit and auditors covering the appointment, removal, resignation of auditors, eligibility, qualifications and disqualifications of auditors, remuneration of auditors, powers and duties of auditors etc. for the statutory auditors of the company. According to the section 143(12), the provision of the Section 143 i.e. power and duties of the Auditors are mutatis mutandis applicable to the cost accountant conducting cost audit under section 148 and the company secretary in practice conducting secretarial audit under section 204 of the Companies Act, 2013.

The Companies Act, 2013 also prescribes the penalty for non-compliance of section 143(12) by the Auditor, cost accountant and Company Secretary in Practice as under:

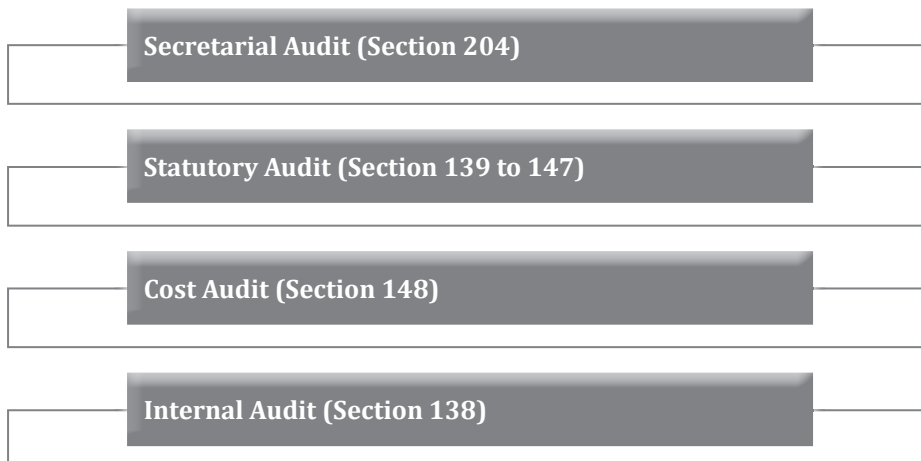
- (a) in case of a listed company, be liable to a penalty of five lakh rupees; and
- (b) in case of any other company, be liable to a penalty of one lakh rupees.]

Question: which of the following section prescribes the penalty for non-compliance of reporting of fraud by the Auditor, cost accountant and Company Secretary in Practice?

Options: (A) 143(12) (B) 143(13)
(C) 143(14) (D) 143 (15)

Answer: 143(15)

The Companies Act, 2013 contains the provisions relating to the following Audits:



The brief description of the various audit prescribed under various legislations are provided below, however, the detailed procedure of such audits are covered under the respective chapters of the study material.

(1) Corporate Governance Audit

Corporate Governance Audit is a strategic audit to ensure that all processes including the requirement under laws, policies, procedures that are necessary for directing and controlling a business enterprise are implemented effectively. Audit of corporate governance processes provides assurance to the various stakeholders that all the

required governance activities have been accomplished and what remains otherwise thereby assisting stakeholders in making an informed decision. Stakeholders don't like to receive surprises and audit of corporate governance activities shall ensure an effective check mechanism on the supervisory and managerial layers of a business enterprise. Corporate Governance Audit mechanism works primarily through Audit Committee and the Auditor.

Scope of Audit of Corporate Governance Activities

1. The scope of Corporate Governance Audit is wide and generally boundary less, as the subject covers:
2. Financial and Non-Financial Stakeholders.
3. Boards of Directors (Composition, Mix, Independence).
4. Committees of the Boards and terms of References.
5. Control Environment (Accounting, Controls, Internal and External Audit).
6. Risk Management.
7. Transparency and Disclosure of financial information and executive compensation.
8. Strategic plans, programs and guidance on social responsibilities.

In India, the Companies Act, 2013 and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 are the principle governing laws on corporate governance.

(2) Corporate Social Responsibility (Csr) Audit

A Corporate Social Responsibility audit aims at identifying environmental, social or governance risks faced by the organization and evaluating managerial performance in respect of those. Corporate Social Responsibility ("CSR") is a broad term, however, for the purpose of addressing the scope of a CSR Audit, CSR is about managing and taking into consideration organization's operational, processes and behavioral impact on society and stakeholders from a broad perspective. Contrary to common belief CSR is more than basic legal compliance and is highly connected with and affects organization's bottom line.

- To ensure compliance with the provisions of Companies Act, 2013 with respect to constitution of the Committee, adoption of policy and appropriate spending towards CSR activities.
- To facilitate transparent monitoring mechanism and a mentor for the Company's CSR activities and implementation of CSR policy.
- To evaluate internal control and governance framework.
- To assess the project life cycle.
- To conduct financial review of projects to confirm the utilization of budgets for achieving desired outcomes.

Though, the Companies Act, 2013 does not prescribe for the CSR Audit, but the companies voluntarily undertake the CSR Audits to measure effectiveness of the CSR Programmes of the company.

(3) Insider Trading Audit

In India, the SEBI (Prohibition of Insiders Trading) Regulation, 2015 is the primary regulation which covers the insider trading activities.

Insider trading issues have resulted in significant importance in listed companies in the last few years. The directors, agents and other officers were found to be using insider information for profitably speculating in securities of their own company. The insider trading occurred due to:

- (i) the possession of information by these people;
- (ii) before everybody else;
- (iii) regarding the changes in the economic condition of companies and particularly, regarding the size of dividends to be declared, or issue of bonus shares etc.

Also, SEBI has put in place a mechanism for preventing and controlling insider trading by putting primary responsibility to monitor and regulate insider trading activities on the company through the compliance officer and audit committee.

For the purpose of ensuring compliance with the insider trading regulations, the following would be some of the essential inputs to enable review and to report the status:

- Code of conduct, framed in the lines of model code specified in the schedule I of Insider Trading
- Regulations;
- Appointment of compliance officer:
- Responsibility discharged by the compliance officer, preservation of price sensitive information, closing of specific trading window;
- Prior approval of trading;
- Reporting requirement by the directors / officers / designated employees;

(4) Labour Law Audit

Labour law audit is a process of facts findings and it is a continuous process. Labour law audit ensures a win - win situation for all the stakeholders. Audit under the labour and employment laws is an effective tool for compliance management of labour, employment and industrial laws. Audit helps to detect non – compliance of labour and employment laws applicable to a business and take corrective measures to avoid any unwarranted legal actions by the regulators against the business and its management.

Though labour law audit is not compulsory, but it is highly recommendatory to conduct this audit. Audit helps to detect non-compliance of labour and employment laws applicable to a business and take corrective measures to avoid any unwarranted legal actions by the regulators against the business and its management. Labor audits seek to determine employee attitudes toward the employer and to identify possible areas of vulnerability to a union organizing drive.

Labour audit cover all labour legislations applicable to an industry/business or any other commercial establishment, wherein audit is being conducted by the labour law auditor. Scope of labour law audit will certainly differ from business to business. For example, if the business does not have a factory, the provisions of Factories Act, 1948 and any rules/regulations made thereunder won't be applicable on such business. Similarly, certain factories in remote areas may not have the facilities of Employees State Insurance Corporation. In such cases, there is no need to ensure compliance of ESI Act.

Process of Labour Audit

1. Understand the business and nature of the organization, location of workplace and industry.
2. Understand the structure of manpower, number of human resources (on roll and outsourced), their roles and duties.
3. Ascertain the applicable Labour Laws, Rules, Regulations (both Central and State)
4. Make the list of relevant authorities and compliances.
5. Verify the present compliance level under various laws.

Benefits of Labour Audit to various stakeholders

1. It enhances the morale and social security of the employees.
2. It helps in maintaining the sense of belongingness between employers and employees.
3. It ensures timely payment of wages, remuneration and other statutory amount of the employees such as – pension, gratuity, provident fund, etc.
4. The positive outcome of the audit enhances the reputation of the employer in the industry.
5. Audit eliminates the penalties, damages, compensation that can be imposed by the government on the organization.
6. Labour Audit will ensure compliance of historical defaults committed by the organization under various labour laws.
7. It reduces the burden of the government because audit will be conducted by an independent professional such as – Company Secretary in Practice.
8. It ensures higher productivity and lower absenteeism.
9. It helps in preventing lockout, retrenchment, strikes etc.
10. Co-operation and good understanding improves labour relations and this is indispensable for the good corporate governance.

(5) Cyber Audit

In Cyber Audit team of professional conducts an organizational review to ensure that the correct and most up to date cyber and IT processes and infrastructure are being applied. A cyber audit also includes a series of tests that guarantee that information security meets all expectations and requirements within an organization.

The cyber security management audit/assurance review will provide management with an assessment of the effectiveness of the information security management function evaluate the scope of the information security management organization and determine whether essential security functions are being addressed effectively, It is not designed to replace or focus on audits that provide assurance of specific configurations or operational processes.

In Cyber Audit the Internal auditors and risk management professionals have key roles to play in the Information Management function of the company. In the era of global digital economy it is critical to protecting enterprise information from the insider as well as the outsider hackers. The internal audit department plays a vital role in cyber security auditing in many organizations, and often has a dotted-line reporting relationship to the audit committee to ensure an independent view is being communicated to the board on the Data Security. Audit helps enterprises with the challenges of managing cyber threats, by providing an objective evaluation of the controls and making recommendations to improve them as well as assisting the senior management and the board of directors understand and respond to cyber risks. Organizations, especially within the public sector, also contract for the services of external auditors to provide independent assurance of the financial and operational controls primarily to ensure the controls design is effective and the needs of the organization are being met. Effective risk management is the product of multiple layers of risk defense. Internal Audit should support the board's need to understand the effectiveness of cyber security controls. A cyber security assessment drives a risk-based IT internal audit plan. Audit frequency should correspond to the level of risk identified, and applicable regulatory requirements/expectations. An assessment of the organization's cyber security should evaluate specific capabilities across multiple domains.

(6) Environment Audit

Environmental Audit is a general term that can reflect various types of evaluations intended to identify environmental compliance and management system implementation gaps, along with related corrective actions and it has a wide variety of meanings. Environmental Audit refers to verification and assessment of environmental measures in an organisation.

There are generally two different types of environmental audits: compliance audits and management systems audits. These audits are intended to review the site's/company's legal compliance status in an operational context. Compliance audits generally begin with determining the applicable compliance requirements against which the operations will be assessed. This tends to include Central Law, State Laws, permits and local laws. In some cases, it may also include requirements within legal action.

Need for Environment Audit

- Business can assess the environmental impact of their operations.
- To ensure that the corporate decisions are not spoiling company's market for its products, destroying the source of essential supply, damaging or polluting the very infrastructure that makes usage and demand of the product grow.
- It highlights areas of inefficiencies in process e.g. Where the amount of resources used are out of proportion to the amount of saleable items/ services produced.
- It highlights excessive wastes.
- It provides opportunity for business to decrease its wastes output and reduce the cost of waste treatment or waste disposal.

(7) Forensic Audit

Forensic Audit is a dynamic and strategic tool in combating corruption, financial crimes and frauds through investigations and resolving allegations of fraud and embezzlement. It may be conducted to determine negligence. Forensic is the application of science to crime concerns. Forensic science is science which is applied to legal matters especially criminal matters.

Recent corporate accounting scandals at various corporates forensic auditing has now considered as new area of auditing to detect the frauds in companies that suspected fraudulent transactions.

A Forensic Audit is a comprehensive and systematic process involving a series of activities and tasks undertaken for establishing the accuracy and authenticity of the transactions under review.

The term Forensic Audit refers to the specific guidance carried out in order to produce evidence. Forensic Audit task involves an investigation into the financial affairs of the entity and is often associated with investigation into the alleged fraudulent activity. The object of forensic auditing is to relate the findings of audit by examining and gathering legally tenable evidence and producing it to the Court. In the process the corporate veil is lifted in case of corporate entities to identify the fraud and the persons responsible for it. Forensic auditing involves application of audit skills to legally determine whether fraud has actually occurred. The entire process includes planning, gathering evidence, reviewing the evidence and reporting of the same. In the process it aims at naming the person(s) involved in the fraud with a view to take legal action.

Forensic Audit Report is statement of observation gathered & considered while proving conclusive evidence. It is a medium through which an auditor expresses his opinion under audit after the forensic audit investigation is completed.

(8) Social Audit

A Social Audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. A social audit helps to narrow gaps between vision/goal and reality, between efficiency and effectiveness. It is a technique to understand, measure, verify, report on and to improve the social performance of the organization.

Social auditing creates an impact upon governance. It values the voice of stakeholders, including marginalized/ poor groups whose voices are rarely heard. Social auditing is taken up for the purpose of enhancing local governance, particularly for strengthening accountability and transparency in local bodies.

Social audit is a process of reviewing official records and determining whether the reported expenditures reflect the actual money spent on the ground. A social audit is a formal review of a company's endeavors in social responsibility.

The key difference between development and social audit is that a social audit focuses on the neglected issue of social impacts, while a development audit has a broader focus including environment and economic issues, such as the efficiency of a project or programme.

A social audit is an official evaluation of an organization's involvement in social responsibility projects or endeavors. For example, a local family store makes a clothing donation to a NGO that has a homeless shelter for women and children. The store makes a similar donation three times a year. This is something that a social audit might uncover. Factors examined by a social audit include records of charitable contributions, volunteer events, and efficient utilization of energy, transparency, work environment, and employees' wages.

Implications of Social Audit

Social auditing creates an impact upon governance. It values the voice of stakeholders, including marginalized/poor groups whose voices are rarely heard.	Social auditing is taken up for the purpose of enhancing local governance, particularly for strengthening accountability and transparency in local bodies.	Social Audit makes it sure that in democracy, the powers of decision makers should be used as far as possible with the consent and understanding of all concerned.
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(9) Takeover Audit

To provide the desired results to an investor and to ensure that the acquisition is executed in the most effective manner, the concept of the takeover audit has been evolved, the takeover audit provides a cost benefit analysis to suggest a strategic plan for the long term investment strategy. The audit provides for the Acquisition Audit as well as the Inter se Transfer performed by the acquirer.

Takeover audit for merger/acquisition/ takeover could be done as three parts: pre-acquisition, post-acquisition and sell-side. Internal auditors or professionals with this domain expertise can contribute significant value by ensuring that a vibrant due diligence process is in place and operating as intended. A rigorous audit vide due diligence process help companies take advantage of legitimate new business opportunities, while at the same time help minimize the risks. A strong audit cum due diligence process is critical to ensure that the acquirer is fully aware of all aspects of the proposed transaction and provides access to vital intelligence that is used to negotiate the final price and integrate the new subsidiary more effectively.

An illustrative list of Audits which may be undertaken by a Company Secretary under various Statutes:

Type of Audit	Act/ Regulation	Section/ Regulation	Auditee
Secretarial Audit	The Companies Act, 2013	204	Company
Secretarial Audit	SEBI (LODR) Regulations, 2015	24A	Listed Entities
Internal Audit	The Companies Act, 2013	138	Company
Audit of Depository Participant	SEBI (Depositories and Participants) Regulations 2018 read with SEBI circular no. SEBI/ HO/ MRD/ DOP2-DSA2/ CIR/P/2019/22 dated January 23, 2019	76	Sole Proprietorship, partnership firm, LLP, Company
Internal Audit of Stock Brokers	SEBI (Stock and subbroker) Regulations 1993	SEBI circular no. MIRSD/ DPSIII/ Cir-26/ 08	Sole Proprietorship, HUF, Partnership Firm, LLP, Company
Internal Audit of Investment Advisors	SEBI (Investment Advisors) Regulations 2013	19(3)	Sole Proprietorship, Partnership Firm, LLP, Company

Internal Audit of Portfolio Managers	SEBI (Portfolio Managers) Regulations 1993	SEBI circular no. IMD/PMS/ CIR/1/21727/ 03 dated November 18, 2003	Body Corporate
Internal Audit of Credit Rating Agencies	SEBI (Credit Rating Agencies) Regulations 1999	SEBI circular no.MRD/CRA/ CIR01/2010 dated January 06, 2010	Public Financial Institution, Scheduled Commercial Bank, Foreign Bank operating in India with RBI approval, Foreign Credit Rating Agency recognised by or under any law, Company, Body Corporate
Internal Audit of Research Analysts	SEBI (Research Analysts) Regulation 2014	25(3)	Sole Proprietorship, Partnership Firm, LLP, Company

ICSI AUDITING STANDARDS – AN OVERVIEW

The Companies Act, 2013 has introduced the concept of Secretarial Audit (Audit) for Bigger Companies in order to have third party professional assurance in the areas of governance, compliances and disclosures by the companies. A Practicing Company Secretary (PCS) who is holding Certificate of Practice (CoP) have been casted an exclusive responsibility to undertake such audit of companies.

Company Secretaries have been authorized first time undertake and perform Auditing function under the Companies Act. PCS is required to provide his “Secretarial Audit Report” (Audit Report) in form MR-3 pursuant to the provisions of Section 204(1) of Companies Act, 2013 and Rule 9 of the Companies (Appointment & Remuneration Personnel) Rules 2014 to the members of the Company.

First such audit reports were issued by PCS for the FY 2014-15.

The present coverage for companies to have mandatory Secretarial Audit

All listed companies; or	Every Public Company having paid up share capital of Rs 50 crore or more; or	Every Public company having turnover of Rs 250 crore or more.	Every company having outstanding loans or borrowings from banks or public financial institutions of one hundred crore rupees or more.
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PCS has also been casted a duty to detect and report the frauds in the Companies while performing the duties as Auditor. Initially, a lot of challenges was there in conducting audits and in developing auditing acumen and undertaking the function of detection of frauds.

Accordingly, ICSI has taken initiatives in the area of Auditing and to strengthen the auditing acumen and detection abilities of PCS it was decided to develop the auditing techniques and tools to undertake secretarial audits of other companies.

The ICSI has setup an Auditing Standards Board for laying down the foundations of Company Secretaries Auditing Standards (CSAS) in India and for inculcation of best auditing practices among its members, and issued CSAS-1 to CSAS-4 effective from it 1st April, 2021.

Observance of ICSI auditing for standards by PCS, will lead to good governance, compliance and transparency among the companies. It will also help the PCS to comply with its important function of detection and reporting of frauds.

ICSI Auditing Standards

The Council of the Institute of Company Secretaries of India (ICSI) has approved the issuance of four ICSI Auditing Standards. The Standards are required to be observed by the Company Secretaries undertaking Audits. The Standards seek to promote best auditing practices, uniformity and consistency while conducting audits. The four Standards namely:

CSAS-1: Auditing Standard on Audit Engagement which lays down the Auditor's role and responsibilities with respect to an Audit Engagement and the process of entering into an understanding/agreement with the Appointing Authority for the purpose of audit.

CSAS-2: Auditing Standard on Audit Process and Documentation which lays down the responsibilities and duties of the Auditor with respect to Audit Process in conducting audit and maintaining proper audit records.

CSAS-3: Auditing Standard on Forming of Opinion covers the basis and manner for forming Auditor's opinion on subject matter of the audit.

CSAS-4: Auditing Standard on Secretarial Audit covers the basis and manner for carrying out the Secretarial Audit.

These Standards are effective and recommendatory for Audit Engagements accepted by the Auditor on or after 1st July, 2019 and mandatory for Audit Engagements accepted by the Auditor on or after 1st April, 2021.

However, the developments arising due to the spread of Covid-19 pandemic, the mandatory applicability of ICSI Auditing Standards CSAS-1 to CSAS-4 is extended for Audit Engagements accepted by the Auditor on or after 1st April, 2021.

CSAS-1 Auditing Standard on Audit Engagement

Scope

This Auditing Standard ('the Standard') is applicable to the Auditor undertaking Audit Engagement under any statute. The Standard deals with the Auditor's role and responsibilities with respect to an Audit Engagement and the process of entering into an understanding/agreement with the Appointing Authority for the purpose of audit.

Effective Date

The Standard is effective and recommendatory for Audit Engagements accepted by the Auditor on or after 1st July, 2019 and mandatory for Audit Engagements accepted by the Auditor on or after 1st April, 2021.

Objective

The objective of the Standard is to prescribe for the Auditor, principles and procedures to be followed while accepting or continuing with an Audit Engagement by agreeing to the terms of engagement with the Appointing Authority or any changes therein and matters relating thereto.

Definitions

For the purpose of Auditing Standards (CSAS) issued by The Institute of Company Secretaries of India (ICSI), the following terms shall have the meaning attributed as below, unless specified otherwise:

1. "Appointing Authority" means any person having authority to appoint the Auditor.
2. "Audit Engagement" means detailed terms of reference of appointment including scope of audit, remuneration and limiting conditions, if any.
3. "Auditee" means a person subject to audit.

4. “Auditor” means a Company Secretary who is deemed to be in practice under sub-section (2) of Section 2 of the Company Secretaries Act, 1980 and includes a firm or Limited Liability Partnership (LLP) registered with ICSI undertaking the Audit.
5. “Management” includes Board of Directors and persons who have been entrusted with the responsibility of governance and compliances of the Auditee.
6. “Predecessor or Previous Auditor” means an Auditor who has conducted the most recent audit assignment of the Auditee and submitted report thereon prior to the incumbent Auditor or was engaged but did not complete the audit assignment due to his resignation, termination or otherwise.

1. Audit Engagement Process

The Auditor shall undertake the following steps with respect to the Audit Engagement:

1.1 Appointment

- 1.1 The appointment of Auditor shall be made in the manner prescribed in the applicable laws, act, rules, regulations, standards and guidelines or in case no such manner has been prescribed, such appointment shall be made in the manner determined by the Appointing Authority.
- 1.2 The Auditor shall submit a Certificate to the Appointing Authority confirming eligibility for appointment as Auditor.
- 2.3 The Auditor shall obtain an Audit Engagement Letter along with a copy of the resolution, if any, passed by the Appointing Authority and shall provide acceptance to the Appointing Authority.

1.2 Audit Engagement Letter

The Audit Engagement Letter shall inter alia include:

- (a) The objective and scope of the audit;
- (b) The responsibilities of the Auditor and the Auditee;
- (c) Written representations provided and/or to be provided by the Management to the Auditor, including particulars of the Predecessor or Previous Auditor;
- (d) The period within which the audit report shall be submitted by the Auditor, along with milestones, if any;
- (e) The commercial terms regarding audit fees and reimbursement of out of pocket expenses in connection with the audit; and
- (f) Limitations of audit, if any.

where the objective and scope of the audit and responsibilities of the Management and of the Auditor have been established by law, the Audit Engagement Letter shall give a reference to the provisions of the relevant law along with a statement that the Management acknowledges and understands its responsibilities for preparation and maintenance of records and for devising proper systems to ensure compliance with the provisions of applicable laws, acts, rules, regulations and standards for the time being in force.

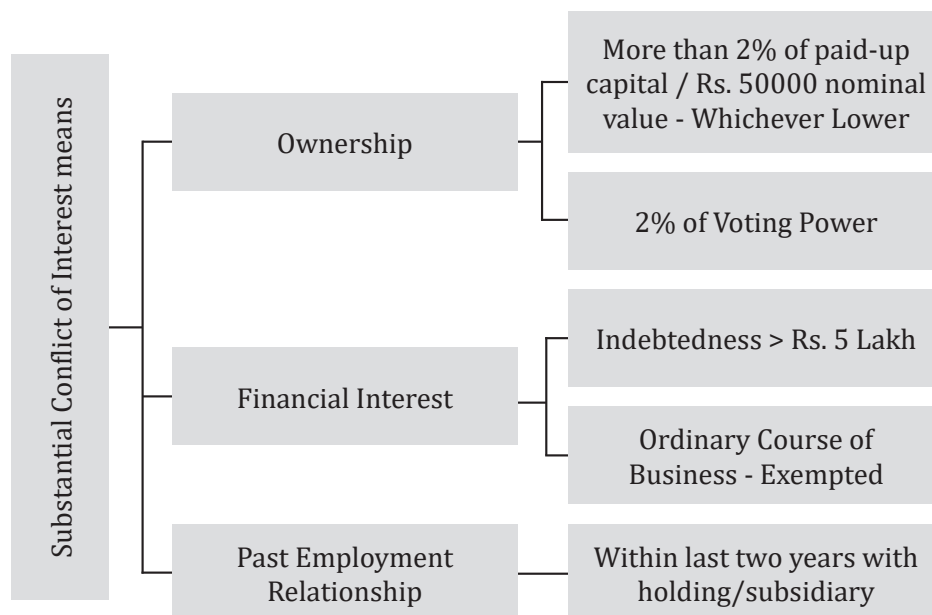
1.3 Communication to the Predecessor or Previous Auditor

The Auditor shall communicate in writing to the Predecessor or Previous Auditor, if any, before accepting the Audit Engagement.

2. Limits on Audit Engagements

The Auditor shall accept Audit Engagements within the limits of number of audits, if any, as may be prescribed under any law for the time being in force or by the ICSI from time to time.

3. Conflict of Interest



The Auditor shall not have any substantial conflict of interest with the Auditee. Any conflict of interest, other than substantial conflict of interest, must be disclosed by the Auditor before accepting the Audit Engagement or as soon as the Auditor becomes aware of the same, as the case may be.

Explanation: Substantial Conflict of Interest means

Holding of more than 2% in the paid up share capital or shares of nominal value of rupees fifty thousand, whichever is lower or more than 2% voting power; as the case may be, by the Auditor singly or along with partners, spouse, parent, sibling, and child of such person or of the spouse, any of whom is dependent financially on such person.

Indebtedness of the Auditor for an amount exceeding rupees five lakh other than that arising out of ordinary course of business of the Auditee:

Provided that any indebtedness that may seriously impair his independence shall also be considered as substantial conflict of interest.

Where an Auditor was in employment of the Auditee, its holding or subsidiary company and 2 (two) years have not lapsed from the date of cessation of employment, the same shall be considered as substantial conflict of interest.

Illustration 1

Mr. A, Mr. B and Mr. C are partners in ABC, LLP, a firm of Practicing Company Secretaries. Mr. B holds 1% paid-up share capital in a company XYZ Ltd. Wife and daughter of Mr. A, who are financially dependent on him hold 1% paid-up share capital in XYZ Ltd. each. Mr. A has been offered the Secretarial Audit of XYZ Ltd.

In this case, Mr. A is not directly holding any interest in XYZ Ltd. However according to para 3.1 of CSAS-1, Mr. A is having a substantial conflict of interest in XYZ. Ltd. as the aggregate value of paid-up share capital held by his wife, daughter and partner in XYZ Ltd. is 3%. Hence, he is not eligible to become Secretarial Auditor of XYZ Ltd.

Illustration 2

Mr. A, Mr. B and Mr. C are partners in ABC, LLP, a firm of Practicing Company Secretaries . Mr. A holds 1% paidup share capital in a company XYZ Ltd. and Mr. B holds shares of nominal value of Rs. 60,000 in XYZ Ltd.

Mr. A has been offered the Secretarial Audit of XYZ Ltd.

In this case, though Mr. A holds only 1% of the paid up share capital in XYZ Ltd. But according to para 3.1 of CSAS1, he is having a substantial conflict of interest in XYZ. Ltd. as his partner Mr. B is having a share capital of nominal value of more than Rs.50,000 in XYZ Ltd. and therefore Mr. A is not eligible to become Secretarial Auditor of XYZ Ltd.

4. Confidentiality

- 4.1 The Auditor shall not disclose the information obtained during the course of Audit without proper and specific authority or unless there is a legal obligation or duty to disclose.
- 4.2 The Auditor shall not use or share with any person any information obtained except for the purposes of audit.
- 4.3 The Auditor shall take all reasonable steps to ensure that employees, staff and other team members of the Auditor and persons engaged by the Auditor to provide advice or assistance during the conduct of audit, shall also adhere to the Auditor's duty of confidentiality.

5. Changes in terms of engagement

- 5.1 The Auditor shall not agree to a change in the terms of the Audit Engagement where there is no reasonable justification for doing so.
- 5.2 If before completion of the assignment, the Auditor is requested by the Appointing Authority to change the scope of engagement, resulting in a lower level of assurance, the Auditor shall consider the appropriateness of carrying out the same.
- 5.3 If the terms of the Audit Engagement are changed, the Auditor and the Appointing Authority shall agree on the new terms of the engagement by way of a supplementary/revised engagement letter or any other suitable form in writing.

CSAS-2 Auditing Standard on Audit Process and Documentation

Scope

This Auditing Standard ('the Standard') is applicable to the Auditor undertaking Audit under any statute. The Standard deals with responsibilities and duties of the Auditor with respect to Audit Process in conducting audit and maintaining proper audit documents.

Effective Date

The Standard is effective and recommendatory for Audit Engagements accepted by the Auditor on or after 1st July, 2019 and mandatory for Audit Engagements accepted by the Auditor on or after 1st April, 2021.

Objective

The objective of the Standard is to prescribe principles for an Auditor:

- (ii) to conduct audit as per the specified audit process;
- (iii) to maintain documentation that provide:
 - (a) sufficient and appropriate record to form the basis for the Auditor's Report; and
 - (b) evidence that the audit was planned and performed in accordance with the applicable Auditing Standards and statutory requirements.

Definitions

For the purpose of Auditing Standards (CSAS) issued by The Institute of Company Secretaries of India ('ICSI'), the following terms shall have the meaning attributed as below, unless specified otherwise :

1. "Audit Documents" means the working papers prepared or records obtained by the Auditor in connection with the audit.
2. "Audit Evidence" refers to relevant information and documents gathered in the course of the audit for arriving at the conclusion on which the Auditor's opinion is based.
3. "Management" as defined in CSAS-1.

1. Audit Planning

- 1.1 The Auditor shall make audit plan to conduct audit as per the terms of Audit Engagement.
- 1.2 Audit planning means establishing and developing an overall audit process, including but not limited to:
 - (a) Identification of broad audit areas;
 - (b) Seeking previous audit findings and observations from the Management and the Predecessor or Previous Auditor, in case of change of Auditor;
 - (c) Determination of subject matters and audit areas requiring special attention, when considered necessary;
 - (d) Risk Assessment and Materiality;
 - (e) Audit technique;
 - (f) Allocation of audit resources for the audit; and
 - (g) Preparation of audit schedule.
- 1.3 The audit shall be planned in a manner which ensures that qualitative audit is carried out in an efficient, effective and timely manner. Audit planning shall ensure that appropriate attention is accorded to crucial areas of audit and significant issues are identified in a timely manner.
- 1.4 The Auditor shall plan the audit with professional scepticism so that it is possible to exercise professional judgment in an objective manner.
- 1.5 The Auditor shall adhere to the audit plan. The audit plan may be modified, if circumstances so warrant.

2. Risk Assessment

- 2.1 Risk assessment of the Auditee with respect to and connected/relevant to the Audit Engagement shall be done considering industrial & business environment, organizational structure and compliance requirements.
- 2.2 The Auditor shall evaluate high risk areas and activities of the Auditee relating to:
 - (a) Internal control systems and processes of the Auditee for adherence to the constitutional documents, applicable laws, acts, rules, regulations and standards;
 - (b) Transparency, prudence and probity; and
 - (c) Changes or Attrition in the compliance team and frequency of such changes and attrition.

3 Information about the Auditee

The Auditor shall obtain sufficient information about the Auditee that is relevant for conduct of audit and forming an opinion and its expression.

4. Audit Check-lists

The Auditor shall use systematic and comprehensive audit check-lists for carrying out the audit and to verify the compliance requirements.

5. Collection and Verification of Audit Evidence

- 5.1 The Auditor shall verify compliance with applicable laws, acts, rules, regulations and standards. Deviation if any shall be recorded.
- 5.2 The Auditor shall obtain complete, relevant and necessary evidence to support the opinion.
- 5.3 The process of gathering and evaluating evidence shall continue until the Auditor is satisfied that sufficient and appropriate evidence exists to provide a basis for formation of the Audit Opinion.

6. Third Party Confirmation

The Auditor shall obtain confirmations from third party(ies), wherever required, with respect to information which is related to such party(ies).

7. Analysis of Audit Evidence

- 7.1 The Auditor shall evaluate the Audit Evidence to arrive at the conclusion.
- 7.2 While evaluating evidence, if the Auditor finds that Audit Evidence is conflicting, the Auditor shall assess the extent and credibility of conflicting evidence in order to reach a conclusion or collect more evidence to resolve the conflict.

8. Documentation

- 8.1 The Auditor shall adequately document the Audit Evidence in working papers, including the basis and extent of planning, work performed and the findings of audit.
- 8.2 The Audit Documents shall contain sufficient information to enable an Auditor, having no previous connection with the audit, to ascertain from such document, the significant findings and conclusions of the Auditor.
- 8.3 Audit Documents shall take place throughout the audit process. Working papers shall be complete and appropriately detailed to provide a clear trail of the audit.

Audit Documentation shall be properly indexed, referenced with and supplemented by the set of working papers.

- 8.4 The Auditor shall also document discussions with the Management with respect to significant matters in respect of which written record is not available.

9. Record Keeping and Retention

- 9.1 The Auditor shall establish policies and procedures for retention of Audit Documents.
- 9.2 The Audit Documents shall be collated for records within a period of 45 days from the date of signing of Auditor's Report.
- 9.3 The Audit Documents shall be maintained in physical or electronic form and retained for a period of 8 years from the date of signing of Auditor's Report.

CSAS-3 Auditing Standard on Forming of Opinion

Scope

This Auditing Standard ('the Standard') is applicable to the Auditor undertaking Audit under any statute. The Standard deals with basis and manner for forming Auditor's opinion on subject matter of the audit.

Effective Date

The Standard is effective and recommendatory for Audit Engagements accepted by the Auditor on or after 1st July, 2019 and mandatory for Audit Engagements accepted by the Auditor on or after 1st April, 2021.

Objective

The objective of the Standard is to enable the Auditor to lay down the basis and manner for evaluation of the conclusions drawn from the Audit Evidence obtained and express the opinion through written report.

Definitions

For the purpose of Auditing Standards (CSAS) issued by The Institute of Company Secretaries of India ('ICSI'), the following terms shall have the meaning attributed as below, unless specified otherwise:

1. "Audit Evidence" as defined in CSAS-2.
2. "Misstatement" means any information or statement which is false, incorrect, incomplete, misleading or misrepresents, omits or suppresses a material fact.
3. "Materiality" is the threshold above which missing or incorrect information is considered to have an impact on the decision making of the Auditor. Information is considered as material if its omission or misstatement could influence the opinion of the Auditor. Materiality can also be construed in terms of net impact.

4. "Records" include:
 - (iv) Memorandum and Articles of Association, byelaws or any other constitutional documents;
 - (v) Minutes, returns, forms, index and Registers;
 - (vi) Books and papers including books of accounts, deeds, vouchers;
 - (vii) Agreements, Memorandum of Understanding;
 - (viii) Other documents maintained by the Auditee either in physical or electronic form; and
 - (ix) Correspondence.
5. "Third Party" means any person who does not have a direct connection with the audit but whose inputs or opinion might influence the audit conclusion and includes an expert.

1. Process for forming of opinion

1.1 The Auditor shall consider Materiality while forming his opinion and adhere to:

- (a) The principle of completeness that requires the Auditor to consider all relevant Audit Evidence before issuing a report;
- (b) The principle of objectivity that requires the Auditor to apply professional judgment and scepticism in order to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and appropriate manner;
- (c) The principle of timeliness that implies preparing the report in due time; and
- (d) The principle of a contradictory process that implies checking the accuracy of facts and incorporating responses from concerned persons.

1.2 Judgment, Clarification and Conflicting Interpretation

The Auditor may consider various judgments, clarifications, opinion, conflicting interpretations while framing the opinion to the best of his professional acumen.

2. Precedence and Practices

The Auditor shall adhere to generally accepted precedence and practices in relation to forming of an opinion as may be available from historical perspective of any kind of audit.

3. Third Party Report or Opinion

The Auditor shall adhere to the following while forming an opinion based on Third Party reports or opinions:

- (a) The Auditor shall indicate the fact of use of Third Party report or opinion and shall also record the circumstances necessitating the use of third party report or opinion;
- (b) The Auditor shall indicate the fact if Third Party report or opinion is provided by the Auditee;
- (c) The Auditor shall consider the important findings/ observation of Third Party;
- (d) The Auditor shall, if necessary and feasible, carry out a supplemental test to check veracity of the Third Party report or opinion.

4. Form of an Opinion

4.1 Unmodified Opinion

The Auditor shall express an unmodified opinion when based on Audit Evidence, the Auditor concludes that:

- (a) there is due compliance with the applicable laws in terms of timelines and process; and
- (b) the records as relevant for the audit verified by him as a whole are free from misstatement and maintained in accordance with the applicable laws.

4.2 Modified Opinion

The Auditor shall express modified opinion when the Auditor concludes that:

- a. based on the Audit Evidence obtained, there is non-compliance with the applicable laws in terms of timelines or process; or
- b. based on the Audit Evidence obtained, the Records as a whole are not free from Misstatement; or are not maintained in accordance with applicable laws; or
- c. he is unable to obtain sufficient and appropriate Audit Evidence to conclude that there is due
- d. compliance with the applicable laws in terms of timelines and process; or
- e. he is unable to obtain sufficient and appropriate Audit Evidence to conclude that the Records as a whole are free from Misstatement; or are maintained in accordance with applicable laws.

Whenever the Auditor expresses a modified opinion or disclaims an opinion, the text of the opinion shall be either in italics or bold letters.

4.3 Limitation

4.3.1 If, after accepting the Audit Engagement, the Appointing Authority imposes a limitation on the scope of the audit which, in the opinion of the Auditor, is likely to result in the need to express a modified opinion or to disclaim an opinion, the Auditor shall request the Appointing Authority to remove the limitation.

4.3.2 If the Appointing Authority refuses or fails to remove the limitation, the Auditor shall communicate the matter to the Management and determine whether it is possible to perform alternative procedure to obtain sufficient and appropriate Audit Evidence.

4.3.3 If the Auditor is unable to obtain sufficient and appropriate Audit Evidence, the Auditor shall determine the implications as follows:

- a. If the Auditor concludes that the possible effects of unavailable Audit Evidence could be non-material, the Auditor shall modify the opinion; or
- b. If the Auditor concludes that the possible effects of unavailable Audit Evidence could be material, the Auditor shall express disclaimer of opinion.

5. Auditor's Responsibility

5.1 The Auditor's Report shall include a section with the heading "Auditor's Responsibility". Auditor's Report shall state that the responsibility of the Auditor is to express opinion on the compliance with the applicable laws and maintenance of records based on audit. The Auditor's Report shall also state that the audit was conducted in accordance with applicable Standards. The Auditor's Report shall also explain that those Standards require that the Auditor comply with statutory and regulatory requirements and plan and perform the audit to obtain reasonable assurance about compliance with applicable laws and maintenance of records.

5.2 Auditor's Report shall state that due to the inherent limitations of an audit including internal, financial and operating controls, there is an unavoidable risk that some misstatements or material non-compliances may not be detected, even though the audit is properly planned and performed in accordance with the Standards.

6. Format of Report

6.1 The report shall be addressed to the Appointing Authority unless otherwise specified in the Audit Engagement Letter or provided in the applicable law. The report shall be detailed enough to serve its intended purpose. Where specific formats are prescribed, those formats shall be followed for reporting. If any information cannot be appropriately placed within the paragraphs of the report, it shall be given in form of annexure(s).

6.2 Signature block shall mention the name of the audit firm along with the registration number, if any, the name of the Auditor, certificate of practice number, the membership number of the Auditor, specifying whether associate or fellow member, as applicable. The Auditor shall clearly mention date and place of signing the report, in case report is signed by two different persons on different dates or different places; same shall be mentioned in the report.

CSAS-4 Auditing Standard on Secretarial Audit**Scope**

This Auditing Standard ('the Standard') is applicable to the Auditor undertaking Secretarial Audit under Section 204 of the Companies Act, 2013 and rules made thereunder. The Standard deals with basis and manner for carrying out the Secretarial Audit.

Effective Date

The Standard is effective and recommendatory for Secretarial Audit accepted by the Auditor on or after 1st July, 2019 and mandatory for Secretarial Audit accepted by the Auditor on or after 1st April, 2021.

Objective

The objective of the Standard is to lay down the principles for evaluation of statutory compliances and corporate conduct in relation thereto.

Adherence to other Auditing Standards

The Auditor shall adhere to the Auditing Standards on – (a) Audit Engagement (CSAS-1); (b) Audit Process and Documentation (CSAS-2); and (c) Forming of Opinion (CSAS-3).

Definitions

For the purpose of Auditing Standards (CSAS) issued by The Institute of Company Secretaries of India ('ICSI'), the following terms shall have the meaning attributed as below, unless specified otherwise:

1. "Management" as defined in CSAS-1
2. "Records" as defined in CSAS-3.

1. Identification and segregation of applicable laws

The Auditor shall take note of the industry specific laws and other laws as may be applicable to the Auditee based on the identification/segregation by the Management and his own verification.

2. Verification of corporate conduct and compliance of laws**2.1 Identification of Events/Corporate Actions**

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

2.2 Verification of Compliance

The Auditor shall verify all event and calendar based compliances from the Records of the Auditee, database or website of the regulators and other relevant sources.

3. Board Composition

The Auditor shall verify compliance of the Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, agreement with Lenders/Investors, Articles of Association and provisions of other Acts / rules/ regulations, guidelines and policies, board decisions, shareholders decisions, as may be applicable to the Auditee with regard to:

- 3.1 Overall composition of the Board including the minimum and maximum strength of the Board.
- 3.2 Optimum combination of the Board including proportion of executive, non-executive, independent, non-independent, retiring, non- retiring, woman and nominee director.
- 3.3 Eligibility criteria including disqualifications of directors.
- 3.4 The constitution and composition of Committees of the Board.

4. Board Processes

The Auditor shall verify that the decisions of the Board and its Committees are taken and recorded in compliance with applicable laws, rules, regulations, guidelines, standards and defined internal processes, if any.

5. System and Process

System and process broadly refers to the framework of legal and procedural compliances of the Auditee including but not limited to internal regulations, control, guidance and governance.

The Auditor shall assess the efficacy and adequacy of the system and processes of the Auditee commensurate with its size and operation for verifying compliance of applicable laws, rules, regulations, standards, guidelines and defined internal processes, if any by:

- 5.1 Reviewing records maintained by the Auditee.
- 5.2 Understanding compliance responsibility centers, control points, matrix, flow of information, escalation of non-compliances to different levels, reporting of any noncompliance.
- 5.3 Assessing compliance mechanism and understanding its extent, coverage and severity mapping. The Auditor shall also assess compliance manual/standard operating procedures, if any, available with the Auditee.
- 5.4 Analysing instances of show cause notices received, prosecution initiated, fine or penalties levied, imprisonment ordered, qualification, adverse remark or observations in the statutory, internal or industry specific audit, orders passed by regulatory bodies or judicial/quasi-judicial authorities.

6. Detection of Fraud

- 6.1 The Auditor shall exercise professional judgment and maintain professional scepticism throughout the planning and performance of the audit to detect and report the fraud envisaged under the provisions of Section 143(12) of the Companies Act, 2013 read with Companies (Audit and Auditors) Rules, 2014.
- 6.2 During the course of the audit, if the Auditor suspects commission of any fraud, he shall endeavour to collect further evidence for the same. The suspicion may arise on perusal of internal control systems, complaint under whistle blower mechanism and reports of the other auditors, etc.
- 6.3 The Auditor shall ensure to collect sufficient evidence which substantiates his suspicion of the commission of the fraud against the Auditee by its employees and officers.

7. Reporting of Fraud

- 7.1 If the Auditor has sufficient reason to believe that there is commission of fraud and have justifiable grounds for the same, he shall report to Audit Committee/Board/Central Government as per the process laid down under the Companies Act, 2013 and include the same in Secretarial Audit Report.
- 7.2 The Auditor shall verify whether the Audit Committee/ Board has given any comments on the fraud reported by the auditors 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 the Audit Committee/ Central Government and report the same in the Secretarial Audit Report.

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

- 8.1 It shall be the duty of the Auditor to identify and report in the Secretarial Audit Report all events/actions having major bearing on the Auditee's affairs in pursuance of the applicable laws, rules, regulations, guidelines, standards, etc.
- 8.2 An event/action shall be considered as having major bearing on Auditee's affairs if it affects its going concern or alters the charter or capital structure or management or business operation or control, etc.

LESSON ROUND UP

- The audit can be classified in to two type of audit i.e. the Financial Audit and the Compliance Audit, the Financial Audit cover the Statutory Audit, Cost Audit and Internal Audit whereas the Compliance Audit cover the Secretarial Audit, CSR Audit, and Corporate Governance Audit, Take over Audit, Insider trading Audit, Labour law Audit, Cyber Audit, System Audit, Social Audit and Forensic Audit, Related Party Audit etc.
- The key difference between development and social audit is that a social audit focuses on the neglected issue of social impacts, while a development audit has a broader focus including environment and economic issues, such as the efficiency of a project or programme.
- Takeover audit for merger / acquisition / takeover could be done as three parts: pre-acquisition, post-acquisition and sell-side.

GLOSSARY

Unpublished Price sensitive information	Means any information, relating to a company or its securities, directly or indirectly, that is not generally available which upon becoming generally available, is likely to materially affect the price of the securities.
Forensic auditing	As new area of auditing to detect the frauds in companies that suspected fraudulent transactions.
CSAS	The Council of the Institute of Company Secretaries of India (ICSI) has approved the issuance of four ICSI Auditing Standards. The Standards are required to be observed by the Company Secretaries undertaking Audits. They are called CSAS.
Conflict of Interest	Holding of more than 2% in the paid up share capital or shares of nominal value of rupees fifty thousand, whichever is lower or more than 2% voting power, as the case may be, by the Auditor singly or along with partners, spouse, parent, sibling, and child of such person or of the spouse, any of whom is dependent financially on such person.

TEST YOURSELF

(These are meant for recapitulation only, Answers to these questions are not to be submitted for evaluation)

- Write short notes on
 - CSR Audit
 - Corporate Governance Audit
 - Insider Trading Audit
- The object of forensic auditing is to relate the findings of audit by examining and gathering legally
- tenable evidence and producing it to the Court. Comment?
- Write a short note on CSAS.
- Explain the provisions of CSAS-3 that relates to Auditing Standard on Forming of Opinion.

LIST OF FURTHER READINGS

- Guidance note on ICSI Auditing Standards.
- Companies Act, 2013 and the rules made thereunder.
- SEBI Manuals.
- Regulations/Circulars/Notifications issued by Securities Exchange Board of India.
- Articles published by professional firms.
- KSI auditing standards

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- www.mca.gov.in
- www.sebi.gov.in
- https://www.icsi.edu/media/webmodules/Guidance_Notes_on_Auditing_Standards_CSAS1_to_CSAS4.pdf

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Lesson 9

Secretarial Audit

Key Concepts One Should Know

- Applicability of Secretarial Audit under the Companies Act, 2013
- Applicability of Secretarial Audit under SEBI (LODR) Regulations, 2015
- Restriction in number of layers
- Applicability of Secretarial Audit on Private Company, which is subsidiary of Public Company
- Secretarial Audit process
- Communication to earlier incumbent
- Finalization of Audit plan
- Working Papers
- Audit summary for Discussions
- Verification of Compliances
- Penalty for Incorrect Secretarial Audit Report
- Guiding Criteria for conducting Secretarial Audit
- Reporting of applicable Laws to the company
- Constitution of Board
- Board Processes
- Reporting of General Laws
- Reporting of Specific Event under Secretarial Audit Report
- Professional Responsibility

Learning Objectives

To understand :

- Secretarial Audit as a proactive governance measure that will have a positive effect on corporate entities.
- Secretarial Audit as a form of Compliance Auditing that is used in carrying out auditing of compliances with all laws, rules and regulatory requirements applicable to the company.
- How Secretarial Audit looks into all the events, compliance and records created during the audit period to check whether the Company has really complied with the applicable laws and standards.
- The difference in creation of the checklist of Secretarial Audit that differs from company to company.
- The process of conducting Secretarial Audit and various aspects of legal compliance requirements stipulated under the Secretarial Audit prescribed under section 204 of the Companies Act, 2013 and SEBI (LODR) Regulations, 2015.

It is advised to the student to also see updates on the changes in the various Compliance requirements.

Lesson Outline

- Secretarial Audit
- Need for Secretarial Audit
- Secretarial Audit and Company Secretary in Practice
- Applicability of Secretarial Audit
- Scope of Secretarial Audit
- Secretarial Audit- the process
- Verification of Compliances
- Panel Provisions
- Guiding criteria for Conducting Secretarial Audit
- Guiding principles of Good Corporate conduct and practices
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

SECRETARIAL AUDIT

The term “Secretarial Audit” is a mechanism which is connected with the audit of the non-financial aspects of the company. It gives necessary comfort to the management, regulators and the stakeholders, as to the compliance by the company of applicable laws and the existence of proper and adequate systems and processes in the company.

Every Company, while pursuing its business activities, has to comply with the rules and regulations relating to the Companies Act, Securities laws, FEMA, Industry Specific laws and General laws like Labour laws, Competition law and Environmental and Pollution related laws and should also pursue the good governance practices. Secretarial Audit covers non-financial aspects of the business impact on the performance of the company and verifies compliances of applicable laws, regulations and guidelines. Nonetheless, this exercise will enhance the capabilities of the management and also mitigates business & reputation risk to a great extent. It also provides a basis for evaluating the manner in which the affairs of a company are conducted to a great extent.

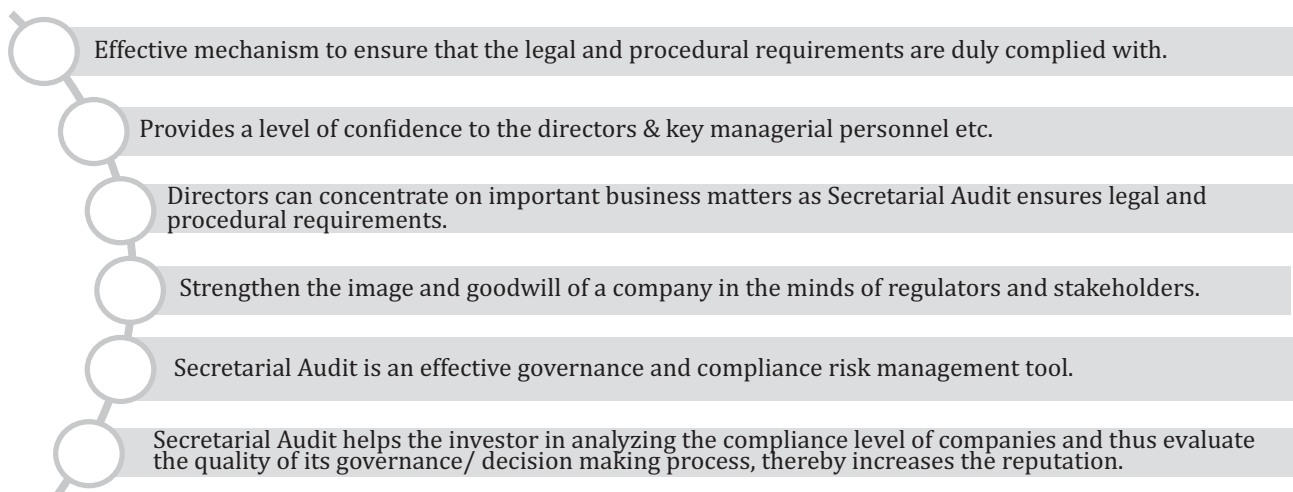
The Secretarial Audit postulates for an independent verification of the records, books, papers and documents by a Company Secretary in Whole Time Practice, to check the compliance status of the company according to the provisions of various statutes, laws and rules & regulations and also to ensure the compliance of legal and procedural requirements and processes followed by the company.

Secretarial Audit is accordingly an independent and objective assurance activity intended to add value and improve operations of a company. It helps to accomplish the organization’s objectives by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes.

NEED FOR SECRETARIAL AUDIT

Secretarial Audit is the process of independent verification, examination of level of compliance of applicable Corporate Laws to a company. The audit process if properly devised, ensures timely compliance and eliminates any un-intended non-compliance of various applicable rules and regulations. An action plan of the corporate secretarial department is to be designed so as to ensure that all event based and time-based compliances are considered and acted upon. Secretarial audit is to be designed on the principle of “Prevention is better than cure” rather than post mortem exercise and to find faults.

Need for Secretarial Audit.



SECRETARIAL AUDIT & COMPANY SECRETARY IN PRACTICE (PCS)

A Company Secretary in practice is a professional who is well-versed in matters of statutory, procedural and practical aspects of laws applicable to companies, both listed and unlisted public and private companies. A strong knowledge base makes him a competent professional to conduct Secretarial Audit. In terms of section 204(1), only a member of the Institute of Company Secretaries of India holding certificate of practice (Company Secretary in Practice) can conduct Secretarial Audit and issue the Secretarial Audit Report to the company.

Students are advised to refer the Auditing Standards issued by the Institute of Company Secretaries along with the Guidance Note on Auditing Standards, the updated Guidance Note on Secretarial Audit, Guidance note on the Annual Secretarial Compliance Report for the detailed checklist on the other aspects relating to Secretarial Audit which is not covered in this study material.

APPLICABILITY OF SECRETARIAL AUDIT UNDER COMPANIES ACT, 2013

Section 204(1) of the Companies Act, 2013 read with rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 provides that-

1. Every listed company
2. Every public company having a paid-up share capital of fifty crore rupees or more;
3. Every public company having a turnover of two hundred fifty crore rupees or more; or
4. Every Company having outstanding loans or borrowings from banks or public financial institutions of one hundred crore rupees or more.

shall annex with its Board's Report made in terms of sub-section (3) of section 134, a Secretarial Audit Report, given by a Company Secretary in practice, in form MR- 3.

Example.

What is the Penalty provided, if Board of Directors do not explain the qualifications in the Secretarial Audit Report.
Answer: 2 Lakh rupees

Question: Is Secretarial Audit applicable on private limited companies, which is subsidiary of public company having turnover of more than Rupees 250 Crore?

Answer: Yes

Explanation. – For the purposes of sub-rule 9, it is hereby clarified that the paid-up share capital, turnover, or outstanding loans or borrowings as the case may be, existing on the last date of latest audited financial statement shall be taken into account.

APPLICABILITY OF SECRETARIAL AUDIT UNDER SEBI (LODR) REGULATIONS, 2015

The Committee on Corporate Governance, constituted under the Chairmanship of Shri Uday Kotak, in its report dated October 05, 2017, recommended the following in view of the criticality of secretarial functions to efficient board functioning:

- (a) Secretarial audit to be made compulsory for all listed entities under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in line with the provisions of the Companies Act, 2013.
- (b) Secretarial audit to be extended to all material unlisted Indian subsidiaries in line with the recommendations of the Committee on strengthening group oversight and improving compliance at a group level for listed entities.

Further secretarial compliance report is mandated for every listed entity w. e. f. 5th may, 2021.

On the basis of the aforesaid recommendations, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 have been amended to include the following Regulation 24A:–

24A: Secretarial Audit and Secretarial Compliance Report

Every **listed entity** and its material unlisted subsidiaries incorporated in India shall undertake secretarial audit and shall annex a secretarial audit report given by a company secretary in practice, in such form as specified, with the annual report of the listed entity.

Every listed entity shall submit a secretarial compliance report in such form as specified, to stock exchanges, within sixty days from end of each financial year.

The terms “**listed entity**” means an entity which has listed, on a recognised stock exchange(s), the designated securities issued by it or designated securities issued under schemes managed by it, in accordance with the listing agreement entered into between the entity and the recognised stock exchange(s).

‘**Designated securities**’ includes the equity shares, convertible securities, non-convertible debt securities, non-convertible redeemable preference shares, perpetual debt instrument, perpetual non-cumulative preference shares, Indian depository receipts, securitised debt instruments, security receipts, units issued by mutual funds and any other securities as may be specified by the Board.

Material subsidiary mean a subsidiary, whose income or net worth exceeds ten percent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.

Whereas the regulations provides that 'subsidiary' means a subsidiary as defined under sub-section (87) of section 2 of the Companies Act, 2013 which provides that:

"Subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company -

- (i) controls the composition of the Board of Directors; or
- (ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Rule 2(1) of Companies (Restriction on number of layers) Rules, 2017 no company, other than a company belonging to a class specified in rule 2(2), shall have more than two layers of subsidiaries.

Rule 2(2) of the above said rules has prescribed the following class of Companies:

- (a) A banking company as defined in clause (c) of section 5 of the Banking Regulation Act 1949 (10 of 1949);
- (b) A non-banking financial company as defined in clause (f) of Section 45-I of the Reserve Bank of India Act, 1934 (2 of 1934) which is registered with the Reserve Bank of India and considered as systematically important non-banking financial company by the Reserve Bank of India;
- (c) An insurance company being a company Which carries on the business of insurance in accordance with provisions of the Insurance Act, 1938 (4 of 1938) and the Insurance Regulatory Development Authority Act, 1999 (41 of 1999);
- (d) A Government company referred to in clause (45) of section 2 of the Act.

Explanation.-For the purposes of this clause,-

- (a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;
- (b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
- (c) the expression "company" includes any body corporate;
- (d) "layer" in relation to a holding company means its subsidiary or subsidiaries;

The terms 'net worth' means the aggregate value of the paid-up share capital and all reserves created out of the profits, securities premium account and debit or credit balance of profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

Exemptions:

As per regulation 15 of the SEBI (LODR) Regulations, 2015 the compliance specified in regulations 24A, shall not apply, in respect of -

15(2)(a) Listed entity having paid up equity share capital not exceeding rupees ten crore and net worth not exceeding rupees twenty five crore, as on the last day of the previous financial year:

Provided that where the provisions of regulations 17 to 27, clauses (b) to (i) and (t) of sub-regulation (2) of regulation 46 and para C, D and E of Schedule V become applicable to a listed entity at a later date, it shall ensure compliance with the same within six months from such date.

Provided further that once the above regulations become applicable to a listed entity, they shall continue to remain applicable till such time the equity share capital or the net-worth of such entity reduces and remains below the specified threshold for a period of three consecutive financial years.

15(2)(b) listed entity which has listed its specified securities on the SME Exchange:

Provided that for other listed entities which are not companies, but body corporate or are subject to regulations under other statutes, the provisions of corporate governance provisions as specified in regulation 17, 17A, 18, 19, 20, 21, 22, 23, 24, 24A, 25, 26, 27 and clauses (b) to (i) of sub-regulation (2) of regulation 46 and para C, D and E of Schedule V shall apply to the extent that it does not violate their respective statutes and guidelines or directives issued by the relevant authorities.

Applicability of Section 204 to a Company which is a subsidiary of a Public Company

Section 2(71) of the Companies Act, 2013 defines a “Public Company” as a company which –

- (a) is not a private company; and
- (b) has a minimum paid-up share capital as may be prescribed.

The proviso to the definition states that “Provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles.”

In view of this, it is clear that Section 204 is applicable to a private company which is a subsidiary of a public company, and which falls under the prescribed class of companies. Although, the companies which are not covered under section 204 may opt for conducting Secretarial Audit voluntarily as it provides an independent assurance of the compliances of applicable laws by the company.

With the SEBI (Listing Obligations and Disclosure Requirement) (Amendment) Regulations, 2018 being notified, subject to the exemptions available under Regulation 15 thereof, the Secretarial Audit is mandatory for listed entities and their material unlisted subsidiaries (incorporated in India (Public or Private) and such entities are required to annex secretarial audit report with their annual report.

Example.

Is it compulsory for a listed entity to annex Secretarial Audit Report to annual report?

Answer: Yes, as section 204 requires the Secretarial Audit Report with Board Report, but Regulation 24A of SEBI (LODR) Regulations, 2015 provides the requirement of annexing it with Annual Report.

Format of Secretarial Audit Report

Every Secretarial Audit Report is to be submitted in a format prescribed under sub-rule (2) of rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the format of the Secretarial Audit Report shall be in Form MR-3 which shall be issued by a Company Secretary in Practice.

Appointment of Secretarial Auditor

In terms of section 204(1), only a member of the Institute of Company Secretaries of India holding certificate of practice (company secretary in practice) can conduct Secretarial Audit and furnish the Secretarial Audit Report to the company.

As per rule (4) 8 of the Companies (Meetings of Board and its Powers) Rules, 2014, secretarial auditor is required to be appointed by means of resolution passed at a duly convened meeting of the Board of Directors of the company.

As secretarial audit entails checking of compliances on a continuous basis, the appointment of the Secretarial Auditor should be at the beginning of the financial year. As a good practice, the Secretarial Auditor should submit a report to the Board at the end of each quarter as to the compliances of the company.

Benefits of Secretarial Audit

A secretarial non-compliance, a legal suit or other legal, ethical and governance problems can give rise to catastrophic effects on the continuing viability of the company. The statute prescribes mandatory secretarial audits of bigger companies to provide necessary assurance and comfort to the stakeholders. Many companies voluntarily conduct secretarial audit to minimize the possibility of various issues which may disrupt the progress of their companies.

The secretarial audit lays the groundwork for the establishment of an ongoing secretarial and legal compliances system and a non-compliance prevention program to ensure the goals of the company, structure and ongoing operations are consistent with the latest developments in business and the law governing the corporate entities.

A comprehensive secretarial audit would examine a wide range of issues which may be as important as to whether or not the company is qualified to do business in various jurisdictions or as complex as an analysis of the company's board compliances in order to ensure consistency with applicable requirements under the Companies Act, 2013 and that all the events/ corporate action occurred during the year are in compliance with the Companies Act, 2013. Audit would include choice and structure of the entity; the decisions of the board of directors and documentation (or lack thereof) relating to those decisions; observance of the secretarial standards and board processes, protection of intellectual property; forms and methods of maintaining records, pending and threatened litigation, insurance coverage; listing under securities laws and compliance, and related trade regulations; labour laws, environmental laws; and a review of compliance of all industry specific laws such as laws relating to cement sector, fertilizer sector, sugar sector and so on.

The extent and complexity of the secretarial audit would vary depending on the size of the company in terms of the horizontal and vertical scales i.e., Size of business, area of operations, turnover, product line, age of the company and type of businesses, such as trading, services, manufacturing, the number of shareholders and employees, the extent to which the company does business as a "regulated industry," and a host of other factors.

A dispensation with such an independent secretarial audit can lead to significant problems for the company and its stakeholders.

Few risks of non-compliance with laws and regulations

Failure of legal compliance	Failure to keep proper books and records or non-compliance with the provisions of corporate laws and securities laws, executing certain unviable or undesirable corporate actions or transactions with related parties or loan to directors, issue, allotment and transfer of security or otherwise, without proper authority of the board of directors or the general meeting or the memorandum of association, etc., could lead to the ability by third parties to play with the stakeholder's limited liability protection.
Failure to obtain proper approvals/permissions/Licenses	Failure to obtain proper approvals/permissions/licenses could lead to fines, penalties or/and imprisonment in some cases, even closure of the business by government or governmental agencies.
Regulatory actions	Failure to comply with certain laws and regulations may lead to initiation of action by the regulators like MCA, SEBI, RBI or others authorities, which may jeopardize the very stability of the financial and manufacturing operations.
Non-compliances of Environment Laws	Failure to adopt proper environment law compliance and policies which are reviewed periodically could give rise to governmental and civil liability, besides causing risk to the environmental sustainability.
Failure to keep accurate records	Failure to keep accurate records and minutes of its decision-making procedures, proves that directors are not exercising informed judgment, and may subject the company and its board to liability to its shareholders and investors.
Failure to monitor the company's reporting requirements	Failure to monitor the company's reporting requirements may put the company into a position of default with lenders or investors.
PCS as extended Arm	Company secretary in practice acts as an extended arm of the regulators in ensuring the compliances. Detecting and reporting any non-compliance before it takes seriously alarming shape.

Other benefits to the Stakeholders are

(a) Promoters

Secretarial audit assures the promoters of a company that those in-charge of its management are conducting its affairs in accordance with the requirements of laws and the owner's stake is not being exposed to unintended risks.

(b) Non-executive/Independent directors

Secretarial audit provides comfort to the non-executive/independent directors that appropriate mechanisms and processes are in place to ensure compliance with laws applicable to the company, thus mitigating any risk from a regulatory or governance perspective.

(c) Government authorities/regulators

It also facilitates reducing the burden of the regulators in ensuring compliances and they can take timely actions against the offenders.

(d) Investors

Secretarial audit helps the investors in taking informed investment decision, as it evaluates the company in terms of compliance and governance norms being followed by the company.

(e) Other Stakeholders

It is an effective due diligence exercise for the prospective investors or joint venture partners. Further financial institutions, banks, creditors and consumers can measure the law abiding nature of company management.

SCOPE OF SECRETARIAL AUDIT

Examination & Specific Reporting on Compliance under:	Examination & Specific reporting on Compliance of other laws as may be Applicable specifically to the Company	Further Reporting	Further Reporting
The Companies Act, 2013 and the Rules made thereunder	E.g. Banks-all laws applicable to banking Industry	Whether there are Adequate systems and prosesses in the Company commensurate with its size & operation to monitor and ensure compliance with applicable laws including general laws like labour law, environmental laws.	Constitution of Board of Directors
Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder	Companies in petroleum sector- All laws applicable to petroleum Industry		Notices, Agenda and Minutes of Board Meetings etc.
Depositories Act, 1996 and the Regulations framed thereunder			Board processes
Foreign Exchange Management Act, 1999			
Regulations and Guidelines under the SEBI Act, 1992 as enlisted in MR-3			
Secretarial Standards issued by ICSI			
Listing Agreement entered into by the company with Stock Exchange(s) if any			

In terms of Form MR-3, the Secretarial auditor needs to examine and report the compliance of the following:

- (i) The Companies Act, 2013 (the Act) and the rules made thereunder;
- (ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder;
- (iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;
- (iv) Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;
- (v) The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-
 - (a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
 - (b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992/ SEBI (Prohibition of Insider Trading) Regulations, 2015;
 - (c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009/2018;
 - (d) The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999/ SEBI (Share Based Employee Benefits) Regulations, 2014;
 - (e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
 - (f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
 - (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; and
 - (h) The Securities and Exchange Board of India (Buy back of Securities) Regulations, 2018;
 - (i) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.
- (vi) 'Other laws as may be applicable specifically to the company.'

Further, the Secretarial Auditor also needs to examine and report on the compliance with the applicable clauses of the following:

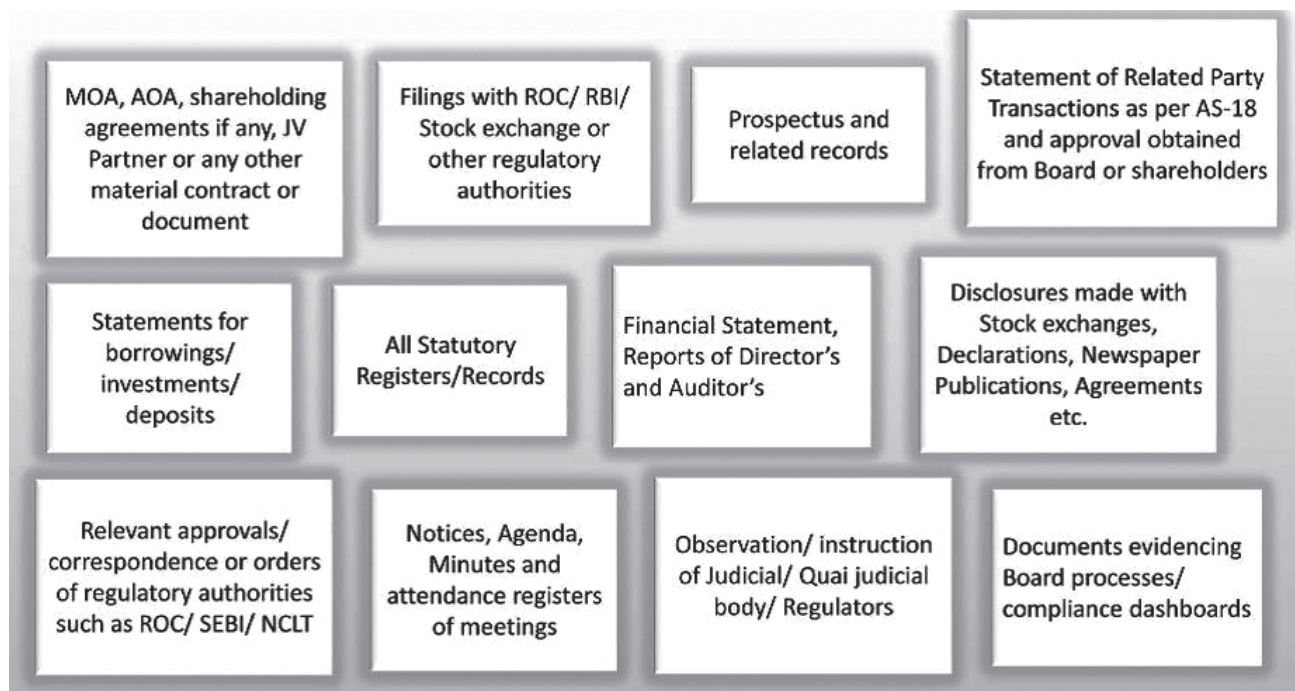
- (i) Secretarial Standards issued by The Institute of Company Secretaries of India.
- (ii) The Listing Agreements entered into by the Company with Stock Exchange(s), if Applicable/ The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;

Further also the Secretarial Audit report also requires reporting on whether –

- The Board of the Company is duly constituted with proper balance of Executive Directors, Non-Executive Directors, Independent Directors, and Women Director.
- The changes in the composition of the Board that took place during period under review were carried out in compliance with the provisions of the companies Act, 2013.
- Adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance or within such other period as may be prescribed under the Articles of section 23 of the companies Act, 2013, and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.
- Majority decision is carried through while the dissenting members' views are captured and recorded as part of the minutes.
- There are adequate systems and processes in the company commensurate with the size and operations of the company to monitor and ensure compliance with all applicable laws including general rules like Labour Laws, Competition Law, Environmental Laws, Regulations and Guidelines.
- Secretarial Auditor is required to report and provide details of specific events and actions that occurred during the reporting period having major bearing on the affairs of the company in pursuance of above referred Laws/ Rules & Regulations.

Basic Documents required for Secretarial Audit The documents required for conducting Secretarial Audit Includes as under:

Basic documents required



SECRETARIAL AUDIT – THE PROCESS

Secretarial Audit is a process to check compliance with the provisions of all applicable laws and rules/ regulations/ procedures; adherence to good governance practices with regard to the systems and processes of seeking and obtaining approvals of the Board and/or shareholders, as may be necessary, for the business and activities of the company, carrying out activities in a lawful manner and the maintenance of minutes and records relating to such approvals or decisions and implementation. The secretarial auditor is also expected to express an opinion, after satisfying himself, that there exist adequate systems and processes in the company commensurate with the size and operations of the company to monitor and ensure compliance with applicable laws, rules, regulations and guidelines. The secretarial auditor has to verify whether diverse requirements under applicable laws have been complied with.

Appointment of Secretarial Auditor

As per Rule 8 of the Companies (Meetings of Board and its powers) Rules, 2014, read with Section 179 of the Companies Act, 2013, secretarial auditor is required to be appointed by means of resolution passed at a duly convened board meeting. Further the appointment shall also be in compliance with the Auditing Standards prescribed by the Institute of Company Secretaries of India.

Communication to earlier Incumbent

Whenever a company secretary in practice is engaged as a secretarial auditor in place of an earlier incumbent, he shall communicate to the earlier incumbent about the proposed engagement in writing to be sent by registered/ speed post or any other mode of delivery, as may be recognized by the Institute of Company Secretaries of India.

The Council of ICSI at its meeting held on 16th March, 2019 has made amendments in Guidelines wherein for Practice Company Secretaries, communication to previous incumbent would be mandatory before accepting the assignment, in terms of Clause (8) of Part i of the First Schedule to the Company Secretaries Act, 1980. The Council has approved some services in respect of which it shall be mandatory to communicate to the previous incumbent (Company Secretary) before accepting the assignment in terms of terms of clause (8) of part I of the First Schedule to the Company Secretaries Act, 1980, which includes the Issuance of Secretarial Audit Report in terms of Section 204 of the Companies Act, 2013 and Issue of Secretarial Audit Report to material unlisted subsidiaries of Listed entities (whose equity shares are listed) under Regulation 24A of SEBI (LODR) Regulations, 2015.

Acceptance of Appointment

A formal letter for appointment should be issued by the company to the secretarial auditor along with the copy of the board resolution for appointment. The secretarial auditor should confirm acceptance of appointment in writing.

Preliminary Discussions/Surveys

It is important to have relevant information about the company. The secretarial auditor is expected to take general overview of the obtain of the company and interact with the personnel involved to know about the nature of the business. He may opt for surveys for generating information about the company.

Preliminary Meeting

The preliminary meeting with the senior management and the administrative staff involved in the audit will give a fair idea of what is expected and the manner in which audit activities are to be undertaken. At this stage, a time frame of the secretarial audit should be determined and finalized. The secretarial auditor shall discuss the scope and objectives of the audit, gather information on important Board processes, evaluate existing control systems and prepare the audit plan.

Finalization of Audit Plan and Briefing the Staff

It is important to work out an audit plan. The plan involves briefing the audit staff as to allotment of work, fieldwork responsibilities and other roles. The audit plan should comprehensively outline the fieldwork and usage of auditing tools. The review of controls helps the auditor determine the areas of highest risk and design tests to be performed in the fieldwork section. It is essential that the audit plan adheres to the timelines. Detailed checklist for each aspect of secretarial audit should be prepared and audit staff should be properly sensitized before commencement of audit.

Testing, Interviews and Analysis

The secretarial auditor may use a variety of tools and technology to gather information about the company's operations. The secretarial auditor should determine whether the controls identified during the preliminary review are operating properly, and in the manner described by the Company.

Fieldwork typically consists of interviewing with staff of the company whether formally or informally, reviewing procedure manuals and processes, testing and analyzing compliance with applicable policies and procedures and laws, rules, regulations and assessing the adequacy of controls. This exercise may result in significant findings which the secretarial auditor may bear in mind while preparing the secretarial audit report.

Working Papers

Working papers are a vital tool of the audit process. They form the basis for expression of the audit opinion. They connect the management's records and information to the auditor's opinion. They are comprehensive and serve many purposes for the company as well as for the Auditor.

Audit Summary for Discussions

It is recommended that the findings during the course of audit are summarized and presented for initial discussions with the management for their views/ clarifications/replies.

Submission of Secretarial Audit Report

After considering the clarifications/replies of the management, the secretarial auditor shall prepare the secretarial audit report in form MR.3. The report is addressed to the members but is to be submitted to the Board. The report shall contain the opinion on the statutory compliances examined by the auditor and shall state whether in his opinion the Company is carrying out/not carrying out due compliances of the applicable provisions of the various laws. The report shall be provided with or without qualifications.

Auditing Standards

Secretarial Audit should be conducted in accordance with the Auditing Standard issued by the Institute of Company Secretaries of India.

VERIFICATION OF COMPLIANCES**(i) Compliance under the Companies Act, 2013**

The Companies Act, 2013 and rules thereunder is the first legislation covered under the scope of the Secretarial audit. The Secretarial auditor is expected to be updated on the amendments in the Act and the Rules & Regulations from time to time. Before commencing the Secretarial audit, the auditors shall go through the following documents, which will help in the identification of various events occurred during the audit period, according to which the auditor can prepare the audit plan and can provide the list of further documents required for the audit purpose to the management of the company:

10. Memorandum and Articles of Association.
11. Forms filed with the Registrar of Companies with receipts.
12. Index of Meetings held during the financial year.
13. Minutes of the meetings of the Board, its Committees and of General meetings.
14. Proof of Circulation of Notice and Agenda of the Board meetings, the Committee meetings and of the General meeting.
15. Proof of circulation of Draft Minutes and Final Minutes of meetings of the Board and its committees.
16. Attendance Register of the Board and committee meetings.
17. All statutory registers.
18. Copy of financial statement along with notes to accounts and Auditor Report.
19. Report of Internal Auditors.
20. Notices of annual and event-based disclosure of directors' interests.
21. Copies of contracts made between the company and any of the related parties.
22. Shareholder List, details of Share Transfers which have taken place during the financial year.
23. Copies of Share Transfer Deeds.
24. Instruments creating, modifying or satisfying charges.
25. Forms relating to Disclosures from Directors.
26. Certificate from RTA stating the number of shareholders as on the close of the financial year.
27. Certified true copies of the Board Resolutions for any type of corporate actions taken by the Company.
28. Details of the Holding and Subsidiary Companies.
29. Complete details of Shares and Debentures issued during the year.
30. Details with respect to maintenance of cost records and appointment of cost auditor.
31. Details of appointment of Auditor and Internal auditor.
32. The list of Related Party Transactions.
33. Indebtedness Certificate signed by Company Secretary/ CFO of the Company.
34. Listing and Trading Approval(s) from Stock Exchanges.
35. Intimation sent to Stock Exchanges, Confirmation from National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) for change of the name of the company, change in the face value of equity shares, etc.
36. Change of name of the company, change in the face value of the shares of the company, new ISIN No. of the Company in respect of the allotment or as a result of any change in capital structure due to any corporate action taken by the Company during the financial year under audit.

37. Corporate Action Forms filed by the Company with Depositories.
38. Equity Shareholding pattern and its break up as at the close of the financial year.
39. Any orders received by the company from the High court/Tribunal or from any other regulatory body.
40. Compliance record under FEMA with respect to FDI, ECB and ODI as applicable.
41. Copies of Shareholders and joint ventures agreement, if any.
42. Copy of Declaration received from Independent Director under section 149(7).
43. Compliance records of Corporate Social Responsibility (CSR) activities of the company.
44. Details of Directors and Key Managerial Personnel (KMP).
45. Bank Statements relating to transfer of Dividend to separate bank account within 5 days of declaration, proof of dispatch of dividend within 30 days of Dividend.
46. Advertisement/circular relating to Deposits; Credit rating certificate, deposit insurance, if any.
47. Such other documents as required for the purpose of audit.

(ii) Compliances under Securities (Contract Regulation) Act, 1956 and the rules made thereunder;

The Securities Contracts (Regulation) Act, 1956 (SCRA) defines various terms in relation to securities and provides the procedure for the stock exchanges to get recognition from Government/ SEBI, procedure for listing of securities of companies and operations of the brokers in relation to purchase and sale of securities on behalf of investors. The Central Government promulgated the Securities Contracts (Regulation) Rules, 1957 (SCRR) for carrying into effect the objects of the SCRA, 1956. A company listed on a stock exchange is required to comply with the provisions of SCRA and SCRR.

(iii) The Depositories Act, 1996 and the Regulations & Bye-laws framed thereunder;

According to section 2(e) of the Depositories Act, 1996, Depository means a company formed and registered under the Companies Act and which has been granted a certificate of registration under section 12(1A) of the Securities and Exchange Board of India Act, 1992. The Depository holds electronic custody of securities and also arranges for transfer of ownership of securities on the settlement dates.

Section 29 of the Companies Act, 2013 also mandates that every company making public offer and such other class or classes of companies as may be prescribed, shall issue the securities only in dematerialized form by complying with the provisions of the Depositories Act, 1996 and the regulations made thereunder.

As per the rule 9A of the Companies (Prospectus and Allotment of Securities) Rules, 2014, every unlisted public company shall Issue the securities only in dematerialised form; and facilitate dematerialisation of all its existing securities in accordance with provisions of the Depositories Act, 1996 and regulations made there under.

Further, every unlisted public company making any offer for issue of any securities or buyback of securities or issue of bonus shares or rights offer shall ensure that before making such offer, entire holding of securities of its promoters, directors, and key managerial personnel has been dematerialized in accordance with provisions of the Depositories Act 1996 and regulations made there under.

(iv) Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings

The Reserve Bank of India by issuing Master Directions provides consolidate instructions on rules and regulations framed by the Reserve Bank under various Acts including banking issues and foreign exchange transactions. The RBI issuing one Master Direction for each subject matter covering all instructions on that subject. Any change in the rules, regulation or policy is communicated during the year by way of circulars/ press releases. The Master Directions updated suitably and simultaneously whenever there is a change in the rules/ regulations or there is a change in the policy. All the changes will get reflected in the Master Directions or Notifications available on the RBI website. Students are requested to go through the latest master directions/ notifications in relation to:

- (a) Foreign Exchange Management (Non-debt Instruments) Rules, 2019
- (b) Foreign Exchange Management (Cross Border Merger) Regulations, 2018
- (c) Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2004
- (d) Consolidated FDI Policy of India for the relevant period.
- (e) Master Direction - Establishment of Branch Office (BO)/ Liaison Office (LO)/ Project Office (PO) or any other place of business in India by foreign entities.
- (f) Master Direction - External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorised Dealers and Persons other than Authorised Dealers.
- (g) Master Direction – Direct Investment by Residents in Joint Venture (JV) / Wholly Owned Subsidiary (WOS) Abroad
- (h) Master Direction – Reporting under Foreign Exchange Management Act, 1999

(v) Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-

For the purpose of the Secretarial Audit, the following Regulations has been specifically prescribed under form MR-3

- (a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
- (b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992/ SEBI (Prohibition of Insider Trading) Regulations, 2015;
- (c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009/2018;
- (d) The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999/ SEBI (Share Based Employee Benefits) Regulations, 2014;
- (e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
- (f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
- (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2021; and
- (h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 2018;
- (i) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

(vi) Identification and compliance of specific Applicable laws

The Secretarial Auditor may take note of various laws applicable to the Company as identified by the Management of the company. Also the auditor shall carry his own efforts to identify various other laws as may be applicable to the company.

Guiding Criteria for Segregation of Specific Laws and General Laws

Segregation of laws applicable on the Company into the Industry specific and general is essential for Secretarial Audit. After considering the following factors the auditor should make the segregation of the same based on the laws being applicable on the Company:

- 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, Sectorial 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.

The auditor should comprehensively verify all laws, rules, regulations made for regulation of specific Industry and should assess the adequacy of systems and process for other General laws applicable to the Company other than Industry Specific Laws and laws specifically covered under Form MR-3.

(vii) Reporting on Compliance with the applicable clause of Secretarial Standards

Section 118 (10) of the Companies Act, 2013 provides that every company shall observe Secretarial Standards with respect to General and Board meetings as specified by the Institute of Company Secretaries of India (ICSI). The Secretarial Auditor shall verify that the company has followed the applicable clauses of the Secretarial Standards.

Secretarial Standards are in conformity with the provisions of the applicable laws. However, if, due to subsequent changes in the law, a particular Standard or any part thereof becomes inconsistent with such law, the provisions of the said law shall prevail.

The Secretarial Standard-1 is applicable to the Meetings of Board of Directors of all companies incorporated under the Act except One Person Company (OPC) in which there is only one Director on its Board and a company licensed under Section 8 of the Companies Act, 2013 or corresponding provisions of any previous enactment thereof. However, Section 8 companies need to comply with the applicable provisions of the Act relating to Board Meetings. The principles enunciated in SS-1 for Meetings of the Board of Directors are also applicable to Meetings of Committee(s) of the Board, unless otherwise stated therein or stipulated by any other applicable Guidelines, Rules or Regulations.

The Secretarial Standard-2 is applicable to all types of General Meetings of all companies incorporated under the Act except One Person Company (OPC) and a company licensed under Section 8 of the Companies Act, 2013 or corresponding provisions of any previous enactment thereof. However, Section 8 companies need to comply with the applicable provisions of the Act relating to General Meetings. The principles enunciated in this Standard for General Meetings of Members are applicable mutatis-mutandis to meetings of debenture-holders and creditors.

A meeting of the Members or class of Members or debenture-holders or creditors of a company under the directions of the Court or the Company Law Board (CLB) or the National Company Law Tribunal (NCLT) or any other prescribed authority shall be governed by this Standard without prejudice to any rules, regulations and directions prescribed for and orders of, such courts, judicial forums and other authorities with respect to the conduct of such Meetings.

The Company Secretary in employment as well as in practice is entrusted to ensure the compliance of applicable Secretarial Standards.

(viii) Reporting on the Constitution of the Board

The Secretarial Auditor shall verify that during the year the Board of Directors of the Company is duly constituted with proportion of Executive Directors, Non-Executive Directors, Independent Directors, and Women Director as required under the applicable Laws, Rules & Regulations.

However, he should also confirm that the changes in the composition of the Board of Directors that took place during the period under review were carried out in compliance with the provisions of the Act and the SEBI Regulations, if applicable.

(ix) Reporting on Board Processes

The Secretarial Auditor shall verify that during the year adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance, or within such other period as may be prescribed under the Articles of Association of the Company, read with Sec 173 of the Act and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

Further, he should also confirm that the majority decision is carried through while the dissenting members' views are captured and recorded as part of the minutes.

(x) Reporting of the Adequacy of Systems \ Processes

The Secretarial Auditor shall confirm that there are adequate systems and processes in the company commensurate with the size and operations of the company, to monitor and ensure compliance with applicable laws, rules, regulations and guidelines.

(xi) Reporting on the Specific Events

Secretarial Auditor is required to report and provide details of specific events and corporate actions that occurred during the reporting period, having major bearing on the affairs of the company, in pursuance of above referred laws/rules & regulations.

Professional Responsibility

Section 448 of Companies Act, 2013 deals with penalty for false statements. The section provides that if in any return, report, certificate, financial statement, prospectus, statement or other document required by, or for the purposes of any of the provisions of this Act or the rules made thereunder, any person makes a statement, –

- (a) which is false in any material particulars, knowing it to be false; or
 - (b) which omits any material fact, knowing it to be material,
- he shall be liable under section 447.

Penalty for incorrect Secretarial Audit Report

Section 447 deals with punishment for fraud which provides that any person who is found to be guilty of fraud, involving an amount of at least ten lakh rupees or one percent of the turnover of the company whichever is lower, shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud. In case, the fraud in question involves public interest, the term of imprisonment shall not be less than three years.

In case where the fraud involves an amount less than ten lakh rupees or one percent of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to Fifty lakh rupees or with both.

In view of this, a company secretary in practice may attract the penal provisions of section 448, for any false statement in any material particular or omission of any material fact in the Secretarial Audit Report. However, a person will be penalised under section 448 in case he makes a statement, which is false in any material particular, knowing it to be false, or which omits any material fact knowing it to be material.

It is pertinent to note that section 448 applies to “any person”. In view of this, a company secretary in practice, who is an independent professional, may attract the penalty, as prescribed in section 448 in case his observations in the secretarial audit report turns out to be false or he omits any material fact, knowing it to be false or material.

Section 204 of the Companies Act, 2013

Section 204(4) further provides that if company secretary in practice contravenes the provisions of section 204 in issue of the Secretarial Audit Report in Form MR-3, he shall be liable to a penalty of two lakh rupees.

The Company Secretaries Act, 1980

Besides, the Company Secretary in Practice shall be liable for professional or other misconduct mentioned in First or Second Schedule or in both the Schedules to the Company Secretaries Act, 1980, as follows:

- (i) where found guilty of professional or other misconduct mentioned in the First Schedule:
 - (a) reprimand;
 - (b) removal of name from the Register of members up to a period of three months;
 - (c) fine which may extend to one lakh rupees.

- (ii) where found guilty of professional or other misconduct mentioned in the Second Schedule:
- (a) reprimand;
 - (b) removal of name from the Register of members permanently or such period as may be thought fit by the Disciplinary Committee;
 - (c) fine which may extend to five lakh rupees.

Guiding Criteria for various stages for conducting Secretarial Audit

1. Verification of Events and Compliances under Companies Act, 2013

1. Documents relating to the meetings of the Boards and its committee which includes:
 - Notice of Board Meeting, Agenda, Notes on Agenda, Minutes, Attendance;
 - Notice Committees Meetings Agenda, Notes on Agenda, Minutes, Attendance;
 - Terms of References of the Committees.
2. Documents Relating to Members Meeting which includes:
 - Annual General Meeting Notice, Agenda, Attendance, Minutes;
 - Extra Ordinary General Meetings Notice, Agenda, Attendance, Minutes;
 - Postal Ballot Notice, Agenda, Attendance, Minutes.
 - Documents related to E-voting facilities provided w.r.t. the General meetings.
3. Documents relating to Appointment, Resignation removal which includes:
 - Appointment of Auditors;
 - Appointment of Directors, Independent Directors;
 - Appointment of Company Secretary;
 - Resignation / Removal of Directors;
4. Documents relating to Securities including Shares, Debentures, Deposit which includes:
 - Shareholding Pattern;
 - Issue of Securities;
 - Buy back of Securities;
 - Conversion of Securities;
 - Acceptance and payment of Deposits;
5. Documents relating to Managerial Remuneration
6. Documents relating to Registration, Modification and satisfaction of Charges
7. Documents relating to related party transactions
8. Statement on Transaction with Director and Loan to Directors
9. Statutory Register and other Registers
10. Disclosures submitted by Directors
11. Annual Return, Financial Statements
12. Filing of forms with the Registrar and attachment thereof
13. Information of the Regulatory action, order, pending cases
14. Information of the various filing to stock exchanges
15. Video Recordings of the meetings of the Board and its Committees held through Video Conferencing or Other Audio-video Mode

2. Verification of Compliances under Securities Contracts (Regulation) Act, 1956 and the Rules made thereunder which includes:

1. Capital Structure of the company and Shareholding status
2. Changes to its capital structure during the period of Audit
3. Compliance with Conditions of the SEBI (LODR) Regulations, 2015 relating to Listing of Securities.
4. Issues relating to listing of securities /refusal of Listing of Securities by the stock exchange.
5. Status of application, if any, filed before the central government or the Securities Appellate Tribunal.
6. Status of continuous listing requirement with the stock exchange.
7. Status of Contravention of any provisions which may attract the penal provisions provided under Sections 23A to 23H.
8. Immunity availed by the company from Central Government.
9. Grounds for the delisting of Securities by the Stock exchange.

The following are the illustrative Compliance requirement under Securities Contracts (Regulation) Act, 1956 and the Rules made thereunder:

1. The company has issued securities to the public.
2. The company has changed its capital structure during the period of Audit
3. Whether the conditions of listing agreement complied with (Section 21)
4. Whether any application for listing of securities has been refused by the stock exchange.
5. If the permission is refused, whether the company has repaid all moneys, if any, received from applicants in pursuance of the offer document within a period of eight days. [Section 17A (3)]
6. In case the stock exchange refused to list the securities, whether the company has made an appeal to the Central Government or the Securities Appellate Tribunal against such refusal.
7. What was the outcome of the appeal?
8. If listed, whether the company has complied with Rule 19A of SCRR with respect to continuous listing requirement with the stock exchange.

Note: To check this, PCS may check the annual report of the company and the shareholding pattern filed by the company with the stock exchange under Regulation 31 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

9. In case the company is aggrieved by the order of Securities Appellate Tribunal, whether the company has filed an appeal to the Supreme Court within sixty days from the date of communication of the decision or order of the Securities Appellate Tribunal. (Section 22F)
10. Whether the company has contravened any provisions which may attract the penal provisions provided under Sections 23A to 23H.
11. Whether the company has been granted immunity by Central Government. (Section 23 O)
12. If yes, whether it has been withdrawn by the Central Government, if it is satisfied that such person had, in the course of the proceedings, not complied with the condition on which the immunity was granted or had given false evidence. (Section 23 O)
13. Check whether the Company has been delisted by the Stock exchange.

3. Verification of the Compliances under the Depositories Act, 1996 and the Rules made thereunder which include:

1. Agreement between depository and participant.
2. Surrender of certificate of security.

3. Registration of transfer of securities with depository.
4. Holding of Securities in depositories.
5. Pledge or hypothecation of securities held in a depository.
6. Redressal of investors' grievances.

The following are the illustrative Compliances requirement under the Depositories Act, 1996

1. Check the Tripartite agreements entered into by the company with the RTA and depository for dematerialisation of securities. (NSDL/CDSL)
2. Check that the provisions of section 29 of the Companies Act, 2013 and the rules made thereunder have been complied with.
3. Check that the company has complied with clause 76 of SEBI (Depositories and Participants) Regulations, 2018 with respect to submission of an Audit Report for the purpose of the reconciliation of the total issued capital, listed capital and capital held by depositories in dematerialized form. The company shall file the Report on quarterly basis, to the concerned stock exchange audited by a qualified Chartered Accountant or a Practising Company Secretary.
4. Check whether the Company or its RTA has ensured to establish continuous electronic means with the Depository, as required under regulation 77 of SEBI (Depositories and Participants) Regulations, 2018.
5. Check whether there is any contravention which may attract the penal provisions provided under Sections 19A to 19G.
6. Whether the company has been granted immunity by Central Government. (Section 22B)
7. If yes, whether it has been withdrawn by the Central Government, if it is satisfied that such person had, in the course of the proceedings, not complied with the condition on which the immunity was granted or had given false evidence. (Section 22B)
8. In case the company is aggrieved by the order of SEBI, may prefer an appeal to the Central Government or the securities appellate tribunal, as the case may be within a stipulated time as may be prescribed. (Section 23).
9. Verification of quarterly audit report submitted to the stock exchange by the company with respect to reconciliation.

4. Verification of compliances under Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder

The Reserve Bank of India, has revised the Regulations on foreign investment in India and has repealed and replaced the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2017 with the Foreign Exchange (Non-Debt Instruments) Rules, 2019, vide Gazette Notification No. S.O. 3732(E) dated October 17, 2019. The Verification of Compliances includes conditions for:

- Permission for making investment by a person resident outside India, including foreign portfolio Investor, NRI or OCI on Repatriation basis/ Non-Repatriation basis etc.
- Purchase and sale of securities other than capital instruments by a person resident outside India
- Investment in a Limited Liability Partnership (LLP)
- Investment by a Foreign Venture Capital Investor (FVCI)
- Investment by a person resident outside India in an Investment Vehicle
- Investment in Depository receipts by a person resident outside India
- Issue of Indian Depository Receipts (IDRs)
- Acquisition through a rights issue or a bonus issue
- Issue of shares under Employees Stock Options Scheme to persons resident outside India
- Issue of Convertible Notes by an Indian startup company

- Merger or demerger or amalgamation of Indian companies
- Transfer of capital instruments of an Indian company by or to a person resident outside India
- Pricing Guidelines
- Reporting requirements Advance Remittance Form, Form Foreign Currency-Gross Provisional Return, Annual Return on Foreign Liabilities and Assets, Form Foreign Currency-Transfer of Shares, Form Employees' Stock Option, Form Depository Receipt Return (, Form LLP, Form Convertible Notes etc.
- Prohibited activities for investment by a person resident outside India.
- Permitted sectors, entry routes and sectorial caps for total foreign investment.

5. Verification of Compliances under the Regulations and Guidelines prescribed under SEBI Act, 1992

- (a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 include the following activities:
- Direct Acquisition of Shares.
 - Indirect Acquisition of Shares
 - Direct Acquisition of Control.
 - Indirect Acquisition of Control
 - Voluntary offer
 - Pricing
 - Event base, Continual and Annual Disclosures
 - Disclosure of shares encumbered
- (b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015 include the following activities relating to;
- Connected Person
 - Communication of UPSI – Investment Due-diligence
 - Restrictions of Trading & Defences
 - Onus of Proof
 - Trading plans for Perpetual Insiders
 - Trading plans
 - Disclosures of trading by insiders
 - Continual Disclosures
 - Disclosures by other connected persons
 - Codes of Fair Disclosure and Conduct
- (c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 include the following activities relating to:
- Common Conditions for public issue and right issue
 - Provisions as to public issue relating to
 - Eligibility requirement
 - Pricing in public issue
 - Promoter contributions
 - Restriction on transferability (lock in) promoter contribution etc.
 - Minimum offer to public, reservation etc.
 - Application for listing and listing agreement

- Right Issue
 - Bonus issue
 - Manner of disclosure in the offer documents
 - General obligations of an issuer and intermediaries with respect to public issue and right issue
 - Conditions and manner of providing exit opportunities to dissenting share holder
 - Institutional Placement programme
 - Listing on Institutional Trading Platform
- (d) The Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 include the following activities relating to
- Schemes - Implementation and Process
 - Administration of Specific Schemes
 - Eligibility for participation in scheme
 - Employee Stock Option Scheme (ESOS)
 - Employee Stock Purchase Scheme (ESPS)
 - Stock Appreciation Rights Scheme (SARS)
 - General Employee Benefits Scheme (GEBS)
 - Retirement Benefit Scheme (RBS)
- (e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008 include the following activities relating to:
- Issue requirement for public issue for debt securities
 - Disclosure in the offer documents
 - Filing of draft offer documents
 - Filing of shelf prospectus
 - Continuing listing conditions
 - Trading of debt securities
- (f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client which includes
- To ensure that the Registrar to an Issue does not acts as such for an associate
 - To ensure that the registrar has maintained proper books of accounts and records, etc.
 - To ensure that the registrar to an issue has maintain the following records with respect to:-
 - all the applications received from investors in respect of an issue;
 - all applications of investors rejected and reasons therefor;
 - basis of allotment of securities to the investors as finalised in consultation with the stock exchange;
 - terms and conditions of purchase of securities; allotment of securities;
 - list of names of allottees and non-allottees of the securities;
 - refund orders dispatched to investors in respect of application monies received from them in response to an issue;
 - such other records as may be specified by the Board for carrying on the activities as registrars to an issue.

- To ensure that the share transfer agent has maintained the following records in respect of a body corporate on whose behalf he is carrying on the activities as share transfer agent namely:-
 - list of holders of securities of such body corporate;
 - the names of transferor and transferee and the dates of transfer of securities;
 - such other records as may be specified by the Board for carrying out the activities as share transfer agents.
- (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; which includes the
 - Compulsory delisting
 - Voluntary delisting – where no exit opportunities is required
 - Voluntary delisting – where exit opportunities is given
- (h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 2018, which includes the buy-back of shares or other specified securities by any one of the following methods: –
 - (a) From the existing security-holders on a proportionate basis through the tender offer;
 - (b) From the open market through –
 - (i) Book-building process,
 - (ii) Stock exchange;
 - (c) From odd-lot holders.
- (i) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, which includes the
 - General Compliance relating to
 - Appointment of compliance officer
 - RTA,
 - Rating agency
 - Disclosures
 - Policies
 - Stakeholder grievances
 - Information placed on the Website
 - Corporate Governance Compliances
 - Other Compliances relating to
 - Equity Shares
 - Non-convertible debt securities
 - Non-convertible redeemable Preference Shares
 - Secured debt instrument
 - Mutual fund units

6. Reporting on the Laws as specifically applicable to the company

According to the Scope of Secretarial Audit, the Council of ICSI on specific reference to other laws as may be applicable specifically to the company decided as under:

“Reporting on compliance of ‘Other laws as may be applicable specifically to the company’ shall mean all the laws which are applicable to specific Company for example for Banks- all laws applicable to Banking Industry; for insurance company-all laws applicable to insurance industry; likewise for a company in petroleum sector- all laws applicable to petroleum industry; similarly for companies in pharmaceutical sector, cement industry, etc.

The illustrative lists of the Central, State and Local laws applicable to the various industries are placed on the website of the ICSI. However, for the reference of the students the list of the industries which are covered is placed as below:

Agriculture	Civil Aviation
Automobiles	Banking
Auto Components	Education & Training
Cement	Financial Services
Chemical	Healthcare
Construction	IT & ITeS
FMCG	Media and Entertainment
Engineering	Rubber
Food Industry	Shipping
Gems and Jewelry	Power
Steel	Services
Insurance	Ports
Mining	Paper Manufacturing
Oil and Gas	Real Estate
Pharmaceuticals	Retail
Textiles	Telecommunications
Tourism and Hospitality	Transportation / Logistics

7. Reporting on the compliance of the applicable clauses of Secretarial Standards

The Secretarial Standard on Meetings of the Board of Directors (SS-1) and Secretarial Standards on General Meetings (SS-2) are mandatory as prescribed under Section 118(10) of the Companies Act, 2013, it is necessary to ensure the effective compliance of Secretarial Standards by the Companies and Company Secretaries in employment as well as in practice and accordingly the **students are advised to go through the following clauses of the Secretarial Standards issued by ICSI:**

Secretarial Standards on Meeting of Board of Directors (SS-1)	Secretarial Standards on General Meeting (SS-2)
1. Convening a meeting	1. Convening a meeting
2. Frequency of meetings	2. Frequency of meetings
3. Quorum	3. Quorum
4. Attendance at meeting	4. Presence of Directors and Auditors
5. Chairman	5. Chairman
6. Passing of resolution by circulations	6. Proxies
7. Minutes	7. Voting
8. Preservation of minutes and other Records	8. Conduct of evoting
9. Disclosure	9. Conduct of poll
	10. Prohibition of Withdrawal of Resolution
	11. Rescinding of resolution
	12. Modification to resolution
	13. Reading of Reports

	14. Distribution of Gifts
	15. Adjournment of meetings
	16. Passing of Resolution by postal ballot
	17. Minutes
	18. Preservation of Minutes and other records
	19. Report on Annual General meeting
	20. Disclosures

8. Verification relating to Constitution of Board and its Processes

A. Constitution of the Board: Size and Composition

Under the verification of the constitution and composition of the board includes the Compliance relating to the as applicable to the company status i.e., Private or Public and Listed or Unlisted etc.:

- Minimum number of directors
- Maximum number of directors
- Optimum combination of executive and non-executive directors
- Appointment of woman director
- Chairperson of the Board
- Independent directors.
- Nominee Director
- Alternate Director
- Fulfilling qualifying criteria for independent director
- Declaration of independence by Independent Director
- Terms and conditions of appointment of Managing Director, Independent Director
- Remuneration to Independent Director
- Sitting fee
- Retire by Rotation of Directors
- Small Shareholder Director
- Removal of Director
- Resignation of Directors

B. Board Processes

Under the verification of the board process the following check points shall be observed by the Secretarial Auditors:

1. That the company held its first meeting within 30 days of incorporation and a minimum number of four meetings of its Board of Directors during the year in such a manner that there was gap of not more than one hundred and twenty days between two consecutive meetings of the Board, except where a different maximum gap has been allowed by the Ministry of Corporate affairs during a specific period.
2. That the notice in writing was sent to every director at his address registered with the company either by hand delivery or by post or by electronic means at least seven days prior to the meeting. In case meeting of the Board was called by giving not less than seven days' notice ensure that at least one independent director, if any, was present at the meeting. In case of absence of independent directors from such a meeting of the Board, check that decisions taken at such a meeting were circulated to all the directors and are ratified by at least one independent director, if any. Check whether the notice to be supported by agenda giving write-up on each item.

3. If the company provides audio-visual facility, check that the notice of the meeting informs that the directors regarding the option available to them to participate through video conferencing mode or other audio-visual means, and also provide necessary information enable the directors to participate through video conferencing mode or other audio-visual means.
4. The video conferencing is recorded and kept under safe custody
5. Provided that where there is quorum presence in a meeting through physical of directors, any other director may participate conferencing through video or other audio-visual means.
6. That the quorum for a meeting of the Board of Directors of a company was present i.e., one third of its total strength or two directors, whichever is higher, or such higher number as may be prescribed by the Articles of Association of the Company, and the participation of the directors by video conferencing or by other audio-visual means was also counted for the purpose of quorum.
7. That the independent directors of the company had at least one meeting in a financial year, without the attendance of non-independent directors and members of management.
8. That in separate meeting of independent directors they reviewed the performance of non-independent directors and the Board as a whole and reviewed the performance of the Chairperson of the company, taking into account the views of executive directors and non-executive directors and to assess, the quality, quantity and timeliness of flow of information between the company management and the Board which is necessary for the Board to effectively and reasonably perform its duties.
9. That listed company and every other public company having a paid-up share capital of twenty-five crore rupees or more calculated at the end of the preceding financial year has in its Board's report made a statement indicating the manner in which formal annual evaluation of the performance of the board, its committee and of individual director has been made by the Board of its own performance and that of its committees and individual directors.
10. That every director discloses his concern or interest in any company or companies or bodies corporate (including shareholding interest), firms or other association of individuals, by giving a notice in writing in Form MBP-1, at the first meeting of the Board in which he participates as a director and thereafter at the first meeting of the Board in every financial year or whenever there is any change in the disclosures already made.
11. That the interested director has participated when such contract or arrangement was taken up for discussion and was not counted for the quorum for the same.
12. That, in case of the listed company, all material transactions with related parties have been placed before the Audit committee and disclosed quarterly along with the Corporate Governance report filed with the Stock Exchanges.
13. That the company has formulated a policy on materiality of Related Party Transaction and also on dealing with Related Party Transactions and the same is disclosed on its website and also in the Annual Report.
14. That in case of listed company, all Related Party Transactions had prior approval of the Audit Committee.
15. That the Audit committee has provided, omnibus approval for certain Related Party Transaction, ensure that the transactions are within the criteria of the approval and such approval shall not be provided for a period exceeding one year.
16. That the audit committee reviewed, at least on a quarterly basis, the details of related party transactions entered into by the company pursuant to each of the omnibus approvals given by the Committee.
17. That all Related Party Transactions have been approved by the shareholders. In case of a listed company ensure that the related parties have not voted on material related party transaction whether the entity is a related party to the particular transaction or not. (This shall not apply to transactions between wholly owned subsidiary and holding company and between two government companies.)
18. That the Board periodically review the systems and processes followed by the company.
19. Whether such systems and processes are adequately commensurate with its size and operations of the company whether the company has compliance management frame work to monitor and ensure compliance with applicable laws, rules, regulations and guidelines and that such systems and processes are operating effectively.

20. That the board of directors has laid a code of conduct for all members of board of directors and senior management of the company.
21. That the company has received the confirmation of compliance of the code of conduct from the Directors and officers of the company.
22. That the Board periodically reviews compliance reports of all laws applicable to the company, prepared by the company as well as steps taken by the company to rectify instances of non-compliance.
23. That the board has identified and keep a track on the high-risk area and critical compliance of the company.
24. That the Company has succession plan for his Key Managerial Personnel and senior officials. If so, whether the Board of the company satisfies with the existing succession plans in place.
25. That the minutes of board/ committee meetings are properly maintained in accordance with the Act.
26. That the company has complied with the Secretarial Standards (SS-1 & SS-2) issued by ICSI and any other conditions that may have been prescribed by the MCA or SEBI for the purpose of availing any relaxations or exemptions as may have been provided by the MCA or SEBI from time-to-time w.r.t. any of the applicable compliances.

Board Committee: Composition and Processes

Under the verification of the Board Committee Compositions and Processes, the following check points shall be observed by the Secretarial Auditors:

1. That whether any director is a member in more than ten committees or acting as Chairman of more than five committees across all companies excluding private companies, foreign companies and section 8 companies, in which he is a director.
2. That if the company falls under any of the following categories:
 - (i) a listed public company;
 - (ii) all public companies with a paid-up capital of ten crore rupees or more on the date of last audited Financial Statements;
 - (iii) all public companies having turnover of one hundred crore rupees or more on the date of last audited Financial Statements;
 - (iv) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more on the date of last audited Financial Statements;then the Secretarial Auditor shall confirm that the Board of directors have constituted an Audit Committee and a Nomination and Remuneration Committee of the Board in accordance with Sec 178 of the Act.
3. That the audit committee consists of a minimum of three directors with a majority of independent directors.
4. That in case of listed company two-third of the total number of members of audit committee shall be independent directors and in case of a listed entity having outstanding SR equity shares, the audit committee shall only comprise of independent directors.
5. That the board's report discloses the composition of an audit committee.
6. That the majority of members of Audit Committee including its Chairperson are persons with ability to read and understand the financial statement.
7. That, in case of listed company, all members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
8. That, in case of listed company, the Chairperson of the Audit Committee is an independent director and that the Chairperson of the Audit Committee was present at Annual General Meeting to answer the queries of shareholder (s).
9. That, the Audit Committee of the company if any, in consultation with the Internal Auditor, has formulated the scope, functioning, periodicity and methodology for conducting the internal audit.

10. That if the company falls under any one of the following categories:
 - (i) a listed company;
 - (ii) a company which accepts deposits from the public;
 - (iii) a company which has borrowed money from banks and public financial institutions in excess of fifty crore rupees;
 then, the secretarial auditor shall confirm that the company has constituted vigil mechanism for their directors and employees to report their genuine concerns or grievances.
11. That, the terms of reference (in addition to other items) of audit committee ensures overseeing the vigil mechanism of the company.
12. That, on case of listed companies, the details relating to Related party transactions entered into by the company pursuant to each omnibus approval has been placed before the audit committee at least on quarterly basis.
13. That in case of listed company, the Audit Committee has met at least four times in a year and not more than one hundred and twenty days have elapsed between two meetings.
14. That In case of listed company, the quorum of audit committee was maintained throughout each of the meetings i.e., either two members or one third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.
15. That any recommendation of the audit committee which is not accepted by the Board is disclosed in the Board's report.
16. That the Nomination and Remuneration Committee consists of at least three or more non-executive directors out of which not less than one-half are independent directors.
17. That the Chairman or a member of the nomination and remuneration committee was present at the Annual General Meeting, to answer the shareholders' queries.
18. That the board's report provides the salient features of the remuneration policy relating to the remuneration of the directors, key managerial personnel and other employees and the evaluation criteria of independent directors.
19. That such remuneration policy has been placed on the website of the company.
20. That the remuneration to KMPs is as per the remuneration policy framed by the company.
21. That where a company consists of more than one thousand shareholders, debenture-holders, deposit- holders and any other security holders at any time during a financial year has constituted a Stakeholders Relationship Committee consisting of a chairperson who shall be a non-executive director and such other members as may be decided by the Board.
22. That the Chairman or a member of the Stakeholders Relationship Committee was present at the Annual General Meeting, to answer the shareholders' queries.
23. That every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year has constituted a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director is an independent director, if any.
24. That the board's report discloses the details about the policy developed and implemented by the company on corporate social responsibility initiatives taken during the year.
25. That the Corporate Social Responsibility Policy for the Company was approved by the board of directors and the contents of such Policy are disclosed in its report and also placed on the company's website, if any.
26. That the composition of all committees of the Board are also disclosed in the Board's Report.

9. Reporting of General Laws

According to the Scope of Secretarial Audit the Council of ICSI on specific reference to other laws as may be applicable to the company decided as under

“Examining and reporting whether the adequate systems and processes are in place to monitor and ensure compliance with general laws like labour laws, competition law, and environmental laws.”

As stated above, the Secretarial Auditor should verify and report that adequate system and processes are in place to monitor and ensure compliance with general laws like labour laws, competition law, and environmental laws etc.

1. The General Laws relating to Labour laws includes:

1. The Factories Act, 1948
2. The Industrial Disputes Act, 1947
3. The Payment of Wages Act, 1936
4. The Minimum Wages Act, 1948
5. The Employees' State Insurance Act, 1948
6. The Employees' Provident Funds and Miscellaneous Provisions Act, 1952
7. The Payment of Bonus Act, 1965
8. The Payment of Gratuity Act, 1972
9. The Contract Labour (Regulation & Abolition) Act, 1970
10. The Maternity Benefit Act, 1961
11. The Child Labour (Prohibition & Regulation) Act, 1986
12. The Industrial Employment (Standing Order) Act, 1946
13. The Employees' Compensation Act, 1923
14. The Apprentices Act, 1961
15. Equal Remuneration Act, 1976
16. The Employment Exchange (Compulsory Notification of Vacancies) Act, 1959

To ensure existence of adequate systems and processes in the company, the Compliance status of the above indicative list of Central / State Labour laws and Local laws should be verified by the Secretarial Auditor.

Further the Auditor should also verify the procedure followed by the company, Responsibility/ onus of doing compliance, timelines for doing compliance, Compliance chart, etc.

2. Competition Law Compliances

The Competition Act, 2002 provides a general legal framework prohibiting anti-competitive agreements, abuse of dominant position and regulating certain combinations.

(i) Periodical Self-Assessment

It is important to note that the Act operates on a “self-assessment” basis, meaning that businesses must determine for themselves whether its agreement, conduct, M & A transaction will be lawful or could breach the provisions of the Act particularly in view of the fact that there are no block exemptions, market share based test to evaluate anti-competitive conduct as prevalent in other matured jurisdictions such as European Union. In this context, it is for businesses to carryout self-assessment of their business practices and take steps to ensure that their practices, business contracts and dealings, etc. comply with the provisions of the Act.

(ii) Abuse of Dominant Position

The Competition Act, 2002 does not prohibit the mere possession of dominant position, but only its abuse, thus recognizing that a dominant position may have been achieved through superior economic performance. Once it is determined that an enterprise is in dominant position, then the next question that arises is whether there has been an abuse of dominant position.

In particular Section 4(2) states that there shall be an abuse of dominant position if an enterprise indulges in any of the activities listed in the sub-section, these being unfair or discriminatory condition or price including predatory pricing, limiting or restricting production or technical or scientific development, denying market access, imposing supplementary obligations having no connection with the subject of the contract, or using dominance in one market to enter into or protect another relevant market.

(iii) Regulation of Combinations

According to the provisions of the Competition Act, 2002, combinations are discouraged, if they reduce or harm competition. The Act does not provide for monitoring all kinds of combinations by the CCI, for the reason that very few Indian companies are of international size and that in the light of continuing economic reforms, opening up of trade and foreign investment, a great deal of corporate restructuring is taking place in the country and that there is a need for mergers, amalgamations etc. as part of the growing economic process before India can be on an equal footing to compete with global giants, as long as the mergers are not prejudicial to consumer interest.

It is in this context, the provisions relating to combinations in the Act are fairly liberal, in the sense that the thresholds are relatively high, and if the Commission fails to complete the investigation and pass an order regarding the combination within the prescribed time period, the combination is deemed to have been approved.

The Competition Act, 2002 regulates those combinations which, in certain circumstances, causes or is likely to cause an appreciable adverse effect on competition within relevant market in India and renders such a combination as void.

3. Environmental Laws

India's economic development propelled by rapid industrial growth and urbanization is causing severe environmental problems that have local, regional and global significance. Recognising the need for regulating the factors which are affecting environment, Government of India has established an environmental legal and institutional system to meet these challenges within the overall framework of India's development agenda and international principles and norms.

Further, India has an elaborate legal framework with number of laws relating to environmental protection. The List of the key national laws on environment protection, list of project require central government approvals and Industries which require industrial placed below:

A. Key Environment Protection Laws

1. The Water (Prevention and Control of Pollution) Act, 1974;
2. The Water (Prevention and Control of Pollution) Cess Act, 1977;
3. The Air (Prevention and Control of Pollution) Act, 1981;
4. The Environment (Protection) Act, 1986;
5. The Public Liability Insurance Act, 1991;
6. The Biodiversity Act, 2002;
7. The National Green Tribunal Act, 2010;
8. The Hazardous Wastes (Management, Handling and Tran's boundary Movement) Rules, 2008;
9. The Plastic Waste Management Rules, 2016;
10. The Bio-Medical Waste Management Rules, 2016;
11. The Construction and Demolition Waste Management Rules, 2016;
12. E-waste Management Rules, 2016;
13. The Batteries (Management and Handling) Rules, 2001 made under the Act.

B. List of Projects Requiring Environmental Clearance from the Central Government

1. Nuclear Power and related projects such as Heavy Water Plants, Nuclear Fuel Complex, Rare Earths.
2. River valley projects including hydel power, major irrigation and their combination including flood control.
3. Ports, harbours, airports (except minor ports and harbours).
4. Petroleum refineries including crude and product pipelines.
5. Chemical fertilizers (nitrogenous and phosphatic other than single super phosphate).
6. Pesticides (Technical).
7. Petrochemical complexes (Both Olefinic and aromatic) and Petrochemical intermediates such as DMT, Caprolactam LAB etc. and production of basic plastics such as LLDPE, HDPE, PP, PVC.
8. Bulk drugs and pharmaceuticals.
9. Exploration for oil and gas and their production, transportation and storage.
10. Synthetic rubber.
11. Asbestos and asbestos products.
12. Hydrocyanic acid and its derivatives: (a) Primary metallurgical industries (such as production of Iron and Steel, Aluminium, Copper, Zinc, Lead and Ferro Alloys), (b) Electric arc furnaces (mini steel plants).
13. Chloralkali industry.
14. Integrated paint complex including manufacture of resins and basic raw materials required in the manufacture of paints.
15. Viscose staple fiber and filament yam.
16. Storage batteries integrated with manufacture of oxides of lead and lead antimony alloys.
17. All tourism projects between 200-500 meters of High Water Line and at locations with an elevation of more than 1,000 meters with investment of more than Rs. 5 crores.
18. Thermal Power Plants.
19. Mining Projects (major minerals) with leases more than 5 hectares.
20. Highway Projects.
21. Tarred roads in Himalayan and or Forest areas.
22. Distilleries.
23. Raw Skins and Hides.
24. Pulp, Paper and Newsprint
25. Dyes.
26. Cement.
27. Foundries (individual).
28. Electroplating.
29. Meta amino phenol

C. Industries which require Industrial Licensing

1. Coal and Lignite
2. Petroleum (other than crude) and its distillation products.

3. Distillation and brewing of alcoholic drinks.
4. Sugar
5. Animal fats and oils and their preparations
6. Cigars and cigarettes of tobacco and manufactured tobacco substitutes.
7. Asbestos and asbestos-based products.
8. Plywood, decorative veneers and other wood based products such as particle board, medium density fibre board, and block board.
9. Leather.
10. Tanned or dressed fur skins.
11. Paper and Newsprint except bagasse-based unit. (i.e., except units based on minimum 75% pulp from agricultural residues, bagasse and other non-conventional raw materials).
12. Electronic, aerospace and defence equipment of all types.
13. Industrial explosives including detonating fuses, safety fuses, gun powder, nitrocellulose and matches, explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations.
14. Drugs and Pharmaceuticals (according to Drug Policy).
15. Entertainment electronics (VCRS, colour TVs, CD players, tape recorders).

Further, the following is the List of Polluting Industries where in the Secretarial Auditor should consider the environmental laws as the sector specific Laws:

1. Primary metallurgical producing industries viz. Zinc, lead, copper, aluminum and steel.
2. Paper, pulp and newsprint.
3. Pesticides / insecticides.
4. Refineries.
5. Fertilizers.
6. Paints.
7. Dyes.
8. Leather tanning.
9. Rayon.
10. Sodium / potassium cyanide.
11. Basic drugs.
12. Foundry.
13. Storage Batteries (lead acid type).
14. Acids / alkalies.
15. Plastics.
16. Rubber - synthetic.
17. Cement.
18. Asbestos.
19. Fermentation industry.
20. Electroplating industry.

10. Reporting of Specific Event under Secretarial Audit Report

The Secretarial Auditor should report all events/actions having major bearing on Company's affairs/Governance 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:

- Events/actions altering the charter documents of the Company.
- Changes in the Capital structure of the company.
- Change in the affairs/management of the company.
- Change in the licensing or permission for the business operation of the company.
- Capacity expansion and utilization of the company.
- Sale/ Disposing of the substantial assets of the company.
- Entering in to Joint ventures agreements etc.

11. Expression of Audit Limitation and Compliance with Auditing Standards

In case either due to restrictions or circumstantial limitations, necessary information cannot be accessed by the secretarial auditor which may /may not have the impact on the report of the Auditor, in such cases, the auditors should mention such limitation in the Secretarial Audit Report. Further, the Auditing Standards as prescribed by ICSI shall be fully complied with w.r.t. the conduct of Secretarial Audit and issuance of the Audit Report.

Guiding Principles of Good Corporate Conduct and Practices

Every company should make disclosures and abide by its obligations in accordance with the following principles:

- (a) All Information relating to the company should be prepared and disclosed in accordance with applicable standards of accounting and financial and non –financial disclosure.
- (b) The company should implement the prescribed accounting standards in letter and spirit in the preparation of financial statements taking into consideration the interest of all stakeholders and shall also ensure that the annual audit is conducted by an independent, competent and qualified auditor.
- (c) The Company should refrain from misrepresentation and ensure that the information provided to investors is not misleading.
- (d) The Company should provide adequate and timely information to investors.
- (e) The Company should ensure that disseminations of information made are adequate, accurate, explicit and timely and presented in a simple language.
- (f) The Channels for disseminating information should provide for equal, timely and cost-efficient access to relevant information by investors.
- (g) The Company shall abide by all the provisions of the applicable laws including the Corporate laws, securities laws and also such other guidelines as may be issued from time to time by the Regulators.
- (h) The company should make disclosures and follow its obligations in letter and spirit taking into consideration the interest of all stakeholders.
- (i) Filings, reports, statements, documents and information which are event based or are prepared periodically should contain relevant information to enable investors to track the performance of the company.
- (j) The Company should respect the rights of stakeholders that are established by law or through mutual agreements.
- (k) The Company should provide opportunity to Stakeholders to obtain effective redress for violation of their rights.
- (l) Stakeholders should have access to relevant, sufficient and reliable information on a timely and regular basis to enable them to participate in corporate governance process.
- (m) The Company should devise an effective whistle blower mechanism enabling stakeholders, including individual employees and their representative bodies, to freely communicate their concerns about illegal or unethical practices.

- (n) The Company should ensure that timely and accurate disclosure on all material matters including the financial situation, performance, ownership, and governance of the company, in the following manner:
 - (i) Information shall be prepared and disclosed in accordance with the prescribed standards of accounting, financial and non-financial disclosure.
 - (ii) Channels for disseminating information shall provide for equal, timely and cost-efficient access to relevant information by users.
 - (iii) Minutes of the meeting shall be maintained explicitly recording dissenting opinions, if any.
- (o) Members of board of directors and key managerial personnel should disclose to the board of directors whether they, directly, indirectly, or on behalf of third parties, have a material interest in any transaction or matter directly affecting the Company.
- (p) The board of directors and senior management should conduct themselves so as to meet the expectations of operational transparency to stakeholders while at the same time maintaining confidentiality of information in order to foster a culture of good decision - making.
- (q) The Board of the company should effectively ensure -
 - 1. Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance, and overseeing major capital expenditures, acquisitions and divestments.
 - 2. Monitoring the effectiveness of the Company's governance practices and making changes as needed.
 - 3. Selecting, compensating, monitoring and, when necessary, replacing key managerial personnel and overseeing succession planning.
 - 4. Aligning key managerial personnel and remuneration of board of directors with the longer-term interests of the Company and its shareholders.
 - 5. Ensuring a transparent nomination process to the board of directors with the diversity of thought, experience, knowledge, perspective and gender in the board of directors.
 - 6. Monitoring and managing potential conflicts of interest of management, members of the board of directors and shareholders, including misuse of corporate assets and abuse in related party transactions.
 - 7. Ensuring the integrity of the Company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.
 - 8. Overseeing the process of disclosure and communications.
 - 9. Monitoring and reviewing board of director's evaluation framework.
- (r) The board of directors should provide strategic guidance to the Company, ensure effective monitoring of the management and shall be accountable to the company and the shareholders.
- (s) The board of directors should set a corporate culture and the values by which executives throughout a management group shall behave.
- (t) Members of the board of directors should act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the Company and the shareholders.
- (u) The board of directors should encourage continuing directors training to ensure that the members of board of directors are kept up to date.
- (v) Where decisions of the board of directors may affect different shareholder groups differently, the board of directors shall treat all shareholders fairly.
- (w) The board of directors should maintain high ethical standards and should take into account the interests of stakeholders.
- (x) The board of directors should exercise objective independent judgment on corporate affairs.
- (y) The board of directors should consider assigning a sufficient number of non-executive members of the board of directors capable of exercising independent judgment to tasks where there is a potential for conflict of interest.

- (z) The board of directors should ensure that, while rightly encouraging positive thinking, these do not result in over-optimism that either leads to significant risks not being recognised or exposes the Company to excessive risk.
- (aa) The board of directors shall have ability to 'step back' to assist executive management by challenging the assumptions underlying strategy, strategic initiatives (such as acquisitions), risk appetite, exposures and the key areas of the Company focus.
- (ab) When committees of the board of directors are established, their mandate, composition and working procedures shall be well defined and disclosed by the board of directors.
- (ac) Members of the board of directors shall be able to commit themselves effectively to their responsibilities.
- (ad) In order to fulfil their responsibilities, members of the board of directors shall have access to accurate, relevant and timely information.
- (ae) The board of directors and senior management should facilitate the independent directors to perform their role effectively as a member of the board of directors and also a member of a committee of board of directors.

FORM NO. MR-3

SECRETARIAL AUDIT REPORT FOR THE FINANCIAL YEAR ENDED

[Pursuant to section 204(1) of the Companies Act, 2013 and rule No. 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014]

To,

The Members,

..... Limited

I/We have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by..... (name of the company). (hereinafter called the company). Secretarial Audit was conducted in a manner that provided me/us a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing my opinion thereon.

Based on my/our verification of the (name of the company's) books, papers, minute books, forms and returns filed and other records maintained by the company and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of secretarial audit, I/We hereby report that in my/our opinion, the company has, during the audit period covering the financial year ended on, complied with the statutory provisions listed hereunder and also that the Company has proper Board-processes and compliance mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I/we have examined the books, papers, minute books, forms and returns filed and other records maintained by ("the Company") for the financial year ended on, according to the provisions of:

- (i) The Companies Act, 2013 (the Act) and the rules made thereunder;
- (ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder;
- (iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;
- (iv) Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;
- (v) The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act') :
 - (a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
 - (b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992;
 - (c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009

- (d) The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999;
 - (e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
 - (f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
 - (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; and
 - (h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998;
- (vi) (Mention the other laws as may be applicable specifically to the company)
- I/we have also examined compliance with the applicable clauses of the following:
- (i) Secretarial Standards issued by The Institute of Company Secretaries of India.
 - (ii) The Listing Agreements entered into by the Company with Stock Exchange(s), if applicable;

During the period under review the Company has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. mentioned above subject to the following observations:

Note: Please report specific non compliances / observations / audit qualification, reservation or adverse remarks in respect of the above para wise.

I/we further report that:

The Board of Directors of the Company is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors. The changes in the composition of the Board of Directors that took place during the period under review were carried out in compliance with the provisions of the Act.

Adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance, and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

Majority decision is carried through while the dissenting members' views are captured and recorded as part of the minutes.

I/we further report that there are adequate systems and processes in the company commensurate with the size and operations of the company to monitor and ensure compliance with applicable laws, rules, regulations and guidelines.

Note: Please report specific observations / qualification, reservation or adverse remarks in respect of the Board Structures/system and processes relating to the Audit period.

I/we further report that during the audit period the company has. (Give details of specific events / actions having a major bearing on the company's affairs in pursuance of the above referred laws, rules, regulations, guidelines, standards, etc. referred to above).

For example:

- (i) Public/Right/Preferential issue of shares / debentures/sweat equity, etc.
- (ii) Redemption / buy-back of securities.
- (iii) Major decisions taken by the members in pursuance to section 180 of the Companies Act, 2013.
- (iv) Merger / amalgamation / reconstruction, etc.
- (v) Foreign technical collaborations.

Place :

Date :

Signature:

Name of Company Secretary in Practice /Firm:

ACS/FCS No. :

C P No.:

LESSON ROUND UP

- Secretarial Audit is an independent and objective assurance intended to add value and improve operations of a company.
- Only a member of the Institute of Company Secretaries of India holding certificate of practice can conduct Secretarial Audit and furnish the Secretarial Audit Report to the company.
- Secretarial Audit is an audit to check compliance of various legislations including the Companies Act and other corporate and economic laws applicable to the company, so as to allow the Auditor to make an opinion as to whether there exist adequate systems and processes in the company to monitor and ensure compliance with applicable laws, rules, regulations etc.
- Proactive Secretarial Audit on a continuous basis would help the company in initiating corrective measures and strengthening its compliance mechanism and processes. It is therefore, advisable that the Secretarial Audit is carried out periodically (quarterly / half year / annually) and adverse finding if any, is reported on interim basis to the Board immediately.
- The Secretarial Audit Report should be prepared in accordance with the Auditing Standards issued by the Institute of Company Secretaries of India and be signed by the Secretarial Auditor who has been engaged by the company to conduct the Secretarial Audit and in case of a firm of Company Secretaries, by the partner under whose supervision the Secretarial Audit was conducted.

GLOSSARY

Public Company	It is a Company as defined under section 2 (71) of the Companies Act, 2013.
Listed Entity	The terms listed entity means an entity which has listed, on a recognised stock exchange(s), the designated securities issued by it or designated securities issued under schemes managed by it, in accordance with the listing agreement entered into between the entity and the recognised stock exchange(s).
Designated Securities	Designated securities includes the equity shares, convertible securities, non-convertible debt securities, non- convertible redeemable preference shares, perpetual debt instrument, perpetual non-cumulative preference shares, Indian depository receipts, securitised debt instruments, security receipts, units issued by mutual funds and any other securities as may be specified by the Board.
Material Subsidiary	Material subsidiary mean a subsidiary, whose income or net worth exceeds ten percent of the consolidated income or net worth respectively, of the listed entity and its subsidiaries in the immediately preceding accounting year.
MR-3	The form prescribed for Secretarial Audit Report.
Secretarial Standards	It means the Secretarial Standard Issued by The Institute of Company Secretaries of India and approved by the Central Government under Section 118(10) of the Companies Act, 2013
Auditing Standard	It means "Auditing Standard" issued by the Institute of Company Secretaries of India.

TEST YOURSELF

(These are meant for recapitulation only. Answers to these questions are not to be submitted for evaluation)

1. Enumerate the process of conducting Secretarial Audit.
2. Describe the Scope of Secretarial Audit under section 204 of the Companies Act, 2013.

3. Define the Guiding criteria for the verification of Compliances under the Companies Act, 2013.
4. While conducting Secretarial Audit, what factors need to be considered for reporting of the General Laws?
5. Describe the principals of the good Corporate Conduct which shall be observed by the Directors of the company.
6. Explain compliances specified in the Regulation 24A regarding applicability of secretarial audit under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. Also state the exemptions provided from this Regulation.

LIST OF FURTHER READINGS

- Companies Act, 2013 and Rules made thereunder
- Securities Contracts (Regulation) Act, 1956 and Rules made thereunder
- SEBI Act, 1992 and Regulations made thereunder
- Depositories Act, 1996
- Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings
- The Secretarial Standards issued by ICSI.
- The Auditing Standards issued by ICSI.

OTHER REFERENCES (INCLUDING WEBSITES/ VIDEO LINKS)

- <https://www.mca.gov.in/content/mca/global/en/acts-rules/ebooks/acts.html?act=NTk2MQ==>
- <https://www.sebi.gov.in/>
- <https://www.sebi.gov.in/sebiweb/home/HomeAction.do?doListing=yes&sid=1&ssid=1&smid=0>
- https://www.icsi.edu/media/webmodules/Guidance_note_on_Secretarial_Audit_Release_1.4.pdf
- https://www.sebi.gov.in/legal/acts/sep-1995/depositories-act-1996-as-amended-by-the-international-financial-services-centres-authority-act-2019-w-e-f-october-01-2020-_1.html
- <https://www.icsi.edu/ssb/home/>
- <https://www.icsi.edu/auditing-standard/>
- <https://www.indiacode.nic.in>

Internal Audit and Performance Audit

Lesson 10

Key Concepts One Should Know

- Decentralization
- Core principles
- Operational control
- Risk area of the organisation.
- Audit manuals
- Risk management

Learning Objectives

To understand:

- Internal Audit as a mechanism to provide an independent and objective assessment of the effectiveness and efficiency of a company's operations, specifically its internal control structure.
- How the function of internal audit helps an organization to accomplish its objectives by bringing systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- The broad scope of Internal Auditing.
- How Internal Audit includes effects the efficiency of internal control, operations, IT controls, the reliability of financial reporting, deterring and detecting fraud and compliance with laws and regulations.
- How varied service requires systematic expertise and specialization in conducting Internal Audit.
- The pro-active and central role Company Secretary plays in the governance of the company.
- The Role of the Company Secretary as a guide to the directors in their pursuit of profit and growth and acts with integrity and independence to safeguard the interest of various stakeholders.

Regulatory Framework

- The Companies Act, 2013
- The Companies (Meeting of the Board and its Power), Rules, 2014
- The Companies (Accounts) Rule, 2014

Lesson Outline

- Introduction
- Internal Audit under the Companies Act, 2013
- Appointment of Internal Auditor
- Objective of Internal Audit
- Scope on Internal Audit
- Internal Audit Core principles
- Independence of Internal Auditor
- Internal Audit Techniques
- Role of Internal auditor in organisation Control mechanism
- Appraisal of Management Decisions
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

INTRODUCTION

Historically, internal auditing was confined to ensure that, the accounting and allied records have been properly maintained, the assets of the organization have been properly safeguarded and that the policies and procedures laid down by the management have been complied with. Post liberalization of economy, the growth and expansion made it increasingly difficult for organizations to maintain control and operational efficiency. The economic conditions further expanded organizations' responsibilities for scheduling, managing with limited materials and labourers, complying with government regulations, and an increased emphasis on cost efficiency. It was difficult for management to observe all the operating areas or be in touch with everybody. This requires companies to appoint auditing personnel for report on affairs of the company, which are known as 'Internal Auditors'.

The operations of the Companies which have huge and sophisticated business structure and have decentralization of their business activities among the various functional heads and division or wherein the top management is remotely concerned with the day-to-day activities of the concern. Now a day, the role of internal auditing has a great significance in the performance of the company.

With the changes in the economic conditions, now the scope of internal auditing is not confined to financial transactions it is extended up to the minute activities of the company, which may or may not be the cost center but have an impact on the efficiency of the company.

DEFINITION OF INTERNAL AUDIT

As defined by the Institute of Internal Auditors (IIA)

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Independence is established by the organizational and reporting structure. Objectivity is achieved by an appropriate mind-set. The internal audit activity evaluates risk exposures relating to the organization's governance, operations and information systems, in relation to:

1. Effectiveness and efficiency of operations.
2. Reliability and integrity of financial and operational information.
3. Safeguarding of assets.
4. Compliance with laws, regulations, and contracts.

Based on the results of the risk assessment, the internal auditors evaluate the adequacy and effectiveness of how risks are identified and managed in the above areas. They also assess other aspects such as ethics and values within the organization, performance management, communication of risk and control information within the organization in order to facilitate a good governance process. An effective internal audit activity is a valuable resource for management and the board and the audit committee due to its understanding of the organization and its culture, operations, and risk profile. The objectivity, skills, and knowledge of competent internal auditors can significantly add value to an organization's internal control, risk management, and governance processes. Similarly an effective internal audit activity can provide assurance to other stakeholders such as regulators, employees, providers of finance, and shareholders.

According to Building Awareness - Toolkit by Institute of Internal Auditors

Many professions enjoy an inherently universal understanding of their value. Most people understand the role of a doctor; for example, so a campaign designed to build awareness of what doctors do is generally not necessary. Unfortunately, this may not be true for the internal audit profession. In fact, even internal auditors' close friends and family don't understand exactly what an internal auditor does.

Therefore, It is important to raise awareness of the internal audit profession and its value.

INTERNAL AUDIT UNDER THE COMPANIES ACT, 2013

The concept of the internal audit has been recognized as a statutory exercise under Section 138 of the Companies Act, 2013, and has been made mandatory. As per Rule 13 of Companies (Accounts) Rule, 2014, the following class of companies shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate, namely:

Every Listed Company

All the listed companies

Every Unlisted Public Company having

(i) paid up share capital of fifty crore rupees or more during the preceding financial year; or	(ii) turnover of two hundred crore rupees or more during the preceding financial year; or	(iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or	(iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year
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Every Private Company having

(i) turnover of two hundred crore rupees or more during the preceding financial year; or	(ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year
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It may be noted that the internal auditor may or may not be an employee of the company and it is not mandatory for the professionals like company secretaries, chartered accountant or cost accountant should be in practice, he may or may not be engaged in the practice of such profession.

The 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.

The Companies Act, 2013 does not prescribe any specific time frame for conducting internal audit but it is considered a good practice to conduct the audit on a quarterly basis so that the compliances are monitored properly and there are no frauds or deviations in the company.

Internal Audit is performed by professionals with an in-depth understanding of the business culture, systems, and processes. Internal audit activity provides assurance that internal controls in place are adequate to mitigate the risks, governance processes are effective and efficient, and organizational goals and objectives are met.

APPOINTMENT OF INTERNAL AUDITOR

Section 179 of Companies Act, 2013 read with Rule 8 (4) of the Companies (Meeting of the Board and its Power), Rules 2014 provide that the appointment of the internal auditors shall be done only through a resolution passed by the board of directors at the meetings of the board.

Also, the resolution for appointment of the Internal Auditor shall be filed with the Registrar of Companies within 30 days from the passing of the said resolution pursuant to the provisions of Section 117 & 179 of the Companies Act, 2013.

Hence, it could be very well interpreted that the appointment of internal auditor can be made only at the meeting of the board and whenever an internal auditor is appointed in a company, the resolution should be filed with the concerned Registrar of Companies vide e-Form MGT-14 within 30 days from the date of passing of the said resolution. In case of Private Companies, an exemption has been granted from filing of e-Form MGT-14, for resolution passed in pursuance of sub-section (3) of section 179 of the Companies Act 2013, vide notification issued by the Ministry of Corporate Affairs dated 5th June, 2015.

Terms of reference

The overall scope of internal audit should be formalized in terms of reference. It is often referred to as an audit manual, and approved by the board, normally through the audit committee. These should then be communicated to the functional heads within the organisation. Internal audit's terms of reference or manual should provide clarity about its:



Strategy and objectives;

Role and responsibilities within the organisation;

Scope of work;

Accountability to the audit committee;

Reporting lines for line management purposes;

Accessibility to the board and the audit committee; and

Unfettered access to all information, people and records across the organisation.

The terms of reference should make it clear that internal audit should not be put in a position where it has to review its own work.

OBJECTIVE OF INTERNAL AUDIT

The main objective of the internal audit process is to provide an assurance on the organisation's risk management, internal control environment and governance framework through review and appraisal of:

- (a) Operational control framework including fundamental and basic systems in all areas of the business. The adequacy of risk identification, assessment and mitigation in the organisation. This shall include fraud risks.
- (b) Extent, adequacy, relevance of, and compliance with existing policy, plans and procedure documents within the organisation.
- (c) The extent of compliance with relevant statutory requirements.
- (d) Status of implementation of internal / external audit recommendations.
- (e) Evaluating internal control. Internal control is broadly defined as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of the following core objectives for which all businesses strive:
 - Effectiveness and efficiency of operations;
 - Reliability of financial and management reporting;
 - Compliance with laws and regulations;
 - Accomplishment of established goals for operations;
 - Safeguarding of assets.
- (f) Determines the risk area of the organisation.
- (g) Establishes the risk management framework.
- (h) Identifies potential threats and assesses risks.
- (i) Decides on response to risks like implementation of control.
- (j) Monitors and coordinates the risk management processes and the outcomes.
- (k) Provides assurance on the effectiveness of risk management processes.

SCOPE OF INTERNAL AUDIT

The Institute of Internal Auditors defines scope of internal auditing as 'The examination and evaluation of the adequacy and effectiveness of organization's system of internal control and the quality of actual performance'

Accordingly, the internal audit is concerned with an evaluation of both internal control as well as the quality of actual performance. According to The Institute of Internal Auditors, internal audit involves the following areas of operations, which can be discussed as follows:

48. Review of Internal Control Systems and Procedures

The internal auditor should determine whether the internal control system is in consonance with the organizational structure. As far as possible, control should be in built in the operating functions, if they are cost effective.

For example, the establishment of a separate credit control department would be justified if the objective of reducing the credit risk and minimizing debt recovery period could be met through controls in-built in the accounting and sales systems especially in small and medium size concerns.

Each control should be reviewed and analysed in terms of its costs and benefits. It should also be seen whether the internal controls were in use throughout the period of intended reliance. A breakdown in internal controls for a specific portion of the intended reliance would need specific attention.

49. Reliability and Integrity of Financial and Operating Information

The internal auditor should review the information systems to evaluate the reliability and integrity of financial and operating information given to management and to external agencies such as governmental

bodies, trade organisations and labour unions. For the purpose the internal auditor should review the means used for measuring, classifying and reporting information including the records from which the information is extracted. He should examine the accuracy and reliability of financial and operational records. He should review the frequency and timeliness of the reports keeping in view the statutory time limits in the case of reports to government agencies. He should examine the information mentioned in the report is meaningful to the user. The usefulness of the report and the records should be evaluated with reference to their costs. The internal auditor should examine whether the reporting is by exception i.e. the reports highlight the significant and distinctive features.

Internal Auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.

50. Economical and Efficient Use of Resources

The internal auditor should check whether proper operating standards and norms have been established for measuring economical and efficient use of resources. They should be detailed enough to be identifiable with specific operating responsibilities and should be capable of being used by operating personnel for monitoring and evaluating their performance. The internal auditor should review the methods of establishing the operating standards and norms. He should carefully examine the assumptions made while setting the standards to ensure that they are appropriate and necessary. The variances should be examined to evaluate whether or not the standards and norms are practical. Where there is a wide divergence between actual performance and the corresponding standards, reasons may be looked into. The system of identification and analysis of deviations from standards should be examined. The internal auditor should examine whether analysis of variances is communicated to those concerned in time. He should also examine whether in communicating the variances serious matters are high lighted and whether exceptional variances are communicated more expeditiously than is done in the normal course. As a part of evaluating resources utilization, identifying the facilities which are under-utilized is an important function of the internal auditor. Such instances may consist of under-utilized machines, unoccupied storage space, huge cash or bank balances, idle man power etc. The internal auditor may also identify under-staffing and overstaffing in various areas as these prevent optimum use of resources.

While commenting on staffing, the internal auditor should pay special attention to non-productive work being performed. This would require an enquiry into the job descriptions of employees combined with an intelligent observation of the work being done. Finally the internal auditor should review all procedures with reference to their costs and benefits. One of the factors resulting in inefficiency is that in many cases procedures become hindrance to operations.

51. Compliance with Laws, Policies, Plans, Procedures, and Regulations

It is essential that the various functional segments of an enterprise comply with the relevant policies, plans, procedures, laws and regulations so that the operations are carried out in coordinated manner. The internal auditor should examine whether the management has a system by which its policies, plans and procedures are communicated to all concerned. He should examine whether management formulates the major accounting policies after due regard to their effect on the financial statements both present and future. He should also examine the system of periodical review of existing policies particularly when there is a change in the method and nature of operations of the enterprise. By combining the results of his review of the adequacy of the systems with the result of his compliance tests, the internal auditor should be able to evaluate the effectiveness of the former. He should point out specific weaknesses and suggest remedial action.

Internal Auditor should review the systems established to ensure compliance with those policies, plans and procedures, law and regulations which could have a significant impact on operations and should determine whether the organization is in compliance thereof.

52. Review of Organizational Structure

The internal auditor should conduct an appraisal of the organisation structure to ascertain whether it is in harmony with the objectives of the enterprise and whether the assignment of responsibilities is in consonance therewith. For this purpose he should review the manner in which the activities of the

enterprise are grouped for managerial control. It is also important to review whether responsibility and authority are in harmony with the grouping pattern. The internal auditor should examine the organisation chart to find out whether the structure is simple and economical and that no function enjoys an undue dominance over the others. He should see whether the lines of authority and responsibility are clearly defined and communicated to all the organisational levels. He should particularly see that the responsibilities of managerial staff at headquarters do not overlap with those of chief executives at operating units. This situation often results in organisational chaos. He should examine whether there is a satisfactory balance between authority and responsibility of important executives i.e., the authority of each executive should be commensurate with the responsibility assigned to him. This can be evaluated by discussing the problems of operations and implementation with various executives. The internal auditor should examine the reasonableness of the span of control of each executive (the number of sub-ordinates that an executive controls). There should be a proper balance between the span of control of different executives at different levels. He should examine whether there is a unity of command i.e., whether each person reports only to one superior. Where dual responsibilities cannot be avoided, the primary one should be specified and the specific responsibility to each senior fixed. This must be made known to all concerned. He should examine whether there is a sufficient flexibility in the day to day working of the organisation and that initiative is not being stifled by a strict adherence to rules. One way of reducing organizational rigidity without sacrificing control is to have a quick and free flow of information within the enterprise. Finally he should evaluate the process of managerial development in the enterprise. This is a vital aspect in a fast growing enterprise. Unless executives are properly groomed to take over positions of responsibilities when senior people retire, there is bound to be organizational chaos.

53. Accomplishment of Established Goals for Operations

The internal auditor should review the overall objectives of the enterprise to evaluate whether they are clearly stated and are attainable. The translation of such overall objectives into specific objectives for each department and programme should be reviewed. It should be examined whether the objectives are revised periodically in the light of changes in internal and external environment. The internal auditor should examine whether to the extent possible, objectives are expressed in precise quantifiable terms (both monetary and non-monetary) to facilitate detailed planning and execution. Budgeting forms an important part of such planning. Line managers who are to implement the plans should fully participate in framing them. This will ensure that plans anticipate the problem areas. There should also be sufficient flexibility in the plans to permit such improvements in their implementation, as would benefit the enterprises as a whole. The responsibility for achieving specific facets of a plan should be clearly identified with the concerned person or department. Apart from these, the internal auditor should examine whether departmental plans are supported by top management. The departmental plan summaries should be sent to concerned managers. These should be discussed and communicated at meetings at which all managers participate.

Internal Auditor should review operations and programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned.

54. Review of Custodianship and Safeguarding of Assets

The Internal Auditor should verify the existence of the assets and also review the control system to ensure that all assets are accounted fully. He should review the means used for safeguarding assets against losses e.g. fire, improper or negligent activity, theft and illegal acts etc. He should review the control systems for intangible assets e.g. the procedures relating to credit control. Where an enterprise uses electronic data processing equipment, the physical and systems control on processing facilities as well as on data storage should be examined. He should also review the adequacy of the insurance cover for the various risks involved.

INTERNAL AUDIT CORE PRINCIPLES

As per the Institute of Internal Auditors (IIA), core principles of Internal Audit hovers around the performance of effective internal auditing and all of them must be present and working well. How an internal auditor, as well as an internal audit function, demonstrate achievement of the core principles may be quite different from organisation-to-

organisation. But, failure to achieve any of the core principles implies that an internal audit activity is not as effective as it could be in achieving internal audit's mission. Core principles of internal audit are:

1	<ul style="list-style-type: none"> • Demonstrates integrity.
2	<ul style="list-style-type: none"> • Demonstrates competence and due professional care.
3	<ul style="list-style-type: none"> • Independent and objective exercise.
4	<ul style="list-style-type: none"> • Aligns with the strategies, objectives, and risks of the organisation.
5	<ul style="list-style-type: none"> • Is appropriately positioned and adequately resourced.
6	<ul style="list-style-type: none"> • Demonstrates quality and continuous improvement.
7	<ul style="list-style-type: none"> • Communicates effectively.
8	<ul style="list-style-type: none"> • Provides risk-based assurance.
9	<ul style="list-style-type: none"> • Insightful, proactive, and future-focused.
10	<ul style="list-style-type: none"> • Promotes organisational improvement.

INDEPENDENCE OF INTERNAL AUDITOR

Internal auditing, being an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations, the concept of independence is equally relevant for the internal auditor. As mentioned above, under the statutory provisions of Companies Act, 2013, internal auditor may or may not be an employee of the company, but he evaluates the functioning of the management at different levels. Therefore, to be efficient and effective, the internal auditor must have adequate independence. It may be noted that by its very nature, the internal audit function cannot be expected to have the same degree of independence as is essential when the external auditor expresses his opinion on the financial information. To ensure his independence he is made responsible directly to the board of directors through audit committee. Such a channel of communication provides an independent mode whereby an internal auditor can communicate and share his views on the scope of internal audit, findings, etc. If internal auditor is made subordinate to lower level management, his independence will be effected which will affect his functioning and effectiveness. An outsider, like a chartered accountant or a company secretary or a firm of chartered accountants or a firm of company secretaries, if acting as internal auditor, is likely to be more independent than an employee of the organization.

INTERNAL AUDIT TECHNIQUES

An internal auditor uses internal audit tools/techniques to ensure that controls, processes and policies are adequate and effective, and that they adhere to industry practices and regulatory mandates. The techniques which are often used by an internal auditor are discussed herein.

(a) Review of Operating Environment

For carrying out the audit effectively, it is necessary for an internal auditor to understand how the company operates. He determines it by referring to departmental employees, external auditors report, and risk specialists. A firm's operating environment describes management's ethical qualities, leadership style and business practices. An internal auditor also could determine how a corporation operates by evaluating industry trends and regulations.

(b) Review Controls

An internal auditor determines how a company's segment or departmental controls operate by reading prior audit reports or working papers and by inquiring from segment employees who perform such controls on a regular basis. An auditor applies generally accepted auditing standards (GAAS) to detect mechanisms, procedures, tools and methodologies that build controls.

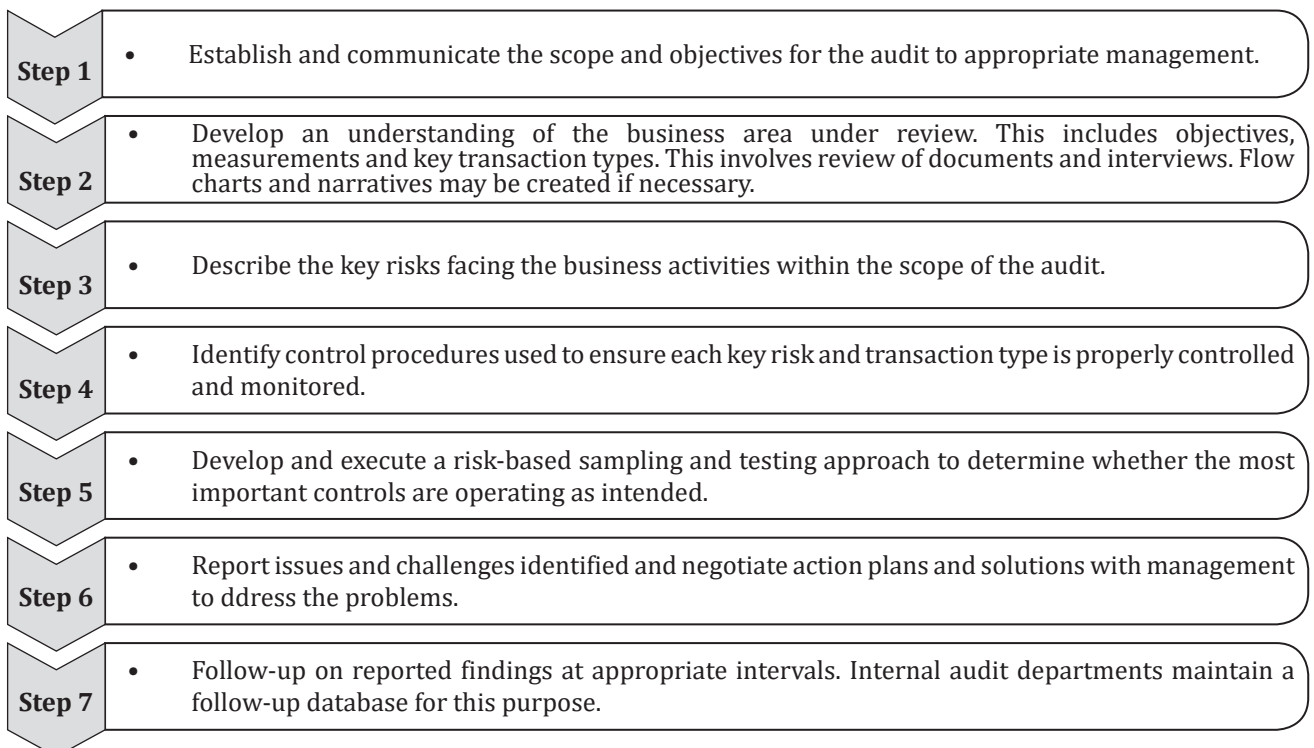
(c) Test Controls

An internal auditor tests a business organization's controls, policies and guidelines to ensure that such controls are adequately designed and are operating effectively. Controls are mechanisms and methodologies a corporation's management puts into place to prevent losses due to error, fraud, theft or breaks in technology systems. Effective controls remedy deficiencies and problems properly. Controls are adequate if they provide detailed step-by-step procedures and guidelines for task performance, decision-making processes and lines of hierarchy.

(d) Account Details

An internal auditor performs tests of account details to ensure that financial statements of a business entity are not "materially misstated." tests of account details and account balances are referred to as substantive tests. An auditor conducts such tests if a firm's controls and processes are not adequate or not functioning properly. "Material" means significant or substantial in accounting and audit parlance; a misstatement could result from human errors, intentional fraud or technology system weaknesses.

The above list is not exhaustive and other techniques may also be used by an internal auditor in the internal audit exercise.

INTERNAL AUDIT PROCESS: STEP WISE APPROACH

EVALUATION OF INTERNAL AUDIT FUNCTION BY AN AUDITOR

During the performance of the Secretarial Audit, the secretarial auditor also needs to report on the adequacy of systems and process in the company. The internal audit function greatly assist the Secretarial auditor in determining the extent to which he can place reliance upon the work of the internal auditor. The Secretarial auditor should document his evaluation and conclusions in this respect. The important aspects to be considered in this context are:

1. **Organisational Status** - Whether internal audit is undertaken by an outside agency or by an internal audit department within the entity itself. The internal auditor reports to the management, in an ideal situation he reports to the highest level of management and is free of any other operating responsibility. Any constraints or restrictions placed upon his work by management should be carefully evaluated. In particular, the internal auditor should be free to communicate fully with the external auditor.
2. **Scope of Audit Function** - The external auditor should ascertain the nature and depth of coverage of the assignment which the internal auditor discharges for management. He should also ascertain to what extent the management considers, and where appropriate acts upon internal audit recommendations.
3. **Technical Competence** - The external auditor should ascertain that internal audit work is performed by persons having adequate technical training and proficiency. This may be accomplished by reviewing the experience and professional qualifications of the persons undertaking the internal audit work.
4. **Due Professional Care** - The external auditor should ascertain whether internal audit work appears to be properly planned, supervised, reviewed and documented. An example of the exercise of due professional care by the internal auditor is the existence of adequate audit manuals, audit programmes and working papers.
5. **Monitoring of internal control:** The internal audit function may be assigned specific responsibility for reviewing controls, monitoring their operation and recommending improvements thereto.
6. **Examination of financial and operating information:** The internal audit function may be assigned to review the means used to identify, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.
7. **Review of operating activities:** The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non- financial activities of an entity.
8. **Review of compliance with laws and regulations:** The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.
9. **Risk management:** The internal audit function may assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.
10. **Governance:** The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.

ROLE OF INTERNAL AUDIT IN ORGANIZATION CONTROL MECHANISM

1. Internal Control

The internal control may be defined as “The process designed, implemented and maintained by those charged with governance, management and other personnel to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, safeguarding of assets, and compliance with applicable laws and regulations. The term “controls” refers to any aspects of one or more of the components of internal control.

Objectives

- (i) To ensure that the transactions are executed in accordance with management’s general or specific authorization;

- (ii) To make sure that all the transactions are promptly recorded in the correct amount in the appropriate accounts and in the accounting period in which executed, so as to permit preparation of financial information within a framework of recognized accounting policies and practices and relevant statutory requirements, if any, and to maintain accountability for assets;
- (iii) To ensure assets are safeguarded from unauthorised access, use or disposition; and
- (iv) To make sure that appropriate action is taken with regard to any differences between the recorded assets are compared with the existing assets at reasonable intervals.

Internal Control Mechanism

Internal Audit is a vital constituent of internal control mechanism. It is important to constitute and maintain an audit committee that shall provide assistance to the board of directors in fulfilling their oversight responsibility to the shareholders relating to:

- (a) The integrity of the financial statements and the financial reporting process and principles;
- (b) Internal controls;
- (c) The qualifications, independence, remuneration, and performance of the independent auditors;
- (d) Staffing, focus, scope, performance, and effectiveness of the internal audit function;
- (e) Risk management; and
- (f) Compliance with legal, regulatory, and corporate governance requirements.

The board defines clearly the roles and responsibilities of the audit committee. Management however, has primary responsibility for financial statements and reporting process, internal controls, legal and regulatory compliance and risk management

The internal auditor should examine and contribute to the ongoing effectiveness of the internal control system through evaluation and recommendations. However, the internal auditor is not vested with management's primary responsibility for designing, implementing, maintaining and documenting internal control. Internal audit functions add value to an organization's internal control system by bringing a systematic, disciplined approach to the evaluation of risk and by making recommendations to strengthen the effectiveness of risk management efforts.

The internal auditor should focus towards improving the internal control structure and promoting better corporate governance. The role of the internal auditor encompasses:

- Evaluation of the efficiency and effectiveness of controls
- Recommending new controls where needed or discontinuing unnecessary controls
- Using control frameworks
- Developing Control self-assessment

2. Risk management

Internal auditing professional standards require the function to monitor and evaluate the effectiveness of the organization's Risk management processes. Risk management relating to an organization objectives, and identification, analysis, and response to those risks that could potentially impact its ability to realize its objectives.

Generally, the risks fall under strategic, operational, financial reporting, and legal/regulatory categories. Management performs risk assessment activities as part of the ordinary course of business in each of these categories. Examples include: strategic planning, marketing planning, capital planning, budgeting, hedging, incentive payout structure, and credit/lending practices. The finance department assess the risk relating to account preparation, financial reporting and disclosures, corporate legal adviser often prepares comprehensive assessments of the current and potential litigation a company faces. Internal auditors may evaluate each of these activities, or focus on the processes used by management to report and monitor the risks identified. For example, internal auditors can advise management regarding the reporting of forward-looking operating measures to the board, to help identify emerging risks.

3. Corporate Governance

Internal auditing activity as it relates to corporate governance is generally informal, accomplished primarily through participation in meetings and discussions with members of the board of directors. Corporate governance is a combination of processes and organizational structures implemented by the board of directors to inform, direct, manage, and monitor the organization's resources, strategies and policies towards the achievement of the organizations objectives. The internal auditor is often considered one of the "four pillars" of corporate governance, the other pillars being the board of directors, management, and the external auditor.

A primary focus area of internal auditing as it relates to corporate governance is helping the audit committee of the board of directors (or equivalent) perform its responsibilities effectively. This may include reporting critical internal control problems, informing the committee privately on the capabilities of key managers, suggesting questions or topics for the audit committee's meeting agendas, and coordinating carefully with the external auditor and management to ensure the committee receives effective information.

CASE STUDY ON FRAUDS AND ROLE OF INTERNAL AUDITOR

SATYAM COMPUTER SERVICES FRAUD, INDIA

Background

Satyam Computer Services Limited was founded in 1987 in Hyderabad, by RamalingaRaju. Raju served as Chairman, his brother, B. Rama Raju, served as the Managing Director and Chief Executive Officer. It specialised in outsourcing IT and business process services. It began as a small company with only 20 employees quickly grew to become India's leading outsourcing company, employing over 53,000 people and serving over 650 companies worldwide.

The company was listed on stock exchanges around the world, including the New York Stock Exchange and the Bombay Stock Exchange.

On 16 December 2008, the Satyam board made the decision to invest \$1.6 billion in Maytas Properties and Infrastructure without the agreement of their shareholders. Later it came to light that this was a last ditch attempt to fill the fictitious assets of Satyam with real ones acquired through Maytas. This move was highly criticised by investors and led to the company's stock plummeting on the New York Stock Exchange. As a result, the board of Satyam reversed the decision.

The Satyam fraud went on for a number of years and involved both the manipulation of balance sheets and income statements. Audit failure was a key factor in the failure of Satyam. The fraud was so apparent that it should have been spotted much earlier by auditors, before it grew to such a serious extent.

Accounting Manipulation

Revenues, operating profits, interest liabilities and bank balances were grossly inflated to show the company in good health. It presented a growing problem as facts had to be doctored to keep showing healthy profits for Satyam that was growing in size and scale.

Every attempt made to eliminate the gap failed. On 7th January 2009, the chairman of Satyam, Raju resigned, confessing that he had manipulated the accounts in several forms. Raju made shocking disclosure to the Board of Directors of Satyam that the financial statement contained

- Inflated Cash and Bank Balance of Rs.50.4 Billion.
- Non-existent accrued interest of Rs.3.76 Billion.
- An understated liability of Rs.12.30 Billion on account of funds arranged by Raju.
- An overstated Debtors position of Rs.4.90 Billion.

The company's global head of internal audit, V.S. Prabakar Gupta created fake customer identities, generated fake invoices against their names to inflate revenue and illegally obtained loans for the company.

Satyam overstated its income nearly every quarter over the course of several years in order to meet analyst expectations. Fake invoices and bills were created using software applications such as 'Ontime' that was used for calculating hours put in by an employee. A secret programme was allegedly planted in the source code of the official invoice management system creating a user id 'Super User' with the power to hide or show the invoices in the system.

Raju explained his reasons for inflating revenues in his letter to the board:

“As the promoters held a small percentage of equity, their concern was that poor performance would result in a takeover, thereby exposing the gap.” For the sake of meeting ambitious targets as well as gaining profits, Satyam lied to the stakeholders and the market about their financial health, attracting more investment into the company.

Raju also created numerous bank statements to advance the fraud using his personal computer. He falsified the bank accounts to inflate the balance sheet with balances that did not exist. Furthermore, Raju created 6000 fake salary accounts and took the money from these accounts after it had been deposited. The cash so raised was used by Maytas (reverse name of Satyam) to purchase several acres of land across Andhra Pradesh to ride on a booming realty market.

Description	March 31, 2008 In Million US \$	March 31, 2007 In Million US \$
Revenue	2138.10	1461.40
Trade Receivable- Short Term (a)	598.80	396.10
Trade Receivable- Long Term (b)	38.20	21.20
Unbilled Revenue (c)	81.50	38.60
Bank Deposits (d)	894.80	782.70
Total (a+b+c+d)	1613.30	1238.60

Role of Internal and External Auditors

Internal audit system in Satyam was ineffective as they did not discover that Raju and Gupta collaborated to hide the company's true financial information. Satyam had claimed \$1.04 billion on its balance sheet in non-interest-bearing deposits.

Pricewaterhouse (Pw) completely relied on the fixed deposit receipts and bank statements provided by the Chairman's office, without confirming the bank deposit independently. Pw failed to fulfill its role as an auditor as they should have noticed this large amount of bank balance and carried out further verification and substantive testing.

Table 4. Satyam's Total Income and Audit Fees (Rs. In Millions)				
Year	2004-05	2005-06	2006-07	2007-08
Total Income (A)	35,468	50,122.2	64,100.8	83,944.8
Audit Fees (B)	6.537	11.5	36.7	37.3
% of B to A	0.0184	0.0229	0.0573	0.0444

Source: Annual Reports of Satyam, Percentage computed

PwC audit fees increased by 5.7 times over a period of four years (from 2004 to 2008). These inflated audit fees suggest that auditors may have been bribed in order to keep the fraud from being discovered and to allow Satyam to continue their accounting irregularities.

The Verdict

Central Government disbands Satyam board, to appoint its own 10 directors. On 9 April 2015, Raju and nine others were found guilty of collaborating to inflate the company's revenue, falsifying accounts and income tax returns, and fabricating invoices, among other findings, and sentenced to seven years imprisonment by Hyderabad court.

Unlike Enron collapse, in March 2012 Tech Mahindra, the information technology (IT) arm of Mahindra and Mahindra Ltd (M&M), completed merger process with Satyam Computer Services, creating the fifth-largest IT company based in India, four years after acquiring the Hyderabad-based firm.

OLYMPUS CORPORATION FRAUD, JAPAN

Background

Olympus was established on 12th October 1919. It initially specialized in microscope and thermometer businesses. In 1949, the name was changed again to Olympus Optical Co., Ltd. in an attempt to enhance its corporate image.

In 2003, the company made a fresh start as Olympus Corporation. In Greek mythology, Mt. Olympus is the home of the twelve supreme gods and goddesses. Olympus was named after this mountain to reflect its strong aspiration to create high quality, world famous products. Tsuyoshi Kikukawa was the board chairman and CEO.

Accounting Manipulation

British-born Michael Woodford was an Olympus veteran of 30 years, and previously executive managing director of Olympus Medical Systems Europa. As European Director in 2008, Woodford had noticed the “strange goings-on at the company” such as the Gyrus acquisition, which should have been within his scope but was instead handled from Tokyo. Woodford had set out to resign over the matter but stayed with Olympus after being reassured on the acquisition and being promoted to oversee Olympus’ European businesses and appointed to the main Olympus board.

FACT Aa Japanese monthly news magazine features economic information for readers. The magazine provides investigative reports. FACTA in the August 2011 issue said that Olympus had acquired from 2006 to 2008 three small companies — Altis, a medical waste recycling company, Humalabo, a facial cream maker, and News Chef, which makes plastic plates and containers for microwaves for US\$773 million, but wrote down most of their value within the same fiscal year. The publication said that all three companies continued to post losses.

Apparently irregular payments for acquisitions had resulted in very significant asset impairment charges in the company’s accounts and had come to Woodford’s attention. He also wanted answers about the acquisition in 2008 of Gyrus Group Limited, a British medical equipment maker, for U.S. \$2.2 billion.

Olympus had issued more than \$600 million in preference shares “directly to AXAM Investment Limited, a company registered in the Cayman Islands, which is described as ‘the portfolio manager for AXES Investment Limited LLC.’

Woodford wanted to know why Olympus had paid AXAM so much money to apparently “advise” Olympus on the acquisition of Gyrus. KPMG report, stated that Olympus hadn’t accounted for the shares given to AXAM, and “in our opinion proper accounting records have not been maintained.”

Olympus defended itself against allegations of impropriety when Woodford confronted Tsuyoshi Kikukawa, chairman of the Olympus board. Kikukawa called a special board meeting in October at company headquarters in Tokyo. The meeting began at 9:07. Kikukawa fired Woodford and didn’t allow him to respond. The meeting ended at 9:15 a.m.

CEO blowing the whistle on his own Company

As a CEO, Woodford commissioned PricewaterhouseCoopers (PwC) to investigate the relationship and transactions with AXES/AXAM surrounding the acquisition of Gyrus. PwC released its report in October.

The PwC report also stated that “there appears to be potential misstatements made in Gyrus’ 2009 audited accounts and potential unlawful financial assistance provide by Gyrus to Olympus in relation to the transaction.”

After reaching London, Woodford then delivered the six letters and the replies together with the PwC report to the Britain’s Serious Fraud Office, the FBI, the U.S. Department of Justice; the Japan Securities, Exchange and Surveillance Commission; the Tokyo Metropolitan Police; and the Tokyo Prosecutors Office. “Olympus needs a complete and utter forensics accounting,”

On 26 October, 2011 Kikukawa was replaced by Shuichi Takayama as chairman, president, and CEO. On 8 November 2011, the company admitted that the company’s accounting practice was “inappropriate” and that concealment of more than 117.7 billion yen (\$1.5 billion) money had been used to cover losses on investments dating to the 1990s.

The company blamed the inappropriate accounting on former president Tsuyoshi Kikukawa, auditor Hideo Yamada and executive vice-president Hisashi Mori.

The Verdict

In July 2013, Kikukawa and Mori were both sentenced to 3 years in prison, 5 years suspended. The auditor who had been party to the fraud was sentenced to 2.5 years in prison, 4 years suspended. Olympus was fined 700 million yen (\$7 million USD). In April 2014, six banks filed a civil suit against Olympus over the fraud, seeking an additional 28 billion yen in damages.

APPRAISAL OF MANAGEMENT DECISIONS

The management for the company owns the responsibility for establishing and maintaining a system of internal controls within an organization. Internal controls are those structures, activities, processes, and systems which help management effectively mitigate the risks to an organization's achievement of objectives. Management is charged with this responsibility on behalf of the organization's stakeholders and is held accountable for this responsibility by an oversight body (e.g. board of directors, audit committee, elected representatives).

A dedicated, independent and effective internal audit activity assists both management and the oversight body (e.g. the board, audit committee) in fulfilling their responsibilities by bringing a systematic disciplined approach to assessing the effectiveness of the design and execution of the system of internal controls and risk management processes. The objective assessment of internal controls and risk management processes by the internal audit activity provides management, the oversight body, and external stakeholders with independent assurance that the organization's risks have been appropriately mitigated. Because, internal auditors are experts in understanding organizational risks and internal controls available to mitigate these risks, they assist management in understanding these topics and provide recommendations for improvements.

Beside above, internal audit has become an important management tool for the following reasons:

1. Internal auditing is a specialized service to look into the standards of efficiency of business operation.
2. Internal auditing can evaluate various problems independently in terms of overall management control and suggest improvement.
3. Internal audit's independent appraisal and review can ensure the reliability and promptness of MIS and the management reporting on the basis of which the top management can take firm decisions.
4. Internal audit system makes sure the internal control system including accounting control system in an organization is effective.
5. Internal audit ensures the adequacy, reliability and accuracy of financial and operational data by conducting appraisal and review from an independent angle.
6. Internal audit is an integral part of "management by system".
7. Internal audit can break through the power ego and personality factors and possible conflicts of interest within the organization.
8. It ensures compliance of accounting procedures and accounting policies.
9. Internal auditor can be of valuable assistance to management in acquiring new business, in promoting new products and in launching new projects for expansion or diversification of business.

The main objective of appraisal of management decision is to see how decisions are taken by the management:

- Whether the decisions are taken after following the decision making process.
- Whether such decisions meeting the organisation objectives.
- Whether such decisions are documented in a fair manner.

Steps in appraisal of management decision.

In appraisal of management decision the following step should be considered by the auditor:

1. Whether the management decision are well defined or not.
2. Whether the Objectives and desired output has been set out clearly and relate explicitly with the policy or strategy adopted by the company to help in post event evaluation of the management decisions. Ideally the objectives of the every management decision should be specific, measurable, agreed, realistic and time-dependent.
3. While taking decision, whether the management has considered the effect of the associated risk; time availability; scale and location; scope for alternative arrangements with other public bodies; degree of involvement of regulators and civic bodies; capacity of the market to deliver the required output; alternative asset uses; use of new or established technology; and environmental issues.
4. In case of the major investment decision, whether the various possible options were considered.
5. Whether such potential options are analyzed reviewed in terms of value, costs, benefits, risk and uncertainties of options.
6. Whether the options are selected after due analysis and a consensus decision is taken after a manager has analyzed all the alternatives,
7. Whether the selected alternative implemented efficiently.
8. Ongoing review of management decision control and evaluation system actions need to be monitored.

LESSON ROUND UP

- Internal Audit is performed by professionals with an in-depth understanding of the business culture, systems, and processes. Internal audit activity provides assurance that internal controls in place are adequate to mitigate the risks, governance processes are effective and efficient, and organizational goals and objectives are met.
- There are various techniques of internal audit including Review of Operating Environment, review of controls, test controls, accounts details.
- The work of internal auditor and statutory auditor is interlinked. In his report, statutory auditor needs to comment on the adequacy of internal control system and internal audit. In many case, internal auditor is also required to refer the statutory auditor report.
- Internal audit and statutory audit differs with each other in terms of the scope, responsibilities, terms of reference etc.
- Internal audit play a very important role in risk management, corporate governance and internal control.
- He is who examine and contribute to the ongoing effectiveness of the internal control system through evaluation and recommendations.

GLOSSARY

Terms of reference	Terms of reference is often referred to as an audit manual, approved by the board, normally through the audit committee.
Appraisal of Management Decision	Appraisal of Management Decision is to see how decisions are taken by the management.
Generally Accepted Auditing Standards	An auditor applies generally accepted auditing standards (GAAS) to detect mechanisms, procedures, tools and methodologies that build controls.

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation)

1. Explain internal audit and its, objectives and scope.
2. What are the different techniques of internal audit?
3. How is the internal audit carried out? Explain stepwise approach.
4. What are the advantages and limitations of Internal Audit?
5. Difference between statutory audit and internal audit.
6. Explain the role of internal audit in corporate governance, risk management and internal control
7. What is Internal Control and its objectives and mechanism?
8. State the limitations of internal control.

LIST OF FURTHER READINGS

- Handbook on Internal Audit of Operations of Depository Participants

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- <https://www.iiaindia.co/images/PDF/Certification-Candidate-Handbook.pdf>
- https://www.iiaindia.co/images/PDF/IIA_Leverage%20Data%20Book%20Extract.pdf

Lesson 11

Concepts and Principles of Other Audits

Key Concepts One Should Know

- Audit Committee
- Shareholder Interests
- Employees' Compensation
- Operational Control
- Environmental Control
- Forensic Audit
- Investigation Services
- Litigation services
- Asset Misappropriation
- Financial Statement Fraud

Learning Objectives

To understand:

- Various fields available for Company Secretaries being multi-disciplinary professional which renders the Auditing services including financial as well as non- financial audits.
- Role of Company Secretaries under various legislations.
- Recognitions available to company secretaries for conducting audit.
- How can Company Secretaries voluntarily explore the auditing opportunities available for them.
- The requirement of the various audit under various rules, regulations and practices.
- The detailed coverage of each type of Audit.

Regulatory Framework

- The Companies Act, 2013 and rules made thereunder
- SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- Schedule VII to the Companies Act, 2013
- SEBI (Substantial Acquisition of Shares and Take overs) Regulations, 2011
- SEBI (Prohibition of Insider Trading) Regulations, 2015

Lesson Outline

- Introduction
- Corporate Governance Audit
- CSR Audit
- Takeover Audit
- Insider Trading Audit
- Industrial and Labour Laws Audit
- Cyber Audit
- Environment Audit
- Systems Audit
- Forensic Audit
- Social Audit
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

INTRODUCTION

Audit is an independent and systematic examination of statutory records, books of accounts, documents and vouchers of an organization. This is performed or conducted to ascertain how far the financial statements as well as non-financial disclosures present a true and fair view of the concern as to. Audit provides and significant assurance to the management and other stakeholders on the affairs of the company. The Auditor while conducting audit obtains evidence and formulates an opinion on the basis of his judgment which is communicated through their audit report.

As an independent professional, auditor provides third party assurance on every subject matter for which he has been engaged. This chapter contains the other areas which are commonly audited by the company secretaries such as Corporate Governance Audit, CSR Audit, Takeover Audit, Insider Trading Audit, Industrial and Labour Laws Audit, Cyber Audit, Environment Audit, Systems Audit, Forensic Audit, Social Audit etc.

The above audits are considered as the emerging areas for the company secretaries and with the expertise in these areas, the company secretaries has prove themselves as the competent professional for conducting such audits. The detailed principles of the various audits are elaborated in this chapter.

1. CORPORATE GOVERNANCE AUDIT

Corporate governance is a strategic activity that ensures that all the necessary processes for directing and controlling a business enterprise are implemented effectively. It is about ethical conduct in business. Corporate Governance deals with conducting the affairs of a company in such a way that there is fairness to all stakeholders and that its actions benefit the greatest number of stakeholders. It is about transparency, integrity and accountability.

Recent scandals in Indian Corporates have raised questions not only about the practices adopted by companies to solicit business but also about the standards of accountability in public administration including within the government machinery and institutions.

Corporate Governance provisions under the erstwhile listing agreement popularly known as the Clause 49 requirements have been overhauled by the Companies Act 2013, recent adoptions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR Regulations"). Schedule II of the said regulations have elaborated on the Corporate Governance measures and are applicable to the entities which are listed with recognized stock exchange(s). These have aligned India's corporate governance regime with the developed countries,

Audit of corporate governance processes provides assurance to the various stakeholders that all the required governance activities have been accomplished along with identifying the governance norms has not been satisfied by the company for assisting stakeholders in making an informed decision. The Stakeholders do not like to receive surprises and audit of corporate governance activities shall ensure and effective check mechanism on the supervisory and managerial layers of a business enterprise. Corporate Governance Audit mechanism works primarily through Audit Committee and the Auditor.

Need for Corporate Governance Audit (CGA)

The audit serves as a monitoring device and is essential in corporate governance also. The auditors view management as the primary driver of corporate governance and to ensure commitment of the Board in managing the company in a transparent manner.

The history indicates that well-governed companies receive higher market valuations. Improving corporate governance will also increase capital flows to companies; from domestic and global capital; equity and debt; and from public securities markets and private capital sources even the increased customer base.

Scope of Audit of Corporate Governance Activities

1	• Financial and non-financial information's and disclosures
2	• Rights of stakeholders
3	• Boards of directors (composition, mix, independence)
4	• Control environment (accounting, controls, internal and external audit)
5	• Risk management
6	• Transparency and disclosure of financial information and executive compensation
7	• Strategic plans, programs and guidance on social responsibilities

Role of Audit Committee

Audit Committee plays a vital role in the corporate governance of an entity. The Companies Act, 2013 and LODR regulations in respect of the constitution, terms of reference and role & responsibility of the audit committee, underline the importance of audit process and its contribution to the corporate governance process: structure of audit committee with respect to corporate governance has been defined under LODR regulations as follows:

According to Section 177 of Companies Act, 2013, the Board of Directors of the following class of companies shall constitute an Audit Committee:

- (i) Listed public company; or
- (ii) the Public Companies having paid up share capital of ten crore rupees or more; or
- (iii) the Public Companies having turnover of one hundred crore rupees or more; or
- (iv) the Public Companies which have, in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees:

The Audit Committee shall consist of a minimum of three directors with independent directors forming a majority.

Provided that majority of members of Audit Committee including its Chairperson shall be persons with ability to read and understand, the financial statement.

Further, regulation 18 of SEBI (LODR) Regulations, 2015 that every listed entity shall constitute a qualified and independent audit committee in accordance with the terms of reference, subject to the following:

Minimum No. of Directors	<ul style="list-style-type: none"> The audit committee shall have minimum three directors as members
Requirement of IDs	<ul style="list-style-type: none"> Two-thirds of the members of audit committee shall be independent directors and in case of a listed entity having outstanding SR equity shares, the audit committee shall only comprise of independent directors
Financial Literacy	<ul style="list-style-type: none"> All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.
Presence of Chairperson in AGM	<ul style="list-style-type: none"> The chairperson shall be an independent director and he/she shall be present at the annual general meeting to answer shareholder queries.
CS as Secretary of Audit Committee	<ul style="list-style-type: none"> The company secretary shall act as the secretary of the committee.
Invitation to Executives	<ul style="list-style-type: none"> 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

Role of Audit Committee w.r.t. corporate governance has been defined under LODR Regulations as follows:

- oversight of the listed entity's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- recommendation for appointment, remuneration and terms of appointment of auditors of the listed entity;
- approval of payment to statutory auditors for any other services rendered by the statutory auditors;
- reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
 - matters required to be included in the director's responsibility statement to be included in the board's report in terms of clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013;
 - changes, if any, in accounting policies and practices and reasons for the same;
 - major accounting entries involving estimates based on the exercise of judgment by management;
 - significant adjustments made in the financial statements arising out of audit findings;
 - compliance with listing and other legal requirements relating to financial statements;
 - disclosure of any related party transactions;
 - modified opinion(s) in the draft audit report;
- reviewing, with the management, the quarterly financial statements before submission to the board for approval;
- reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the board to take up steps in this matter;
- reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;

8. approval or any subsequent modification of transactions of the listed entity with related parties;
9. scrutiny of inter-corporate loans and investments;
10. valuation of undertakings or assets of the listed entity, wherever it is necessary;
11. evaluation of internal financial controls and risk management systems;
12. reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
13. 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;
14. discussion with internal auditors of any significant findings and follow up there on;
15. 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;
16. discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
17. to look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
18. to review the functioning of the whistle blower mechanism;
19. approval of appointment of chief financial officer after assessing the qualifications, experience and background, etc. of the candidate;
20. carrying out any other function as is mentioned in the terms of reference of the audit committee.
21. reviewing the utilization of loans and/ or advances from/investment by the holding company in the subsidiary exceeding rupees 100 crore or 10% of the asset size of the subsidiary, whichever is lower including existing loans / advances / investments existing.
22. Consider and comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation etc., on the listed entity and its shareholders.

Illustrative Checklist for Auditing Corporate Governance System in a Company

(BC) Accountability

1. Check there is separation of ownership and control.
2. Check whether executive management is accountable to Board.
3. Check whether board is accountable to shareholders.
4. Check whether there is a board / audit committee charter/ policies.
5. Check whether the independent directors have powers to play their role effectively.
6. Check whether sufficient number of meetings held, and are the meetings of sufficient length and depth to cover the agenda and provide healthy discussion of issues.
7. Check whether the auditors of the company have full access to information and authority to present their view points at board meetings.
8. Check whether the company has policies on ethical marketing practices, bribery and dishonesty, employee and customer privacy, fair employment practices, gifts, entertainment, related party transactions and conflict of interests.

(BD) Fairness

1. Check whether all shareholders, including minorities are treated equitably.
2. Check whether there are defined procedure for effective resolutions of violations.
3. Check whether the company has pricing policy and fair market practice code.

(BE) Transparency

1. Investors should be able to obtain information about the rights attached to all series and classes of shares before they purchase. Any changes in voting rights should be subject to approval by those classes of shares which are negatively affected.
2. Check whether there is a timely, accurate disclosure on all material matters, including financial and non-financial information, performance, ownership, frauds, going concern crisis and governance.
3. Check whether the company has a policy for making political contributions.
4. Check whether the company has comprehensive insider trading disclosure and compliance practices.
5. Check whether shareholders should be able to make their views known on the remuneration policy for board members and key executives. The equity component of compensation schemes for board members and employees should be subject to shareholder approval.
6. Institutional investors acting in a fiduciary capacity should disclose how they manage material conflicts of interest that may affect the exercise of key ownership rights regarding their investments.

(BF) Responsibility

1. Check whether the company has policy on stakeholder's rights, social responsibility and business sustainability requirements.
2. Check whether the board's responsibility includes review and guiding of corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objectives; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.

(BG) Shareholder Interests

1. Check whether shareholders should have the right to participate in, and to be sufficiently informed on, decisions concerning fundamental corporate changes such as:
 - (a) amendments to the statutes, or articles of incorporation or similar governing documents of the company;
 - (b) the authorisation of additional shares; and
 - (c) extra-ordinary transactions, including the transfer of all or substantially all assets that in effect result in the sale of the company.
2. Check whether capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership should be disclosed.
3. There exists rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets, should be clearly articulated and disclosed so that investors understand their rights and recourse. Transactions should occur at transparent prices and under fair conditions that protect the rights of all shareholders according to their class.
4. The exercise of ownership rights by all shareholders, including institutional investors, should be facilitated.
5. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress.
6. Members of the board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation.

In the Corporate Governance Audit, the auditor issue the compliance certificate and summarizes his opinion and descriptive narration of areas of improvement would be provided as a part of the audit report under Clause (E) of Schedule V of the SEBI (LODR) Regulations, 2015. The Compliance certificate shall be given either the practicing company secretaries or auditors regarding compliance of conditions of corporate governance which shall be annexed with the directors report.

CORPORATE GOVERNANCE DUE DILIGENCE – COVERAGE

The following aspects are to be analyzed during corporate governance due diligence. The list provided hereunder is not an exhaustive list.

V. BOARD INDEPENDENCE & GOVERNANCE

- (i) Board Composition
 - (a) Is the chairperson an executive chairperson?
 - (b) If chairperson is executive, does 50% or more of the board consist of independent directors?
 - (c) If the non-executive chairperson is a promoter of the company or is related to any promoter or person occupying management positions at the board level or at one level below the board, does 50% or more of the board consist of independent directors?
 - (d) If the non-executive chairperson is not a promoter of the company or is not related to any promoter or person occupying management positions at the board level or at one level below the board, does 1/3rd or more of the board consist of independent directors?
- (ii) The proportion of independent directors to total number of directors.
- (iii) The company has atleast one woman director.
- (iv) In case of top 1000 listed entities, the Board of directors has at least one independent woman director.
- (v) In case of top 2000 listed entities, the board of directors has not less than six directors.
- (vi) Senior/lead independent director if any, if the offices of chairperson and chief executive officer are not held by different persons.
- (vii) Written policy/ procedure if any for induction of independent directors.
- (viii) Disclosure if any, in the annual report the basis on which independent directors are nominated on the board
- (ix) Letter of appointment of non-executive directors.
- (x) Maximum tenure of independent directors if any specified.
- (xi) Details of separate meetings of independent directors.
- (xii) Details of orientation programme /training of directors.
- (xiii) Details of D&O insurance if any provided.
- (xiv) Gap between resignation and appointment of independent directors.
- (xv) Details of affirmative statement from each of the independent directors that they meet the criteria of independence (annual and at the time of appointment).

VI. BOARD SYSTEMS AND PROCEDURES

- (i) Details of circulation of agenda.
- (ii) Details of board meetings.
- (iii) Attendance in board meeting.
- (iv) Details of meeting through video conferencing.
- (v) List of applicable laws if any maintained by the company.
- (vi) Information /certificate to the board on statutory compliances.
- (vii) Communication of board decisions to various departments.
- (viii) Details of written code of conduct for directors, senior management and other employees.
- (ix) Policy on succession planning at senior management level (just one level below the board),
- (x) Policy on action taken report.

- (xi) Policy on reviewing the effectiveness of board and its members.
- (xii) Share dealings by directors and his relatives.

VII. BOARD COMMITTEES

- (i) Names of board committees, its terms of reference, composition and meetings.
- (ii) Details of chairperson of board committees.
- (iii) Proportion of independent directors in audit committee.
- (iv) Risk assessment process by audit committee.
- (v) Process of reviewing the related party transactions by the audit committee.
- (vi) Details of financial experts in the audit committee.
- (vii) Communication mechanism between internal auditor, audit committee and cfo.
- (viii) Details of rotation of auditors/audit partners.
- (ix) Details of pending investor grievances.

VIII. TRANSPARENCY AND DISCLOSURE COMPLIANCES

- (i) Details of disclosures in the Annual Report.
- (ii) Disclosure on the details of remuneration paid to Board members.
- (iii) Disclosure on related party transaction.
- (iv) Disclosure on material cases pending against the company.
- (v) Details of directors appointed or proposed to be appointed.
- (vi) Means of communication.
- (vii) Details of filings with Corp filing portal.
- (viii) Disclosures on insider trading.
- (ix) Disclosure of CEO/CFO on compliance under LODR Regulations.
- (x) Compliance of Secretarial Standards issued by ICSI.
- (xi) Compliance of Accounting Standard/Cost Accounting Standard (if applicable).
- (xii) Details of Secretarial Audit if any.
- (xiii) Adverse remarks in Audit Report, Cost Audit Report, Secretarial Audit Report.
- (xiv) Disclosure of director's relationship inter-se.
- (xv) Details of corporate disclosure policy.

IX. CONSISTENT SHAREHOLDER VALUE ENHANCEMENT

- (i) Growth in net-worth.
- (ii) Details of dividend paid.
- (iii) Dividend policy, if any.
- (iv) EPS
- (v) Details of public shareholdings.
- (vi) Details of investor satisfaction survey, if any.

X. OTHER STAKEHOLDERS VALUE ENHANCEMENT

- (i) Details of Vendor/Supplier/Customer Satisfaction surveys.
- (ii) Personnel policy.

- (iii) Policy on employee participation in management.
- (iv) Policy on ESOPs
- (v) Policy on prevention of sexual harassment.
- (vi) Vendor Development policy.

XI. CORPORATE SOCIAL RESPONSIBILITY

- (i) Policy on CSR, if any.
- (ii) CSR/Sustainability Report, if any.
- (iii) Energy conservation initiatives.
- (iv) Water/ waste management initiatives.
- (v) Budget for CSR activities

CORPORATE SOCIAL RESPONSIBILITY (CSR) AUDIT

Corporate Social Responsibility (CSR) includes various social and environmentally responsible guidelines, essential for companies that want to maintain a strong connection to the marketplace. Corporate Social responsibility includes the way a company treats and proactively contributes to its community, promotes fair working conditions and a non discriminatory environment, conveys transparent and honest accounting reports, and generally earns a reputation of trust and integrity in the society where it serves.

CSR has become a mandatory part of many Companies vide introduction in Companies Act, 2013 and has changed the dynamics of CSR. An increased emphasis on governance, stricter monitoring and reporting obligations require companies to be more accountable, disciplined and strategic in their CSR approach

Applicability of CSR Spending/Committee

Net worth of rupees five hundred crore; or	Turnover of rupees one thousand crore or more; or	Net profit of rupees five crore or more
During the immediately preceding financial year.		

Section 135 of the Companies Act, 2013 provides that every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall:

- constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director;
 - In case, where a company is not required to appoint an independent director under sub-section (4) of section 149 of Companies Act, 2013, the company shall have in its Corporate Social Responsibility Committee two or more directors.
- adopt a CSR Policy in order to develop a sustainable CSR road map to help determine both compliance and social relevance with the Act.
- spend, in every financial year, at least 2% of its average net profits made during the three immediately preceding financial years, in pursuance of its CSR policy.

Objective of CSR Audit

Corporate Social Responsibility (CSR) audit help in measuring the actual social performance against the social objectives set by the Company. It also provides that at what level the decision making, mission statement, guiding principles, and business conduct are aligned with social responsibilities. The audit helps meeting the expectations of stakeholder groups relating to social and environmental responsibilities of the company.

Purpose of CSR Audit

- To ensure compliance with the provisions of Companies Act, 2013 with respect to constitution of the Committee, adoption of policy and appropriate spending towards CSR activities.
- To facilitate transparent monitoring mechanism and a mentor for the company's CSR activities and implementation of CSR policy.
- To evaluate internal control and governance framework.
- To assess the project life cycle.
- To conduct financial review of projects to confirm the utilization of budgets for achieving desired outcomes.

Methodology for CSR Audit

1. Review of CSR policy, CSR committee, governance structure, strategy, projects, partner identification and selection process, monitoring, evaluation and reporting.
2. Interact with beneficiaries, project team, management and other stake holders.
3. Review of beneficiary identification and selection process, budget allocation, outcomes monitoring and reporting.
4. Review of CSR expenditure, project's direct expenditure, overheads and administrative expenses, traceability and genuineness of expenditure, per beneficiary cost, reasons for inability to spend 2% of profits.

Conducting CSR Audit

The CSR audit may be conducted internally by the company or engage external agencies having expertise in CSR projects. However the companies publish periodical report on their social initiatives and through the Website. However, according to provisions of Companies Act, 2013, Companies are required to annex report on the corporate social responsibilities with the board report of the company.

Coverage of CSR Audit

The CSR audit cover the CSR activities relating to human rights, fundamental human rights, freedom of association and collective bargaining, nondiscrimination, forced labor, child labor, health and safety, career development and training, environmental issues and issues relating to community development and social wellbeing. However, Schedule VII of the Companies Act, 2013 provides the list of activities which could be taken by the company as their CSR Activities. These activities cover the following:

- (i) Eradicating hunger, poverty and malnutrition, "promoting health care including preventive health care" and sanitation including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water.
- (ii) promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.
- (iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups.
- (iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga.
- (v) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional art and handicrafts;
- (vi) measures for the benefit of armed forces veterans, war widows and their dependents, Central Armed Police Forces (CAPF) and Central Para Military Forces (CPMF) veterans, and their dependents including widows;

- (vii) training to promote rural sports, nationally recognised sports, paralympic sports and olympic sports
- (viii) contribution to the prime minister's national relief fund or Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund) or any other fund set up by the central govt. for socio economic development and relief and welfare of the schedule caste, tribes, other backward classes, minorities and women;
- (ix) (a) Contribution to incubators or research and development projects in the field of science, technology, engineering and medicine, funded by the Central Government or State Government or Public Sector Undertaking or any agency of the Central Government or State Government; and
 (b) Contributions to public funded Universities; Indian Institute of Technology (IITs); National Laboratories and autonomous bodies established under Department of Atomic Energy (DAE); Department of Biotechnology (DBT); Department of Science and Technology (DST); Department of Pharmaceuticals; Ministry of Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy (AYUSH); Ministry of Electronics and Information Technology and other bodies, namely Defense Research and Development Organisation (DRDO); Indian Council of Agricultural Research (ICAR); Indian Council of Medical Research (ICMR) and Council of Scientific and Industrial Research (CSIR), engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs).
- (x) rural development projects.
- (xi) slum area development different.

Explanation.- For the purposes of this item, the term 'slum area' shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any law for the time being in force.

- (xii) disaster management, including relief, rehabilitation and reconstruction activities.

Explanation:- For the purpose of this item, the term 'Slum area' shall mean any area declared as such by the Central Government or any State Government or any other competent authority under any Law for the time being in force

Illustrative Checklist for Corporate Social Responsibility provisions under Companies Act, 2013

1. Check if the constitution of CSR Committee is applicable to company.
2. If yes, whether the company has constituted CSR committee of the board consisting of three or more directors, out of which at least one director is an independent director.
 In case where a company is not required to appoint an independent director under sub-section (4) of 149, it shall have in its CSR Committee two or more directors.
3. Whether the company has CSR policy approved by the CSR Committee.
4. Whether the CSR committee has recommended list of CSR projects or programme within the purview of schedule VII.
5. Whether the monitoring process of such projects or programme has been established by the company.
6. The composition of CSR committee is disclosed in the board's report.
7. Check whether the CSR activities were under taken as per CSR policy and projects, programs or activities excludes activities undertaken in pursuance of its normal course of business
8. Corporate social responsibility committee has recommended the amount of expenditure to be incurred on the activities referred in the Corporate Social Responsibility policy.
9. The company has instituted a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the company.
10. The company has disclosed the contents of the policy in board's report and at its website, if any.
11. The board's report includes an annual report on CSR containing prescribed particulars.
12. In case the company does not spend the specified amount (i.e. at least two percent of the average net profits made during the three immediately preceding financial years), Board's report specifies the reason for not spending the amount.

13. Check if the net profits of the company are in accordance with the provisions section 198 of the Companies Act, 2013 or not.
14. In case the company has built CSR capacities of their own personnel, check whether the expenditure including expenditure on administrative overheads shall not exceed five percent of total CSR expenditure of the company in one financial year.
15. The company has complied with all other requirement of the CSR Rules.

As the CSR audit cover the various direction of the CSR policy of the company which include the planning, execution and the reviews of the CSR activities. This will help to get a clear picture of Corporate Social Responsibility practices adopted by the company. The CSR audit provide an understating of company is position in CSR and also provide an independent assurance on CSR commitment to stakeholders. The different measures of the CSR Audit Includes:

1. How the Company has identified the major socio-economic changes in the key communities caused by its presence/ operations/ major expansion programs.
2. How the company has conducted social surveys before undertaking a particular CSR activity
3. How the company has identified the possible impact of its CSR activities on the life style of communities.
4. How the company undertakes the Impact assessment of the CSR activities.

TAKEOVER AUDIT

The Takeover audit includes the compliances relating disclosure requirements(event based /continuous disclosures), Pricing, Open offer and verification of the compliance of various stage of takeover process etc., under the provision of the Companies Act, 2013 and the SEBI (Substantial Acquisition of Shares and Take- overs) Regulations, 2011. However the takeover audit primarily includes:

Identification and Categorisation	<ul style="list-style-type: none"> Identify and categorises of acquirer i.e. promoter, promoter group, person in control, persons acting in concert, associates, immediate relatives etc.
Timely Disclosures	<ul style="list-style-type: none"> Ensuring that the timely disclosures have been made by promoters, members of promoter group and PAC's relating to acquisition, transfer and encumbrance.
Monitoring of Promoters Holdings	<ul style="list-style-type: none"> Effective monitoring of the holdings of promoters, members of promoter group and PACs and take necessary action as required
Timely Intimation	<ul style="list-style-type: none"> Ensuring that timely intimation is sent to stock exchanges in respects of transfers exempt under SEBI (SAST) Regulations,2011.
Timely reports under SAST	<ul style="list-style-type: none"> Ensuring that timely reports are filed in respect of transfers exempt under SEBI (SAST) Regulations with stock exchanges and SEBI, if applicable.
Checking timely compliances	<ul style="list-style-type: none"> Thoroughly examine the takeover regulations through checklist and timeline for compliances.

CONSEQUENCES OF VIOLATION OF OBLIGATIONS SEBI (SAST) REGULATIONS, 2011

SEBI (SAST) Regulations, 2011 have laid down the general obligations of acquirer, target company and the manager to the open offer. For failure to carry out these obligations as well as for failure / non-compliance of other provisions of SAST Regulations, penalties have been laid down in the SEBI Act and Regulations made thereunder. These penalties *inter-alia* include:

- directing the divestment of shares acquired;
- directing the transfer of the shares / proceeds of a directed sale of shares to the investor protection and education fund;
- directing the target company / any depository not to give effect to any transfer of shares;
- directing the acquirer not to exercise any voting or other rights attached to shares acquired;
- debarring person(s) from accessing the capital market or dealing in securities;
- directing the acquirer to make an open offer at an offer price determined by SEBI in accordance with the Regulations;
- directing the acquirer not to cause, and the target company not to effect, any disposal of assets of the target company or any of its subsidiaries unless mentioned in the letter of offer;
- directing the acquirer to make an offer and pay interest on the offer price for having failed to make an offer or has delayed an open offer;
- directing the acquirer not to make an open offer or enter into a transaction that would trigger an open offer, if the acquirer has failed to make payment of the open offer consideration;
- directing the acquirer to pay interest of for delayed payment of the open offer consideration;
- directing any person to cease and desist from exercising control acquired over any target company;
- directing divestiture of such number of shares as would result in the shareholding of an acquirer and persons acting in concert with him being limited to the maximum permissible non-public shareholding limit or below.

In any proceedings as mentioned above, SEBI shall comply with principles of natural justice.

INSIDER TRADING AUDIT

The insider trading audit includes the compliances requirements (event based /continuous disclosures) under the SEBI (Prohibition of Insider Trading) Regulations, 2015 which includes:

- Initial disclosures of trades which is to be made by only the promoters, key managerial personnel, directors internally;
- Continual disclosures which is to be made by every promoter, employee or director in case value of trade exceed monetary threshold of ten lakh rupees over a calendar quarter; company to accordingly notify stock exchanges within 2 trading days;
- Submission of trading plans
- Appointment of compliance officer
- Pre-clearance for trading
- Codes of fair disclosure and conduct
- Role of the designate person
- Manner of dealing with UPSI (unpublished price sensitive information)

Illustrative checkpoints for verification of Compliance under the SEBI (Prohibition of Insider Trading) Regulations, 2015 includes whether:

1. The company has appointed a compliance officer.
2. The company has maintained structured digital database containing the nature of unpublished price sensitive information and the names of such persons who have shared the information and also the names of such persons with whom information is shared under this regulation along with the Permanent Account Number or any other identifier authorized by law where Permanent Account Number is not available.
3. the structured digital database is preserved for a period of not less than eight years after completion of the relevant transactions and in the event of receipt of any information from the Board regarding any investigation

or enforcement proceedings, the relevant information in the structured digital database shall be preserved till the completion of such proceedings.

4. The company has designate a officer to administer the code of conduct and other requirements under Insider trading regulations. (Regulation 9)
5. The Board of Directors of has formulated a code of practices and procedures for fair disclosure of unpublished price sensitive information as per Schedule A of Insider trading regulation.
6. The Code has been hosted on the website of the company and a copy of the same must be sent to the stock exchange.
7. The code of conduct has stipulated the sanctions and disciplinary actions, including wage freeze, suspension, recovery, clawback etc. and Any amount collected has been remitted to the SEBI for credit to the Investor Protection and Education Fund administered by the SEBI under the SEBI Act, 1992.
8. The Company has designated a Chief Investor Relation Officer, who is also a senior officer of the company to deal with dissemination of information and disclosure of unpublished price sensitive information, as per the principles set out in Schedule A of Insider trading regulations.
9. The Company has formulated code of conduct to regulate, monitor and report trading by insiders as per Schedule B of these regulations.
10. The Company has formulated an internal code of conduct for governing dealing in securities as per the minimum standards set out in Schedule B of Insider trading regulations.
11. Every such code of practices and procedure relating to unpublished price sensitive information and every document thereto has been promptly intimated to the stock exchange where the securities are listed.
12. The trading plan has been formulated in compliance with Regulation 5. If yes, whether necessary compliances have been made.
13. The disclosures were taken from the KMPs of The Company and from those relating to trading by such person's immediate relatives, and by any other person for whom such person takes trading decisions. (Regulation 6)
14. The connected person or class of connected persons have made disclosures of holdings and trading in securities of the company in such form and at such frequency as may be determined by the company in order to monitor compliance with these regulations. (Regulation 7)
15. Code of Conduct provides for suitable protection against any discharge, termination, demotion, suspension, threats, harassment, directly or indirectly or discrimination against any employee who files a Voluntary Information Disclosure Form, irrespective of whether the information is considered or rejected by the SEBI. (Regulation 7I)
16. Every code of practices and procedures for fair disclosure of unpublished price sensitive information and every amendment thereto has been promptly intimated to the stock exchanges where the securities are listed. (Regulation 8)
17. Any action has been sanctioned by the Board for the violation/ contravention of the provisions these regulations. (Regulation 10)
18. The Compliance officer has reviewed and monitored the trading plans if any, submitted by any insider and approved the trading plan that it has not violated these regulations.
19. The Compliance officer has received undertaking or declaration from insider with respect to the trading plan, as the case may be.
20. The Compliance officer has notified the trading plan to the stock exchange(s), If any.
21. The Company maintains the record of the said disclosures as required for a minimum period of five years.
22. The Company has received the initial disclosure from every promoter, Key Managerial Personnel (KMP) and Directors with respect to the securities held by them in Company.
23. The Company receives disclosure by every person on appointment as KMP or Director or upon becoming a promoter within seven working days of such appointment or becoming promoter.

24. The Company is regular in receiving continual disclosure from the promoter, member of the promoter group, designated person and directors with respect to the number of securities acquired or disposed of within two trading days of such transaction, if such transactions exceed Rs.10,00,000 or such other value as may be specified in a calendar quarter.
25. The Company has notified the particulars of such trading to the stock exchange(s) within two trading days of receipt of the disclosure or from becoming aware of such information.
26. The Company is regular in receiving disclosures of holding & trading of securities of the company by any other connected person or class of connected persons, held or traded by them. The Company has in its discretion require this information & set out the frequency for seeking such information.
27. The Compliance officer has provided reports of trading to the Chairman of Audit Committee, if any or to the Chairman of the Board of Directors as per the frequency stipulated by the Board of Directors.
28. The Company follows Chinese wall procedures & processes as per the norms contained in the code of conduct, wherever applicable.
29. The Compliance officer determines the timing of closure of the trading window and re-opening of the trading window.
30. The Compliance officer has put in place appropriate procedure for pre-clearance of trades for 30. designated persons.
31. The Designated Person have not entered into any contra trade as per the specified period as mentioned in the code of conduct which shall be not less than six months from the date of trade in securities of the Company.
32. The profit arises from the Contra trade, if executed inadvertently or otherwise, has been liable to be disgorged for remittance to SEBI for credit to the Investor Protection and Education Fund administered by the SEBI under the Act.
33. Any action has been initiated by SEBI against the company or any of its promoter, director, Key Managerial Personnel, officer or employee under the PIT regulations in the past or present.
34. The company or any of its promoters, director, Key Managerial Personnel, officer or employee has been convicted by SEBI with respect to Insider Trading in the past or present.
35. Any action taken against persons responsible for non- adherence with respect to formulation of code of conduct.
36. Any other prevention mode with respect to insider trading as adopted by the Company.

INDUSTRIAL AND LABOUR LAW AUDIT

Industrial and Labour law Audit is an effective tool for compliance management of labour, employment and Industrial laws. Audit helps to detect non-compliances of labour and employment laws applicable to a business and take corrective measures to avoid any unwarranted legal actions by the regulators against the business and its management. Labour Law audit is useful in promoting cordial relations between employees and employers and also lead to better governance and value creation for the business.

Labour Law Audit envisages a systematic scrutiny of records prescribed under labour legislations by a professional like Company Secretary, who shall report to the compliance and non-compliance/extent of compliance and conditions of labour in the Indian industry/business and in any commercial establishments.

Scope of Industrial and Labour Audit

The Labour Law auditor cover all labour legislations applicable to an Industry/Business or any other commercial establishment, wherein audit is being conducted by the Labour Law Auditor. Scope of labour law audit will certainly differ from business to business which is based on the nature of business, size of business, location of business and number of manpower etc.

Labour laws audit is a unique concept and differs from other compliance/audits in the country. While all other audits are based on financial implications on company/business entity, whereas the labour laws audit consideration of

human values, and the rights of the workman. The scope of secretarial audit also includes examining and reporting on whether the adequate systems and processes are in place to monitor and ensure compliance required under the various industrial and labour laws.

Though the Industrial and Labour audit include the various State and Local Laws along with the central laws, However the illustrative list of the compliance requirement under the various central law has been provided below:

Factories Act, 1948

1. The Factories Act, 1948 is applicable to the company. if yes.
2. The occupier has atleast fifteen days before occupying or using any premises as a factory, sent to the Chief Inspector a written notice as contained in section 7.
3. The provisions regarding registration / licence as prescribed in section 6 have been complied with.
4. The employer has appointed the manager/ occupier of the factory under the Factories Act. 1948 and sent notice to the competent authority.
5. The company has complied with provisions of:
 - “Health” measures as provided in chapter III;
 - “Safety” measures as provided in chapter IV;
 - applicable provisions of chapter IV-A – Hazardous Processes;
 - “Welfare” measures as provided in chapter V;
 - “Working Hours” of adults as provided in chapter VI;
 - “Employment of Young Persons” as provided in chapter VII; and
 - “Annual Leave with Wages” as provided in chapter VIII.
6. Under The Factories Act, 1948 Registers, Return & Abstracts.
 - Register of Compensatory Holidays - Form -8
 - Register of Adult Workers - Form-11
 - Register of Leave with Wage Register - Form-14
 - Muster Roll - Form-22
 - Register of Accident & Dangerous Occurrences - Form-23
 - Inspection Book
 - Half yearly returns - Form - 21(Before 15th of July & 15th of January) of every year in duplicate)
 - Accident & Dangerous Occurrences - Form - 23 (Every Month)
 - Combined Annual Returns - Form - 20, (Before January every year)
 - Notice of Adult workers - Form - 10
 - Abstract of Factories Act, 1948

Industrial Disputes Act, 1947

1. The Industrial Disputes Act, 1947 is applicable to the company. If yes.
2. There is an industrial dispute, as defined under Section 2A of the Act.
3. The company has maintained a muster roll as required under section 25-D of the Act.
4. The Company is an industrial establishment, having one hundred or more workmen. If yes, the company has constituted Works Committee as required under Section 3 of the Act.

5. Any change in the conditions of service applicable to any workman in respect of any matter specified in the fourth schedule of the Act, has been made after giving 21 days notice to the workmen, of such intention in Form E, as required under Section 9A of the Act, read with Rule 34.
6. The company has twenty or more workmen. If yes, the company has constituted Grievance Redressal Committee as required under Section 9-C of the Act.
7. The Company is a Public Utility Service. If yes, the lockout if any has been carried out after giving sufficient notice in Form N, as required under Section 22(3) of the Act read with rule 73.
8. The Company has complied with the conditions precedent to the retrenchment of workmen, as required under Section 25F and Section 25N, as applicable.
9. The Company maintains a muster roll for its workmen as required under Section 25-D.
10. The Company has compensated for being laid off, the workmen, whose name is in the muster rolls and has completed not less than one year of continuous service.(Section 25C)
11. The company has compensated the workmen in case of closing down of undertakings, as prescribed in section 25FFF.

The Payment of Wages Act, 1936

1. The Payment of Wages Act, 1936 is applicable to the company.
2. The payment of wages is made before:
 - (a) before the expiry of the 7th day of the following month, when less than 1000 persons are employed.
 - (b) before the expiry of the 10th day of the following month, when more than 1000 workers are employed.
3. The deductions made from the wages of the employee are in accordance with section 7 of the Act.
4. If any deduction has been made on account of damage or loss, show cause notice has been given to the employee.
5. In case any deduction has been made for unauthorized absence, opportunity of being heard is given.
6. The registers and records giving particulars of persons employed, the work performed by them, the wages paid to them, the deductions made from their wages and the receipts given by them are maintained and preserved for a period of 3 years or more.
7. The employer has displayed the abstract of the Act and Rules made thereunder in the manner prescribed under section 25.

The Minimum Wages Act, 1948

1. The Minimum Wages Act, 1948 is applicable to the Company.
2. The company has been paying the minimum wages as notified from time to time by the appropriate Government under the Act.
3. The company has paid wages in cash. If not, the wages in kind has been paid after following the procedure prescribed under section 11 of the Act.
4. The company follows the conditions prescribed with regard to working hours, working day under section 13 of the Act.
5. The company has paid overtime rate as prescribed under section 14 of the Act read with rule 25.
6. The company has maintained all registers and records that are required to be maintained under section 18 of the Act and rule 26.
7. The company has followed the procedure prescribed with respect to payment of undisbursed amounts due to employees, for reasons such as death, whereabouts not known etc.
8. The company has followed the procedure prescribed in rule 21 of the Minimum Wages (Central) Rules, 1950 with respect to deductions made from the wages.

9. The company has followed time and conditions of payments of wages prescribed in rule 21 of the Minimum Wages (Central) Rules, 1950.
10. Notices in Form No. IX-A, containing the minimum rate of wages has been displayed at the main entrance to the establishment, as specified in rule 22.

Employees' State Insurance Act, 1948

1. The Employees' State Insurance Act, 1948 is applicable to the company.
2. The factory or establishment to which the Act applies has been registered.
3. The rate of contribution of the employer and employee is in accordance with the Act. [Rule 51 of ESI (Central) Rules, 1950.]
4. The manner and time Limit for making payment of contribution is in accordance with the Act.
5. The employer has maintained the register of employees in Form No. 6.
6. Submission of returns/reports:
 - (a) Annual return in Form No. 01-A;
 - (b) Return of contributions in Form No. 5;
 - (c) Report of accident in Form No. 12;
 - (d) Report of death of insured persons.
7. The benefits provided in Chapter V of the Act were made available to the applicable employee.

The Employees' Provident Fund and Miscellaneous Provisions Act, 1952

1. The Employees' Provident Fund and Miscellaneous Provisions Act, 1952 is applicable to the company.
2. The contributions made by the employer and the employee and payment thereof are in accordance with para 29 and 30 of the Employees' Provident Funds Scheme, 1952.
3. The employer has obtained declarations from the persons taking up the employment. (Para 34 of the scheme)
4. The employer has prepared the contribution card in Form No. 3 or 3-A as appropriate in respect of every employee in his employment.
5. The employer has sent to the Commissioner:
 - (a) Consolidated return in the form specified by the commissioner.
 - (b) Monthly return in Form No. 5 together with declaration in Form No. 2.
 - (c) In such form as the commissioner may specify of employees leaving service of the employer during the preceding month.
 - (d) Inspection note book in such form as the commissioner may specify, is maintained.
 - (e) Accounts relating to amount contributed to the fund by the employer and by the employee have been maintained. (Para 36 of scheme)
6. The employer has furnished particulars of ownership in Form No. 5-A to the Regional Commissioner. (Para 36 A of scheme)
7. The employer has forwarded the monthly abstract to the commissioner. [Para 38 (2) of scheme]
8. Consolidated annual contribution statement in Form No. 6-A was sent to the commissioner. [Para 38(3) of scheme]
9. Submission of contribution card to the commissioner with a statement in Form No. 6.
10. Any proceedings under the Act have been initiated against the Directors for recovery of dues.

11. If the Employer has created its own trust, whether the terms of trust are more beneficial than those provided under the trust.
12. The conditions imposed by PF Commissioner for the creation of Trust are satisfied.
13. The provisions relating to Employees' Pension Scheme, 1995 have been complied with.
14. The provisions relating to Employees' Deposit Linked Insurance Scheme, 1976 have been complied with.

The Payment of Bonus Act, 1965

1. The Payment of Bonus Act, 1965 is applicable to the company.
2. Computation of available surplus, allocable surplus and bonus are correctly arrived at.
3. Any amount has been deducted from bonus and if so, whether they are in accordance with the provisions of section 18.
4. Bonus is paid to the eligible employees.
5. The minimum or maximum amount of bonus paid is in accordance with section 10 or section 11, as the case may be.
6. The company has paid bonus to the employee:
 - (a) Where there is a dispute regarding payment of bonus pending before any authority under section 22- within a month from the date on which the award becomes enforceable or the settlement comes into operation, in respect of such dispute;
 - (b) In any other case-within a period of eight months from the close of the accounting year.
7. The company has maintained the registers as provided in rule 4.
8. The company has submitted the annual return of payment of bonus to the Inspector in Form No. D within thirty days after the expiry of the time limit prescribed in section 19.

The Payment of Gratuity Act, 1972

1. The Payment of Gratuity Act, 1972 is applicable to the company.
2. There are employees who have worked for a continuous period of 5 years or more.
3. Any gratuity has been paid to any employee. If yes, whether it has been paid within 30 days.
4. The employer has displayed a notice as provided in rule 4, specifying the name of the officer with designation who is authorised to receive notice under the Act or the rules made thereunder.
5. The employer has complied with the provisions related to nominations as specified in rule 6.
6. Gratuity of any employee has been forfeited. If yes, whether an opportunity of being heard is given?
7. The gratuity has been forfeited for the reasons as specified in the Act.
8. The employer has displayed the abstract of the Act and rules made thereunder at or near the main entrance of the establishment, as specified in rule 20.
9. The employer has obtained insurance for liability of payment of gratuity as specified in section 4A of the Act.

The Contract Labour (Regulation and Abolition) Act, 1970

1. The Contract Labour (Regulation and Abolition) Act, 1970 is applicable to the company.
2. The principal employer has obtained the certificate of registration for the establishment.
3. The appropriate Government has by a notification prohibited the employment of contract labour under section 10.
4. The contractors have obtained license from the Licensing Authority for contract labour undertaken or executed by them.

5. The contractors have got their license renewed in time.
6. The contractors are employing workmen as per license and registration certificate.
7. The number of workmen actually employed by the contractor's tallies with the number of workmen shown in the license.
8. The contractors are sending half-yearly returns in Form No. XXIV in time.
9. Where the wage period is one week or more, the contractors are issuing wages slips in Form No. XIX one day prior to the disbursement of wages.
10. The principal employer maintains register of contractors in Form No. XII.
11. The principal employer has sent annual return in Form No. XXV to the Registering Officer.
12. The principal employer has within fifteen days of commencement or completion of each contract, submitted return in Form No. VI-B to the Inspector.
13. Minimum rate of wages are being paid to the contractor labour in the presence of authorized representative of the principal employer.
14. The authorized representative of the principal employer gives a certificate to this effect at the end of the entries in the register of wage- cum- Muster Roll, as the case may be.
15. The contractors are properly depositing ESI, EPF contributions in respect of their workmen and submitting copies of the challan to the HR Department of the company.
16. The contract labour is provided the facility of rest room, canteen, wash room, first aid and other facilities.
17. The contract labour is granted leave with wages.
18. The contract labour is being paid over time at double rate.
19. The workmen engaged by the contractor are ensured benefits from ESI Scheme including issue of cards, temporary slips and are provided medical facilities.
20. The contract labour is being given contribution slips of EPF issued by the Regional Provident Commissioner.
21. The payment of wages to contract labour is being made in accordance with rule 65.
22. The leave applications and gate passes of the contract labour are being signed by the contractor and his agent.
23. The gate passes to the contract Labour are issued and signed by the company's employees.
24. The contractors are maintaining records as provided in rule 78.
25. Under The Contract Labour (Regulation & Abolition) Act, 1970.
 - Registration Certificate (Before appointing contractor) -Form-1
 - Register of Contractor - Form-XII
 - Register of Employees employed by Contractor - Form-XIII
 - Muster Roll, Wage Register, Over Time Register, Fine Register
 - Deduction Register, Advance Register (contractor)
 - Notice regarding rates of wages
 - Display of the Act & Rules
 - Half yearly return by contractor - Form – XXIV
 - Annual Return by Principle Employer - Form – XXV (before 15th Feb)

The Maternity Benefit Act, 1961

1. The Maternity Benefit Act, 1961 is applicable to the company.
2. The employer has knowingly employed a woman in any establishment during the six weeks immediately following the day of her delivery, miscarriage or medical termination of her pregnancy.

3. Any pregnant woman has made any request not to give her any work which is of an arduous nature or which involves long hours of standing, etc. during the period of one month immediately preceding the period of six weeks, before the date of her expected delivery.
4. Any woman employee is entitled for maternity benefit, medical bonus and nursing break and if yes, whether payment has been made and nursing break was allowed in accordance with the Act.
5. The employer exhibited the abstract of the provisions of the Act and the rules made thereunder in accordance with section 19 of the Act.
6. Whether the employer has maintained muster rolls, registers and records as prescribed, if any, by the appropriate Government.
7. Whether the employer has submitted annual return in the form prescribed, if any, by the appropriate Government.

The Child and Adolescent Labour (Prohibition and Regulation) Act, 1986

1. The Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 is applicable to the company.
2. The occupier has sent notice to Inspector as per section 9 when a child is employed or permitted to work.
3. The employer has employed any child labour in occupations set forth in Part-A or Process set forth in Part-B of the Schedule to the Act.
4. The employer has maintained the register in Form No. A in respect of children employed or permitted to work as specified in section 11.
5. The occupier has displayed notice containing abstract of sections 3 and 14 as specified in section

The Industrial Employment (Standing Orders) Act, 1946

1. The Industrial Employment (Standing Orders) Act, 1946 is applicable to the company.
2. One hundred or more workmen are employed, or were employed on any day of the preceding twelve months.
3. The industrial establishment has submitted to the Certifying Officer, five copies of the draft Standing Orders proposed by it for adoption in the establishment.
4. The text of the Standing Orders as finally certified has been prominently posted by the company in English and in the language understood by the majority of workmen on special boards to be maintained for the purpose.
5. The industrial establishment has modified the Standing Orders on agreement between the employer and the workmen or a trade union or other representative body of the workmen.
6. Any workman was suspended by the industrial establishment pending investigation or inquiry into complaints or charges of misconduct.
7. The industrial establishment has paid any subsistence allowance to any suspended employee.

The Employees' Compensation Act, 1923

1. The Employees' Compensation Act, 1923 is applicable to the company.
2. Any personal injury is caused to an employee by an accident arising out of or in the course of employment. If yes, the company has paid compensation as prescribed under Section 4 of the Act.
3. The company has maintained notice book in its premises, for reporting notice of accidents as prescribed in Section 10(3) of the Act.
4. The company has reported of fatal accident or serious bodily injuries in Form No. E-E to the Commissioner, as prescribed in section 10-B read with Rule 11 of the rules.
5. The company has deposited compensation with the Commissioner in respect of the workman whose injury has resulted in death and has furnished statement in Form No. A, OR In other cases company shall furnish statement in Form 'AA', as prescribed in section 8(1) read with rule 6(1). (As Applicable)

6. The company has furnished a statement in Form 'D', while depositing compensation, as required under section 8(2) read with rule 9.
7. The company has sent a return as to compensation paid during the previous year. (As specified by the State Government in respective state law)
8. On settlement of compensation amount in between company and workman, company executed a memorandum of agreement with the workman in Form No. K, L or M, as the case, may be and submitted such agreement along with an application to register it to the Commissioner, as prescribed in rule 48.
9. The provisions for reservation of apprentice training places for SC/ST/OBC have been made in designated trades.
10. The contract of apprenticeship was sent by the employer to the apprenticeship advisor/entered on the port-site within 7 days for verification & registration.

Equal Remuneration Act, 1976

1. Equal Remuneration Act, 1976 is applicable to the Company.
2. Payment of equal remuneration has been made to all for same work or work of similar nature and there is no discrimination between men and women while recruiting or subsequent to recruitment, promotion etc. (As per Section 4 read with section 5)
3. The company has maintained register in relation to workers in Form No. D as required under rule 6.

The Employment Exchange (Compulsory Notification of Vacancies) Act, 1959

1. The Employment Exchange (Compulsory Notification of Vacancies) Act, 1959 is applicable to the company.
2. The company has notified the vacancies to employment exchanges, as prescribed in section 4 of the Act read with rule 5.
3. The company has furnished quarterly returns in Form No. ER-1, biennial return in Form No.ER-II to local employment exchange as prescribed in rule 6.

CYBER AUDIT

Cyber security is an attempt to minimising any risk of financial loss, disruption or damage to the reputation of an organisation that may arises from the failure of its information technology systems. The objective of the cyber audit is to provide an assessment of the operating effectiveness of cyber security policies and procedures, identify, protect, detect, respond and recover processes and activities to the board. The Cyber audit program generally covers sub-processes such as asset management, awareness training, data security, resource planning, recover planning and communications, in order to identify internal control and regulatory deficiencies that could put the organization at risk.

The security and control issues which deals under cyber security audits includes

1. Protection of sensitive data and intellectual property
2. Protection of networks to which multiple information resource are connected
3. Responsibility and accountability for the device and information contained in it

Scope of a cyber security audit includes

1

- Data security policies relating to the network, database and applications in place.

2

- Data loss prevention measures deployed

3

- Effective network access controls implemented

4

- Detection/prevention systems deployed

5

- Security controls established (physical and logical)

6

- Incident response program implemented.

Dimension of the Cyber Security Audit Process

Management

Management of the Company ultimately owns the risk decisions made for the organization. Therefore, it has a vested interest in ensuring that cyber security controls exist and are operating effectively. Decisions are typically made based on guidance received during the risk management processes, for taking appropriate decisions.

Risk Management

Risk assessments are typically made based on guidance by the Cyber security officer at an organization and enterprise management make decisions, employing risk management processes. The objective in any risk assessment is two fold. First, it is critical to communicate the state of the risk so that it is easy to understand and be clear on the level of risk involved. Secondly and just as significantly the ways in which to address that risk must be identified as well. This provides both problem and solution, and mitigates the negative impact of that risk to an enterprise. The risk landscape is ever-changing. It is important to have defined processes, trained and competent cyber security resources, and a governance framework to ensure that appropriate actions are carried out by enterprise leadership and managed effectively to address current and emerging threats.

Internal Audit

Internal auditors and risk management professionals have key roles to play, as does enterprise management. Cyber Auditing is a security measure not an inconvenience. It is critical to protecting an enterprise in today's global digital economy. The internal audit department plays a vital role in cyber security auditing in many organizations, and often has a dotted-line reporting relationship to the audit committee to ensure an independent view is being communicated at the board level of the enterprise. Audit helps enterprises with the challenges of managing cyber threats, by providing an objective evaluation of the controls and making recommendations to improve them as well as assisting the senior management and the board of directors understand and respond to cyber risks. Organizations, especially within the public sector, also contract for the services of external auditors to provide independent assurance of the financial and operational controls primarily to ensure the controls design is effective and the needs of the organization are being met.

Illustrative checkpoint on the Cyber Security Audit

Personnel Security

1. Whether the staff wears ID badges?
2. Whether it is a current picture part of the ID badge?
3. Are authorized access levels and type (employee, contractor, visitor) identified on the Badge?
4. Whether the credentials of external contractors are checked?

5. Whether the company has policies addressing background checks for employees and contractors?
6. Whether the Company has a process for effectively cutting off access to facilities and information systems when an employee/contractor terminates employment?

Physical Security

1. Whether the Company has policies and procedures that address allowing authorized and limiting unauthorized physical access to electronic information systems and the facilities in which they are housed?
2. Whether the Company's policies and procedures specify the methods used to control physical access to your secure areas, such as door locks, access control systems, security officers, or video monitoring?
3. Whether the access to the computing area is controlled (single point, reception or security desk, sign-in/ sign-out log, temporary/visitor badges)?

Account and Password Management

1. Whether the Company has policies and standards covering electronic authentication, authorization, and access control of personnel and resources to your information systems, applications and data?
2. Whether the Company ensures that only authorized personnel have access to the computers?
3. Whether the Company requires and enforces appropriate passwords?
4. Are your passwords secure (not easy to guess, regularly changed, no use of temporary or default passwords)?

Confidentiality of Data

1. Whether the Company is exercising responsibilities to protect sensitive data under their control?
2. Whether the most valuable or sensitive data encrypted?
3. Whether the Company has a policy for identifying the retention of information (both hard and soft copies)?

Compliance and Audit

1. Whether the Company reviews and revises the security documents, such as: policies, standards, procedures, and guidelines, on a regular basis?
2. Whether the Company audits the processes and procedures for compliance with established policies and standards?
3. Whether the Company test the disaster plans on a regular basis?
4. Does management regularly review lists of individuals with physical access to sensitive facilities or electronic access to information systems.

ENVIRONMENT AUDIT

According to Section 2(a) of the Environmental Protection Act, 1986, 'Environment' includes Water, air and land. The inter-relationship which exists among and between, (i) water, air, land, and (ii) human beings, other living creatures, plants, microorganisms and property.

Environmental audit in general term reflect various types of evaluations intended to verify the environmental compliance and management system implementation gaps, along with related corrective actions and it has a wide variety of meanings. Environmental Audit refers to verification and assessment of environmental measures in an organisation.

Objectives of environmental audit are to evaluate the efficacy of the utilization of resources of man, machine, materials, and to identify the areas of environmental risks and liabilities and weaknesses of management system and problems in compliance of the directives of the regulatory agencies and control the generation of pollutants and / or waste.

An environmental audit from a financial perspective is conducted to ensure that public funds were spent efficiently and for their intended purposes. During an audit of financial statements related to environmental matters, the following issues will merit special attention:

- Initiatives to prevent, abate, or remedy damage to environment;
- Conservation of renewable and non-renewable resources; (Mentioned In Director's Report)
- Consequences of violating environment laws, rules and regulations;
- Consequences of vicarious liability imposed by the government, courts etc.

There are generally two different types of environmental audits: Compliance audits and Management systems audits. As the name implies, these audits are intended to review the site's/company's legal compliance status in an operational context. Compliance audits generally begin with determining the applicable compliance requirements against which the operations will be assessed. This tends to include Central Laws, state laws, and local Laws, Rules and Regulations.

1. Environmental Compliance audits

Compliance audit with respect to environmental issues will relate to providing assurance that governmental and private companies activities are conducted in accordance with the relevant laws, rules, notifications, regulations and standards as also policies and strategies. The audit have limited scope which is pre-defined under various legislations. Further the Audits are also focused on operational aspects of a company/site, rather than the contamination status of the real property. The following law covered under the environment compliance audit:

Air Pollution

1. The Indian Boilers Act, 1923.
2. The Motor Vehicle Act, 1939 (Repealed by Act No. 59 of 1988).
3. The Mines and Minerals (Regulation and Development) Act, 1947.
4. The Factories Act, 1948.
5. The Industries (Development and Regulation) Act, 1951.
6. The Air (Prevention and Control of Pollution) Act, 1981.

Water Pollution

7. The River Boards Act, 1956.
8. The Merchant Shipping (Amendment) Act, 1970.
9. The Water (Prevention and Control of Pollution) Act, 1974
10. The Water (Prevention and Control of Pollution) Cess Act, 1977

Radiation

11. The Atomic Energy Act, 1962.

Pesticides

12. The Poison Act, 1919.
13. The Factories Act, 1948.
14. The Insecticides Act, 1968.

Miscellaneous

15. The Indian Fisheries Act, 1897.
16. The Indian Forest Act, 1927.

17. The Prevention of Food Adulteration Act, 1954.
18. The Ancient Monuments and Archaeological Sites and Remains Act, 1958.
19. The Wildlife (Protection) Act, 1972
20. The Urban Land (Ceilings and Regulation) Act, 1976.
21. The Forest (Conservation) Act, 1980
22. The Environment (Protection) Act, 1986.
23. The Public Liability Insurance Act, 1991.

2. Environmental Management Systems Audit

ISO 14001 is a voluntary international standard for environmental management systems (“EMS”). An EMS meeting the requirements of ISO 14001:2015 is a management tool enabling an organization of any size or type to:

1. Identify and control the environmental impact of its activities, products or services;
2. Improve its environmental performance continually, and
3. Implement a systematic approach to setting environmental objectives and targets, to achieving these and to demonstrating that they have been achieved.

ISO 14001 is an environment management system standard published by International Organisation for standardization in the year 1996 and later updated in the year 2005. It provides highly effective, globally accepted framework for establishing and continually improving the effectiveness of environmental management. Implementation of ISO 14001 may bring with it both reductions in environmental risk and environmental costs.

The International Organization of Standardization (ISO) defines an environmental management system as “part of the management system used to manage environmental aspects, fulfill compliance obligations, and address risks and opportunities.” The framework in the ISO 14001 standard can be used within a plan-do-check-act (PDCA) approach to continuous improvement.

ISO 14001:2015 should be used by any organization that wishes to set up, improve, or maintain an environmental management system to conform with its established environmental policy and requirements. The requirements of the standard can be incorporated into any environmental management system, the extent to which is determined by several factors including the organization’s industry, environmental policy, products and service offerings, and location.

Question: Which of the following is not “Environment” as per Environmental Protection Act, 1986?

Options: (A) Water (B) Human Beings
(C) Air (D) Buildings

Answer: (B)

At the highest level, ISO 14001:2015 covers the Context of the organization, Leadership, Planning, Support, Operation, Performance evaluation Improvement with regard to environmental management systems:

Process of Environment Audit

1. Understanding the industrial activity and Pre-audit or planning stage

Collection of background information about the entity, definition of objectives and scope of audit, formation of audit team and development of audit plan and protocols.

2. On-site or Field Audit

Communicate the objectives of the audit to key faculties and schedule necessary meetings and interviews, identify areas of concern, site / facility inspection, evidence / records / document review, staff interviews, initial review of findings.

3. Assessing the impact and post-audit

Final evaluation of findings, submit preliminary report with type and magnitude of impact on the environment, get approval of management, introduce the findings to the auditees, submit final environment audit report along with short/ long term acceptability.

4. Follow up or review

Verify the action taken on audit findings and recommendations.

CHECKLIST ON ENVIRONMENT AUDIT**A. Environment Policy**

1. Whether the company have defined and documented its environmental policy.
2. Whether such policy is based on significant environmental aspects and corporate policy.
3. Whether such policy is appropriate to the organization's activities and their potential environmental impacts and regulatory requirements.
4. Does the policy include commitments to:
 - Continual improvement
 - Prevention of pollution
 - Comply with environmental legislation and other requirements
5. Does the policy provide a framework for setting environmental objectives and targets.
6. Is the policy documented, implemented, maintained and communicated to all persons working for or on behalf of the organization.
7. Is the policy available is freely available to public.

Question:is a voluntary international standard for environmental management systems ("EMS").

Options: (A) ISO 14001 (B) ISO 15002
(C) ISO 12501 (D) 12901

Answer: (A)

B. Environment Aspects

1. Whether a procedure been established, implemented and maintained to identify the environmental aspects of its current and relevant past activities.
2. Whether aspects related to potential significant environmental aspects been considered in establishing and implementing the EMS.
3. Whether aspects having legal and/or regulatory reporting, monitoring or operational requirements been identified as "significant" aspects.
4. Are the following environmental aspects considered in sufficient detail:
 - Air emission
 - Wastewater effluent
 - Waste management
 - Soil pollution
 - Raw material and natural resource usage
 - Hazardous and toxic material
 - Impact on well being (e.g. noise, smell, heat, landscape, protection)
 - Utility, energy and resource

5. Other environmental specific issues on site such as housekeeping, storage, areas, piping
6. Are the following operational aspects considered:
 - Normal operating conditions
 - Abnormal operating conditions (e.g. start up and shut down conditions, maintenance, incidents)
 - Development of new or modified processes, products or services
7. Actual and potential emergency conditions and accidents.
8. Have significant aspects been identified.

C. Legal and Other Requirements

1. Has a procedure been developed and implemented to identify applicable regulatory, legal and other requirements.
2. Are current copies of all applicable regulatory and other requirements accessible to personnel as necessary.
3. Have all further agreements the organization needs to fulfill been integrated in the procedure:
 - Business related agreements
 - Agreements with public authorities
4. Guideline other than legal requirements (e.g. company policy, industry codes and practices, etc.)
5. Are the following licenses, permits and approvals available to demonstrate full legal compliance:
 - Licenses of waste collectors
 - Air emission permits
 - Wastewater discharge permits
 - Permits and licenses related to dangerous goods
 - Environmental fees, e.g. wastewater discharge fee
 - Registration at authorities (e.g. wastewater discharge, air emission inspection)

INFORMATION SYSTEMS AUDIT

Information systems auditing or systems audit is an ongoing process of evaluating controls, collecting and evaluating evidence to determine whether a computer system safeguards assets, maintains data integrity, allows organizational goals to be achieved effectively, and uses resources efficiently. Thus, information systems auditing supports traditional audit objectives; attest objectives (those of the external auditor) that focus on asset safeguarding and data integrity, and management objectives (those of the internal auditor) that encompass not only attest objectives but also effectiveness and efficiency objectives.

An information systems audit performed in an organisation is a comprehensive examination of a given targeted system. The audit consists of an evaluation of the components which comprise that system, with examination and testing in the following areas:

- High-level systems architecture review
- Business process mapping (e.g. determining information systems dependency with respect to user business processes)
- End user identity management (e.g. authentication mechanisms, password standards, roles limiting or granting systems functionality)
- Operating systems configurations (e.g. services hardening)
- Application security controls
- Database access controls (e.g. database configuration, account access to the database, roles defined in the database)

- Anti-virus/Anti-malware controls
- Network controls (e.g. running configurations on switches and routers, use of Access control lists, and firewall rules)
- Logging and auditing systems and processes
- IT privileged access control (e.g. System Administrator or root access)
- IT processes in support of the system (e.g. user account reviews, change management)
- Backup/Restore procedures

During the System audit, the auditors are required to understand and evaluate the overall control environment. The control environment reflects the overall attitude of, awareness of, and actions by the board of directors, management, and others concerning the importance of internal controls in the enterprise.

General objectives of System Auditing

1	• Validation of the organizational aspects and administration of the information service function.
2	• Validation of the controls of the system development life cycle.
3	• Validation of access controls to installations, terminals, libraries, etc.
4	• Automation of internal auditing activities.
5	• Internal training.
6	• Training members of the information service function department.

System Audit and SEBI

In order to bring stability and integrity in the securities market, and in view of the various technological developments and innovations, for bringing efficiency to the markets, SEBI vide Circular No. CIR/MRD/ DMS/34/2013, dated November 06, 2013, has prescribed stock broker, who use Algorithmic Trading or provide their clients with the facility of Algorithmic Trading system audit framework and mandated Stock Exchanges to ensure conduct of system audit of its members as per the prescribed framework and monitor the same.

CHECKLIST ON SYSTEMS AUDIT

A. Management Controls

1. Security Policy and Standards

1. Whether the organization has a Security Policy?
2. If a security policy exists, it needs to be examined for adequacy in proportion to the risk.

2. Constitution of Steering Committee

The formulation and implementation of a sound security policy should be a team effort, brought into effect by a committee in which there is at least one member of the Board of Directors apart from the Chief Information Officer (CIO) and user HoDs.

3. Business Continuity Planning

The IS Auditor should examine all such possibilities by which the availability of Computer Systems is threatened with temporary or permanent breakdown. In sensitive areas, even proofing against mob violence/terrorist strikes should be kept in view.

4. Systems Development Methodology

The documentation should be properly cross-indexed. The effect of a change made in the system should be well understood and thorough testing should be done and documented. The System Auditor should get necessary evidence and comment on the lack of proper adherence to procedure

B. Operational Controls

1. Monitoring physical assets

1. Whether monitoring of physical assets are done in regular intervals?
2. Any discrepancy in the data collected and the current data of physical assets are addressed immediately or not?

2. Ensure adequate environmental controls:

1. Whether proper facilities of Air-conditioning (dust, temperature & humidity controls), Power Conditioning (Online UPS functioning all the time with backups, proper earthing) are timely reviewed?
2. Whether the cable connections/electronic points are functioning properly or not is reviewed on regular intervals?

C. Organizational Controls

1. Whether the roles, responsibilities and duties of User Departments and IT Department are defined?
2. The CIO should have three reportees– one for taking care of the development team, one for ensuring Information System / IT Center security and another for managing the facilities (i.e., operations and maintenance of hardware), OS, database administration, vendor management, service providers etc.

D. Application Controls

Whether each of the Computer Systems and subsystems must have its own set of controls for Inputs, processing & outputs. Processing controls should also ensure checks for legal compliance.

FEW MANDATORY AUDITS UNDER SEBI

Circular No. & Date	Particulars	Purpose of Audit
CIR/CDMRD/DEICE/01/2015 dated November 16, 2015	Annual System Audit, Business Continuity Plan (BCP) and Disaster Recovery (DR)	Any events of disaster will disrupt trading systems adversely, thereby impacting the market integrity and the confidence of investors. Exchanges should therefore have robust Business Continuity Plan (BCP) and Disaster Recovery (DR) to ensure continuity of operations.

SEBI/HO/CDMRD/DEICE/ CIR/P/2016/70 August 11, 2016	Annual System Audit of Stock Brokers / Trading Members of National Commodity Derivatives Exchanges	SEBI vide Circular No. CIR/MRD/ DMS/34/2013, dated November 06, 2013, has prescribed stock broker system audit framework and mandated Stock Exchanges to ensure conduct of system audit of its members as per the prescribed framework and monitor the same. It was decided to make the provisions of the aforesaid circular applicable to the Brokers/ Trading Members of the National Commodity Derivatives Exchanges.
SEBI/HO/IMD/DF2 CIR/P/2019/57 dated April 11, 2019	System Audit framework for Mutual Funds / Asset Management Companies (AMCs)	Considering the importance of systems audit in technology driven asset management activity and to enhance and standardize the systems audit
SEBI/HO/MRD1/ICC1/ CIR/P/2020/03 January 07, 2020	Annual System Audit of Market Infrastructure Institutions	The Systems Audit Report including compliance with SEBI circulars/ guidelines and exceptional observation format along with compliance status of previous year observations shall be placed before the Governing Board of the MII and then the report along with the comments of the Management of the MII shall be communicated to SEBI within a month of completion of audit. Further, along with the audit report, MIIs are advised to submit a declaration from the MD / CEO certifying the security and integrity of their IT Systems.

FORENSIC AUDIT

Forensic Audit is a dynamic and strategic tool in combating corruption, financial crimes and frauds through investigations and resolving allegations of fraud and embezzlement. It may be conducted to determine negligence. Forensic is the application of science to crime concerns. Forensic science is science applied to legal matters especially criminal matters.

“Forensic” means suitable for use in the court of law. The examination a company’s financial records to derive evidence which can be used in a court of law is a Forensic Audit. It includes the use of accounting, auditing and investigative skills to assist in the legal matters.

Forensic audits are highly specialized, and the work requires detailed knowledge of fraud investigation techniques and the legal framework. Forensic accountants are trained to look beyond the numbers and has necessary skills and experience to accept the work. Highly specialized and the work requires detailed knowledge of fraud investigation techniques and the legal framework (civil, criminal laws and human psychology) and to identify substance over form when dealing with an issue.

A forensic auditor is required to have specialist training so that he can understand the legal framework and also has the knowledge of forensic audit techniques. He should also have the expertise in the use of IT tools and techniques that facilitate data recovery and analysis.

A forensic audit, also known as forensic accounting, refers to the application of accounting methods for detection and gathering evidence of frauds, embezzlement, or any other such white-collar crime. It is the application of accounting skills to legal questions.

Forensic audit is done in two-phases.

1. **Investigation Services** – At first the auditor begins with an investigation; looking into the accounts and statement, and identifying defects in it. It then moves on to find ways to deal with such defects, which is a reactionary function.
2. **Litigation Services** – It is entirely possible the frauds detected be resolved within the company itself. However, there are times when they need to be resolved through legal channels. During such situations, forensic auditors give litigation support to the advocates. Their advice and consultation about the legalities of commercial disputes are very essential. Moreover, they also provide research assistance by giving relevant documents and facts to support a legal claim, and also help decide the extent of damage that is required. They are also called up by the Court as an expert witness for further investigation.

Areas of Forensic Audit

Criminal investigations	Professional negligence cases	Fraud investigation and risk / control reviews	Arbitration cases	Settlement of insurance claims	Dispute settlement
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PURPOSE OF FORENSIC AUDIT

I. Corruption

In Forensic audit, while investigating fraud, auditor would look out for:

Conflicts of interest – When fraudster used his/her influence for personal gains detrimental to company. For example, if a manager allows and approves inaccurate expenses of employee with whom he has personal relations. Even though the manager is not benefitted from this approval but he is likely to receive personal benefits after making such inappropriate approvals.

Bribery – As the name suggest offering money to get things done or influence a situation one's favour would be bribery.

Extortion – In above example, if someone demands money so as to award Tender to other party then it would amount to extortion.

II. Asset Misappropriation

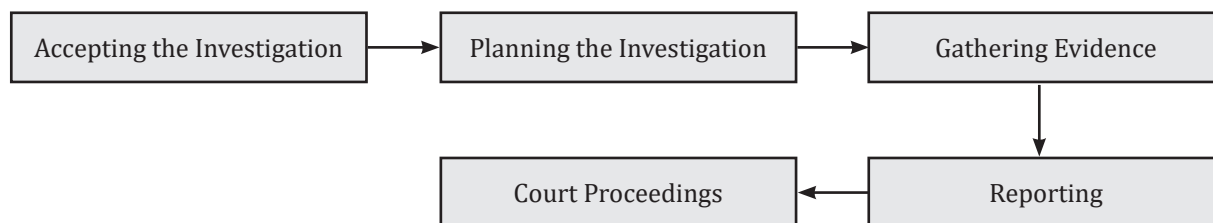
This is the most common and prevalent fraud carried out by fraudsters. Misappropriation of cash, raising fake invoices, payments made to non existing suppliers or employees, misuse of assets or theft of Inventory are few examples of such asset misappropriation.

Example: A driver uses the office car for his personal holiday trip is said to Misappropriate the Asset.

III. Financial statement fraud

Companies get into such type of frauds so as to show a better performance of the company than what it is actually. This is done so as improve liquidity or ensure top management keep earning the bonuses or due to market pressure on performance.

Some examples of such frauds are – Intentional forgery of accounting records; omitting transactions – either revenue or expense transactions, non-disclosures of relevant details from the financial statements; or not applying the requisite financial reporting standards.

Procedure of Forensic Auditing Investigation**Step 1 – Accepting the Investigation**

A forensic audit is always assigned to an independent firm/group of investigators in order to conduct an unbiased and truthful audit and investigation. Thus, when such a firm receives an invitation to conduct an audit, their first step is to understand the business, identify possible frauds that could exist and determine whether or not they have the necessary tools, skills and expertise to go forward with such an investigation. They need to do an assessment of their own training and knowledge of fraud detection and legal framework. Only when they are satisfied with such considerations, can they go ahead and accept the investigation.

Step 2 – Planning the Investigation

Planning the investigation is the key step in a forensic audit. The auditor(s) must carefully ascertain the goal of the audit so being conducted, and to carefully determine the procedure to achieve it, through the use of effective tools and techniques. Before planning the investigation, they should catalog possible fraud symptoms,

Symptoms of Fraud

- Delayed submission of returns information etc.;
- Delayed remittances into Bank;
- Delay or non preparation of Bank reconciliation statements;
- Lifestyle of promoters/directors and key employees ;
- Continued internal control lapses and not following norms of corporate governance

Internal Indicators

- Delay in finalisation of accounts;
- Frequent changes in Accounting Policies;
- Continuing Losses;
- Over drawl of loans or advances;
- Higher cost per unit of production;
- High amount of losses or wastage shown in books v/s Norms;
- High investment in group companies
- Profit not supported by increased cash availability

They should also be clear on the final categories of the report, which are as follows,

- Identifying the type of fraud that has been operating, how long it has been operating for, and how the fraud has been concealed;
- Identifying the fraudster(s) involved;
- Quantifying the financial loss suffered by the client;
- Gathering evidence to be used in court proceedings;
- Providing advice to prevent the recurrence of the fraud.

Illustrative Checklist on Forensic Audit

- Whether the fraud detected is at the management level or employee level?
- What was the reason or motive behind the fraud?
- How is the internal check on cash transactions, raising of invoices etc.?
- Who is responsible for the checking if all the things are in order in regular intervals?
- What is the nature of fraud – corruption, assets misappropriation or financial misstatement?
- Whether the entries passed are properly reflected in the balance sheet without any omission?
- Whether IT returns are filed every year properly?
- Whether bank entries are reconciled on regular basis? Whether bank statements do not have any discrepancy.

Fraud Triangle and Fraud Risk

A fraud triangle is a tool used in forensic auditing that explains three interrelated elements that assist the commission of fraud- Pressure (motive), opportunity (ability to carry out the fraud) and rationalization (justification of dishonest intentions). Fraud risk is the vulnerability a company/organisation has to those who are capable of overcoming the three elements in the fraud triangle. Fraud risk assessment is the identification of fraud risks that exist in the company/organisation. The planning involves the formulation of techniques and procedures that align with the fraud risk and fraud risk management.

Planning also includes the identification of the best way/mode to gather evidence. Thus, it is necessary that ample research should be done regarding certain investigative, analytical, and technology-based techniques, and also related legal process, with regard to the outcome of such investigation.

Step 3 – Gathering Evidence

In forensic auditing specific procedures are carried out in order to produce evidence. Audit techniques and procedures are used to identify and to gather evidence to prove, for example, how long have fraudulent activities existed and carried out in the organization, and how it was conducted and concealed by the perpetrators. In order to continue, it is pertinent that the planning stage has been thoroughly understood by the investigating team, who are skilled in collecting the necessary evidence. It is also important to keep clear sequence of custody until the evidence is presented in court. A logical flow of evidence helps in understanding the fraud and evidence presented in a better manner. If the same is not done then the evidence can be challenged in court, or the court would not admit it.

The investigators can use the following techniques to gather evidence or data about symptoms, testing controls to gather evidence which identifies the weaknesses, which allowed the fraud to be perpetrated.

- **Analytical Procedure:** Using analytical procedures to compare trends over time or to provide comparatives between different segments of the business applying computer-assisted audit techniques, for example, to identify the timing and location of relevant details being altered in the computer system.
- **Discussions and Interviews:** Discussions and interviews with employees.
- **Substantive Techniques:** Substantive techniques such as reconciliations, cash counts and reviews of documentation.
- **Forensic Data Analysis (FDA):** FDA is the technology used to conduct fraud investigations; the process by which evidence is gathered, summarized and compared with existing different sets of data. The aim here is to detect any anomalies in the data and identify the pattern of such anomalies to indicate fraudulent activity.

Step 4 – Reporting

The reporting stage is the most obvious element in a forensic audit. After investigating and gathering evidence, the investigating team is expected to give a report of the findings of the investigation, and also the summary of the evidence and conclusion about the loss suffered due to the fraud. It should also include the plan of the fraud itself, and how it unfolded, basically the whole trail of events, and suggestions to prevent such fraud in the future.

Step 5 – Court Proceedings

The last stage expands over those audits that lead to legal proceedings. Here the auditors will give litigation support to the Company/Regulators. The auditors are called to Court, and also included in the advocacy process. The understanding here is that they are called in because of their skill and expertise in commercial issues and their legal process. It is important that they lay down the facts and findings in an understandable and objective manner for everyone to comprehend so that the desired action can be taken up. They need to simplify the complex accounting processes and issues for others to understand the evidence and its implications.

FORENSIC AUDIT REPORT

Forensic Audit Report is statement of observation gathered & considered while proving conclusive evidence. It is a medium through which an auditor expresses his opinion under audit after the forensic audit investigation is completed.

Illustrative table of contents of a Forensic Audit Report include the following points:

1. Executive Summary
2. Origin of the audit
3. Audit Objective
4. Proposed Audit Outputs
5. Audit Implementation approach
6. Risk Analysis
7. Internal Environment Risk: Customers, product and Competitors; Financial Management; Human Resource Management; Information Technology; Business processes
8. External Environment Risk: Economy and market situation; political and legal scenario; Technology in the sector
9. Audit Process
10. Preliminary understanding of scope and incident coverage
11. Collect evidence
12. Conduct Interviews
13. Analyse findings
14. Validate inferences and conclusions
15. Evidence of risk events
16. Conflicts of interest; Bribery; Extortion; Theft; Fraudulent transactions; inventory frauds; misuse of assets; financial statement frauds
17. Audit recommendations
18. Logical framework approach
19. Preconditions and risks
20. Governance on recommendation implementation
21. Stakeholders
22. Budget considerations

SOCIAL AUDIT

A social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. A social audit helps to narrow gaps between vision/goal and reality, between efficiency and effectiveness. It is a technique to understand, measure, verify, report on and to improve the social performance of the organization.

Social auditing creates an impact upon governance. It values the voice of stakeholders, including marginalized/ poor groups whose voices are rarely heard. Social auditing is taken up for the purpose of enhancing local governance, particularly for strengthening accountability and transparency in local bodies.

Social audit is a process of reviewing official records and determining whether state reported expenditures reflect the actual money spent on the ground. A social audit is a formal review of a company's endeavors in social responsibility.

The key difference between development and social audit is that a social audit focuses on the neglected issue of social impacts, while a development audit has a broader focus including environment and economic issues, such as the efficiency of a project or programme.

A social audit is an official evaluation of an organization's involvement in social responsibility projects or endeavors. For example, a local family store makes a clothing donation to a local church that has a homeless shelter for women and children. The store makes a similar donation three times a year. This is something that a social audit might uncover. Factors examined by a social audit include records of charitable contributions, volunteer events, efficient utilization of energy, transparency, work environment, and employees' wages.

Implication of Social Audit

Social auditing creates an impact upon governance. It values the voice of stakeholders, including marginalized/poor groups whose voices are rarely heard.

Social auditing is taken up for the purpose of enhancing local governance, particularly for strengthening accountability and transparency in local bodies.

Social Audit makes it sure that in democracy, the powers of decision makers should be used as far as possible with the consent and understanding of all concerned.

Objectives of Social audit

1

- Assessing the physical and financial gaps between needs and resources available for local development.

2

- Creating awareness among beneficiaries and providers of local social and productive services.

3

- Increasing efficacy and effectiveness of local development programmes.

4

- Scrutiny of various policy decisions, keeping in view stakeholder interests and priorities, particularly of rural poor.

5

- Estimation of the opportunity cost for stakeholders of not getting timely access to public services.

6

- Provision of information needed to improve the effectiveness of programs designed to enhance community development.

Rights of Social Auditor to be effective

1	<ul style="list-style-type: none"> • seek clarifications from the implementing agency about any decision-making, activity, scheme, income and expenditure incurred by the agency;
2	<ul style="list-style-type: none"> • consider and scrutinize existing schemes and local activities of the agency; and
3	<ul style="list-style-type: none"> • access registers and documents relating to all development activities undertaken by the implementing agency or by any other government department.

This requires transparency in the decision-making and activities of the implementing agencies. In a way, social audit includes measures for enhancing transparency by enforcing the right to information in the planning and implementation of local development activities

A social audit looks at factors such as a company's record of charitable giving, volunteer activity, energy use, transparency, work environment, and worker pay and benefits to evaluate what kind of social and environmental impact a company is having in the locations where it operates

SOCIAL AUDIT- COVERAGE

A social audit examines issues regarding internal practices or policies and how they affect the identified society. The activities included tend to pertain to the concepts of social responsibility. This can include activities affecting the financial stability of a region, any environmental impact resulting from standard operations and issues of transparency in reporting.

There is no standard regarding what must be considered as the society during the audit. This allows a business to expand or contract the scope based on its goals. While one company may wish to understand the impact it has on a small-scale society, such as a particular city, others may choose to expand the range to include an entire state, country or the world as a whole.

Use of Social Audit Findings

As a social audit is completely voluntary, the results of the audit are not required to be released to the general public or any regulatory agency. While positive results may be voluntarily disclosed, negative results may be kept internal and used to identify potential improvements that can make the results of the next social audit more favorable. For example, if a company found that the examined society did not believe it was adequately involved in charitable activities within the community, the company might choose to increase efforts in this area in the hopes of improving public perception.

Implementation of Social Audit

1. **Empowerment of people:** Social audit is most effective when the actual beneficiaries of an activity are involved in it. However, people can only get involved in the process when they are given appropriate authority and rights. To this end, the 73rd amendment of the constitution has empowered the Gram Sabha to conduct social audit. This is relevant only in the villages. In the cities, the Right to Information Act empowers the people to inspect public records.
2. **Proper Documentation:** Everything right from the requirement gathering to planning to implementation must be properly documented. Some of the documents that should be made mandatory are:
 - Applications, tenders, and proposals.
 - Financial statements, income - expense statements.
 - Registers of workers
 - Inspection reports.

3. **Accessibility of Documents:** Merely generating documents is useless if they are not easily accessible. In this information age, all the documents must be put on line.
4. **Punitive Action:** The final and most important provision, about which nothing is being done yet is to have punitive actions for non-conformance of the process of social audit. Unless there is legal punishment, there will be no incentive for the people in authority to implement the processes in a fair manner.

Steps for Social Audit

- Clarity of purpose and goal of the local elected body.
- Identify stakeholders with a focus on their specific roles and duties. Social auditing aims to ensure a say for all stakeholders. It is particularly important that marginalized social groups, which are normally excluded, have a say on local development issues and activities and have their views on the actual performance of local elected bodies.
- Definition of performance indicators which must be understood and accepted by all. Indicator data must be collected by stakeholders on a regular basis.
- Regular meetings to review and discuss data/information on performance indicators.
- Follow-up of social audit meeting with the panchayat body reviewing stakeholders' actions, activities and viewpoints, making commitments on changes and agreeing on future action as recommended by the stakeholders.
- Establishment of a group of trusted local people including elderly people, teachers and others who are committed and independent, to be involved in the verification and to judge if the decisions based upon social audit have been implemented.
- The findings of the social audit should be shared with all local stakeholders. This encourages transparency and accountability. A report of the social audit meeting should be distributed for Gram Panchayat auditing. In addition, key decisions should be written on walls and boards and communicated orally.

Checklist on Social Audit

- Whether the company has well defined policies for development of the society especially the poor and rural people?
- Whether on regular basis the scrutiny of fulfillment of the policy is done?
- Whether the physical and financial gaps between needs and resources available for local development are assessed on regular intervals?
- Whether the voice of the minority shareholders are considered?
- Are necessary actions taken over them?

LESSON ROUND UP

- Audit of corporate governance processes provides assurance to the various stakeholders that all the required governance activities have been accomplished and which governance norms has not been satisfied by the company for assisting stakeholders in making an informed decision.
- Corporate Social Responsibility (CSR) audit help in measuring the actual social performance against the social objectives set by the Company.
- According to Section 2(a) of the Environmental Protection Act, 1986, 'Environment' includes a) Water, air and land b) The inter-relationship which exists among and between, (i) water, air, land, and (ii) human beings, other living creatures, plants, microorganisms and property.
- Forensic Audit is a dynamic and strategic tool in combating corruption, financial crimes and frauds through investigations and resolving allegations of fraud and embezzlement.
- A fraud triangle is a tool used in forensic auditing that explains three interrelated elements that assist the commission of fraud- Pressure (motive), opportunity (ability to carry out the fraud) and rationalization (justification of dishonest intentions).
- A social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance. A social audit helps to narrow gaps between vision/goal and reality, between efficiency and effectiveness.

GLOSSARY

Forensic Audit	Forensic Audit is a dynamic and strategic tool in combating corruption, financial crimes and frauds through investigations and resolving allegations of fraud and embezzlement.
Social Audit	A social audit is a way of measuring, understanding, reporting and ultimately improving an organization's social and ethical performance.
Investor Protection and Education Fund	Investor Protection and Education Fund administered by the SEBI under the SEBI Act, 1992.
Industrial Dispute	Means any dispute or difference between employers and employees, or between employers and workmen, or between workmen and workmen, which is connected with the employment or non-employment or the terms of employment or with the conditions of labour, of any person.
ISO 14001	ISO 14001 is a voluntary international standard for environmental management systems ("EMS").

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation)

1. Comment on the close relationship between Corporate Governance and SEBI (LODR) Regulations & Companies Act, 2013.
2. What is the purpose of CSR Audit?
3. Discuss the scope of Takeover Audit.
4. Discuss the scope and benefits of Industrial and Labour Audit.
5. What is Cyber Audit and write down its objectives?
6. Discuss the current scenario of Environment Laws in India.
7. Describe the System audit controls evaluation process
8. Forensic audit is unlike other audits. Comment.
9. Discuss the steps involved in Social Audit.

LIST OF FURTHER READINGS

- The Companies Act, 2013 rules made thereunder.
- SEBI Manual.
- Regulations, Circulars, Notifications etc. Issued by SEBI.

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- <https://www.mca.gov.in/content/mca/global/en/home.html>
- <https://www.sebi.gov.in>
- <https://www.indiacode.nic.in>

[illegible]

Lesson 12

Audit Engagement

Key Concepts One Should Know

- Conflict of Interest
- Confidentiality
- Preconditions of accepting professional engagement
- Audit Engagement
- CSAS
- Key Managerial Personnel
- Appointing Authority
- Auditing Standard

Learning Objectives

To understand:

- The procedures and authority for appointment of Statutory Auditors of the company by the members of the company through a resolution passed in AGM.,
- The procedures and authority for appointment of Auditors in case of other Audits of the company.
- The procedures and authority for appointment of Auditors by tribunal/courts, Company Liquidator etc.
- How the Appointment of such auditor are not through the any statue and hence the Companies are having liberty to set their own process for the engagement of the auditors through a direct engagement or through inviting the tenders for the engagements of the auditors.
- Various requirement of laws and the point which should be considered while taking up the audit engagement by any professional.

Regulatory Framework

- Section 92, 138, 139, 141, 142, 149, 178, 179, 204 of Companies Act, 2013.
- Schedule I and II of Companies Secretaries Act, 1980.
- CSAS – 1 on Auditing Standard on Audit Engagement

Lesson Outline

- Meaning of Audit Engagement
- Appointing Authority
- Audit Fees and Expenses
- Independence and conflict of Interest
- Confidentiality
- Audit Engagement Letter
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

MEANING OF AUDIT ENGAGEMENT

An audit engagement is an arrangement wherein an auditor perform an audit of the transaction of the auditee for which he has been engaged by the auditee. The audit engagement is a contractual arrangement by way of the Audit Engagement letter between the auditee and the auditor.

ICSI issued CSAS-1 – Auditing Standard on Audit Engagement effective from 1st April, 2021, which defines:

“Audit Engagement” means detailed terms of reference of appointment including scope of audit, remuneration and limiting conditions, if any.”

Question: CSAS-1 is mandatory for audit engagements accepted on or after.....

Answer: April 01, 2021.

Question: What is the scope of CSAS-1 and what does it deal with?

Answer: CSAS-1 is applicable to the Auditor undertaking Audit Engagement under any statute. The Standard deals with the Auditor’s role and responsibilities with respect to an Audit Engagement and the process of entering into an understanding/agreement with the Appointing Authority for the purpose of audit.

Offer and acceptance of the Audit Engagement

The offer for the audit engagement may be initiated either by the Auditee or by the auditor. However it is necessary that the engagement are accepted by the auditors and the auditor fulfills the various criteria for acting as an auditor prescribed in the various applicable laws. For example in case of the statutory audit the auditor shall fulfill the eligibility criteria as prescribed under section 141 of the Companies Act, 2013.

An auditor may be appointed either as a result of one to one communication between the auditor and the Management or through a tendering process followed by the Management.

In case the auditor is to be appointed by the management on one to one basis, following steps should be taken care by the auditor:

Step 1

- Selection or screening of prospective auditee based on following risk / assessment:

Client acceptance and engagement risk e.g. highly leveraged client, habitually litigant client, in the media for wrong reason, pledging of shares by the promoter group, PE involvement.

Performance Risk – capacity, resources etc.

Engagement Contract Risk

Reputation Risk

Commercials

Step 2

- Communicating his willingness to take up the audit assignment.

Step 3

- Conducting a pre- engagement meeting with the management.

The meeting may inter-alia include discussion about the terms of engagement, to discuss about the terms of engagement, prior year audit results, appropriateness of reporting framework, understanding business and environment including internal control system, design & operation, audit process, periodicity of audit, determining nature and conflict of interest, prior year audit findings and conclusions, appropriateness of reporting framework, understanding Auditee's business operations and environment including internal control system, commercial terms of the audit and the timelines and milestones, if any, for conducting the Audit and submission of the Audit Report. Auditor shall disclose in the pre-engagement meeting conflict of interest, if any, with the Auditee. The Auditor shall be under Confidentiality obligation with respect to the information obtained during the pre-engagement meeting.

Step 4

- Signing the engagement letter with the Management.

In case where the appointment of auditor is through a tendering process by the management, following steps should be taken care by the auditor:

Step 1

- Pre-bid meeting with the management to discuss upon various aspects of the tender, scope of work terms of engagement, prior year audit results, appropriateness of reporting framework, understanding business and environment including internal control system, design & operation, audit process, periodicity of audit determining nature and conflict of interest etc.

Step 2

- Submission of technical bid as per the requirements of the tender document of the management.

Step 3

- Signing the engagement letter with the management.

Step 4

- Certificate by auditor before accepting an audit.

The Auditor shall furnish a certificate to the Appointing Authority that:

- (a) The number of audits are within the ceiling prescribed by the ICSI as specified in para 2 of CSAS 1.
- (b) No substantial conflict of interest as defined in para 3 of CSAS-1 exists with the Auditee.
- (c) There is no restriction to render the professional services under ICSI Guidelines.
- (d) He is not debarred to undertake such audit under any law or under the disciplinary mechanism of the ICSI.

APPOINTING AUTHORITY*

The appointing authority means the person who is appointing the Auditors of the company. The Auditee under the Statute could be a company or any other form of entity. Appointing Authority will depend upon the type of the Auditee. In case the Auditee is a company, the Appointing Authority would be the Board of company or members of the company, as the case may be, and in other cases, it would be the persons who have been entrusted with the responsibility of governance and compliances of the Auditee. Further, the Appointing Authority may also include Court, Tribunal or Regulator or any officer thereof.

ICSI auditing standard CSAS-1 (Auditing Standard on Audit Engagement) effective from 1st April, 2021, defines:

“Appointing Authority” means any person having authority to appoint the Auditor.

“Auditee” means a person subject to audit.

Under the provision of the Section 139 of the Companies Act, 2013, it has been specifically provided that the first statutory auditor shall be appointed by the Board of Directors of the company within 30 days of the incorporation of the company, however, subsequent auditors shall be appointed upon the recommendation of the board or the audit committee of the company, if any, by the members at the general meeting of the company.

For example, to conduct audit of the function and activities of the company in case of Secretarial Audit under Section 204 of Companies Act, 2013 or Clause 24A of the SEBI (LODR) Regulations, 2015 and Internal Audit under Section 138 of Companies Act, 2013, the Appointing Authority would be the Board of the Company. It may be noted that the internal auditor may or may not be the employee of the company.

In case where the tribunal/ official liquidator by exercising his power, appointed the auditor, the tribunal/ official liquidator is considered as the appointing authority.

In case where the law specifically provides for the appointing authority and the appointing authority may authorize such person to sign the engagement letter, however instances where the law has not provided, the person who signs the engagement letter in official capacity can be considered as the appointing authority.

In case, the Auditee is under Corporate Insolvency Resolution Process, the Appointing Authority shall be the Resolution Professional.

In case of Audit of Depository Participants, the Appointing Authority may depend upon the type of Auditee, e.g. if the Depository Participant is a company then the Appointing Authority will be the Board or in case of an LLP it could be the designated partner or any other partner as may be authorised to appoint the Auditor.

Similarly in case of Internal Audit of Stock Brokers, Internal Audit of Investment Advisors, Internal Audit of Portfolio Managers, Internal Audit of Credit Rating Agencies and Internal Audit of Research Analysts, the Appointing Authority would depend upon the type of Auditee.

Types of Appointing authorities	
First statutory auditor of the Company	Board of Directors or members in EGM
Statutory Auditor	Members in AGM
Secretarial Auditor	Board of Directors
Internal Auditors	Board of Directors
Auditee is under Corporate Insolvency Resolution Process	Resolution Professional
tribunal/ official liquidator by exercising his power	Tribunal/Official Liquidator
Audit of Depository Participants	Director /Designated etc. partner depends on nature of Organisation
Internal Audit of Stock Brokers	Depends upon the type of auditee.

* https://www.icsi.edu/media/webmodules/Guidance_Notes_on_ICSI%20AS_Book_05-6-2021.pdf

Terms and Conditions of Audit engagement

The objective and scope of every audit is dependent on the four corners of the terms and conditions which also include the scope of audit as agreed by and between the auditee and the auditors of the company. This requires the specific attention of the auditors and auditee on the following points:

- The objective and purpose of the audit;
- The responsibilities of the auditor;
- The responsibilities of management/ Auditee;
- The audit risk;
- The audit limitation;
- The audit plan.

This is essential that the auditor as well as the auditee should agree upon the terms of audit engagement and documented the same in the audit engagement letter or other suitable form of written agreement which can be referred on any conflict arising during the course of audit.

In case of instances where due to change in the governing laws the amended law should be considered in the performance on the audit, however, any request in the change of the terms of audit engagement should be considered by the auditor on its merit and shall be properly documented by the auditors.

AUDIT FEE & EXPENSES

Audit fee which is to be charge by the auditor depends on several factors, which includes:

- Size of the organization;
- Nature of business ;
- Internal Controls systems & Technology adopted ;
- Scope of audit;
- Frequency of audit etc.

Audit fees should be a fair reflection of the value of the work performed for the auditee, taking into account the above mentioned factors. However, the Audit services should not be offered or rendered under an arrangement whereby no fee will be charged unless specified findings or results are obtained, or where the fee is otherwise contingent upon the findings or results of such services, and fees should not be regarded as being contingent if fixed by a court or other public authority. Also the charge or accept a fee for professional work on a percentage basis is not advisable except where that course is authorized by statute or has been approved by a member body as generally accepted practice for certain work.

Auditors should not accept a very low level of fee as a result of competing for business. Also not to enter in to price competition and deplored in the profession, as it could impair the auditors' independence and deteriorate the quality of the auditing service. However, charging a lower fee than has previously been charged by another auditor for similar work is not restricted in any law.

In case of Statutory Auditors, Section 142 of the Companies Act, 2013 provides that the remuneration to the Auditors shall be fixed in the general meeting of the company, also the auditor can claim the expenses incurred by him in connection with the audit of the company.

Similarly, In case of the Secretarial Audit and the Internal Audit, the Audit fee shall be decided by the Audit committee or by the board of the company.

Transaction advisory service

- Providing a transaction advisory service to a client seeking to acquire an audit client of the firm, where the firm has obtained confidential information during the course of the audit that may be relevant to the transaction.

Auditing competitive clients	<ul style="list-style-type: none"> Auditing two clients at the same time who are competing to acquire the same company where the audit report might be relevant to the parties' competitive positions.
Auditing clients in legal dispute	<ul style="list-style-type: none"> Taking audit assignment of two clients regarding the same matter, who are in a legal dispute with each other.
Audit report for Licensor and Licensee	<ul style="list-style-type: none"> Providing an audit report for a licensor on royalties due under a license agreement when at the same time advising the licensee of the correctness of the amounts payable.
Disclosing information	<ul style="list-style-type: none"> Disclosing information acquired as a result of professional relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
Using information for personal advantage	<ul style="list-style-type: none"> Using information acquired as a result of professional relationships to their personal advantage or the advantage of third parties.
Inadvertent disclosures	<ul style="list-style-type: none"> An auditor should maintain confidentiality even in a social environment. The auditor should be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with a business associate or a relative.
Information disclosed by a Prospective client	<ul style="list-style-type: none"> An auditor should also maintain confidentiality of information disclosed by a prospective client or employer.
Confidentiality within the firm	<ul style="list-style-type: none"> An auditor should also consider the need to maintain confidentiality of information within the firm or employing organization.
Control of Staff	<ul style="list-style-type: none"> An auditor should take all reasonable steps to ensure that staff under the auditor's control and persons from whom advice and assistance is obtained respect the auditor's duty of confidentiality.

Preconditions of accepting/continuing any professional engagement

Prior to acceptance of any Audit engagement, the auditor, in order to establish whether the preconditions for accepting professional assignment are present, the auditor should check that:

- (a) Whether the reporting framework as required in the preparation, performance of audit, review of the secretarial/ non-financial statements is acceptable; and
- (b) Whether the management is in agreement to acknowledge and understands its responsibility relating to:
 - (i) Preparation of the secretarial/ non-financial statements in accordance with the applicable reporting framework, including their fair presentation;
 - (ii) Development of internal control/systems/procedure to enable the preparation of secretarial/ non-financial statements which are free from material misstatement, whether due to fraud or error; and
 - (iii) Providing:
 - (a) Access to all information of which management is aware that is relevant to the preparation/ audit/ review etc. of the secretarial/ non-financial statements such as records, documentation and other matters;

- (b) Additional information that the auditor may request from management for the relevant purpose; and
- (c) Unrestricted access to persons within the company from whom the auditor determines it necessary to obtain audit evidence.

Limitation on scope prior to Engagement Acceptance

If management or appointing authority impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the Secretarial records/non-financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

Other factors affecting Engagement Acceptance

If the preconditions for an audit/professional assignment are not present, the auditor should discuss the matter with management. Unless required by law or regulation to do so, the auditor should not accept the proposed audit engagement:

- (a) If the auditor assesses that the reporting framework to be applied in the preparation of the secretarial records/non-financial statements is unacceptable, or
- (b) If the agreement has not been concluded.

Agreement on Engagement Terms

The auditor should agree upon the terms of engagement with the management or those charged with governance, as appropriate. The agreed terms of the engagement should be recorded in an engagement letter or other suitable form of written agreement and includes:

- (a) The objective and scope of engagement;
- (b) The responsibilities of the firm;
- (c) The responsibilities of management;
- (d) Identification of the applicable financial reporting framework; and
- (e) Reference to the expected form and content of any reports and a statement that there may be circumstances in which a report may differ from its expected form and content.

If any law or regulation prescribes sufficient detail of the terms of the engagement referred to above, there is no need to record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities.

Criteria for declining and withdrawing from an Engagement

Based on the evaluation of client information and the following factors, the auditor should determine and document the conditions beyond which it would be prudent to decline, or withdraw from an engagement:

- (a) Client's status/information that is likely to impact adversely on the independence of the firm.
- (b) Ability of the firm to provide appropriate service to the client, considering needs for technical skills, knowledge of the industry and personnel.
- (c) Consider circumstances which would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks.

Audit Engagement Letter

It is in interest of both the management and the auditor that the auditor should get an audit engagement letter before the commencement of the audit to help avoid misunderstandings with respect to the terms of engagement. In some entities, however, the objective and scope of an audit and the responsibilities of management and of the auditor may be sufficiently established by law, in that case, the engagement letter may give a reference to the fact

that relevant law or regulation applies and that management acknowledges and understands its responsibilities for preparation and maintenance of records and for devising proper systems to ensure compliance with the provisions of applicable laws and regulations.

It should be reviewed every year to ensure that it is up to date but does not need to be reissued every year unless there are changes to the terms of the engagement. The auditor shall obtain a new engagement letter if the scope or context of the assignment changes after initial appointment.

Form and Content of Audit Engagement Letter

The form and content of audit engagement letter may vary for each audit engagement, but it would generally include reference to:

- Elaboration of the scope of audit, including reference to applicable legislation, regulations and ethical and other pronouncements of professional bodies to which the auditor adheres.
- The form of any other communication of results of the audit engagement.
- Arrangements regarding the planning and performance of the audit, including the composition of the audit team.
- Written representations to be provided by the management to the auditor.
- The agreement of management to make available to the auditor adequate records, reports and other information in time to allow the auditor to complete the audit in accordance with the proposed timetable.
- The agreement of management to inform the auditor of events occurring or facts discovered subsequent to the date of the financial statements, of which management may become aware, that may affect the status of compliance by the under any law.
- Period within which (with Milestones) audit report should be submitted by the auditor.
- Audit fees and any billing arrangements including out of pocket expenses for site visit etc.

When relevant, the following points also could be made in the audit engagement letter:

- Arrangements concerning the involvement of other auditors and specialists in some aspects of the audit
- Arrangements concerning the involvement of internal auditors and other staff of the entity.
- Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
- Any restriction of the auditor's rights or duties when such possibility exists.
- Any obligations of the auditor to provide audit documentation to other parties.
- Additional services to be provided, such as those relating to regulatory requirements.
- A reference to any further agreements between the auditor and the entity.

In case of certain entities, such as, Central/State governments and related government entities, law or regulation governing the operations of that entity generally mandate the engagement of the auditor and commonly set out the auditor's responsibilities and powers, including the power to access an entity's records and other information. When law or regulation prescribes in sufficient detail the terms of the audit engagement, the auditor may not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities. However, the auditor may nonetheless consider that there are benefits in getting a fuller audit engagement letter.

When the auditor of a parent entity is also the auditor of a component, the factors that influence the decision whether to get a separate audit engagement from the component include the following:

- Who appoints the component auditor;
- Whether a separate auditor's report is to be issued on the component;
- Legal requirements in relation to audit engagements;
- Degree of ownership by parent ;and
- Degree of independence of the component management from the parent entity.

AUDITING STANDARD ON AUDIT ENGAGEMENT**ICSI Guidance Note on Audit Engagement**

The Auditing Standard on Audit Engagement (CSAS-1) is applicable to the Practicing Company Secretaries (PCS) as defined in the Company Secretaries Act, 1980, who undertake the audit assignment envisaged under the Companies Act, 2013 or Securities and Exchange Board of India Act, 1992 or any other law prevailing in India.

CSAS-1 is not applicable for Audits entrusted on a voluntary basis by the Auditee to the Auditor. However, adherence to the Standard is recommended in respect of Audits entrusted on voluntary basis also.

In case of appointment by Court, Tribunal or Regulatory Authority, CSAS-1 shall apply to the extent possible, since the manner of appointment and terms of engagement in such cases shall be as per the directions of the Court, Tribunal or Regulatory Authority.

Following is an illustrative list of Audits which may be undertaken by a Company Secretary under various Statutes:

Type of Audit	Act/Regulation	Section/ Regulation	Auditee
Secretarial Audit	Companies Act, 2013	204	Company
Secretarial Audit	SEBI (LODR) Regulations, 2015	24A	Listed Entities
Internal Audit	Companies Act, 2013	138	Company
Audit of Depository Participants	SEBI (Depositories and Participants) Regulations 2018 read with SEBI circular no. SEBI/HO/MRD/ DOP2-DSA2/ CIR/P/2019/22 dated January 23, 2019	76	Sole Proprietorship, Partnership Firm, LLP, Company
Internal Audit of Stock Brokers	SEBI (Stock and sub-broker) Regulations, 1993	SEBI circular no. MIRSD/ DPSIII/ Cir-26/ 08	Sole Proprietorship, HUF, Partnership Firm, LLP, Company
Internal Audit of Investment Advisors	SEBI (Investment Advisors) Regulations, 2013	19(3)	Sole Proprietorship, Partnership Firm, LLP, Company
Internal Audit of Portfolio Managers	SEBI (Portfolio Managers) Regulations, 1993	SEBI circular no. IMD/PMS/ CIR/1/21727/ 03 dated November 18, 2003	Body Corporate
Internal Audit of Credit Rating Agencies	SEBI (Credit Rating Agencies) Regulations 1999	SEBI circular no. MRD/CRA/ CIR-01/2010 dated January 06, 2010	Public Financial Institution, Scheduled Commercial Bank, Foreign Bank operating in India with RBI approval, Foreign Credit Rating Agency recognised by or under any law, Company, Body Corporate
Internal Audit of Research Analysts	SEBI (Research Analysts) Regulation, 2014	25(3)	Sole, Proprietorship, Partnership Firm, LLP, Company

While auditing under any of the statutes, the Auditors are required to examine the Records, documents and information from the Auditee to express an independent opinion. Therefore, it becomes very important to understand the scope of audit.

The CSAS-1 deals with the Auditor's responsibilities while agreeing to the terms of Audit Engagement and entering into an agreement with the Management or those charged with governance. This includes principal contents of an Audit Engagement Letter and also the duties and responsibilities of the Auditor and the Auditee in case of a change in terms of engagement, if any.

The:

CSAS-1 is applicable on the Auditor in following situations

New Audit Engagement	Recurring Audit Engagement	Changes in terms of Audit Engagement
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New Audit Engagement – Covers an audit being conducted first time and therefore the appointment of the Auditor is an initial appointment. It will also cover the situations where the audit for the previous period was conducted by another Auditor.

Recurring Audit Engagement – Covers the situation where the Auditor had conducted the audit for the previous period and is requested to conduct the audit for the subsequent period as well. In such a case, the Auditor should obtain fresh Audit Engagement Letter if the period of engagement has expired, including revised terms if the circumstances so require Auditor shall adhere to the Standard even if the Audit Engagement is a continuing one.

Changes in terms of Audit Engagement – Whenever there is a change in the terms of Audit Engagement in the middle of an ongoing audit, the Auditor shall adhere to the Standard and initiate a revised Engagement Letter in terms of this Standard.

The Auditee under the Statute could be a company or any other form of entity. Appointing Authority will depend upon the type of the Auditee. In case the Auditee is a company, the Appointing Authority would be the Board of company and in other cases, it would be the persons who have been entrusted with the responsibility of governance and compliances of the Auditee. Further, the Appointing Authority may also include Court, Tribunal or Regulator or any officer thereof.

For example, in case of Secretarial Audit under Section 204 of Companies Act, 2013 or Clause 24A of the SEBI (LODR) Regulations, 2015 and Internal Audit under Section 138 of Companies Act, 2013, the Appointing Authority would be the Board of the Company.

In case, the Auditee is under Corporate Insolvency Resolution Process, the Appointing Authority shall be the Resolution Professional.

In case of Audit of Depository Participants, the Appointing Authority may depend upon the type of Auditee, e.g. if the Depository Participant is a company then the Appointing Authority will be the Board or in case of an LLP it could be the designated partner or any other partner as may be authorised to appoint the Auditor. Similarly in case of Internal Audit of Stock Brokers, Internal Audit of Investment Advisors, Internal Audit of Portfolio Managers, Internal Audit of Credit Rating Agencies and Internal Audit of Research Analysts, the Appointing Authority would depend upon the type of Auditee.

Auditor means a member of the ICSI who holds a valid Certificate of Practice under Section 2(2) of the Company Secretaries Act, 1980. It includes a firm or Limited Liability Partnership (LLP) registered with ICSI and whose partners are members of the ICSI.

the term "Management" includes Board of Directors and persons who have been entrusted with the responsibility of governance and compliances of the Auditee like In case of Companies

The term "persons who have been entrusted with the responsibility of governance and compliances of the Auditee" include the Key Managerial Personnel as defined under Section 2(51) of the Companies Act, 2013 and senior

Management as defined under SEBI (LODR) Regulations, 2015 and the explanation given in Section 178 of the Companies Act, 2013.

As per Section 2(51) of Companies Act, 2013: “Key Managerial Personnel”, in relation to a company, means –

- (i) the Chief Executive Officer or the Managing Director or the Manager;
- (ii) the Company Secretary;
- (iii) the whole-time Director;
- (iv) the Chief Financial Officer;
- (v) such other officer, not more than one level below the directors who is in whole-time employment, designated as Key Managerial Personnel by the Board; and
- (vi) such other officer as may be prescribed

As per Regulation 16(1)(d) of SEBI (LODR) Regulations, 2015 : “Senior Management” shall mean officers/ personnel of the listed entity who are members of its core management team excluding board of directors and normally this shall comprise all members of Management one level below the Chief Executive Officer/Managing Director/whole time Director/ Manager (including Chief Executive Officer/Manager, in case they are not part of the board) and shall specifically include Company Secretary and Chief Financial Officer:

Explanation to Section 178 of the Companies Act, 2013, describes that “Senior Management” means personnel of the company who are members of its core Management team excluding Board of Directors comprising all members of Management one level below the Executive Directors, including the functional heads.

In case of Auditee other than companies, the term “persons who have been entrusted with the responsibility of governance and compliances of the Auditee” shall include any person or employee of the Auditee as may be authorised. For example, in case of an LLP, Management includes the partners or designated partners or any officer of the LLP entrusted with such responsibility.

In case of a Proprietorship, Management means the proprietor or any officer authorised by him.

(6) “Predecessor or Previous Auditor” means an Auditor who has conducted the most recent audit assignment of the Auditee and submitted report thereon prior to the incumbent Auditor or was engaged but did not complete the audit assignment due to his resignation, termination or otherwise.

An Auditor who has completed the assignment and has not been reappointed or an Auditor who had been appointed but has not completed the assignment due to resignation, termination or otherwise, shall be deemed to be a “Predecessor or Previous Auditor” for the same assignment.

1. Audit Engagement Process

Pre-Engagement Meeting

Before accepting the Audit Engagement, the Auditor should have a pre-engagement meeting with the Auditee. The meeting may inter-alia include discussion about the terms of engagement, prior year audit findings and conclusions, appropriateness of reporting framework, understanding Auditee’s business operations and environment including internal control system, commercial terms of the audit and the timelines and milestones, if any, for conducting the Audit and submission of the Audit Report. Auditor shall disclose in the pre-engagement meeting conflict of interest, if any, with the Auditee.

The Auditor shall be under Confidentiality obligation with respect to the information obtained during the pre-engagement meeting.

Appointment

The appointment of Auditor shall be made in the manner prescribed in the applicable laws, act, rules, regulations, standards and guidelines and in case no such manner has been prescribed, such appointment shall be made in the manner determined by the Appointing Authority.

Before accepting an audit, the Auditor shall furnish a certificate to the Appointing Authority that:

- (a) The number of audits are within the ceiling prescribed by the ICSI as specified in para 2 of CSAS 1.
- (b) No substantial conflict of interest as defined in para 3 of CSAS-1 exists with the Auditee.
- (c) There is no restriction to render the professional services under ICSI Guidelines.
- (d) He is not debarred to undertake such audit under any law or under the disciplinary mechanism of the ICSI.

Illustration:

Section 179(3)(k) of Companies Act, 2013 read with Rule 8(4) of Companies (Meeting of Board and its Powers) Rules, 2014 requires that the Internal Auditor and Secretarial Auditor of the company shall be appointed by passing a resolution at a duly convened meeting of the Board.

Therefore, the appointment of Internal Auditor/Secretarial Auditor cannot be made by passing a resolution by circulation.

Further, the said appointment cannot be made by Key Managerial Personnel or Senior Management, even if authorised by the Board in this regard.

A Specimen Eligibility Certificate is placed at **Annexure A**

The Auditor shall obtain an Audit Engagement Letter along with a copy of the resolution, if any, passed by the Appointing Authority and shall provide acceptance to the Appointing Authority.

The Auditor may give his acceptance to undertake the audit either on the copy of the Audit Engagement letter or through a separate letter. The acceptance may also be communicated through an email.

Audit Engagement Letter

The engagement letter provides the opportunity to detail the scope of the Audit Engagement and to define the responsibilities between the Auditor and the Auditee.

It clarifies under which laws, act, rules and regulations the audit is being carried out and provides the reference of the format of the report, if any, specified by the statute or by ICSI.

It documents the terms of Audit Engagement agreed between the Auditor and the Appointing Authority with reference to scope of audit, responsibilities of Auditor and Auditee, remuneration and limiting conditions, if any. The Responsibilities of Auditor inter alia include the following:

- To take up the audit as per the terms of the engagement.
- To depute personnel who have the knowledge of the laws under which the audit is being carried out, subject to his overall supervision.
- To observe and ensure observance of highest standards of ethics and maintain utmost professionalism at all times by the employees, staff and other team members involved in the Audit and persons engaged by him to provide advice or assistance for the conduct of audit.
- To maintain and ensure confidentiality by the employees, staff and other team members involved in the audit and persons engaged by him to provide advice or assistance for the conduct of audit as mentioned in Para 4 of this Standard.
- To not trade in securities relating to which unpublished price sensitive information has come to his/ her knowledge during the course of audit, which responsibility shall extend to the employees, staff and other team members involved in the audit and persons engaged by him to provide advice or assistance for the conduct of audit also.

Responsibilities of Auditee inter alia include:

- To provide access to premises of the Auditee and timely access to Records, documents, legal opinions, show cause notices, inspection reports and other information, explanations and reports as may be necessary in connection with the audit.

- To identify and depute a responsible official to timely provide relevant documents, information and explanations required by the Auditor.
- To provide written Management representations, if any, to the Auditor during the course of audit, which shall provide the Auditor a substantive evidence of important assertions and the Management's primary responsibility for the assertions and its accuracy.
- To provide details of the Predecessor or Previous Auditor, so as to enable proposed Auditor to communicate with the Predecessor or Previous Auditor.

Audit remuneration and expenses may depend on several factors including:

- Size of the organisation;
- Location of business and its branches;
- Type of company (Listed/Unlisted);
- Sector to which company belongs
- Nature of business;
- Internal control mechanism;
- Scope of Audit Engagement;
- Frequency of audit, whether monthly, quarterly, yearly
- Type of audit, whether sole, joint or concurrent audit
- The experience of the Auditor in conducting audits;
- Estimated man-hours required to complete the assignment;
- Guidance/Advisory issued by the ICSI, if any
- Any other term or a combination of any of the above.

Audit fees should be a fair reflection of the value of the work performed for the Auditee, considering the above factors.

Quantum of fees, billing arrangement and terms of payment shall be mentioned in the Audit Engagement letter.

The Audit fee shall not be contingent upon findings or results of the audit. However, fees shall not be regarded as being contingent if fixed by a court or other public authority.

The Auditor is not permitted to pay a commission to obtain an audit nor shall he accept a commission for referral of an Auditee to a third party. He shall not accept a commission for the referral of the products or services of others.

As per Clause 2 of Schedule I of the Company Secretaries Act, 1980: A Company Secretary in Practice shall be deemed to be guilty of professional misconduct, if he pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his professional work to any person, other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner.

As per Clause 9 of Schedule I of the Company Secretaries Act, 1980 : A Company Secretary in Practice shall be deemed to be guilty of professional misconduct, if he charges or offers to charge, accepts or offers to accept, in respect of any professional employment, fees which are based on a percentage of profits or which are contingent upon the findings, or result of such employment, except as permitted under any regulation made under this Act.

Auditor should include a statement in the Audit Engagement Letter that because of inherent limitations of an audit, inherent limitations of internal control, an unavoidable risk exists that some material non-compliance may not be detected, even though the audit is properly planned and performed in accordance with the applicable Auditing Standards.

Audit Engagement Letter should also specify that arrangements concerning the involvement of third party and experts in some aspects of the Audit.

If the Appointing Authority has imposed a limitation on the scope of the Auditor's work in the terms of engagement and the Auditor believes that such limitation will result in lower level of assurance than what is required under law, the Auditor shall not accept such an engagement, unless required by law or regulation to do so.

Specimen Audit Engagement Letter is placed at **Annexure B**

Communication to Previous Auditor

As a measure of the professional etiquettes, while taking up the any audit engagement, the auditors shall give intimation to the previous auditor, intimating his engagement as auditors of the company. The term predecessor or previous auditor can be defined as an auditor who has conducted the most recent audit assignment of the Auditee of the same nature and submitted report thereon prior to the incumbent auditor or was engaged but did not complete the audit assignment due to his resignation, termination or otherwise.

In case whenever a practicing company secretary is appointed as secretarial auditor in place of the existing secretarial auditor, he should communicate the appointment to the earlier incumbent in writing, in view of the provisions of clause (8) of Part I of the First Schedule to the Company Secretaries Act, 1980 and the relevant pronounced judgments.

There should be an effective communication with the Predecessor or Previous Auditor, if any. Auditor should communicate with the Predecessor or Previous Auditor in such manner as to retain positive evidence of the delivery of the communication. Communication by a letter sent by Registered Acknowledgement Due or by courier or by hand against the written Acknowledgement or through an email would be in the normal course provide such evidence. The Auditor shall wait for a period of 7 days from the date of communication before accepting the audit.

In case any information is provided by the Predecessor Auditor, the Successor Auditor shall take cognizance of the same. The information obtained from the Predecessor may be useful in undertaking the audit. Such information shall remain confidential.

The Council of the Institute of Company Secretaries of India has resolved that it shall be mandatory for every Company Secretary in Practice, before accepting any of the following assignments, to communicate to the previous incumbent, in terms of terms of clause (8) of part I of the First Schedule to the Company Secretaries Act, 1980 :

- (i) Signing of Annual Return in Form MGT-7 under Section 92(1) of the Companies Act, 2013 and rule 11(1) of the Companies (Management and Administration) Rules, 2014.
- (ii) Certification of Annual Return in Form MGT-8 under Section 92(2) of the Companies Act, 2013 and rule 11(2) of the Companies (Management and Administration) Rules, 2014.
- (iii) Issuance of Secretarial Audit Report in terms of Section 204 of the Companies Act, 2013.
- (iv) Issue of Secretarial Audit Report to material unlisted subsidiaries of Listed entities (whose equity shares are listed) under Regulation 24A of SEBI (LODR) Regulations, 2015.
- (v) Issue of Annual Secretarial Compliance Report to Listed entities (whose equity shares are listed) under Regulations 24A of SEBI (LODR) Regulations, 2015.
- (vi) Certification under SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 that none of the directors on the board of the company have been debarred or disqualified from being appointed or continuing as directors of companies by the Board/ Ministry of Corporate Affairs or any such statutory authority under Schedule V, Part C, Clause (10)(i).
- (vii) Certification under Regulation 40(9) of SEBI (LODR) Regulations, 2015 certifying that all certificates have been issued within thirty days of the date of lodgement for transfer, sub-division, consolidation, renewal, exchange or endorsement of calls/ allotment monies.
- (viii) Conduct of Internal Audit of Operations of the Depository Participants registered with NSDL & CDSL under the provisions of the Depositories Act, 1996 read with SEBI (Depositories and Participants) Regulations, 1996.

- (ix) Certificate of Reconciliation of Share Capital Audit Vide Circular No. D & CC/FITTC/CIR-16/2002 Dated December 31st 2002 (Amended Vide Circular No. CIR/ MRD/DP/30/2010 Dated 06-09-2010) Issued By SEBI.
- (x) Acting as Compliance Auditor under Third Party Certification/ Audit Scheme (Amendment), 2018 in the State of Haryana.
- (xi) Issuance of Audit Report as provided under Regulation 76 the SEBI (Depositories and Participants) Regulations, 2018, by the unlisted public companies, to be submitted on a half-yearly basis to the ROC, under whose jurisdiction the registered office of the company is situated, under the provisions of the Rule 9A(8) of the Companies (Prospectus & Allotment of Securities) Rules, 2014.
- (xii) Diligence Reporting for Banks in case of multiple banking/consortium lending arrangements in terms of the circular issued by RBI.
- (xiii) Conduct of Internal Audit of Depository Participants.
- (xiv) Conduct of Internal Audit of stock brokers/sub brokers under SCRA, 1956 and Rules and Regulations made thereunder.

Question: Is communication to previous auditor required?

Answer: Yes, the Auditor shall communicate in writing to the predecessor or previous auditor, if any before accepting the audit engagement.

Further, Council of ICSI has prescribed the following format to be issued by Company Secretaries under Clause 8 of the First Schedule of the Company Secretaries Act, 1980:

CS.....
 Address

Dear Sir / Madam,

Sub.: Intimation in terms of Clause 8 of the First Schedule to the Company Secretaries Act, 1980

I, CS /We, M/s. , Company Secretary in Practice / Firm of Company Secretaries have been approached by the Management of M/s..... Limited to. (list of professional services) for the FY vide their letter No. dated We understand that earlier the abovementioned professional services were being rendered by your goodself/ firm to M/s. Limited during the Financial Year

I / We request you to kindly take this communication as an intimation to be given to the previous incumbent in terms of Clause 8 of the First Schedule to the Company Secretaries Act, 1980.

Regards, CS

Membership No. ACS / FCS

CoP No.....

For & Co./ & Associates, Company Secretaries

Firm Unique Code

Date:

Place:

Limits on Audit Engagements

An auditor shall not accept audit engagement beyond the limits of number of audits, if any, as may be specified under applicable laws or any other body governing such profession. Violation of the limits by the auditor may attract disciplinary actions against the auditor.

The fact that because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements or material non-compliances may not be detected, even though the audit is properly planned and performed in accordance with the applicable auditing standard.

Internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity's reporting objectives or compliance objectives due to the inherent limitations of internal control. Such Internal control systems and processes are responsibility of the management.

An independent audit conducted in accordance with the applicable auditing standards does not act as a substitute for the maintenance of internal control mechanism in the organization. Accordingly, the auditor is required to obtain the agreement of management that it acknowledges and understands its responsibility for internal control. However, the agreement required does not imply that the auditor will find that internal control maintained by management has achieved its purpose or will be free of deficiencies.

Guidelines	Guidelines Issued at
<p>Limits for the issue of Secretarial Audit Reports:</p> <ul style="list-style-type: none"> • 10 Secretarial Audits per partner/ PCS, and • an additional limit of 5 Secretarial Audits per partner/PCS in case the unit is peer reviewed. <p>The limits will be applicable for the Secretarial Audit Reports issued for the FY 2016-17 onwards)</p>	235th meeting of the Council held on 11th February, 2016
Number of Annual Secretarial Compliance Reports to be issued by PCS are 5 (five) reports individually / per partner in each financial year w.e.f. 1st April, 2020 and an additional limit of 5 (five) ASCR individually/ per partner in case the unit has been Peer Reviewed.	260th meeting of the Council held on 4-5 May, 2019
<p>In case of the following, Secretarial Audit/ Secretarial Compliance Report to be done by Peer Reviewed Units only:</p> <ul style="list-style-type: none"> • Top 100 companies as per market capitalization w.e.f April 1, 2020 • Top 500 companies as per market capitalization w.e.f April 1, 2021 • All listed companies w.e.f April 1, 2022 • All companies w.e.f April 1, 2023 	259th meeting of the Council held on 16th March, 2019

3. Conflict of Interest

CSAS-1 (Auditing Standard on Audit Engagement) effective from 1st April, 2021, defines: "Conflict of Interest"

The Auditor shall not have any substantial conflict of interest with the Auditee. Any

conflict of interest, other than substantial conflict of interest, must be disclosed by the Auditor before accepting the Audit Engagement or as soon as the Auditor becomes aware of the same, as the case may be.

The term conflict of interest term is defined below. It is expected that the Auditor shall not have any conflict of interest with the Auditee. If the Auditor has any such interest, it is the duty of the Auditor to disclose such interest/ conflict of interest to the Auditee before accepting the Audit Engagement.

The conflict of interest with the Auditee explained below shall not be construed as a substantial conflict of interest:

- Auditor holding not more than 2% paid up share capital or shares of nominal value of Rs. 50,000, which ever is lower or more than 2% voting power
- Auditor indebted to the Auditee for an amount not exceeding Rs. 5,00,000
- Auditor was in employment of the Auditee more than 2 year ago

In above cases, the Auditor shall be eligible for undertaking the Audit Engagement only if he discloses such fact in writing before accepting the Audit Engagement or as soon as he becomes aware of the same, as the case may be.

In following cases, it shall be construed that the Auditor has a substantial conflict of interest with that of the Auditee and he shall not accept any Audit Engagement from the Auditee:

Que: Can an Auditor accept any number of audits?

Ans: The Auditor shall accept audit engagements within the limits of number of audits, if any, as may be prescribed under any law or by ICSI from time to time.

- Auditor holding not more than 2% paid up share capital or shares of nominal value of Rs. 50,000 or holding not more than 2% voting power.
- Auditor indebted to the Auditee for an amount not exceeding or equal to Rs. 5,00,000 indebtedness that may seriously impair the independence of the Auditor, irrespective of the amount.
- Auditor was in employment of the Auditee more than 2 year ago

In above mentioned cases, the Auditor is debarred from accepting such Audit Engagement.

Question: Can an auditor accept Audit engagement even if there is conflict of interest?

Answer: Yes. The Auditor can accept audit engagement where there is conflict of interest with the Auditee by making disclosure before accepting audit engagement or on becoming aware of such conflict. However in case of substantial conflict of interest Auditor cannot accept Audit engagement.

Explanation:

Substantial Conflict of Interest means:

Holding of more than 2% in the paid up share capital or shares of nominal value of rupees fifty thousand, whichever is lower or more than 2% voting power, as the case may be, by the Auditor singly or along with partners, spouse, parent, sibling, and child of such person or of the spouse, any of whom is dependent financially on such person.

Before accepting the audit, the Auditor shall disclose that there is no conflict of interest of ownership as specified in this Standard or prescribed in any law, act, rules and regulations under which the audit is being carried on.

Where there exists a substantial conflict of interest in the Auditee organisation, the Auditor cannot accept the Audit Engagement.

The limit of holding of more than 2% in the paid-up share capital or shares of nominal value of rupees fifty thousand, whichever is lower or more than 2% voting power shall be applied based on combined holding of the Auditor along with partners, spouse, parent, sibling, and child of such person or of the spouse, any of whom is dependent financially on such person.

Illustration 1

Mr. A, Mr. B and Mr. C are partners in ABC, LLP, a firm of Practicing Company Secretaries. Mr. B holds 1% paid-up share capital in a company XYZ Ltd. Wife and daughter of Mr. A, who are financially dependent on him hold 1% paid-up share capital in XYZ Ltd. each.

Mr. A has been offered the Secretarial Audit of XYZ Ltd.

In this case, Mr. A is not directly holding any interest in XYZ Ltd. However according to para 3.1 of CSAS-1, Mr. A is having a substantial conflict of interest in XYZ Ltd. as the aggregate value of paid-up share capital held by his wife, daughter and partner in XYZ Ltd. is 3%. Hence, he is not eligible to become Secretarial Auditor of XYZ Ltd.

Illustration 2

Mr. A, Mr. B and Mr. C are partners in ABC, LLP, a firm of Practicing Company Secretaries. Mr. A holds 1% paid-up share capital in a company XYZ Ltd. and Mr. B holds shares of nominal value of Rs. 60,000 in XYZ Ltd.

Mr. A has been offered the Secretarial Audit of XYZ Ltd.

In this case, though Mr. A holds only 1% of the paid up share capital in XYZ Ltd. But according to para 3.1 of CSAS-1, he is having a substantial conflict of interest in XYZ Ltd. as his partner Mr. B is having a share capital of nominal value of more than Rs.50,000 in XYZ Ltd. and therefore Mr. A is not eligible to become Secretarial Auditor of XYZ Ltd.

Illustration 3

Mr. A, Mr. B and Mr. C are partners in ABC, LLP, a firm of Practicing Company Secretaries. Mr. A & Mr. B each holds 0.5% paid-up share capital in a company XYZ Ltd. Nominal value of such shares held by each of them is Rs. 20,000. Mr. A has been offered the Secretarial Audit of XYZ Ltd.

In this case, though Mr. A is having a conflict of interest in XYZ Ltd. The same will not be considered as a substantial conflict of interest. Therefore, Mr. A can accept the Secretarial Audit of XYZ Ltd. In this case he shall disclose to the Appointing Authority the fact that he has a conflict of interest with the company, but the same is not substantial conflict of interest in accordance with CSAS-1.

Illustration 4

Mr. A, Mr. B and Mr. C are partners in ABC, LLP, a firm of Practicing Company Secretaries. Mr. A holds 1% of the paid-up share capital in company XYZ Ltd. Nominal value of such shares is Rs. 60,000. The market value of the shares held by Mr. A is Rs. 40,000. Mr. A has been offered the Secretarial Audit of XYZ Ltd.

In this case, there will be a substantial conflict of interest between Mr. A and the company XYZ Ltd. as the nominal value of shares held by Mr. A is more than Rs. 50,000, therefore he cannot accept the Secretarial Audit of XYZ Ltd. The market value of the shares is irrelevant while deciding the conflict of interest based on ownership in accordance with CSAS-1.

Illustration 5

Mr. A, Mr. B and Mr. C are partners in ABC, LLP, a firm of Practicing Company Secretaries. Mr. A holds 1% of the paid-up share capital in company XYZ Ltd. Nominal value of such shares is Rs. 60,000. XYZ Ltd. wants to give its Internal Audit assignment to ABC, LLP.

In this case, there exists a substantial conflict of interest of ABC, LLP with the company XYZ Ltd. due to the fact that one of the partners of the LLP is holding shares of a nominal value of more than Rs. 50,000 in XYZ Ltd. Therefore, it will not be eligible to undertake the internal audit assignment of XYZ Ltd. as per CSAS-1.

Indebtedness of the Auditor for an amount exceeding rupees five lakh other than that arising out of ordinary course of business of the Auditee:

Provided that any indebtedness that may seriously impair his independence shall also be considered as substantial conflict of interest.

Before accepting the audit the Auditor shall disclose that there is no conflict of financial interest as specified in this standard or prescribed law under which the audit is carried on.

The limit of rupees five lakh as specified shall be applicable to the combined indebtedness of the audit firm including indebtedness by the partners in their individual capacity.

The term “ordinary course of business” has not been defined. An assessment of whether a transaction is in “ordinary course of business” can be subjective and may vary on case-to- case basis.

For example, a banking company which in ordinary course of business provides loan or gives guarantees/ securities for the due repayment of any loan and in respect of such loans an interest is charged at a rate not less than the prevailing lending rate , may extend loan to its Auditor as per the terms and conditions of the company and such loan shall not be treated as conflict of financial interest.

Illustration 1

Mr. A is a Practicing Company Secretary. He has taken a personal loan of Rs. 5,00,000 from a XYZ LLP wherein Mr. B, who is the designated partner is friend of Mr. A. The payment of such loan is still outstanding in full. Mr. A has been offered to undertake the Internal Audit of XYZ, LLP.

In the given case, Mr. A has a conflict of interest in XYZ LLP, but it doesn't debar Mr. A from undertaking the Internal Audit of XYZ LLP. Mr. A shall disclose the fact to the Appointing Authority before accepting such Audit.

Illustration 2

Mr. A is a Practicing Company Secretary. He had taken a personal loan of Rs. 5,00,000 from XYZ Ltd. wherein his uncle is Managing Director. Mr. A has been offered to undertake the Secretarial Audit of XYZ Ltd.

In the given case, Mr. A has conflict of interest with the Auditee, as the amount of indebtedness is Rs. 5,00,000, but the same is not considered as substantial conflict of interest. In this case, he is required to make disclosure of the fact to Appointing Authority.

Illustration 3

Mr. P is a Practicing Company Secretary and is offered to conduct the Secretarial Audit of ABC Ltd. Mr. P is indebted to the Director of the company for an amount Rs. 6,00,000. Whether he can accept the Secretarial Audit Engagement of ABC Ltd.

In the given case, Mr. P has a substantial conflict of interest in ABC Ltd. And therefore he can't accept the secretarial audit assignment.

Illustration 4

Mr. A is a Practicing Company Secretary. He had taken a personal loan of Rs. 25,00,000 from XYZ Ltd.. He has used such loan towards purchase of his house which has been mortgaged with XYZ Ltd. Due to some financial crisis, Mr. A has not been able to repay any amount towards the loan since past 2 years. Mr. A has been offered to undertake the Secretarial Audit of XYZ Ltd.

The circumstances of the case suggest that indebtedness of Mr. A towards XYZ Ltd. is such that, if he accepts the Audit of XYZ Ltd., it may substantially impair the independence of Mr. A while forming an opinion on the basis of his audit findings and therefore considered as substantial conflict of interest. Therefore in this case, Mr. A shall be debarred from accepting the Secretarial Audit assignment of XYZ Ltd.

Where an Auditor was in employment of the Auditee, its holding or subsidiary company and 2 (two) years have not lapsed from the date of cessation of employment, the same shall be considered as substantial conflict of interest.

A PCS or member/partner of a PCS firm cannot undertake the audit of that undertaking where the member was in employment prior to holding the Certificate of Practice, unless two years have lapsed from the date of cessation of employment. The PCS shall disclose the fact that two years have not lapsed from the date of cessation of his employment to the Auditee.

Holding and Subsidiary company shall have the same meaning as defined under section 2 (46) and 2(87) of the Companies Act, 2013.

Illustration 1

Mr. A was the Company Secretary of PQR Ltd. from 1st October, 2015 till 31st May, 2018. He left the job w.e.f. 31st May, 2018 and joined in ABC and Associates (CS Firm) as a partner. On 1st January 2020, ABC and Associates has been offered to conduct Secretarial Audit of ST Ltd. for the F.Y. 2020-21. ST Ltd. is the wholly owned subsidiary of PQR Ltd.

According to para 3 of CSAS-1, Mr. A or ABC and Associates, in which he is a partner cannot undertake any audit assignment in PQR Ltd. and/or its holding or subsidiary companies till 31st May, 2020, i.e. two years from the date of cessation of his employment in PQR Ltd. Therefore, ABC and associates cannot undertake the Secretarial Audit assignment of ST Ltd. for the F.Y. 2020-21.

Illustration 2

Mr. A was the Company Secretary of PQR Ltd. from 1st October, 2015 till 31st May, 2018. He left the job w.e.f. 31st May, 2018 and joined ABC and Associates (CS Firm) as an employee. On 1st January 2020, ABC and Associates has been offered to conduct Secretarial Audit of ST Ltd. for the

F.Y. 2020 -21. ST Ltd. is the wholly owned subsidiary of PQR Ltd.

Since Mr. A has joined ABC and Associates in the capacity of an employee, ABC and associates can undertake the Secretarial Audit assignment of ST Ltd. for the F.Y. 2020-21.

Effect of Substantial Interest

The Company Secretaries Act, 1980 (the Second Schedule, Part I, paragraph 4) makes it an act of misconduct for a Company Secretary to express an opinion on any report or statement of a business or enterprise in which he or his firm or a partner of his firm has a substantial interest, unless he discloses the interest also in his report. Such restriction will put the stakeholders on guard against any possibility of an impairment of the independence of the professional signing the report.

The Companies Act, 2013 does not define the phrase “substantial interest”. This should be left to the judgment and discretion of the professional to determine the extent of interest which would affect his independence. He would be well advised to satisfy himself that the decision in this regard is such as would be taken as reasonable by an objective third party in the circumstances of the case. The professional must take care to see that he does not get into situations where there could be a conflict of interest and duty.

A practicing professional in practice may face a conflict of interest situation while performing a professional service. A conflict of interest creates a threat to objectivity and may create threats to the other fundamental principles. Such threats may be created when:

- The professional provides a professional service related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or
- The interests of the professional with respect to a particular matter and the interests of the client for whom the professional provides a professional service related to that matter are in conflict.

An auditor shall not allow a conflict of interest to compromise professional judgment. Examples of situations in which conflicts of interest may arise include:

Transaction advisory service	<ul style="list-style-type: none"> • Providing a transaction advisory service to a client seeking to acquire an audit client of the firm, where the firm has obtained confidential information during the course of the audit that may be relevant to the transaction.
Auditing competitive clients	<ul style="list-style-type: none"> • Auditing two clients at the same time who are competing to acquire the same company where the audit report might be relevant to the parties’ competitive positions.
Auditing clients in legal dispute	<ul style="list-style-type: none"> • Taking audit assignment of two clients regarding the same matter, who are in a legal dispute with each other.
Audit report for Licensor and License	<ul style="list-style-type: none"> • Providing an audit report for a licensor on royalties due under a license agreement when at the same time advising the licensee of the correctness of the amounts payable.

When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, to eliminate or reduce any threat to compliance with the fundamental principles to an acceptable level, the auditor shall exercise professional judgment and take into account whether a reasonable and informed third party, weighing all the specific facts and circumstances available to the auditor at the time, would be likely to conclude that compliance with the fundamental principles is not compromised.

When addressing conflicts of interest, including making disclosures or sharing information within the firm or network and seeking guidance of third parties, the auditor shall remain alert to the fundamental principle of confidentiality.

If the threat created by a conflict of interest is not at an acceptable level, the auditor shall apply safeguards to eliminate the threat or reduce it to an acceptable level. If safeguards cannot reduce the threat to an acceptable level, the auditor shall decline to perform the audit; or shall terminate relevant relationships or dispose of relevant interests to eliminate the threat or reduce it to an acceptable level.

Before accepting a new client relationship, engagement, or business relationship, an auditor shall take reasonable steps to identify circumstances that might create a conflict of interest, including identification of:

1. The nature of the relevant interests and relationships between the parties involved; and
2. The nature of the service and its implication for relevant parties.

It is expected that the Auditor shall not have any conflict of interest with the Auditee. If the Auditor has any such interest, it is the duty of the Auditor to disclose such interest/ conflict of interest to the Auditee before accepting the Audit Engagement.

2. Confidentiality

The Auditors of a company while performing the audit assignment access the various confidential information of the company and it is most required for the auditors to maintain the confidentiality of the auditee information. The principle of confidentiality imposes an obligation on the auditor to refrain from:

Disclosing information	<ul style="list-style-type: none"> • Disclosing information acquired as a result of professional relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and
Using information for personal advantage	<ul style="list-style-type: none"> • Using information acquired as a result of professional relationships to their personal advantage or the advantage of third parties.
Inadvertent disclosures	<ul style="list-style-type: none"> • An auditor should maintain confidentiality even in a social environment. The auditor should be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with a business associate or a relative.
Information disclosed by a Prospective client	<ul style="list-style-type: none"> • An auditor should also maintain confidentiality of information disclosed by a prospective client or employer.
Confidentiality within the firm	<ul style="list-style-type: none"> • An auditor should also consider the need to maintain confidentiality of information within the firm or employing organization.
Control of Staff	<ul style="list-style-type: none"> • An auditor should take all reasonable steps to ensure that staff under the auditor's control and persons from whom advice and assistance is obtained respect the auditor's duty of confidentiality.

Clause (1) of Part I of the Second Schedule to the Company Secretaries Act, 1980 provides that a Company Secretary in practice shall be deemed to be guilty of professional misconduct, if the member – “discloses information acquired in the course of professional engagement to any person other than the Auditee so engaging him, without the consent of the Auditee, or otherwise than as required by any law for the time being in force.”

The word ‘information’ here implies any information which is not available in public domain.

During the course of audit, Auditor receives, verifies and inspects various audit documents, evidence, representation etc. to form an opinion or to give a report. These may be confidential and privileged information that remain in possession of the Auditor and shall not be disclosed without the express authority of the Auditee.

Herein the term proper and specific authority implies the Appointing Authority or any other person or committee as may be entrusted by the Appointing Authority to look after the conduct of Audit. It is the inherent duty of the Auditor to maintain the confidentiality of any information about the Auditee or his business that came to his knowledge as a result of performing the audit work. However, if permitted by the Auditee, Auditor may disclose or share such information with any other person as may be specifically allowed by Auditee. Since there may be different types of Auditee, the authority to give such permission to the Auditor may be different in each case. For example, in case of a company, the Secretarial Auditor is appointed by the Board and therefore it may be authorised by the Board whether the Auditor can disclose any confidential information to anyone. In

another case, it may be possible that the Board has authorised a director in this regard to give such authorities and permissions to the Auditor and therefore that director will become the specific authority. Likewise in case of an LLP, it may be a designated partner or any other person as may be authorised by the LLP in this regard..

An Auditor shall maintain confidentiality even in a social environment. The Auditor shall be alert to the possibility of inadvertent disclosure, particularly in circumstances involving long association with a business associate or a relative or friends etc.

However, if the Auditor gives any reference of the audit evidence or documents while forming the opinion in the audit report, it will be deemed to be the disclosure of information under the legal obligation or in the performance of the duty.

If during the course of audit and forming opinion, the Auditor uses the decisions of the judicial authority, it will not be treated as use or sharing of confidential information.

The Auditor shall educate his employees, staff and other team members about the importance of the confidentiality of the information available to them during the course of audit. The Auditor shall ensure that reasonable procedures have been followed to maintain the confidentiality of the information. The Auditor shall also take a duly signed Non Disclosure Agreement (NDA) from such personnel who may have access to such confidential information.

The Auditor shall also ensure that reasonable procedures and safeguards are being followed to prevent unauthorised access to such confidential information.

3. Changes in terms of engagement

A request from the Appointing Authority to change the terms of Audit Engagement may result from a change in circumstances affecting the need for the service or a restriction on the scope of Audit Engagement, whether imposed by Management or caused by other circumstances. The Auditor shall consider the justification given for the request, particularly the implication of a restriction on the scope of the Audit Engagement.

A change in circumstances that affects the Auditee's requirements may be considered a reasonable basis for requesting a change in the Audit Engagement.

A change may not be considered reasonable if it appears that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory. For example, where the Auditor is unable to obtain sufficient appropriate audit evidence regarding labour law compliance by the company and the Appointing Authority asks for the Audit Engagement to be changed to a review engagement to avoid a modified opinion or a disclaimer of opinion.

With mutual consent the terms of the Audit Engagement may be changed. When such changes are there, the Auditor shall obtain the supplementary/revised engagement letter with a justification for the change and it shall be duly signed by the Appointing Authority. The impact of such change on the level of assurance shall be ascertained before accepting the same. If such change is likely to result in a lower level of assurance, then the Auditor may accept such change only if such change can adequately be covered by way of modified report.

However, the Auditor should take the following precautions while accepting the change:

- (1) The Auditor should not agree to a change in the terms of the Audit Engagement which restricts the scope of audit provided under any statutes.
- (2) If the term of the Audit Engagement is changed when it is expected that Auditor may have to issue a modified report, such type of changes should be resisted.
- (3) Any request to change to avoid or circumvent unfavorable Auditor's report is also unjustified and should not be accepted.
- (4) If the terms of the Audit Engagement are changed before the completion of the audit, the Auditor should not disregard the evidences obtained prior to the change in scope of audit.

Annexure A**Specimen Certificate of Eligibility as Secretarial Auditor**

Date:

To

The Board of Directors, Dear Sir,

Sub: Proposed Appointment as Secretarial Auditor

I/We thank you for your communication dated 2019 seeking my/our consent to act as the Secretarial Auditor of your company for the financial year I/We give my/ our consent for being appointed as Secretarial Auditor of the company.

I/we hereby confirm that:

1. I am/we are eligible for appointment and not disqualified for appointment as per the Companies Secretaries Act, 1980 and rules and regulations made thereunder and ICSI Auditing Standards;
2. The proposed appointment is within the limits, if any laid down by ICSI ;
3. I/We do not have any substantial conflict of interest in terms of ICSI Auditing Standard on Audit Engagement (CSAS 1)
4. I/We do not have any conflict of interest in terms of ICSI Auditing Standard on Audit Engagement (CSAS 1)

Or

I/We do have conflict of interest other than substantial conflict of interest which are as below :

Thanking you,

Yours sincerely,

Annexure B**Specimen Audit Engagement Letter**

To,

ABC & Associates (name of Audit firm)

Company Secretaries (Address) Dear Sir,

This engagement letter is provided in connection with (type of audit) of XYZ Ltd.

I. Scope of work

The scope of the Audit shall include. (For example, in case of Secretarial Audit , the scope of audit shall be as specified in Section 204 of the Companies Act, 2013)

II. Responsibilities of Auditor

The Auditor shall carry out the audit with utmost integrity in terms of this Audit Engagement Letter adhering to the highest level of ethics and standards. The Audit shall be conducted in accordance of the requirements of the Act.

III. Duties of Auditee

Auditee acknowledges its responsibility for maintenance of Records and compliances under the applicable laws, acts, rules and regulations.

Auditee acknowledges its responsibility to provide the Auditor access to Records and documents of the Auditee, reports of third party and information as may be sought by the Auditor. The Auditee shall be responsible for the correctness and appropriateness of the Records, documents and information of the Auditee.

IV. Timeline

The Auditor shall submit the Audit Report for the F.Y. 20XX-XX within days of the end of the financial year. Auditor may also submit a quarterly/half-yearly review report in which the audit observations of the Auditor made during the quarter for timely redressal.

V. Commercial Terms

Audit fees for the F.Y. 20XX-XX is fixed at Rs. XXXXXXX plus applicable taxes. Fees will be billed as the work progresses.

Out-of-pocket expenses by the Auditor shall be reimbursed on actual basis.

VI. Confidentiality

The Auditor shall not disclose the information obtained during the course of Audit without proper and specific authority or unless there is a legal obligation or duty to disclose.

VII. Indemnity

During and after the term of this Engagement, both Parties agree to protect, indemnify, defend and hold harmless other Party, and to extent required from time to time non defaulting party, its officers, agents, and employees, from and against any and all expenses, damages, claims, suits, losses, actions, judgments, liabilities, and costs whatsoever (including legal fees on a full indemnity basis) arising out of, connected with, or resulting from, defaulting Party's negligence, misrepresentation or the breach of any obligations to be performed by the other party and/or its representatives under this Engagement. In no event will either party's liability towards other party arising from the terms of this Engagement exceed the total sum of fees paid under this Engagement.

VIII. Any other term as may be agreed between the Auditor and the Auditee, if any

For XYZ Limited

Date

Place

Director

Director

Question:

Problem: XYZ Private limited appoints M/s ABC & Associates, Chartered Accountants as Statutory Auditor for Financial Year 2021-22, 2022-23 & 2023-24 through Board Resolution dated 1st February, 2021. As a Company Secretary, prepare a note for advising the Board of Directors for necessary compliance and consequences of this non-compliance.

Question:

Mr. X, a student of Company Secretary Course was in employment of the PQR Ltd. from 9th July, 2019 to 30th March, 2020. On 25th February, 2020, he passed the Final Examination of CS course. He was never appointed in Secretarial Department of the Company as Company Secretary or otherwise. He took the membership and Certificate of Practice from the Institute on 30th May, 2020. He was engaged as a Secretarial Auditor of PQR Ltd. for Financial Year

LESSON ROUND UP

- The audit engagement may be initiated either by the Auditee or by the auditor. However it is necessary that the engagement is accepted by the auditors.
- The auditor may be appointed by the management on one to one basis, or through a tendering process by the management.
- In case where the practicing company secretary is appointed as Secretarial Auditor in place of the existing Secretarial Auditor, he should communicate the appointment to the earlier incumbent in writing, in view of the provisions of clause (8) of Part I of the First Schedule to the Company Secretaries Act, 1980.
- A conflict of interest creates a threat to objectivity of the audit and may create threats to the other fundamental principles, hence the auditor should maintain his Independence or avoid such situation of conflict of Interest.
- The principle of confidentiality imposes an obligation on the auditors to maintain confidentiality of the auditee information.

GLOSSARY

Document	It includes summons, notice, requisition, order, declaration, form and register, whether issued, sent or kept in pursuance of this Act or under any other law for the time being in force or otherwise, maintained on paper or in electronic form;
Expert	It includes an engineer, a valuer, a chartered accountant, a company secretary, a cost accountant and any other person who has the power or authority to issue a certificate in pursuance of any law for the time being in force.
Officer	It includes any director, manager or key managerial personnel or any person in accordance with whose directions or instructions the Board of Directors or any one or more of the directors is or are accustomed to act.
Total voting power	It is in relation to any matter, means the total number of votes which may be cast in regard to that matter on a poll at a meeting of a company if all the members thereof or their proxies having a right to vote on that matter are present at the meeting and cast their votes.
Professional and Other Misconduct	For the purpose of Company Secretaries Act, 1980 “Professional or other misconduct” shall be deemed to include any act or omission provided in any of the schedules.
Appointing Authority under CSAS	It means any person having authority to appoint the Auditor.
Auditing Engagement	It means detailed terms of reference of appointment including scope of audit, remuneration and limiting conditions, if any.
Auditee	It means a person subject to audit.
Auditor under CSAS	It means a Company Secretary who is deemed to be in practice under sub-section (2) of Section 2 of the Company Secretaries Act, 1980 and includes a firm or Limited Liability Partnership (LLP) registered with ICSI, undertaking the Audit.
Management	It includes Board of Directors and persons who have been entrusted with the responsibility of governance and compliances of the Auditee.

TEST YOURSELF

(These are meant for recapitulation only, Answer to these questions are not to be submitted for evaluation)

1. In the Audit engagement process the acceptance of the Audit Engagement by the professional is mandatory, Comment.
2. Describe the provisions relating to the Appointment of Statutory auditor, secretarial Auditor, cost Auditor and Internal Auditor.
3. Write the examples where an auditor is assumed to have interested in the auditee's business or enterprise.
4. Draft an Audit engagement letter for the Secretarial Auditor.
5. What is the meaning of Confidentiality, Why it is necessary for the auditor to maintain confidentiality.

LIST OF FURTHER READINGS

- Companies Act, 2013 alongwith rules made thereunder
- SEBI (LODR) Regulations, 2015
- Company Secretaries Auditing Standards
- Guidance Note on CSAS
- Articles published by Professionals

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- <https://www.icsi.edu/auditing-standard/>
- https://www.icsi.edu/media/webmodules/Guidance_Notes_on_ICSI%20AS_Book_05-6-2021.pdf
- https://www.icsi.edu/media/webmodules/Guidance_Notes_on_ICSI%20AS_Book_05-6-2021.pdf

Lesson 13

Audit Principles and Techniques

Key Concepts One Should Know

- Risk Assessment
- Evaluating Evidence
- Sampling
- External Expert's opinion
- Audit Trails.

Learning Objectives

To understand:

- The Audit Principles as generally accepted rules which are commonly applicable for the every type of Audit.
- How the Audit Techniques stand for the methods that are adopted by an auditor to obtain audit evidence and performance of the audit as per the scope of the audit.
- Various techniques of auditing which may be applied by the auditor under different circumstances of audit.
- Various Audit Principles and the various techniques which can be applied while the performance of the audit.

Lesson Outline

- Introduction
- Audit Planning
- Risk Assessment
- Collection of Information
- Audit Checklist
- Auditing Techniques
- Compliance Test of Internal Control System
- Collection of Audit Evidence
- Creation of Audit Trails
- Materiality
- Record Keeping
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES

INTRODUCTION

The auditing principles defines governing an audit and includes the professional responsibilities, which should be observed by the auditor while carrying out any audit assignments, Some of these principle are as under:

Integrity objectivity and independence: An auditor should be honest, sincere, impartial and free from bias. He should be a man of high integrity and objectivity.

Confidentiality: The auditor should respect confidentiality of information acquired during the course of his work and should not disclose the information without the prior permission of the client, unless there is a legal duty to disclose.

Skill and competence: The auditor must acquire adequate training and experience. He should be competent, skillful and keep himself abreast of the latest developments including various pronouncements.

Work performed by others: If the auditor delegates some work to others and uses work performed by others including that of an expert, he continues to be responsible for forming and expressing his opinion on the financial information.

Documentation: The auditor should document matters which are important in providing evidence to ensure that the audit was carried out in accordance with the basic principles.

Planning: The auditor should plan his work to enable him to conduct the audit in an effective, efficient and timely manner. He should acquire knowledge of client's accounting system, the extent of reliance that could be placed on internal control and coordinate the work to be performed.

Audit evidence: The auditor should obtain sufficient appropriate evidences through the performance of compliance and other substantive procedures to enable him to draw reasonable conclusions to form an opinion on the financial information.

Accounting System and Internal Control: The management is responsible for maintaining an adequate accounting system incorporating various internal controls appropriate to the size and nature of business. The auditor should assure himself that the company's internal control system is adequate and all the information which should be recorded has been recorded.

Audit conclusions and reporting: On the basis of the audit evidence, the auditor should review and assess the audit conclusions. The auditor should ascertain:

- As whether the policies have been consistently applied;
- Whether the information complies with regulations and statutory requirements; and
- There is adequate disclosure of material matters relevant to the presentation of information subject to statutory requirements.

The auditor's report should contain a clear written opinion on the subject matter. A clean audit report indicates the auditor's satisfaction in all respects and when a qualified, adverse or a disclaimer of opinion is to be given or reservation of opinion on any matter is to be made, the audit report should state the reasons thereof.

In case of statutory audit, the main object of audit is to find out whether the financial statements prepared by a company show the true and fair view of the financial state of affairs of a company and if not then in what respect they are not showing. However in case of the Non-financial audit, the auditor is expected to report on the compliance status of the company on the various applicable laws on the company.

Auditing Techniques

The audit techniques stand for the methods that are adopted by an auditor to obtain audit evidence and performance of the audit as per the scope of the audit. An auditor can apply various techniques of auditing which may be applied by the auditor under different circumstances of audit, the various techniques of the audit are summarised as under:

1. Inspection of the Documents and records:

While verifying various transactions, the auditor examines the supporting documents and records. This technique is otherwise called vouching. The purpose of examining the documents and records is to confirm the authenticity (genuineness) of the transaction and

- to find whether the transactions and the supporting document are appropriate.
- to ensure whether the transactions are authorized (approved).
- to ensure whether the classification of the transaction is proper.

While the scrutiny of documents, the auditor comes across the various records and documents and if he comes across any unusual transactions, he verifies the same thoroughly. This is called scanning of records, which requires experience and expertise. The auditor can rely on the documents depends on the origin (source) of the documents and the efficiency of the internal control system in operation, also the written confirmation of the management of the company could be considered in case the supporting documents are not available.

Documents which have their origin in the hands of the third parties and held by third parties are more reliable than the documents which have their origin in the organization itself and held by the organization. One can classify the documents into four major categories according to their origin and availability.

Classification of documents

Origin in the hands of	Held by	Reliability	Example
Third Party	Third Party	Most Reliable	Registered Documents.
Third Party	Organisation	More Reliable	Copies of Certificates issued by Authorities like Food Safety Certificate.
Organisation	Third Party	Reliable	Documents submitted to various authorities.
Organisation	Organisation	Reliable only if the internal control is effective.	Registers.

Physical Verification

If an item can be measured in physical term, the same may be verified for quantity and quality (if possible). By physical examination, the auditor ensures the availability of the item. However, the ownership of the items cannot be verified through this method.

2. Observation

The auditor observes a particular procedure being carried by the organization. Examples are observation of the internal control measures that are adopted in transactions involving cash, procedures followed on receipt or issue of material, etc. The auditor makes his observations to evaluate the efficiency and effectiveness of the system followed by the organization.

3. Inquiry and Confirmation

Inquiry: Seeking information from persons belonging to the organization or from outside organization is called inquiry.

Confirmation: Confirming the information available with the records of the organization or with the persons mostly from outside the organization through an inquiry is confirmation.

Inquiry and confirmation can take place either orally or in writing.

The best example for inquiry and confirmation is confirming the balances of debtors shown in the accounting records with the debtors of the organization.

4. Computation

An auditor makes appropriate calculations and verifies the accuracy of the accounting records. For example, the auditor computes the depreciation to be charged for the year, by taking into consideration the value of the asset (cost), the date of purchase, the rate of depreciation, etc., to verify the accuracy of the depreciation charged by the organization. The auditor also traces a particular transaction from the origin to check the book keeping procedure.

5. Analytical Procedures

The purpose of analysis is to ensure consistency of accounting methods and also to evaluate the efficiency of the management by comparing the results of several years. The several analytical procedures are Reconciliation, Ratio Analysis; and Variance Analysis. The auditor also applies the analytical procedures to help the management in decision making. Such analytical techniques are Marginal Costing, Standard Costing etc.

The auditor studies the nature of the business and also the prevailing circumstances and selects the techniques to be applied. While conducting the audit, he may change his technique according to the changes observed in the circumstances. The suitable audit techniques adopted by the auditor helps him to carry on the audit efficiently.

Audit Planning

The audit plan, describes the processes and activities that are to be carried out in connection with a particular audit and for the improving the quality of audit. Accordingly, an auditor should plan an audit so that it is performed in an effective manner within the defined scope. The audit planning should also include overall audit strategy for the audit.

For an effective audit the availability of resources and skilled manpower is required and sometimes the availability of skilled team members are become a constraint in cases where the auditor does not have the in-house experts for such audit. The demand for resources also exceeds the availability in majority of cases. Hence, the audit firm needs to carefully form an audit team or assign the professional assignments to the audit team so that the adequate staff in terms of manpower and required skill can be deployed on the audit assignment.

While framing the audit plan, it is required to focus on the availability of skilled audit staff, the time frame for audit performance and completion, the nature and complexities involved, risk assessments and the audit tests to address to those risks.

The process of audit planning should include the following elements:

1. The purpose and objectives.
2. Legal framework under which the audit is being conducted.
3. Significant areas and issues involved.
4. Process and technique to be adopted.
5. Check points activities.
6. Allocation of work contents amongst the staff.
7. Time schedules for completion of various tasks/phases.
8. Determining time lines for submission of draft report, discussion thereon with the auditee and submission of final report.
9. Areas to be classified on "Risk" criteria to allocate suitable resources.
10. Determining the extent of detailed examination and coverage in terms of volume .
11. Evaluation of internal controls and professional work carried out by other agencies/experts and placing reliance thereon.
12. Materiality considerations and determining the threshold therefore.
13. Structure, contents of the report.

Essentials of Audit Planning

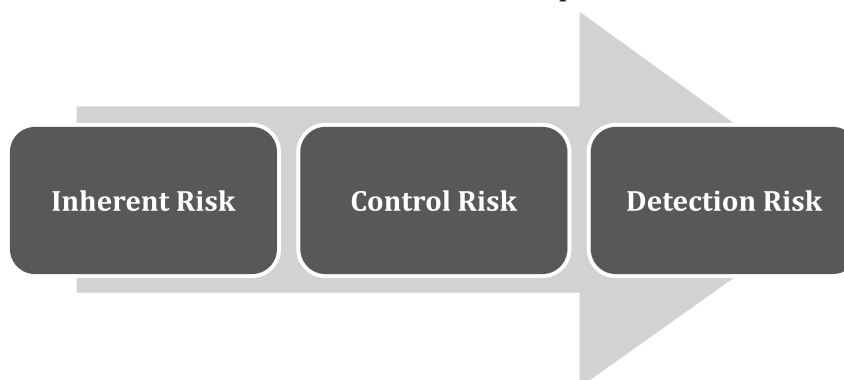
The Audit planning helps to develop an audit approach which will ensure that sufficient appropriate evidence is gathered to support the audit opinion in the most cost effective manner. For a successful audit plan, the following points should be considered by auditor:

Ensuring the quality of Audit	<ul style="list-style-type: none"> The Audit should be planned in such manner, which ensures the high quality of audit in economic, efficient, and effective way and in a timely manner.
Documented Audit Plan	<ul style="list-style-type: none"> The Audit plan should be documented and should be kept with the audit working papers.
Clubbing of inter related steps	<ul style="list-style-type: none"> The Inter related steps and events should be clubbed together.
Finalisation type of Audit Plan	<ul style="list-style-type: none"> The elements of an audit plan may be similar for different auditee entities. However, the actual contents may differ from auditee to auditee enterprise, and on nature, type & objective of the audit or authentication assignment.
Independent review of Audit Plan	<ul style="list-style-type: none"> The audit plan should be reviewed by the experienced auditor, normally not engaged on the assignment. Their experience may be useful to modify the audit plan to meet the audit objectives more vigorously.
Flexibility	<ul style="list-style-type: none"> The audit plan should be flexible enough to accommodate modifications which may be necessary and should be carried out with the approval of team leader.
reaching conclusion	<ul style="list-style-type: none"> Auditing involves the collection and analysis of facts and data sufficient to reach reliable and valid conclusions about the subject of the audit.
Training and communication to Audit Staff	<ul style="list-style-type: none"> The Auditing staff should be made familiar of the quality control policies and procedures of the firm. The hierarchy, responsibility & authority for decision making needs to be clearly defined and understood by the audit staff.

Risk Assessment

Auditing risk means that an auditor accepts/presumes some level of uncertainty in performing the audit work, which means that the auditor accepts the risk that the audit opinion given by the auditor might be wrong. Only a very small degree of audit risk would be acceptable as otherwise the audit process may lose its purpose.

The audit risk has three components



Inherent Risk: Inherent risk is the susceptibility of a class of transaction to misstatement that could be material, individually or when aggregated with misstatements in other transaction, assuming that there were no related internal controls. For example, Genuineness of the related party transactions.

Control Risk: Control Risk is the risk that a misstatement that could occur in an class of transactions and that could be material individually or when aggregated with misstatement on other transaction, will not be prevented or detected and corrected on a timely basis by the internal control systems. For example, delay in the filing of forms.

Detection Risk: Detection Risk is the risk that an auditor's substantive audit procedures will not detect a misstatement that exist in class of transactions that could be material, individually or when aggregated with misstatement on other transaction. For example, while certification of e-form, the auditor has overlooked the compliance of the Secretarial Standards.

The auditor should maintain the high level of the assurance/confidence while expressing the audit opinion, and this is the most important steps in the audit planning to ensure that the audit team will gather competent, relevant and reasonable audit evidence at minimum cost.

There is an inverse relationship between materiality and the level of audit risk that is, the higher the materiality level, the lower the audit risk and vice versa. Auditor should take note of the inverse relationship between materiality and audit risk when determining the nature, timing and extent of audit procedures.

COLLECTION OF INFORMATION/RECORDS OF AUDITEE

Before going for the audit planning, it is necessary for an auditor to have thorough understanding of the auditee entity and its operations, which helps in designing an efficient and effective audit approach so that the audit resources are focused on the areas of greatest risk and audit methods which meet audit objectives at minimum cost are adopted in obtaining competent, relevant and reasonable evidence to support the audit judgment and conclusions. The audit team should:

1. Familiarize itself with-
 - (a) The operations and organisation of the auditee entity
 - (b) The financial statement
 - (c) The regulatory framework
 - (d) The general legal framework governing the entity operations
2. Understand the accounting processes and the degree of the technology involvement
3. Access the overall control environment and in particular the control to prevent irregularity, illegality and fraud;
4. Perform preliminary analytical procedures
5. Analyze the financial statement in to account areas.

PREPARATION OF AUDIT CHECKLIST

The audit checklist assists auditors in conducting a thorough, systematic and consistent audit. The checklists are used to guide and help the auditor to assess whether evidence meets audit criteria.

It is important to remember that checklists are used to guide the auditors and do not rigidly dictate exactly what is to be audited as in various event the auditor need to check beyond the checklist and the compliance requirement is different according to the nature and business of the company.

Accordingly, the audit checklists support the audit process in identification of the various compliance requirements and have their own benefits for the performance of the audit. Though for all organization a uniform checklist can be considered but same need to be customized as per the organization and the scope of the audit.

The benefits of the audit checklists are as under:

- (a) Promote planning for the audit.
- (b) Ensure a consistent audit approach.
- (c) Act as a sampling plan and time manager.
- (d) Serve as a memory aid.
- (e) Provide a repository for notes collected during the audit process (audit field notes)
 - 1. Audit checklists provide assistance to the audit process.
 - 2. Auditors need to be trained in the use of a particular checklist and be shown how to use it to obtain maximum information by using good questioning techniques.
 - 3. Checklists assist an auditor to perform better during the audit process.
 - 4. Checklists help to ensure that the audit is conducted in a systematic and comprehensive manner and adequate evidence is obtained.
 - 5. Checklists provide the structure and continuity to the audit and ensure that the audit scope is being followed.
 - 6. Checklists provide a means of communication and a place to record data for use for future reference.
 - 7. A completed checklist provides objective evidence that the audit was performed.
 - 8. A checklist provide a record.
 - 9. Checklists can be used as an information base for planning future audits.
 - 10. Checklists can be provided to the auditee ahead of the onsite audit.

SELECTION OF AUDIT TECHNIQUES

The Auditors while the framing audit plan, design and apply appropriate audit tool, methods or procedures to obtain sufficient and appropriate audit evidence in order to form a conclusion or opinion as to whether a subject matter complies, in all material respects with established criteria.

In the planning phase, auditor reviews the internal controls and institutional arrangements established by the auditable entity to prevent, detect, and rectify instances of non-compliance. Based on this review auditors identify control risks and other risks and keep these in consideration while they start gathering audit evidence. The audit procedures to be applied would depend on the particular subject matter and criteria and auditors' professional judgment. When the risks of non compliance are significant and auditors plan to rely on the controls in place, such controls are required to be tested. When controls are not considered reliable, auditors plan and perform substantive procedures to respond to the identified risks. Auditors perform additional substantive procedures when there are significant risks of non-compliance.

The compliance auditor will often need to combine and compare evidence from different sources in order to meet the requirements for sufficiency and appropriateness of audit evidence. Professional judgement needs to be exercised in considering the quantity and quality of available evidence when performing the engagement, in particular when determining the nature, timing and extent of procedures. Audit evidence is the information used by the auditor for arriving at the audit conclusions.

Gathering and Evaluating Evidence

The evidence gathering and evaluation is a simultaneous, systematic and an iterative process and involves:

- (a) Gathering evidence by performing appropriate audit procedures.
- (b) Evaluating the evidence obtained as to its sufficiency (quantity) and appropriateness (quality).
- (c) Re-assessing risk and gathering further evidence as necessary.

The evidence gathering and evaluation process should continue until the auditor is satisfied that sufficient and appropriate evidence exists to provide a basis for the auditors' conclusion. Audit evidence is gathered using a variety of techniques such as the following:

Documents/Records scrutiny

This is predominant mode of obtaining audit evidence and involves scrutiny of a wide variety of documents e.g. board resolutions, agenda and minutes, notices, registers, cash books and accounting records, procedure manuals, reports etc.

When auditing, it is often not possible, due to limited resources to check every document or record. The auditor may choose to sample a statistical representative number of documented results, such as monitoring data or incident reports. An appropriate sampling method will manage any uncertainty to an acceptable level.

Testing, Interviews and Analysis

The auditor should determine whether the controls identified during the preliminary review are operating properly and in manner described by the company. Fieldwork typically consists of interviewing the staff of the company whether formally or informally, reviewing procedure manuals, processes, testing and analyzing compliance with applicable policies and procedures and laws, rules, regulations and assessing the adequacy of controls. This exercise may result in significant findings which the auditor may bear in mind while preparing the audit report.

Questionnaires

This involves seeking information from relevant persons within the auditable entity through issue of a formal questionnaire to elicit further information and gather relevant audit evidence.

Confirmation

Confirmation is a type of inquiry and involves obtaining, independently of the auditable entity, a reply from a third party with regard to some particular information - For example, confirmation of balances from the banks.

Analytical procedures

Analytical procedures involve comparing data, or investigating fluctuations or relationships that appear inconsistent. Data analytical tools, or analytical tools, statistical techniques or other mathematical models could also be used in comparing actual with expected results.

Evaluation of Evidence

Audit evidence collected through above mentioned audit procedures, are to be evaluated against the relevant, already identified criteria. This involves consideration of evidence collected vis-a-vis the subject matter information as well as the written responses obtained from responsible officers of the auditable entity against the applicable criteria.

What constitutes material non-compliance is a matter of professional judgement and includes consideration of the circumstances, quantitative and qualitative aspect of the transactions or the issues concerned. Auditors consider a number of factors in applying professional judgement to determine whether or not the non-compliance is material. Such factors may include the following:

- Extent and importance of amounts involved, which include both monetary values and other quantitative measures;
- Nature of the non-compliance;
- Cause leading to the non-compliance;
- Possible effects and consequences of the non-compliance;
- Visibility and sensitivity of the program in question; and needs and expectations of the legislature, public and other users of audit reports

After evaluating the evidence and considering its materiality, the auditor should decide how best to conclude in the light of the evidence collected, which would be the supporting key documents and arrive at audit conclusions. While evaluating evidence auditors can find that audit evidence is conflicting i.e. while some evidence supports the subject

matter information, other evidences seem to contradict it. In such situations, auditors need to weigh the extent and credibility of conflicting evidence in order to reach a conclusion or collect more evidence to resolve the conflict. Audit conclusion should clearly bring out the nature and extent of non-compliance, cause of such non-compliance, its materiality and also the effect of non-compliance, if possible. The audit conclusions in case of regularity issues should also indicate whether non-compliance is a solitary one-off case, or wide spread systemic issue in the auditable entity.

SAMPLING

Auditor draws conclusions about the large volume of data (population) by selecting a sample out of such data. The sample size determines the quantum of risk that the auditor is ready to accept. There are no set rules for defining the sample size. Sample size depends upon the experience and professional judgement of the auditor and is also based on "Audit Risk" factor.

Application of audit procedures to less than 100% of the population of documents/items relevant for audit such that all sampling units have a chance for selection (for applying audit procedure thereon) so as to provide the auditor a reasonable basis on which conclusion about the entire population can be drawn.

However, the sample design, size & selection of items for testing should meet the following:

- (a) Purpose of the audit procedure and population characteristics shall be considered for designing an audit sample.
- (b) Sample size shall be so chosen as to reduce sampling risk to an acceptable low value.
- (c) Random sampling, whenever practicable, shall be considered so that each sampling unit shall have reasonable chance of selection.
- (d) For sampling, use of stratification and value-weighted selection will increase audit efficiency.

COMPLIANCE TEST OF INTERNAL CONTROL SYSTEM

The Compliance test of the internal compliance and control system is conducted by performing regular reviews of internal controls, operation of the risk management framework and the quality management system of the company. Generally, the audit and risk management committee is responsible for reviewing and analysing the effectiveness of the risk management framework, the internal compliance and control systems and should report on the same to the Board, not less than annually or at such intervals as determined by the Board.

An auditor should go through the records of the company to conclude that the company's existing procedures or mechanisms adhere to regulatory requirements, industry practices or corporate policies and function as intended and are commensurate with the size and the operations of the company.

An audit compliance test may cover operational risks, technology systems, financial controls or regulatory guidelines.

SUBSTANTIVE CHECKING

Substantive checking is the technique used by auditor to obtain the audit evidence in order to support auditor opinion. Substantive checking is part of substantive audit approach and it is performing at the execution stage of audit. It is different to test of control. The number of sample in substantive checking is depending on many factors.

For example, the audit approach considered by auditor depends upon whether they decided to use systematic approach, substantive audit approach or else. Normally, if audit approach to be used is substantive, then the volume of samples to be reviewed are higher than systematic approach.

Substantive testing is also called as detailed testing where the main objective are to verify the compliances, transactions and disclosures relating to non -financial statements. It is different from control test. In control testing, auditor assess the internal control that designed and implement by auditor, especially the internal control over

financial reporting. Auditor could not use the result of test of control to make conclusion that the statements are true and fair view. The result of test of control could only conclude the internal control context.

Accordingly, the substantive checking are to confirm the following assertion:

- Verified existence,
- Confirmed rights and obligations,
- Check validity,
- Verified completeness,
- Check occurrence,
- Check completeness,
- Confirmed accuracy,
- Verified authorization,
- Test cut-off dates

The substantive audit procedures are performing at the execution stage after auditors prepared audit planning.

DEPENDENCE ON OTHER EXPERT

In case where the auditor is planning to use the work of an expert, the auditor should evaluate the professional competence of the expert. This will involve considering the expert's professional certification or licensing by, or membership in, an appropriate professional body and experience and reputation in the field in which the auditor is seeking audit evidence like for building structure related compliance, a civil engineer is considered as the expert, for aviation related compliance, the aeronautical engineer is considered as expert and so on.

The auditor should evaluate the objectivity of the expert. The risk that an expert's objectivity will be impaired increases when the expert is employed by the entity; or is related in some other manner to the entity.

While issuing an unmodified auditor's report, the auditor should not refer to the work of an expert. Such a reference might be misunderstood to be a qualification of the auditor's opinion or a division of responsibility, neither of which is intended. If, as a result of the work of an expert, the auditor decides to issue a modified auditor's report, in some circumstances it may be appropriate, in explaining the nature of the modification, to refer to or describe the work of the expert (including the identity of the expert and the extent of the expert's involvement). In these circumstances, the auditor should obtain the permission of the expert before making such a reference. If permission is refused and the auditor believes a reference is necessary, the auditor may need to seek legal advice.

EXTERNAL EXPERTS' OPINION

An auditor may take external expert's opinion on various technical matters which forms the audit evidence. The auditor has to place reliance on the opinion expressed by the external expert considering his reliability, competency, consistency with data & information and independence.

In case of an external expert it shall be ensured that the interests and relationship of the external expert does not constitute a threat to that expert's objectivity.

The auditor shall evaluate adequacy of expert's work having regard to the following:

Factors for evaluation the adequacy of expert's work

Relevance of finding conclusions	<ul style="list-style-type: none"> Relevance and reasonableness of expert's findings/conclusions and consistency thereof with other audit evidence.
Relevance of methods used	<ul style="list-style-type: none"> Relevance and reasonableness of assumptions and methods used in the expert's work.
Relevance etc. of source data	<ul style="list-style-type: none"> Relevance, reasonableness, accuracy and completeness of source data (if any) used in the expert's work provided, such data are significant for the expert's Work.
Agreement of further work	<ul style="list-style-type: none"> Agreement with the expert on the nature and extent of further work by the expert in case expert's work is found to be inadequate for audit purpose.
Additional actions	<ul style="list-style-type: none"> Performance of additional, appropriate audit procedures in case expert's work is found to be inadequate for audit purpose.

Reference of Expert's opinion in Audit Report

If the auditor's opinion remains unmodified by the work of an expert, such work shall not be mentioned in Report unless required by law or regulation. Even when such reference is required by law/regulation, the Auditor shall specify in the Report that such reference to expert's Work does not reduce responsibility for the opinion.

If the auditor's opinion is modified by the work of an Auditor's expert, such work may be referred to in the Audit Report to have an understanding of the modification of opinion, provided, the Auditor shall specify in the Audit Report that such reference to expert's work does not reduce Auditor's responsibility for the Auditor's opinion.

External Confirmation

External confirmation means Audit evidence obtained as a direct written response to the auditor from a third party (confirming party) on paper or electronic media or in any other form. External confirmation seeking steps are:

- Determine information to be confirmed/requested.
- Select appropriate confirming party.
- Design/format confirmation request.
- Send the request with follow up.

Results of External Confirmation & Reliability of Response

The auditor shall evaluate whether results of external confirmation provide relevant and reliable audit evidence or whether further audit evidence is necessary: In such cases.

- Where the auditor doubts the reliability of response, further audit evidence should be obtained to resolve doubt.
- In case of non-response, alternative audit procedure shall be performed to obtain reliable and relevant audit evidence.

- (c) Positive confirmation response request should be sought only when alternative audit procedures will not obtain audit evidence required. If the auditor does not receive such confirmation, its implication on audit and auditor's opinion shall be evaluated.
- (d) The auditor shall not use response to any negative confirmation request as the sole substantive audit procedure to address assessed risk of a material misstatement.

COLLECTION OF AUDIT EVIDENCES

Audit evidence means information collected and used by the auditor in arriving at the conclusions on the basis of which his opinion is based.

An auditor need to plan & perform his audit tasks which enable him to obtain sufficient and appropriate audit evidence on the basis of which he can draw audit conclusions to express his opinion. When designing and performing audit procedures the auditor shall consider the relevance and reliability of the information to be used as audit evidence. The audit evidence may contain information provided and produced by the auditee itself or by management expert of the auditee or during the performance of the audit. Auditor needs to evaluate the accuracy and completeness of such audit evidence.

Absence of information e.g. inability or refusal of the management to provide information sought by the auditor also constitutes audit evidence. Audit evidence includes inspection, observation, confirmation, recalculation, reperformance and analytical procedures, often in some combination, in addition to inquiry. An auditor may be confronted with the situations such as contradictory audit evidence, questionable reliability of the information and documents collected and circumstances that may suggest misappropriations or frauds etc. under such situations, auditor should show professional skepticism and more rigorous audit steps are called for.

When the auditor doubts the reliability of information to be used for audit evidence or, audit evidence obtained from one source is inconsistent with that of another source, the auditor shall determine necessary modification or additions to audit procedure necessary to resolve the matter.

Audit evidence is more reliable when it is obtained from independent sources outside the entity, directly by the auditor and in documentary form. External confirmation should be obtained as a direct written response to the auditor, in documentary form which is considered as qualitative audit evidence.

Written representations by the management are audit evidence. Such written representations may not be considered as sufficient and appropriate audit evidence on their own and an auditor must also obtain other audit evidence regarding fulfillment of management responsibilities.

CREATION OF AUDIT TRAILS

The auditor should prepare and maintain working papers, the form and content of which should be designed to meet the circumstances of a particular engagement. The information contained in working papers constitutes the principal record of the work that the auditor has done and the conclusions that he has reached concerning significant matters. Working papers serve mainly to -

1. Provide the principal support for the auditor's report, including his representation regarding observance of the standards of field work, which is implicit in the reference in his report to generally, accepted auditing standards.
2. Aid the auditor in the conduct and supervision of the audit.

Working papers are records kept by the auditor of the procedures applied, the tests performed, the information obtained, and the pertinent conclusions reached in the engagement. Examples of working papers are audit programs, analyses, memoranda, letters of confirmation and representation, abstracts of company documents and schedules or commentaries prepared or obtained by the auditor. Working papers also may be in the form of data stored on tapes, films or other media.

The quantity, type and content of working papers vary with the circumstances, but they should be sufficient to show that the records agree or reconcile with the statements or other information reported on and that the applicable standards of field work have been observed. Working papers ordinarily should include documentation showing that-

- The work has been adequately planned and supervised, indicating observance of the first standard of field work.
- A sufficient understanding of internal control has been obtained to plan the audit and to determine the nature, timing and extent of tests to be performed.
- The audit evidence obtained, the auditing procedures applied and the testing performed have provided sufficient competent evidential matter to afford a reasonable basis for an opinion, indicating observance of the third standard of field work.

Working papers are the property of the auditor. The auditor's rights of ownership, however, are subject to ethical limitations relating to the confidential relationship with clients.

Certain of the auditor's working papers may sometimes serve as a useful reference source for his client, but the working papers should not be regarded as a part of, or a substitute for, the client's accounting or other records.

The auditor should adopt reasonable procedures for safe custody of his working papers and should retain them for a period sufficient to meet the needs of his practice and to satisfy any pertinent legal requirements of records retention.

Audit working papers provide evidence of audit coverage and documentation of audit trails, they should be properly filed and stored. In addition there should be a standardized format for working papers, adequate cross-referencing to identify the audit working papers created as well as a system for filing and retrieving working papers.

The importance of Audit Trail may be analysed from the amendment in Companies (Accounts) Rules, 2014 vide MCA notification dated 24th March, 2021 which inter-alia provides that every company which uses accounting software for maintaining books of accounts, shall only use such accounting software which has a feature of recording audit trails. However, this amendment is to be effective 1st April, 2022.

MATERIALITY

Material means important and essential. The disclosure of important matters helps the users in taking business decisions. There should be neither suppression of vital facts nor mis-statements.

- The concept of the materiality draw the whole process of the audit, the user of the audit report does not require the absolute accuracy to make informed decision, accordingly a matter is considered material if its omission or misstatement would reasonably influence the decision of an intended user of the audit report.
- The concept of materiality should be considered by the auditor while determining the nature, timing and extent of audit procedures and evaluating the effect of the misstatements.
- The concept of materiality is used both at the planning stage of the audit, when deciding what and how much work need to be done and in evaluating the result of the audit, which is generally known as planning materiality and reporting materiality.
- The Auditor has to report the errors which he judges to be material, the audit work can be planned in the knowledge that it need to detect errors that are material.
- In accessing materiality, the prime consideration is the total value of the error, however, the values are not the sole consideration, the nature of the error or the context in which the transaction occurs are sometimes more important and the auditor must always consider these factors, as well as the value, when deciding whether an error is material.

Materiality consists of both quantitative and qualitative factors. Materiality is often considered in terms of monetary value but the inherent nature or characteristics of an item or group of items may also render a matter material.

Materiality is a matter of professional judgment and depends on the auditor's interpretation of the users needs. A matter can be judged material if knowledge of it is likely to influence the decisions of the intended users.

Materiality should be considered by auditor while determining the nature, timing and extent of audit procedures and while evaluating the effect of misstatement.

During the planning process, information is gathered about the entity in order to assess risk and establish materiality levels for designing audit procedures. Issues that may be considered material even if the monetary value is not significant would include the following:

- Material by value
- Material by nature
- Material by context
 - (a) Fraud;
 - (b) Intentional unlawful acts or non-compliance;
 - (c) Incorrect or incomplete information to executive, the auditor or to the legislature (concealment);
 - (d) Intentional disregard to the executive, authoritative bodies or auditors; and
 - (e) Events and transactions made despite knowledge of the lack of legal basis to carry out the particular event or transaction.

In formulating audit opinion or report, the auditor should inter-alia give due regard to the materiality of the matter keeping in view the amount, nature and context. Materiality is determined for:

- (a) Planning purposes
- (b) Purposes of evaluating the evidence obtained and the effect of identified instances of mis-statement or non-compliance: and
- (c) Purposes of reporting the results of the audit work.

RECORD KEEPING

Audit documentation is one of the fundamental building blocks on which the integrity of audits will rest. Quality and integrity of an audit depends on the existence of a complete and understandable record of the work the auditor performed, the conclusions the auditor reached, and the evidence the auditor obtained that supports those conclusions. Clear and comprehensive audit documentation is essential to enhance the quality of the audit. Audit documentation must be assembled for retention within a reasonable period of time after the auditor's report is released. Auditing firm should establish policies and procedures for retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.

The needs of the firm for retention of engagement documentation, and the period of such retention, will vary with the nature of the engagement and the firm's circumstances, for example, whether the engagement documentation is needed to provide a record of matters of continuing significance to future engagements. The retention period may also depend on other factors, such as whether local law or regulation prescribes specific retention periods for certain types of engagements, or whether there are generally accepted retention periods in the jurisdiction in the absence of specific legal or regulatory requirements. In the specific case of audit engagements,

Case Study

As a Practising Company Secretary, you are appointed as a Secretarial Auditor of XYZ Ltd. XYZ is a listed company having paid up capital of Rs. 500 Crore. The Company is in business of treating hazardous waste.

Prepare a checklist for the Audit and include a list of all the applicable laws on the Company.

the retention period ordinarily is no shorter than seven years from the date of auditor's report. any procedure that the Auditor adopts for retention of engagement documentation should :

- enable the retrieval of, and access to, the engagement documentation during the retention period, particularly in the case of electronic documentation since the underlying technology may be upgraded or changed over time.
- provide, where necessary, a record of changes made to engagement documentation after the engagement files have been completed.
- enable authorized external parties to access and review specific engagement documentation for quality control or other purposes.

LESSON ROUND UP

- The auditing principles defines governing an Audit and includes the professional responsibilities, which should be observed by the auditor while carrying out any audit assignments.
- The Audit techniques stand for the methods that are adopted by an auditor to obtain audit evidence and performance of the Audit as per the scope of the audit.
- Documents which have their origin in the hands of the third parties and held by third parties are more reliable than the documents which have their origin in the organization itself and held by the organization
- The Audit plan, describes the processes and activities that are to be carried out in connection with a particular audit and for the improving the quality of audit.
- Audit evidence means information collected and used by the auditor in arriving at the conclusions on the basis of which his opinion is based.
- Substantive checking is the technique use by auditor to obtain the audit evidence in order to support auditor opinion. Substantive checking is part of substantive audit approach and it is performing at the execution stage of audit.

GLOSSARY

Auditing Techniques	The Audit techniques stand for the methods that are adopted by an auditor to obtain audit evidence and performance of the Audit as per the scope of the audit.
Audit Planning	The Audit plan, describes the processes and activities that are to be carried out in connection with a particular audit and for the improving the quality of audit.
Documents	Documents includes board resolutions, agenda and minutes, notices, registers, cash books and accounting records, procedure manuals, reports etc.
Confirmation	Confirmation is a type of inquiry and involves obtaining, independently of the auditable entity, a reply from a third party with regard to some particular information. For example, confirmation of balances from the banks.

TEST YOURSELF

(These are meant for recapitulation only, Answer to these questions are not to be submitted for evaluation)

1. Describe the auditing principles which should be observed by any auditor while performing any audit.
2. Write down the various factors which should be considered by the auditor while forming an audit plan.
3. Describe the component of audit risk with examples.
4. Write a short notes on the importance of the materiality in the audit.
5. Write a short note on Essentials of Audit Planning.

LIST OF FURTHER READINGS

- Company Secretaries Auditing Standards
- Guidance Note on CSAS
- Articles published by Professionals

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- <https://www.icsi.edu/auditing-standard/>

Lesson 14

Audit Process and Documentation

Key Concepts One Should Know

- Audit Process
- Audit Planning
- Preliminary Preparations
- Audit Programme
- Working Papers
- Audit Trial

Learning Objectives

To understand:

- How an audit should be seen as an aid to the organisation concerned in ensuring that its operations are conducted in compliance with the provisions of the applicable legislations.
- How audit reports are produced, conclusions & findings are outlined and recommendations are issued based on an examination of facts & records available within the organisation.
- The Audit process that has three components i.e. Audit Planning, Audit Execution, and Audit Reporting.
- The necessities of audit documentations that is extremely necessary to avoid the duplication of the work, forming of audit opinion and for future and cross references.
- The manner of Documentation of the Audit records.

Regulatory Framework

- CSAS – 2, Auditing Standard on Audit Process and Documentation
- Secretarial Standards

Lesson Outline

- Introduction
- Overview
- Preliminary Preparations
- Questionnaire
- Interaction
- Audit program
- Identification of applicable laws
- Creation of master checklist
- Maintenance of Work-sheet
- Working papers and audit trails
- Identification of events/corporate actions; Verification
- Board composition
- Board process
- Systems and process
- Identification of events having bearing on affairs of the Company
- Auditing Standard on Audit Process & Documentation
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (WEBSITES/ VIDEO LINKS)

INTRODUCTION

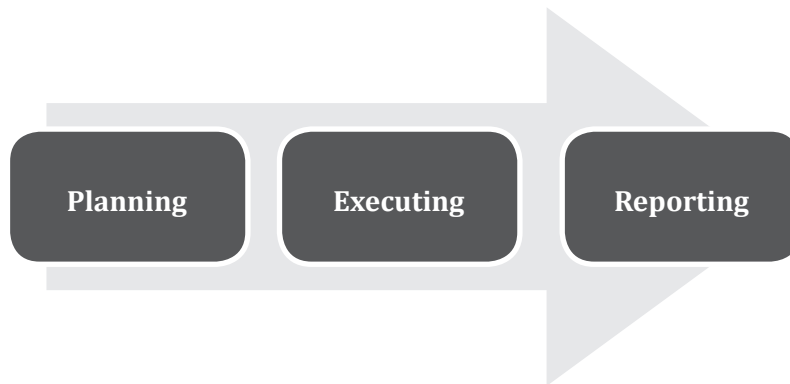
The Auditor must plan and perform audit procedures to obtain sufficient and appropriate audit evidence to have a reasonable basis for Auditor's opinion.

Sufficiency is the measure of the quantity of audit evidence and depends on various factors including internal controls systems and risk involved. As the risk increases, the amount of evidence that the Auditor should obtain also increases. However, as the quality of the evidence increases, the need for additional corroborating evidence decreases. Increase in the quantum of poor quality of evidences cannot compensate for the requirement of sufficiency of evidence.

Appropriateness is the measure of the quality of audit evidence, i.e. its relevance and reliability. To be appropriate, audit evidence must be relevant and reliable in providing support for the conclusions on which the Auditor's opinion is based.

OVERVIEW OF THE AUDIT PROCESS

The audit process can be broadly grouped in three phases:



Audit Planning: For an effective audit, a timely, well thought out and well executed planning efforts is essential. The Auditor should obtain and update his understanding of the company, its activities, operation's and control environment in the company. The Audit planning consists of the following actions:

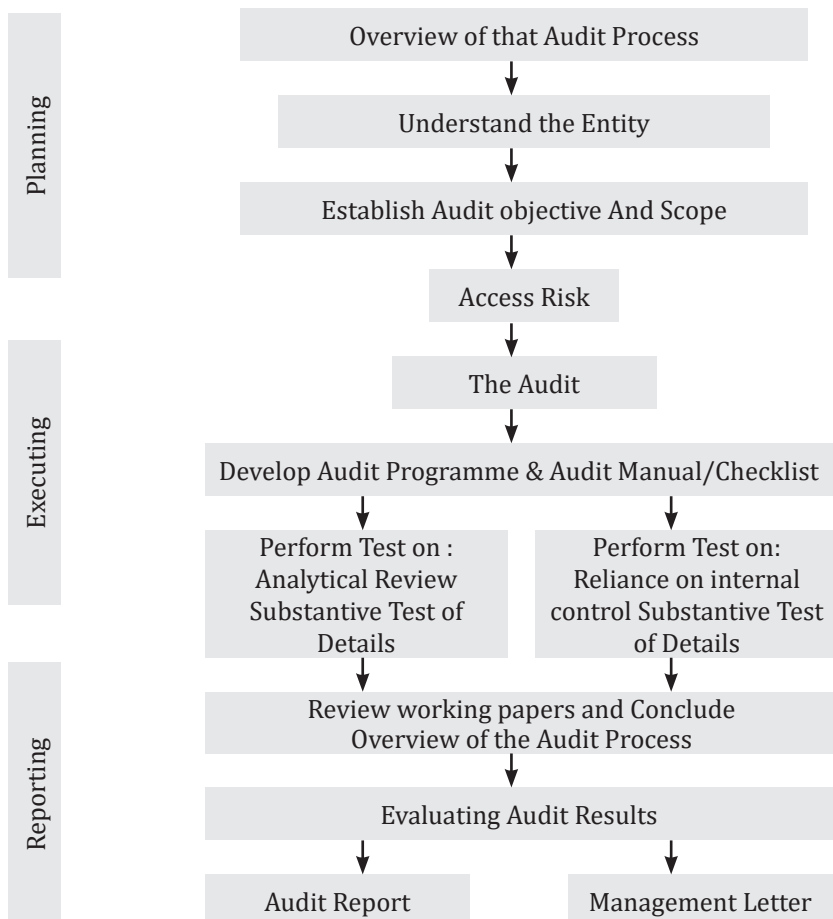
1. Understanding the company
2. Establishing audit objectives and scope
3. Determining Materiality
4. Assessment of Risk
5. Preparation of Audit plan
6. Preparation of detailed Audit Programme

Execution of Audit: The effective Audit Execution is based on the Audit plan and the efficiency of the Audit team. However the Execution of the Audit covers the following actions:

1. Sampling of various transactions or items
2. Sampling for testing of controls
3. Identification of events
4. Performing controls testing procedures
5. Performing analytical procedures
6. Sampling for substantive test of details
7. Performing substantive test of details
8. Review of working papers
9. Management discussion on draft Report

Reporting: In the reporting phase, the auditor covers evaluation of audit results, deriving conclusion, forming of opinion and prepare the audit report.

1	• Understanding the Auditee and its operation
2	• Understanding the legal requirements and Applicability of Law, Rules and Regulations.
3	• Overview and Assessment, Internal Control Mechanism and Identification of Material Event and Risk Areas.
4	• Risk Assessment considering the existing Internal Control Mechanism
5	• Deciding the Audit Approach considering Reliance on the Internal Control and Procedures to be Adopted for Audit
6	• Identification of the Audit Evidences
7	• Designing the detailed Audit Procedure for various Transactions & Events based on the Materiality, Value and Nature
8	• Perform Audit Procedures
9	• Audit Conclusions based on the Audit Evidence
10	• Forming of Opinion



PRELIMINARY PREPARATION

In the preliminary preparation of audit process, information from the company has been obtained and the in house work is performed by the audit team for preparation of audit manual and before the execution of the audit. The illustrative list of the activities covered under the preliminary preparation is as under:

- A brief outline of the company's activities and financial circumstances, cross referenced to more detailed information if appropriate
- The effect of the regularity framework on the audit, cross referenced to a summary of primary and secondary legislation.
- Details of any significant facts, events or changes which have taken or may take place; their likely effect on the company operations or environment and on the audit.
- A description of the scope of the audit and the authority under which it is conducted and the type of audit, the form of opinion required and another reporting requirement. This should highlight any additional work required.
- The sources of funding, financial targets and a brief assessment of the Company's financial position.
- Planning materiality, cross referenced to documentation setting out the reasons and basis on which it was calculated
- A summary of specific risk identified any major problem likely to be met and other items in the financial statements which are likely to require specific attention - this should be cross referenced to the audit objective affected and relevant audit programmes.
- A brief assessment of general control environment and mitigating controls and whether they are to be relied on.
- A brief overview of the audit approach to be adopted, this is to say the degree of the compliance and substantive procedures.
- Audit proposal for dealing with multi locations
- Details of the nature and extent of use to be made of the work to be carried out by internal audit other auditors and specialists
- A summary of the key team members and the total planned days/hours.
- Respective responsibilities of the auditor and the auditee entity; and
- Liaison schedule with auditee entity.

After the preparation of the audit manual the detailed audit programme should be prepared by the audit team, the audit programme should contain the role of team members in the performance of the chosen audit procedures.

QUESTIONNAIRE

Questionnaire is a comprehensive series of questions concerning internal control. This is the most widely used from for collecting information about the existence, operation and efficiency of internal control in an organisation. An important advantage of the questionnaire approach is that the oversight or omission of significant internal control review procedures is less likely to occur with this method. With a proper questionnaire, all internal control evaluation can be completed at one time or in sections. The review can more easily be made on an internal basis. The questionnaire form also provides an orderly means of disclosing control defects. It is the general practice to review the internal control system annually and record the review the detail. In the questionnaire, generally questions are so framed that a 'Yes' answer denotes satisfactory position and a 'No' answer suggests weakness. Provision is made for an explanation or further details of 'No' answers. In respect of questions not relevant to the business, 'Not applicable' reply is given. The questionnaire is annually issued to the client and the client is requested to get it filled by the concerned executives and employees. If on a perusal of the answers, inconsistencies or apparent incongruities are noticed, the matter is further discussed by auditors with the client for a clear picture and accordingly the auditor prepares a report of deficiencies and recommendation for improvements.

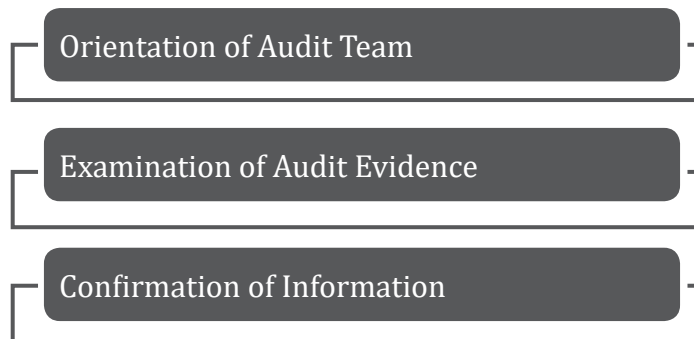
Problem

As a Practising Company Secretary, you have been appointed for conducting Secretarial Audit of XYZ Ltd. Prepare a Questionare for the company including the questions relating to Related Party Transactions, Insider Trading, non-appointment of KMPs, CSR and Remuneration of Directors. Assume necessary facts.

INTERACTION THROUGH INTERVIEWS

The main purposes for an interview in context of an audit are orientation, examination and confirmation. An interview can have one or two of these purposes, but normally not all three at the same time.

Orientation is normally part of the audit team's learning process during the planning phase. It aims at exploring and giving an overview of a specific area or function, e.g., by asking for presentations of activities, explanations of formal or informal networks or interpretation of documents (reports, instructions or budgets). The objective could be to identify possible audit subjects or to find out about other available sources of information, such as key persons or documentation.



Examination aims at more specific issues with a view to establishing new information, often to be used as audit evidence. In some cases, such information has not been previously recorded at all but is embodied in the interviewee through personal experiences, particular references, opinions, etc. In other cases, the knowledge can be retrieved for example by (joint) interpretation of internal documents, reports or records.

It should be noted that evidence obtained from interviews often needs to be corroborated, i.e. supported by evidence from other data collection methods.

Confirmation, finally, often goes together with either orientation or examination, but deserves to be mentioned as a separate purpose because of its fundamental importance. Confirmation, by definition, is typically based on information that has already been gathered. However, in this context the information can also be gathered and confirmed simultaneously. Not least in the planning phase, it is important to have basic conditions and facts explicitly confirmed by stakeholders. However, in the execution phase there might also be a need to confirm facts and findings. If data is incorrectly understood, the quality of the whole audit may suffer and a lot of work may be in vain.

The interview techniques can be gainfully used in a structured or unstructured manner to elicit information from the entity both in the planning as well as execution phase. The Auditor can use the interview mode to obtain both qualitative and quantitative information.

The aim in the planning phase is to develop a comprehensive and correct understanding of the audited activity or the auditee's business in order to facilitate the identification of significant audit issues, there is therefore a need to get orientation as well as confirmation. An interview can very well be justified by a combination of these purposes. Orientation requires a more unstructured approach, with the auditor having maximum flexibility where necessary to explore themes that have not previously been considered and to deeply probe the responses that are given. In this phase, the auditor generally does not have a prior hypotheses or deep knowledge of the project or activity. Confirmation, on the other hand, needs a fairly structured approach in order to have important facts and conditions verified.

In the execution phase of the audit, when the objective is often a more focused examination of an area, in order to capture simple, factual data, to document or clarify certain points or to test hypotheses, interviews will typically have a more structured form. The aim is often to obtain evidence (documents, opinions and ideas) that relate to the audit's objectives, to confirm facts and to collaborate data from other sources. The auditor has a firm grasp of the issues he wants to cover and should know in advance what type of data he wants.

AUDIT PROGRAMME

Most of the time audit is conducted by a team instead of just an individual. If business is small or if there is not much to be done then it might be possible to conduct the whole engagement easily by an individual. But usually amount of work, time constraints and other factors require the audit engagement to be conducted by more than one person. In order to properly assign work to each individual and what is required to be done by whom there must be some kind of instructions set and work profile, otherwise, more than one member might be auditing the same area or in other case some areas may be left completely unaudited. To ensure efficient and effective conduct of audit assignment, audit programmes or audit programmes are used.

Audit programme contains step by step instructions to be carried out by team members i.e. it is simply a list of audit procedures to be executed by team members. Even though audit programme sets out the whole agenda for every member of the team but the main users are the audit executives for whom it acts as a direction to be followed. The main purpose of audit programme is that every material area has been audited appropriately and sufficient appropriate audit evidence has been obtained in respect of every important areas of audit.

Audit programmes are prepared on the basis of audit plan usually by the auditor who is signing the Audit Report of the company. But sometimes, auditors have a basic audit programme and the same is used by the auditor after making some modifications to it to make it according the audit engagement in hand. Mostly it is in the form of a checklist which can be used by the Audit executives to make sure every required procedure has been implemented. This can also help in monitoring the work of Audit executives in specific or assistants in general.

Audit programmes may be laid down in advance for the whole year for some aspects of the audit which auditor expects to be audited after regular intervals of time or when needed. For understandability and convenience, audit programmes are written for each audit area separately and then assigned to specific team members.

An audit programme is a set of instructions which are to be followed for proper execution of audit. After the development of audit plan a detailed written audit programme containing the various steps and procedures shall be required. The audit programme contains the measures that are generally employed to determine what, and how much evidence must be collected and evaluated. It also lays down the responsibilities for the whole audit team for carrying out different tasks.

The prepared audit program may be revised if needed in accordance with the prevailing circumstances. An audit program largely depends on the size of the organization and other relevant factors. Minimum essential work to be done is Standard Programme and rest is according to circumstances. There is no standard audit programme applicable for all situations. Audit programme is documented in the Audit Working Papers, which are the official record that contains the planning and execution of the audit agreement.

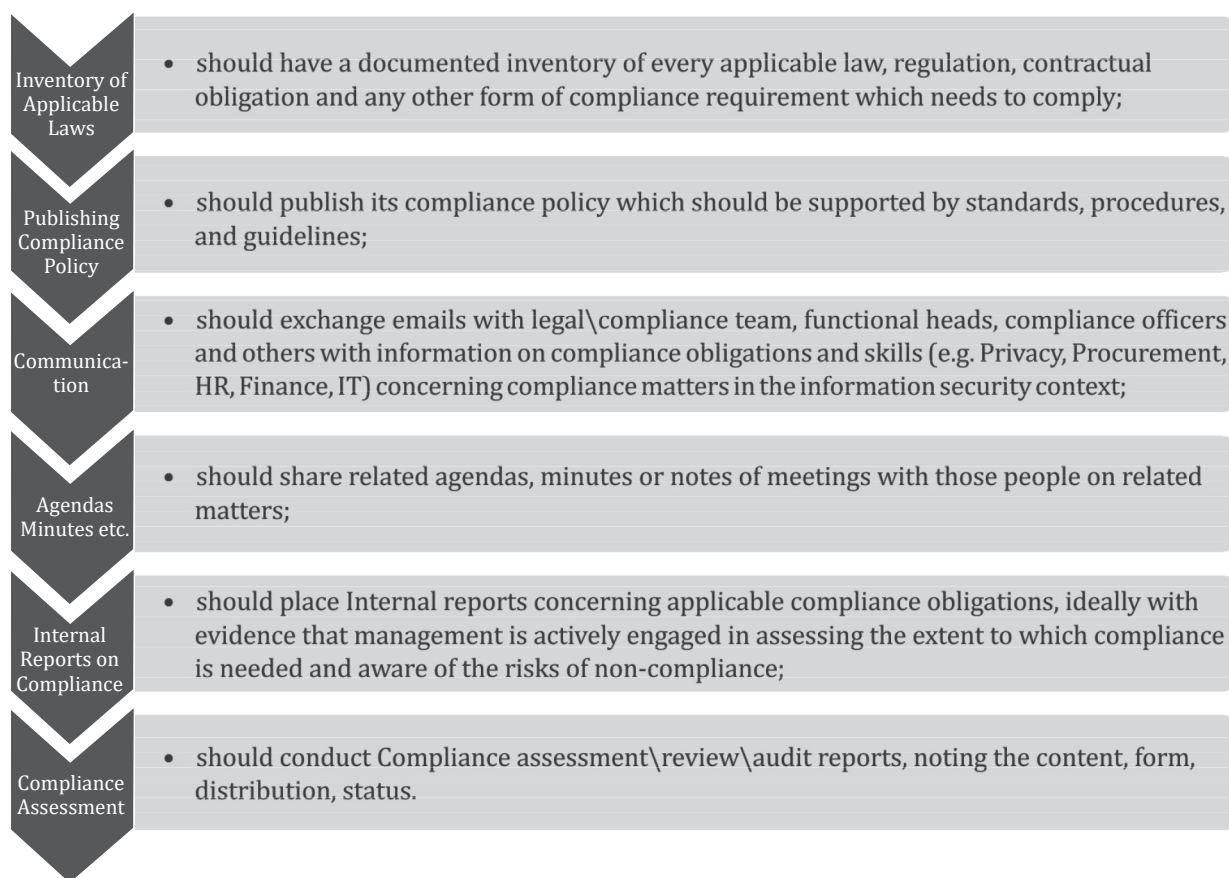
Difference between Audit Plan and Audit Programme

Audit Plan	Audit Programme
Audit Plan lays down the audit strategies to be followed for conducting an audit such as identifying the areas where special audit consideration and skills may be necessary, obtain the knowledge of business etc.	Audit programme is an outline of how the audit is to be done, who is to do what work and within what time
Plans should be made to cover the following among other things: (i) Acquiring knowledge of accounting systems, policies and internal control procedures (ii) Establishing the expected degree of reliance to be placed on the internal control (iii) Determining the nature, timing and extent of the audit procedures to be performed (iv) Co-ordinating the work to be done	It lays down the following audit procedure to be followed: (i) Evaluation process (ii) Ascertaining accuracy (iii) Verification of Document (iv) Scrutiny of supporting Documents (v) Checking of overall disclosure and presentation of all items in the audit completion. (vi) Preparation and submission of audit report.

IDENTIFICATION OF APPLICABLE LAWS

In India, Every mode of business needs to obey various laws, rules, regulations, orders etc. depending on the manner of doing business, business activities and areas of doing business. Sometimes, this may include laws from multiple countries and sometimes such laws have conflicting requirements on each other. In such situations, the best approach is to work with legal team or with an expert to create an outline of all the regulations and contractual obligations. Identify which requirements may impact the organization and discuss the results with management to determine and development of suitable measures which are sufficient for compliance.

Further, the identification of the compliance requirements under applicable laws is just one part of the auditor, but for the management of the company it is necessary to make sure there is sufficient evidence that the company is compliant with each and every one of them. For ensuring the compliance of the applicable laws the company:



For an auditor and the company it is required to identify the applicable legal requirement of act, regulation but should also identify the sections applicable under such regulation.

Further, the legal compliance for a holding company/subsidiary company/joint venture company with diverse operations, the compliance requirement will vary from operation to operation based on the nature of the operations and the locations of the different operation and also based on the applicable legal instruments, and the applicable sections of the relevant laws referred in those legal instruments. The diverse operation and different geographical location may create a complexity in compliance.

Dealing with the amendment in the laws is another concern in fulfilling compliance requirement, which requires that the company should keep up to date information on the compliance requirement with an information of the changes in the laws and regulations. Further, the legal team of the company should continuously communicate the effect of such changes on the Company, its holding, subsidiary, Joint Venture Company or any of the geographical area where the company operates.

Some of the regulators like MCA, RBI, SEBI, on time to time issue the Master Circulars, and Master Direction, Removal of Difficulties Order etc., which helps in identifying and figure out the actual requirement of the law which needs to be complied with.

CREATION OF MASTER CHECKLIST

The Audit is not a process of the collecting data and checking the checkbox, it is the postmortem of the affairs of the company, the data and evidence collected during the execution of the audit shall be independently reviewed by the auditor and submit its report to the shareholders. Unless the auditor independently reviews the facts & data, the auditor is not able to give his independent opinion.

The truth is that collecting data and checking the box is just not good enough. The mere existence of a control chart does not ensure the compliance and equate to sustained, significant process improvement and complete the audit.

In general, an audit checklist can be divided in to the following headings according to their significance in the audit scope.



1. Entity operation and organizations: This checklist contains the matters relating to:

- Product manufactured/ service delivered/ operation performed by the company.
- Statutory status basis for these operations
- Objects of the company as per the memorandum of association
- Capital structure of the company and funding status
- Details of the promoters and directors of the company
- Details of subsidiaries, joint ventures and associate companies
- Transactions with the related parties
- Material changes took place during the audit period
- Recipient of the products/services of the company
- Details of the key managerial personnel.
- Details of the functional head responsible for audit
- Details of the audit committee and its term of references
- Details of the geographical location where the company operates
- Audit observations of the previous year's etc.

2. Financial & Non-financial Reporting Requirement

The company's financial statement, directors' report, annual return, websites, filing with the regulators are the primary source of information about the company. The financial statements are the focus of financial audit, the audit team should familiarize itself with the format of financial statement which needs to be submitted to the regulators. This checklist generally covers the points relating to changes in laws, regulations, accounting standards, accounting rules or accounting policies since the last audit, new heads of accounts introduced since the last audit, changes in the format of accounts or any such item which require exercising of judgement or estimation.

In case of the non-financial disclosures and reporting requirement the audit team should have the detailed requirements under legal and regulatory framework along with the procedural requirements of the same. The auditor should check the limits, eligibility, criteria etc. on the various dates to understand the compliance requirement

3. Legal and regulatory requirement

The legal and regulatory requirement of every company differs according to the nature and status of the company, its business activity, area of operation, geographical location etc. depending on the relevant central, state and local laws, rules & regulations. It is the most important for the auditor to have the detailed compliance requirement applicable to the company and such checklist should cover the section wise compliance requirement highlighting the amendment during the audit period.

4. Matter of Shareholder and public interest

The audit team should identify the extent of the shareholder and public interest in the company's activities and the financial statement. The factors which might indicate such interest includes the public deposit, loan and advances dividend, corporate social responsibility, small shareholders interest, high level of comment in media etc.

5. Review of Control Environment

The control environment comprises the conditions under which the various process of the entity are designed, implemented and functions and based on that the audit team should seek to arrive at a conclusion as to whether the control environment is reliable and justifiable in accordance with the size and operations of the company. After the review of the control systems, the auditor determines the specific component increase or decrease, the effectiveness of some or all application systems and controls. If based on the understanding of the control environment, the audit team has fundamental doubts about the effectiveness of the prevailing systems and controls, the same should be reported to the entity and should be kept in mind while carrying the audit. The checklist shall contain the checkpoints relating to management characteristic, philosophy, operation style and commitment, accurate disclosures and reporting

- The operating environment and culture
- Management commitment to designing and maintaining reliable accounting systems
- The ability of management to control the operations
 - The organizational structure of the entity
 - Methods of assigning authority and responsibility
 - Supervision and monitoring
 - Senior management control methods

As a Practising company Secretary, prepare a master checklist for Secretarial Audit for a Listed Company engaged in the Business of Manufacturing automobiles with a Paid up capital of Rs. 5000 Crore.

WORKING PAPERS AND MAINTENANCE OF WORK SHEET

Working Papers

The working paper file contains the documents relating to the work performed by the auditor. The working papers serve as the connecting link in between the audit assignment, the auditor's fieldwork and the final report. Working papers contain the records of planning and preliminary surveys, the audit program, audit procedures, fieldwork, fact findings and other documents relating to the audit.

In the working papers document the auditor's conclusions and the reasons as to why those conclusions were reached should be documented. The disposition of each audit finding identified during the audit and its related corrective action should be documented.

Audit working papers are the documents prepared or obtained by the auditors and retained by him in connection with the audit. Audit working papers are used to support the audit work done in order to provide assurance that the audit was performed in accordance with the applicable standards. Working papers include all the evidence gathered by auditor indicating what work has been done by him and the procedure he has followed in verifying a particular asset or a liability and also provide information that whether:

- audit was properly planned;
- audit was carried out;

- audit was adequately supervised;
- the appropriate review was undertaken;
- the evidence is sufficient and appropriate to support the audit opinion.

Working papers should be completed throughout the audit and working papers should be economical to prepare and to review. It is easy to include every scrap of information and every form into the working papers. However, the working papers then become a confused mixture of data that is difficult to assimilate and use.

Working papers should be complete and concise, they should be considered as a usable record of work performed. Auditors should include in their working papers only what is essential; and, they should ensure that each work paper included serves a purpose that relates to an audit procedure. Working papers which are created during the audit and later determined to be unnecessary should be deleted/removed. The working papers may include:

- (a) Planning documents and audit programs.
- (b) Internal control questionnaires, flowcharts, checklists and narratives.
- (c) Notes and minutes resulting from interviews.
- (d) Organizational data, such as charts with job descriptions, process chart.
- (e) Copies of important documents.
- (f) Information about operating and financial policies.
- (g) Results of control evaluations.
- (h) Letters of confirmation and representation.
- (i) Analysis and test of transactions, processes.
- (j) Results of analytical review procedures.
- (k) Audit reports and management responses.
- (l) Audit correspondence that documents the audit conclusions reached.

Scanned Documents as working papers

Scanned documents should include a reference to the source and the purpose of the document which is relevant to understand or appreciating the actual audit work performed. Such information needs to be included only when it is not provided elsewhere in the working papers.

Tick marks

Tick marks do not need to be standardized throughout the set of working papers, but must be consistent throughout a particular work paper. Tick mark explanations must be a part of the working paper or included in a separate tick mark legend work paper.

Cross Referencing

Working papers should be prepared using the appropriate cross referencing. A cross reference from the Audit Procedures to the primary working paper provides a reference to where the work was performed. It is not necessary to cross refer all work papers to the Audit Procedures - only the primary work paper should be cross referred. The primary work paper will then contain cross-references to other, supporting working papers, which provide additional information regarding the audit procedures performed, results and conclusions reached.

Cross-references should be used to refer information useful in more than one place or to other relevant information including the source of information, composition of summary totals, or other documents or examples of transactions. To encourage conciseness, documents/information only single copy of the working papers should be placed in working file for cross referencing.

Question: Which of the following is not a benefit of Cross referencing ?

Options: (A) Time saving (B) Cost saving (C) Conceiseness (D) All information in one document

Answer: (D)

Standard Working papers

A standard set of working papers will include at least the following documents:

- (a) **General File:** The General File contains key information through the various phases of the audit including planning (audit objectives, planning comments including etc.), reporting process, audit programs and comments for the next audit. The General File will include the draft and final reports. Audit responses will also be included in the file.
- (b) **Work paper File:** This file should contain the detailed audit procedures and detailed audit working papers. Detailed audit procedures provide detailed audit steps of the audit work to be performed during fieldwork that will achieve the specific audit objectives outlined in the audit program.
- (c) **Future Audit Considerations:** Auditors are encouraged to develop and document future audit ideas during the course of their work. These should be included in the “Comments for next audit” section of the general file.

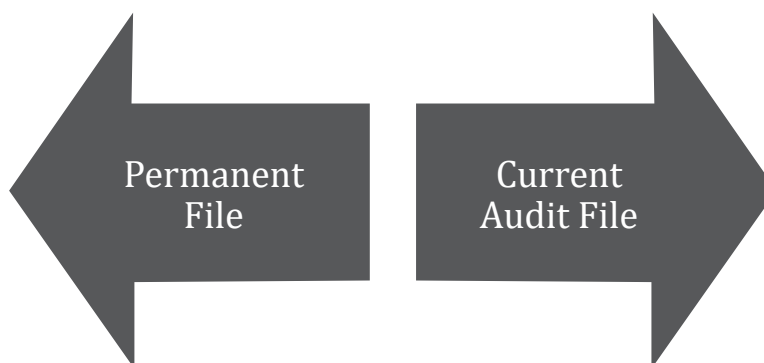
General file provides almost all the relevant information at one place.

Work paper file can direct the Audit in right direction and may ensure the completion of work with in timelines.

Comments for next audit can improve the quality of work by Auditors.

Working papers are the connecting link between the client's records and the audited records. These provide permanent historical record. These also serve as a great guide to the staff to whom the work of audit has been assigned after the previous year audit. These would come to the help of the auditor in future in case the client files a suit against the auditor's negligence. The working papers are the property of the auditor and the client cannot ask the auditor for their custody. However it is the duty of the auditor to maintain confidentiality of the client information. Further, if audit working papers are disclosed then it may amount to professional misconduct.

Types of Working Papers



The auditor's working papers are divided into two parts:

(i) Permanent File

The permanent file usually contains documents and matters of continuing importance of clients' business which will be required for more than one audit. The data in these files are the information, which is of continuous interest and relevant to succeeding audits. Data in this file can include the following:

- A. Statutory Documents.
- B. The rules and regulations of the company:
 - (a) Memorandum of Association.
 - (b) Articles of Association.
 - (c) Certificate of Incorporation/Commencement of Business.
 - d. Registration documents under various statutory bodies.

- C. Copies of documents of continuing importance and relevance to the auditor:
 - (a) Letter of engagement and Board Resolution for appointment of the auditor.
 - (b) Record of communication with the retiring auditor.
 - (c) Royalty Agreement/Technical collaboration.
 - (d) Copies of important legal documents/contracts.
- D. Addresses of the registered office and business -The Company's registered office address and all other units/premises, with a short description of the work carried on at such places.
- E. An organization chart - Details of all departments and sub-divisions thereof showing hierarchy of management.
- F. List of books and records with location - List of books and records maintained by the company and place of their location. Names, positions, specimens of signatures and initials of persons responsible for books and document should also be included.
- G. An outline history of the organization.
- H. Analysis of significant ratios and trends.
- I. Internal Controls - Notes on internal control with Details of study & evaluation of internal controls in the form of narrative record, questionnaires or flow charts etc.
- J. The business structure within a group and associated companies - List of all holding, subsidiary and associate companies.
- K. Company's advisors - list of the company's advisors such as bankers, merchant bankers, stockbrokers, solicitors, valuers, insurance brokers etc.

(ii) Current Audit File

These file contains information relating to the audit of the current period. Information included in the current file should be information for the period under audit. The indicative list of current file can be as follows:

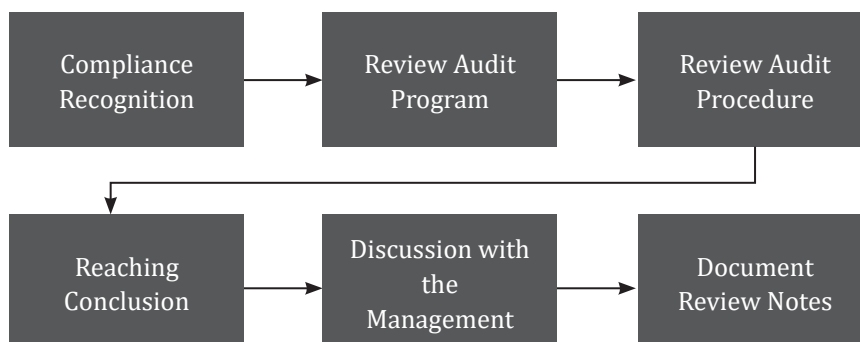
- A. Appointment letter for the Current Year, along with the defined scope of Audit;
- B. Extracts of important board/management meetings;
- C. List of responsible persons with their designation and contact details;
- D. Secretarial Audit Report/Financial Audit Report for current year as well as previous year;
- E. Actions initiated by company towards Secretarial Auditor's observations and suggestions in previous years reports;
- F. Audit Plan/Audit Program;
- G. Current year's Secretarial Records ;
- H. Communications with the company/management team;
- I. Letters of representations, confirmations received from company;
- J. Audit review points and highlights of analysis.

Audit Trail

Audit Trail is a repository of administrative and operational documentation relating to audit process. It is established and maintained to aid in audit planning and to centralize available documentation and information not included in the individual audit files. Information included in the permanent files should only be information that cannot be feasibly included in the working papers due to volume or format or because the information will be applicable on an on going basis to the current audit or future audits. Permanent files should be filed with all audit and follow-up working papers supporting the audit. The contents of permanent files are dependent on the needs of the audit. An index should be developed and placed in the front of the permanent file indicating the documents contained, date included in file and auditor's initials.

Working paper Review

The auditor should review all working papers to determine whether they are relevant and have a useful purpose, evidence the audit work performed and sufficiently support the audit findings. In addition, the auditor should ensure the conclusions reached were reasonable and valid, and that the office working paper standards were followed. The auditor should review all audit review notes to be certain that all notes have been resolved within the working papers. Documentation obtained and not relevant to the audit should be returned/destroyed upon the completion of the audit. The review will consist of:



- Determining compliance with working paper guidelines.
- Reviewing the audit program that outlines the major objectives of the audit, and ensure that the procedures accomplish the objective(s).
- Reviewing the audit procedures and the referenced working papers to ensure the working papers support the procedures performed and all procedures have been completed.
- Determine that the working papers adequately are documented and the conclusions reached in the report.
- Ensuring that all findings prepared have been discussed with the appropriate member of management, and that the disposition of the audit concerned is documented.
- Documenting review notes.

Filing and Protection of Working papers

All working papers that are considered confidential, are the property of the Auditor, and are to be kept under adequate control. Working papers often contain sensitive information or data that must be protected from unauthorized use or review.

Working papers in process also need to be controlled by the Auditor. While conducting field work away from the Auditor's office, the auditors should control the working papers to ensure that information is neither removed, nor substituted nor altered.

Retention Policy

All working papers pertaining to an audit belong to the Auditor. All such data is to be kept by the Auditor and is subject to the retention requirements as required by law.

IDENTIFICATION OF THE EVENT AND CORPORATE ACTIONS

During the Audit planning stage the auditors should go through the various filings with statutory bodies etc. to understanding the company affairs, the following points considered as events/information on which the auditor should specifically verify the compliance required under applicable laws.

- Acquisition(s) (including agreement to acquire), Scheme of Arrangement (amalgamation/ merger/ demerger/ restructuring), or sale or disposal of any unit(s), division(s) or subsidiary of the Company or any other restructuring.

2. Issuance or forfeiture of securities, split or consolidation of shares, buyback of securities, any restriction on transferability of securities or alteration in terms or structure of existing securities including forfeiture, reissue of forfeited securities, alteration of calls, redemption of securities etc.
3. Revision in Rating(s).
4. Outcome of Meetings of the board of director relating to
 - dividends and/or cash bonuses recommended or declared or the decision to pass any dividend and the date on which dividend shall be paid/dispatched;
 - any cancellation of dividend with reasons thereof;
 - the decision on buyback of securities;
 - the decision with respect to fund raising proposed to be undertaken;
 - increase in capital by issue of bonus shares through capitalization including the date on which such bonus shares shall be credited/dispatched;
 - reissue of forfeited shares or securities, or the issue of shares or securities held in reserve for future issue or the creation in any form or manner of new shares or securities or any other rights, privileges or benefits to subscribe to;
 - short particulars of any other alterations of capital, including calls;
 - financial results;
 - decision on voluntary delisting by the listed entity from stock exchange(s).
5. Agreements (viz. shareholder agreement(s), joint venture agreement(s), family settlement agreement(s) impacting management and control of the Company, agreement(s)/treaty(ies)/contract(s) with media companies) which are binding and not in normal course of business, revision(s) or amendment(s) and termination(s) thereof.
6. Fraud/defaults by promoter or key managerial personnel or by Company or arrest of key managerial personnel or promoter.
7. Change in directors, key managerial personnel (Managing Director, Chief Executive Officer, Chief Financial Officer, Company Secretary etc.), Auditor and Compliance Officer.
8. Appointment or discontinuation of share transfer agent.
9. Corporate debt restructuring.
10. One time settlement with a bank.
11. Reference to IBC, 2016 and winding-up petition filed by any party/creditors.
12. Issuance of Notices, call letters, resolutions and circulars sent to shareholders, debenture holders or creditors or any class of them or advertised in the media by the Company.
13. Proceedings of Annual and extraordinary general meetings.
14. Amendments to memorandum and articles of association.
15. Commencement or any postponement in the date of commencement of commercial production or commercial operations of any unit/division.
16. Change in the general character or nature of business brought about by arrangements for strategic, technical, manufacturing, or marketing tie-up, adoption of new lines of business or closure of operations of any unit/division (entirety or piecemeal).
17. Capacity addition or product launch.
18. Awarding, bagging/receiving, amendment or termination of awarded/bagged orders/contracts not in the normal course of business.

19. Agreements (viz. loan agreement(s) (as a borrower) or any other agreement(s) which are binding and not in normal course of business) and revision(s) or amendment(s) or termination(s) thereof.
20. Disruption of operations of any one or more units or division of the Company due to natural calamity (earthquake, flood, fire etc.), force majeure or events such as strikes, lockouts etc.
21. Effect(s) arising out of change in the regulatory framework applicable to the Company.
22. Litigation(s)/dispute(s)/regulatory action(s) with impact.
23. Fraud/defaults etc. by directors (other than key managerial personnel) or employees of Company.
24. Options to purchase securities including any ESOP/ESPS Scheme.
25. Giving of guarantees or indemnity or becoming a surety for any third party.
26. Granting, withdrawal, surrender, cancellation or suspension of key licenses or regulatory approvals.
27. Any other information/event viz. major development that is likely to affect business, e.g. emergence of new technologies, expiry of patents, any change of accounting policy that may have a significant impact on the accounts, etc. and brief details thereof and any other information which is exclusively known to the Company and which may be necessary to enable the holders of securities of the Company to appraise its position and to avoid the establishment of a false market in such securities.

Question: Which of the following can not be considered as an event for Corporate Action?

Option: (A) Corporate debt restructuring
(B) Reference to IBC (C) Amendment to MOA
(D) Prosecution of Member in a Fraud case.

Answer: (D)

IDENTIFICATION OF EVENTS HAVING BEARING ON AFFAIRS OF THE COMPANY

The Auditor should identify and report all events/actions having major bearing on the Company's affairs/ Governance in pursuance of the applicable laws, rules, regulations, guidelines, standards, etc. all information which have bearing on performance/operation of the company or is price sensitive or affect payment of interest or dividend of non-convertible preference shares or redemption of nonconvertible debt securities or redeemable preference shares etc. An event/action may be considered as having major bearing on Company's affairs includes the following situations:

- (a) Events/actions altering the Incorporation documents of the Company.
- (b) Changes in the Capital structure of the company.
- (c) Change in the affairs/management of the company.
- (d) Change in the licensing or permission for the business operation of the company.
- (e) Capacity expansion and utilization of the company.
- (f) Sale/Disposing of the substantial assets of the company.
- (g) Entering in to Joint ventures agreements etc.

Further, the SEBI (LODR) Regulations, 2015 include the following events which are considered as having bearing on affairs of the company:

1. default in timely payment of interests/preference dividend or redemption or repayment amount or both in respect of the non-convertible debt securities and non-convertible redeemable preference shares and also default in creation of security for debentures as soon as the same becomes apparent;
2. any attachment or prohibitory orders restraining the company from transferring non-convertible debt securities or non-convertible redeemable preference shares from the account of the registered holders along-with the particulars of the numbers of securities so affected, the names of the registered holders and their demat account details;
3. any action which shall result in the redemption, conversion, cancellation, retirement in whole or in part of any non-convertible debt securities or reduction, redemption, cancellation, retirement in whole or in part of any non-convertible redeemable preference shares;

4. any action that shall affect adversely payment of interest on non-convertible debt securities or payment of dividend on non-convertible redeemable preference shares including default by issuer to pay interest on non-convertible debt securities or redemption amount and failure to create a charge on the assets;
5. any change in the form or nature of any of its non-convertible debt securities or non-convertible redeemable preference shares that are listed on the stock exchange(s) or in the rights or privileges of the holders thereof and make an application for listing of the securities as changed, if the stock exchange(s) so require;
6. any changes in the general character or nature of business/activities, disruption of operation due to natural calamity, and commencement of commercial production/commercial operations;
7. any events such as strikes and lock outs which have a bearing on the interest payment/dividend payment/principal repayment capacity;
8. details of any letter or comments made by debenture trustees regarding payment/non-payment of interest on due dates, payment/non-payment of principal on the due dates or any other matter concerning the security, listed entity and/or the assets along with its comments thereon, if any;
9. delay/default in payment of interest or dividend/principal amount/redemption for a period of more than three months from the due date;
10. failure to create charge on the assets within the stipulated time period;
11. any instance(s) of default/delay in timely repayment of interests or principal obligations or both in respect of the debt securities including, any proposal for re-scheduling or postponement of the repayment programmes of the dues/debts of the Company with any investor(s)/lender(s). Explanation. - For the purpose of this sub-para, 'default' shall mean non-payment of interest or principal amount in full on the pre-agreed date and shall be recognized at the first instance of delay in servicing of any interest or principal on debt.
12. any major change in composition of its board of directors, which may amount to change in control as defined in Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
13. any revision in the rating;
14. the following approvals by board of directors in their meeting:-
 - (a) the decision to pass any interest payment;
 - (b) short particulars of any increase of capital whether by issue of bonus securities through capitalization, or by way of right securities to be offered to the debenture holders, or in any other way;
15. all the information, report, notices, call letters, circulars, proceedings, etc. concerning non-convertible redeemable preference shares or non-convertible debt securities;
16. any other change that shall affect the rights and obligations of the holders of non-convertible debt securities /non-convertible redeemable preference shares, any other information not in the public domain necessary to enable the holders of the listed securities to clarify its position and to avoid the creation of a false market in such listed securities or any other information having bearing on the operation/performance of the listed entity as well as price sensitive information.

BOARD COMPOSITION

The Auditor should go through the following points while conducting the audit:

1. **Board of directors:**
 - (a) composition and category of directors (e.g. promoter, executive, non-executive, independent non-executive, nominee director-institution represented and whether as lender or as equity investor);
 - (b) attendance of each director at the meeting of the board of directors and the last annual general meeting;
 - (c) number of other board of directors or committees in which a directors is a member or chairperson;

- (d) number of meetings of the board of directors held and dates on which held;
- (e) disclosure of relationships between directors inter-se;
- (f) number of shares and convertible instruments held by non-executive directors;
- (g) web link where details of familiarization programme imparted to independent directors is disclosed.

2. Audit committee:

- (a) brief description of terms of reference;
- (b) composition, name of members and chairperson;
- (c) meetings and attendance during the year.

3. Nomination and Remuneration Committee:

- (a) brief description of terms of reference;
- (b) composition, name of members and chairperson;
- (c) meeting and attendance during the year;
- (d) performance evaluation criteria for independent directors

4. Stakeholder Relationship Committee:

- (a) brief description of terms of reference;
- (b) composition, name of members and chairperson;
- (c) meeting and attendance during the year.

BOARD PROCESSES

The Board of directors as an institution plays a prominent role in Corporate Governance. It is responsible for directing and overseeing the business and management of the Company. Given this pivotal role of the board, directors are considered as fiduciaries in that they are required to act in the interest of various constituencies in a Company such as shareholders and other stakeholders. Accordingly, the law foists on the directors duties and liabilities as instruments that modulate their conduct.

Directors are, however, entitled to various protective measures in the form of mitigating factors either conferred upon them by law or through practical mechanisms they may establish. The Section 118(10) mandates on every company to observe the Secretarial Standards on the meeting of the Board of Directors (SS-1) as specified by the Institute of Company Secretaries of India (ICSI).

The SS-1 helps in providing clarity in certain areas where the law is either silent or ambiguous. Wherever the law is silent, certain good governance practices have been recommended and where it is ambiguous, the standards try to bring in more clarity and adhere the common board processes across country.

Secretarial Standard extensively prescribes set of principles for convening and conducting Meetings of the Board of Directors and matters related thereto which inter-alia includes convening, frequency, quorum, attendance, chairman etc. of Board Meeting.

To ensure the effective board processes the auditor should also observe the requirement of the secretarial standards during the Audit along with the disclosure, eligibility, level of expertise, involvement of the directors in decision making etc.

LESSON ROUND UP

- The audit process can be broadly grouped in three phases: Planning, Executing and Reporting.
- In the preliminary preparation the auditor obtained information from the auditee and perform in-house work for preparation of audit manual.
- Questionnaire is the most widely used form for collecting information about the existence, operation and efficiency of internal control in an organisation.

- The working paper file contains the documents relating to the work performed by the auditor.
- The permanent file usually contains documents and matters of continuing importance of clients business which will be required for more than one audit, whereas the current file contains information relating to the audit of the current period.
- The Secretarial Standard -1 provide clarity in certain areas of Board Processes where the law is either silent or ambiguous.

GLOSSARY

Audit Documents	Audit Documents means the working papers prepared or records obtained by the Auditor in connection with the audit.
Audit Evidence	Audit Evidence refers to relevant information and documents gathered in the course of the audit for arriving at the conclusion on which the Auditor's opinion is based.
Management	Management as defined in CSAS-1.

TEST YOURSELF

(These are meant for recapitulation only, Answer to these questions are not to be submitted for evaluation)

1. Creation of master checklist is an important step in the audit process. Comment
2. The interview is the most reliable source for obtaining the information for the auditor. Comment
3. Write short notes on:
 - i. Identification of applicable laws
 - ii. Audit trails
 - iii. Audit questionnaire
4. Write the difference between audit plan and audit programme.
5. Describe the documents which should be placed in the permanent file and current file.

LIST OF FURTHER READINGS

- Company Secretaries Auditing Standards
- Guidance Note on CSAS
- Articles published by Professionals

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- <https://www.icsi.edu/auditing-standard/>

Lesson 15

Forming an Opinion and Reporting

Key Concepts One Should Know

- Audit Evidence
- Reporting with Qualification
- Unqualified Opinion
- Modified Opinion
- Qualified Opinion
- Adverse Opinion
- Disclaimer of Opinion
- Emphasis of Matter

Learning Objectives

To understand:

- The need to form an opinion on the affairs of the company to state whether they are in accordance with the applicable laws or not in any audit.
- The principles and procedure relating to preparing audit report.
- How an auditor should form his opinion on considering all material respects, in accordance with the applicable reporting framework and the requirement of the audit.
- Various forms of Audit opinion and its relevance under the audit report.

Regulatory Framework

- CSAS 3: Auditing Standard on forming an opinion.

Lesson Outline

- Introduction
- Forms of Opinion
- Materiality
- Process of Forming opinion
- Third Party Opinion
- Management Representation
- Sharing of Draft Report
- Signing of Audit Report
- Reporting with Qualification
- LESSON ROUND UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDE)

INTRODUCTION TO PROCESS OF FORMING AN OPINION

The audit is performed by an Auditor who is independent to the company which is being audited and the critical part in auditing is the forming of opinion i.e. views of the auditors, which shall be based on the fact, records and verifications made by him during the performance of the audit. This requires auditors to have knowledge of the basic principles of forming an audit opinion and should have expertise in application of knowledge while forming opinion.

Upon the performance of the audit and conclusion thereof, the auditor is required to submit a report stating that the affairs of the company are carried out in the fair manner and are free from material misstatement.

However, the content of the opinion should clearly indicate whether it is unmodified or modified and if modified, whether it is modified as adverse or disclaimer of opinion. The auditor should form his opinion on considering all material aspects, in accordance with the applicable reporting framework and the requirement of the audit and after obtaining reasonable assurance about whether the affairs of the company relating to the scope of audit as a whole are free from material misstatement or not.

In particular, the auditor shall evaluate whether, in view of the requirements of the applicable reporting framework:

- (a) The Company has adequately disclosed all relevant information about its affairs;
- (b) The Company has followed all procedures as required under the applicable laws;
- (c) The Company is in compliance with the applicable laws;
- (d) The Company is consistent with the applicable reporting framework;
- (e) The information presented by the company is relevant, reliable, comparable, and understandable; and
- (f) The company has provided adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information.

FORMS OF OPINION



Unqualified / Unmodified Opinion

The auditor shall report an unqualified opinion if the affairs of the company are found to be free from material misstatements. In addition, an unqualified opinion is given over the existence and effectiveness internal controls of an entity if the management has claimed responsibility for its establishment and maintenance, and the auditor has performed fieldwork to test its effectiveness.

An unqualified opinion contains no reservations concerning the company. This is also known as a “clean” opinion, meaning that the affairs of the company are presented fairly.

The Auditor should express an unmodified opinion when based on Audit Evidence, the Auditor concludes that:

- (a) there is due compliance with the applicable law in terms of timelines and process; and
- (b) the records as relevant for the audit verified by him as a whole are free from misstatement and maintained in accordance with applicable laws.

- (c) the auditor concludes that the information on the affairs of the company in all material respects, are in accordance with the applicable reporting framework.

Para 4.1 of the of CSAS -3 Provides that -

The Auditor shall express an unmodified opinion when based on Audit Evidence, the Auditor concludes that:

- (a) there is due compliance with the applicable laws in terms of timelines and process; and
- (b) the records as relevant for the audit verified by him as a whole are free from misstatement and maintained in accordance with applicable laws.

An unmodified opinion is an audit report that has been issued with no reservations or qualifications regarding the state of compliances of all the applicable laws, rules and regulations of the Auditee's business activities, documents, or statements etc. In this opinion, the Auditor follows a standard opinion format to state that all the statements, documents or other business procedures are a fair representation of the condition of the Auditee's business, and in accordance with the applicable Laws.

In order to form unmodified opinion, Auditor shall conclude as to whether he has obtained reasonable assurance about whether the documents, books or statements as a whole are free from material misstatement, whether due to fraud or error.

An unmodified opinion is formed when based on all the Audit Evidences the Auditor states that there is due compliance of all the applicable laws, or any other law for the time being in force, or any rule or regulation in terms of timelines and process.

Compliance in terms of timelines: Compliance in terms of timelines implies that when the adherence of the applicable laws, act, rules or regulations are made within the specified time limits as provided in the law for the particular task or completing any business procedure etc.

Example: As per law the due date of filing the Annual returns, say, MGT-7 of the company with Registrar of Companies is given as sixty days from the date of Annual General Meeting of the company and company has also filed the said return within the prescribed limit of 60 days, that means company has adhered to the applicable laws properly and within the given timelines.

Compliance in terms of process: Compliance in terms of process means that, when the business activities, say documentation, or any other transaction has been made, complying with the applicable laws and as per the procedure or process given for performing that activity/procedure or transaction etc. The process of doing or performing the task as per the given procedure in the applicable laws is known to be compliances made in "in terms of process".

Example: If a company is required to shift its registered office from one place to another within same state and RoC, the a whole set of procedures given in Companies Act, 2013 is required to be followed e.g. conducting a Board Meeting for approval of shifting of Registered office, intimation to Registrar of Companies in Form INC-22 along with various documents as attachment within 15 days of passing the Board Resolution.

Modified Opinion

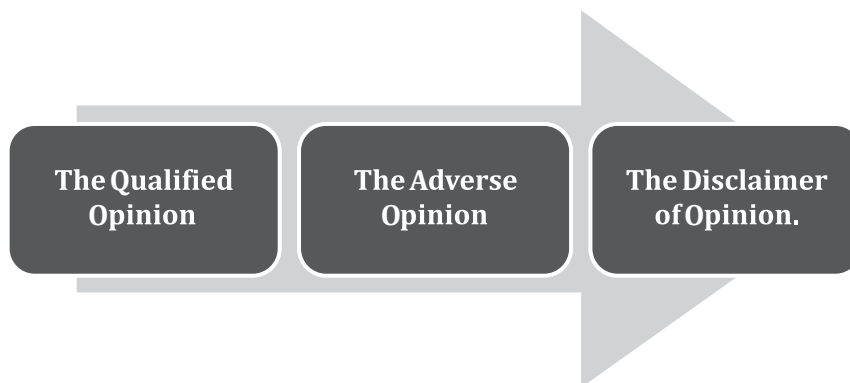
Modifications to the Opinion:

The Auditor should express modified opinion when the Auditor concludes that:

- (a) based on the Audit Evidence obtained, there is non-compliance with the applicable laws in terms of timelines or process; or
- (b) based on the Audit Evidence obtained, the records as a whole are not free from misstatement; or are not maintained in accordance with applicable laws; or
- (c) he is unable to obtain sufficient and appropriate Audit Evidence to conclude that there is due compliance with the applicable laws in terms of timelines and process; or
- (d) he is unable to obtain sufficient and appropriate Audit Evidence to conclude that the records as a whole are free from misstatement; or are maintained in accordance with applicable laws

If the information prepared in accordance with the requirements of a fair presentation framework is not sufficient and relevant enough so as to allow achieving of a fair presentation, the auditor should discuss the matter with management and, depending on the requirements of the applicable reporting framework and how the matter is resolved, should determine whether it is necessary to modify the opinion in the auditor's report. In case the auditor expresses a modified opinion or disclaims an opinion, the text of the opinion shall be either in italics or bold letters.

The modification on Opinion can be in any one of the following three categories depending upon the nature and severity/ extremity of the matter under consideration:



Defining the level of severity is always a subject matter which varies according to the case to case basis and require a judgemental skill in the forming of opinion. The above three categories of the modified opinion can be further elaborated as under:

Qualified Opinion

An Opinion can be considered as a qualified opinion when the auditor specifically provides the additional paragraph or points out the specific instances where the company has failed to do compliance as required under the law, or provides reasons for the not issuing the unqualified report on the affairs of the company

Adverse Opinion

An Opinion can be considered as an adverse opinion, which is considered as the Out of track Opinion, wherein the auditor concluded that the affairs of the company are not in line with its objectives, government rules, and the company has neglected and grossly misstated its records.

An adverse opinion may be an indicator of fraud, and public entities that receive an adverse opinion are forced to take corrective measures.

Disclaimer of Opinion

Instances, where the auditor is unable to access the records of the company on any grounds such as geographical reasons, regulatory, natural calamity or could not complete the audit due to absence of requisite records or insufficient co-operation from management, the auditor issues a disclaimer of opinion. Such opinion is an indication that no opinion was formed by the auditors and the Auditor was not able to conclude that the affairs of the company are conducted in true and fair manner; such disclaimer of opinion is not considered as an opinion itself.

TABLE 1: GUIDANCE AS TO THE USAGE OF THE THREE FORMS OF AUDIT MODIFICATION

Auditor's judgement about the pervasiveness of the matter		
Nature of the matter	Material but NOT pervasive	Material AND pervasive
Affair of the company are materially Misstated	Qualified opinion ('...except for...')	Adverse opinion ('...do not present fairly...')
Unable to obtain sufficient appropriate audit evidence	Qualified opinion ('...except for...')	Disclaimer of opinion ('...we do not express an opinion...')

Whenever the Auditor expresses a modified opinion or disclaims an opinion, the text of the opinion shall be either in italics or bold letters.

When the Auditor expresses a modified opinion, the Auditor shall state in opinion paragraph that, in Auditor's opinion, because of the significance of the matter(s) described in the basis for modified opinion paragraph and then continue with the opinion and describe reasons in the basis for modified opinion paragraph.

When the Auditor disclaims an opinion, he shall state in the opinion paragraph that the opinion is disclaimed because of the matter(s) described in the basis for disclaimer of opinion paragraph and then continue with the opinion and describe reasons in the basis for disclaimer of opinion paragraph.

Emphasis of Matter

Emphasis of matter (EOM) is included in the audit report to seek the attention of the reader, to make the reader aware about the specific instances which are not in the general course of business. Such matters can have the positive as well as negative impact on the affairs of the company in future. The purpose of an EOM paragraph is to draw the users' attention to a matter already disclosed but the auditor believes that, it is fundamental to their understanding and should be a part of the report.

The following are examples of the matters which should be considered as emphasis of matter:

Legal Uncertainty	<ul style="list-style-type: none"> an uncertainty relating to the future outcome of exceptional litigation or regulatory action;
Litigation certainty	<ul style="list-style-type: none"> when there is uncertainty about exceptional future events, pending litigations
early adoption of New AS	<ul style="list-style-type: none"> early adoption of new accounting standards
New Technology	<ul style="list-style-type: none"> adoption of new technology
Changes in regulatory environment	<ul style="list-style-type: none"> recent changes in the regulatory environment
Major Catastrophe	<ul style="list-style-type: none"> when a major catastrophe has had a major effect on the financial position.
Early Application of new AS	<ul style="list-style-type: none"> early application (where permitted) of a new accounting standard (for example, a new International Financial Reporting Standard) that has a pervasive effect on the financial statements in advance of its effective date; and
Major Catastrophe - Continued effect	<ul style="list-style-type: none"> a major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

Ideally, such matters should be the part of the Directors Report or the Management Discussion and Analysis report prepared by the company. If the same is not disclosed by the company in the Directors report or in Management Discussion and Analysis Report, the auditor may opt to place the same in the Auditor's Report.

Materiality

Materiality is a concept or convention within auditing and accounting relating to the importance/significance of an amount, transaction, or discrepancy in the records of the company. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in conformity with an identified financial reporting framework such as Generally Accepted Accounting Principles (GAAP).

The assessment of what is material is a matter of professional judgement. Materiality can be defined as the magnitude of an omission or misstatement of information that, in the light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the said omission or misstatement.

The auditor has to ensure that material items are properly and distinctly disclosed by the company. It is very important for the auditor to constantly judge whether a particular item is material or not. There is an inverse relationship between materiality and the degree of audit risk. The higher the materiality level, the lower the audit risk and vice versa.

Example: The risk that a particular account balance or class of transactions could be misstated by an extremely large amount might be very low but the risk that it could be misstated by an extremely small amount might be very high.

Materiality is the threshold above which missing or incorrect information is considered to have an impact on the decision making of the Auditor. Information is considered as material if its omission or misstatement could influence the opinion of the Auditor. Materiality can also be construed in terms of net impact.

The Auditor shall consider materiality while forming his opinion and adhere to:

1. The principle of completeness that requires the Auditor to consider all relevant Audit Evidence before issuing a report;
2. The principle of objectivity that requires the Auditor to apply professional judgement and professional skepticism in order to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and appropriate manner;
3. The principle of timeliness that implies preparing the report in due time; and
4. The principle of a contradictory process that implies checking the accuracy of facts and incorporating responses from concerned persons.

As the concept of Materiality is applied by the Auditor both in planning and performing the audit, and forming the opinion. Materiality consists of both quantitative and qualitative factors.

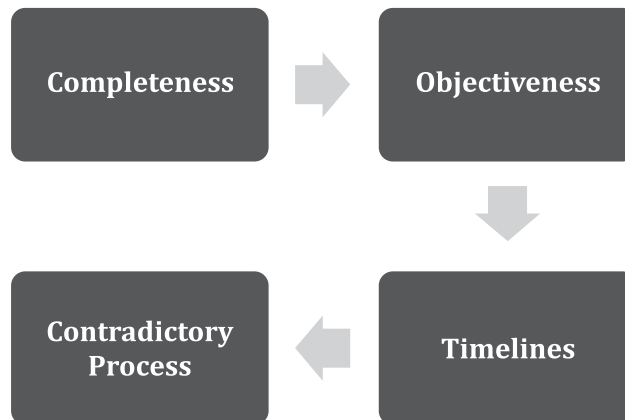
Determining Materiality is a matter of professional judgement and depends on the Auditor's interpretation of the user's needs. A matter can be judged material if knowledge of it is likely to influence the decisions of the intended users. Materiality is a relative concept. In practice, Auditors evaluate materiality on a standalone basis. What is material for one Auditee may not reach the Materiality threshold for another. Materiality is a matter of professional judgement of the Auditor and its teams' experience.

As mentioned above, materiality is important while conducting the audit process and also while forming the audit opinion based upon the evaluation of conclusions drawn on the basis of the audit process. The parameters for application of Materiality could be different in forming of audit opinion when compared to application of Materiality while evaluating the Audit Evidences in accordance with CSAS-2. While CSAS-2 deals with collection and evaluation of Audit Evidence to draw conclusions, CSAS-3 deals with evaluation of such conclusions to form the opinion.

Process for forming of Opinion

Forming of Opinion based on the audit observations is an important part of any audit, as through this process the outcome of audit are presented in the form of Audit Report to the intended users. Audit inter alia involves reporting compliance of or deviations from the applicable laws.

Principles for Auditors for forming opinion



The Auditor shall consider Materiality while forming his opinion and adhere to:

- (a) The principle of completeness that requires the Auditor to consider all relevant Audit Evidence before issuing a report;

It requires that the Auditor should gather sufficient and appropriate Audit Evidences to provide the basis for the conclusion or opinion. An Auditor may collect evidences regarding accuracy, completeness and validity of data. Through compliance procedure, Auditor may collect evidences regarding internal control system as used in the Auditee's organisation.

Auditor should not be selective in using the available evidence before forming opinion. Auditor cannot use the evidence that supports his surmises and discard other evidence. Auditor should use all the available evidence available to him, and only discard the contradictory information, if any, after applying principle of contradiction process.

- (b) The principle of objectivity that requires the Auditor to apply professional judgement and skepticism in order to ensure that all reports are factually correct and that findings or conclusions are presented in a relevant and appropriate manner;

The Auditor must remain objective throughout the whole process, such that his integrity must not allow any malpractice in the audit process. Objectivity is essential for any professional person exercising professional judgement. Objectivity is the state of mind which has regard to all considerations relevant to the task in hand but no other. It is sometimes described as 'Independence of Mind'.

The need for objectivity is particularly evident in the case of the Auditor for carrying out an audit or some other reporting roles where their professional opinions can affect rights between parties and the decisions they take.

Professional skepticism is considered as corner stone of good auditing. Professional skepticism requires an Auditor to have an enquiring mind. Whatever documents and information are produced before the Auditor by Management/Auditee should not be relied on the face of it. An Auditor should see to it that documents and information are reasonable, appropriate, inconsonance with attending circumstances and knowledge of the Auditor from other sources as well. Auditor must obtain sufficient evidence from Auditee to support what Auditee says.

Threats to objectivity

Threats to objectivity can arise in a number of ways, some general in nature and some related to the specific circumstances of an assignment or role. Auditor should identify the threats and consider them in the light of the environment in which he is working; he should also take into account the safeguards which assist them to withstand threats and risks to their objectivity.

The easiest way of avoiding such threats would be for Auditor to decline to act in any circumstances where the slightest threat to objectivity might exist. Threats to objectivity might include the following:

Self-interest threat - A threat to the Auditor's objectivity stemming from a financial or other self-interest conflict. This could arise, for example, from a direct or indirect interest in Auditee or from a fear of losing an audit work.

Self-review threat - The apparent difficulty of maintaining objectivity and conducting what is effectively a self-review, if any product or judgement of a previous audit assignment or a non-audit assignment needs to be challenged or re-evaluated in reaching audit conclusions.

Advocacy threat - There is an apparent threat to the Auditor's objectivity, if he becomes an advocate for (or against) the Auditee's position in any adversarial proceedings or situations. Whenever the Auditor takes a strongly proactive stance on the Auditee's behalf, this may appear to be incompatible with the special objectivity that audit requires.

Familiarity or trust threat - A threat that the Auditor may become over-influenced by the personality and qualities of the Directors and Management, and consequently too sympathetic to their interest.

Alternatively, the Auditor may become too trusting of Management representations so as to be inadequately rigorous in his testing of them - because he knows the Auditee too well or the issue too well or for some similar reason.

Intimidation threat - The possibility that the Auditor may become intimidated by threat, by dominating personality, or by other pressures, actual or feared, by a director or manager or by some other party.

Each of the above threats may arise either in relation to the Auditor's own person or in relation to a connected person such as a member of his family or a partner or a person who is close to him for some other reason, such as past or present association or obligation or indebtedness.

Auditors should always consider the use of safeguards and procedures which may negate or reduce threats.

An exhaustive list of countervailing factors is not possible, but Auditors should strive to develop the following characteristics in their audit firms, wherever possible to provide safeguards against these threats :

- Auditors should behave with integrity in all their professional and business relationships and to strive for objectivity in all professional and business judgements. These factors rank highly in the qualities that Auditors have to demonstrate the same. They should therefore be well used to setting personal views and inclinations aside.
- Within every audit firm there should be strong peer pressure towards integrity. Reliance on one another's integrity should be the essential force which permits partners to entrust their public reputation and personal liability to each other.
- Audit Firms of all sizes should establish strong internal procedures and controls over the work of individual Auditors, so that difficult and sensitive judgements are reinforced by the collective views of other Auditors, thereby also reducing the possibility of litigation.

- (c) The principle of timeliness that implies preparing the report in due time;

Auditor must adhere to timeline agreed at the time of engagement for issuing the report and milestones to be achieved, if any. Deviations, from agreed timeline must be recorded with reason for such deviation.

- (d) The principle of a contradictory process that implies checking the accuracy of facts and incorporating responses from concerned persons.

When two contradictory facts emerge on same subject matter of audit, Auditor must strive to find additional evidence/material which supports or negates one of the facts. This process of finding additional evidence/material must continue till one of the facts is eliminated. In case Auditor is unable to find further evidence/material and contradiction continues to persist, Auditor should bring out that fact clearly in his report and if circumstances warrants, disclaim opinion on that particular subject matter.

The Principle of contradictory process also implies checking the accuracy of facts with the Auditee and incorporating responses from responsible officials as appropriate. The Auditor should consider relevant evidential matter regardless of whether it appears to corroborate or to contradict the assertions. Thus, during the conduct of an audit, the Auditor should consider all relevant evidential matter even though it might contradict or be inconsistent with other conclusions.

Audit documentation must contain information or data relating to significant findings or issues that are inconsistent with the Auditor's final conclusions on the relevant matter.

After completing the audit procedures the Auditor reviews the Audit Evidence in order to draw a conclusion, issue an opinion or describe the findings.

The Auditor should evaluate whether the evidence obtained is sufficient and appropriate so as to reduce audit risk to an acceptably low level. The evaluation includes considerations of evidence that both supports and seems to contradict the audit report, conclusion or opinion on compliance/non-compliance. The evaluation further includes considerations of Materiality. After evaluating the sufficiency and appropriateness of evidence to determine the assurance level of the audit, the Auditor should consider which conclusion is appropriate in light of the evidence obtained. After evaluation, Auditors need to weigh the extent and credibility of conflicting evidence in order to reach a conclusion or collect more evidence to resolve the conflict in such situations,

Auditors need to weigh the extent and credibility of conflicting evidence in order to reach a conclusion or collect more evidence to resolve the conflict.

Audit conclusion should clearly bring out the nature and extent of non-compliance, cause of such non-compliance, its Materiality and also the effect of non-compliance, if possible. The audit conclusions in case of regularity issues should also indicate whether non-compliance is a solitary one-off case, or wide spread systemic issue in the Auditee.

Judgement, Clarification and Conflicting Interpretation

While forming an Audit opinion the Auditor may consider or refer the decided case laws or judgements, clarifications issued, opinions formed in similar type of audits while framing the final audit opinion.

Judgements

For example, while interpreting the issue of loans given by the Auditee company in terms of Section 185, the Auditor may refer to the decided case laws in this respect, e.g in *Dr. Fredie Ardeshir Mehta v. Union of India*, the terms "indirectly" and "loans", has been explained as below :

- The word "indirectly" means providing loan through agencies or any other medium but does not include converting anything which does not qualify to be loan or loan represented by book debt or security or guarantee into loan, any loan represented by book debt or guarantee or security.
- The word "Loan" was defined by the court as a thing lent; something the use of which is allowed for a time, on the understanding that it shall be returned or an equivalent given; esp., a sum of money lent on these conditions and usually with interest. The essential requirement of a loan is the advance of money (or of some article) upon the understanding that it shall be returned, and it may or may not carry interest.
- The phrase "any loan represented by book debt" is inserted in order to plug the loophole used in the case of "Dr. Fredie Ardeshir Mehta v. Union of India" where court took the view that book debt can't be treated as loan and since the earlier Section 295 of Companies Act, 1956 does not explicitly include the phrase "any loan represented by book debt" hence any kind of credit facility extended by company to directors will not cover under the "Loan to director".

Therefore, while auditing, the Auditor may refer to the interpreted words given in court judgements so as to interpret the meaning of the legal terms correctly and in their true sense and can frame the opinion accordingly and accurately.

Clarifications in respect of forming the audit opinion implies that in case the true or clear sense of law cannot be interpreted by the Auditor or if it was so interpreted, then contradictory interpretations amongst various Auditors or professionals seem to exist; in such a case Auditor may refer to the clarifications issued by various authorities e.g.

Ministry of Corporate Affairs, Institute of Company Secretaries of India, CBDT, or any other Govt. body etc., to frame a reliable and accurate opinion.

Opinions formed by other Auditors, in similar types of Audits may also be referred by the Auditor to form a judgement and frame its opinion. Similar type of Audit may also depend on nature of business, transactions occurred and operation of scale of Auditee, etc.

Conflicting Interpretations may be sorted out by again referring to the decided judgements, clarifications issued by the Govt. Authorities, Regulators, etc.

Role of Precedence and Practices

Precedence and Practice in context of Auditing implies that Auditor shall evaluate on the basis of general or ongoing practices or procedures that whether the Records maintained, statements prepared in all material respects, in accordance with the requirements of the applicable laws, rules and regulations. This evaluation shall include consideration of the qualitative aspects of the Auditee's compliance practices, including indicators of possible bias in Management's judgements.

The Practices and precedence used by Auditor for forming the Audit opinion may be as per the historical perspective i.e., methods used hitherto or generally used methods or practices or procedures be implemented for framing the opinion. Like, one of the method involves selecting a sample size of total work and activities of a firm for conducting the audit process, which simultaneously depends upon the firm's size, operation of work and no. of branches, etc., or another practice includes having an unbiased approach while conducting the audit process in order to frame the honest and unbiased opinion.

Third Party Report or Opinion

Sometimes due to circumstances like geographical constraints or want of expertise on any specific subject matter an Auditor may be required to rely on the Third Party reports. The Third Party reports may be arranged by the Auditee or Auditor directly. Third Party Report or Opinion is used as one of the external source of obtaining the Audit Evidences that would help in building the strong and quality Audit Opinion.

The Auditor shall adhere to the following while forming an opinion based on Third party reports or opinions:

- (a) The Auditor shall indicate the fact of use of Third party report or opinion and shall also record the circumstances necessitating the use of Third party report or opinion;
- (b) The Auditor shall indicate the fact if Third party report or opinion is provided by the Auditee;
- (c) The Auditor shall consider the important findings/observation of Third party;
- (d) The Auditor shall, if necessary and feasible, carry out a supplemental test to check veracity of the Third party report or opinion.

While using the work of Third Party, the Auditor should:

- Consider the independence and objectivity of the Third Party;
- Take account of the Third Party's professional competence for the specific audit;
- Consider the scope of the Third Party's work;
- Determine the cost-effectiveness of using such work;
- Perform procedures to obtain sufficient appropriate Audit Evidence that the work of the Third Party is adequate in the context of the specific audit (which may require access to the Third Party's working papers); and
- Consider the significant findings of the other Auditor when analysing and interpreting the results of that work. Where these findings are significant to the opinion, Auditor should discuss these findings with the Third Party and consider whether it is necessary to carry out additional audit testing him.
- When using the work of Third Party, Auditor should carefully consider that, the Third Party may only recognise a duty of care to the addressee of the audit report.

Management Representation Letter

The auditor may obtain a management representation letter from the auditee company on matters which are not capable of direct verification by the Auditor. The letter may be signed by Managing Director/Company Secretary/Senior Management who would normally have authority to issue the same. Suggested format of the management representation letter is provided below. The format may be adopted with changes, depending on the circumstances and facts governing every audit. The Auditor can use this letter of representation as part of his audit evidence.

However, it is advised to exercise all possible care, reasonable skill & due diligence. Adequate enquiries should be made in respect of matters which are capable of direct verification. Mere getting certification or written representation from management may defeat the purpose of the audit.

Specimen Management Representation Letter for Secretarial Audit

Note: The following letter is a general guidance. Representation made by management may vary from one entity to another and from one year to another. It should be adopted in the light of individual requirements and circumstances.

XYZ Limited]

M/s ABC & CO, Date:

Company Secretaries,

ZYZ Road, India

Dear Sir,

This representation letter is provided in connection with your audit of the Secretarial Records maintained under The Companies Act, 2013 (the Act) and the rules made thereunder; (ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder; (iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder; (iv) Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings; The Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act') and other applicable laws including labour laws like Factories Act, Payment of Gratuity Act etc for the year ended on 31st March, 20 Environmental Laws and Competition Laws for the purpose required in it. We the undersigned acknowledge our responsibility for maintaining the Secretarial records referred above and confirm, to the best of our knowledge and belief, the following representations:

Company Law

1. The Company has maintained books of accounts as required under Section 128 of the companies Act, 2013.
2. The Company has complied with all the provisions of the Secretarial Standards.
3. The Company has complied with all the provisions of Companies Act, 2013 relating to Statutory Audit/Cost Audit/Internal Audit.
4. No request for transfer or transmission of shares have been received by the company during the year other than as recorded.
5. All the entries in the Statutory Registers have been made within the prescribed time as per the provisions of the law whenever necessary. All the Statutory registers have been kept at the registered office of the company and were kept open for public inspection during working hours on all working days.
6. Notice of Board meetings were duly sent to all the Directors.
7. Notes and notes to agenda were duly sent to all the Directors.
8. No resolutions were passed by way of circulation during the year under review other than those recorded in the minutes.
9. The views of all the dissenting Directors (if any) on important matters have been captured and recorded in the minute.

10. The venue and time of Board meeting was finalized with the consultation of all board members.
11. Draft minutes and final minutes were properly sent to all the Directors.
12. Company has not obtained any secured loan from any financial institution/banks other than those mentioned in the register of charges.
13. Notice of annual general meeting has been duly sent to all the members, Directors, Statutory Auditor and Secretarial Auditors.
14. No show cause notice has been received by the company under the Acts referred above or any other laws applicable on the company.
15. There are no pending litigation and claims other than those reported in the Financial Statements - balance sheet by way of contingent liability.
16. No event other than reported to you specifically has occurred during the year which has a major bearing on the company's affairs in pursuance of the laws, rules, regulations, guidelines, standards, etc. referred to above. We have provided to you all relevant information and have given access to all data and records.
17. The company has altered the memorandum/articles of Association and have recorded the alterations in all copies of the Memorandum/Articles of Association.
18. Wherever the Share Certificates were issued in the physical form, they were issued in accordance with the provisions of the Companies Act, 2013 and the rules thereunder.

Securities Laws

1. All price sensitive Information was furnished to the stock exchanges from time to time.
2. All investors complains directly received by the company are recorded on the same date of receipt.
3. The Company has complied with provision of SEBI (LODR) Regulations, 2015.

Specific Applicable Laws

Labour Laws

1. All the premises and establishments have been registered with the appropriate authorities.
2. The Company has not employed any child labour/bonded labour in any of its establishments.
3. The company is ensuring the compliance of PF/ESI and other social security measures with respect to the contract employees. One of the responsible officers of the company carries out the survey regarding the compliance of this.

Environmental Laws

1. The Company is not discharging the contaminated water at the public drains/rivers. The company has efficient water treatment plants at its factory premises (if applicable).
2. The company has been disposing the hazardous waste as per applicable rules.

Competition Law

List of other laws generally applicable to the company. We are attaching herewith the list of laws:

1. Applicable specifically to the Company.
2. Other Laws applicable to the Company

Date:

[For XYZ Limited]

Place:

Director

Opinion obtained by Management

In the certain situations, upon the qualifying remarks of the auditors, the management of the company may submit its replies which may be supported by the opinion provided by the third party. In such cases the reliance on such opinion should be made by the auditor based on his professional judgement and the company may provide the explanation on such qualifications in the Directors report.

Upon consideration of the information produced by the company as audit evidence, the auditor should evaluate whether the information is sufficient and appropriate for purposes of the audit by performing procedures to:

- (a) Test the accuracy and completeness of the information, or test the controls over the accuracy and completeness of that information; and
- (b) Evaluate whether the information is sufficiently precise and detailed for the purposes of the audit.

Exit Conference

While concluding the audit, the auditor should conduct a meeting with the management of the company or with the group supervisory officers. The audit observations should preferably be shared with such officials beforehand for providing the opportunity to discuss the audit findings and to clarify any point relating to audit and audit observations.

Evaluation of Audit Evidence and Forming Opinion

The Audit evidence plays a significant role in forming of Opinion. Based on such evidence the auditors form their opinion in the report, accordingly the auditor should obtain competent, relevant and reasonable evidence to support his judgement and conclusions.

The competent evidence is information which is quantitatively sufficient and appropriate to achieve the auditing results and is qualitatively impartial to inspire confidence and reliability.

The Reliable audit evidence is evidence that is impartial. The reliability of audit evidence is dependent upon its nature, its source and the method used to obtain it. While collecting the audit evidence the auditor should consider the below:

Reliability of Documentary Evidence	• Documentary evidence is more reliable than oral evidence.
Evidence on Direct Personal Knowledge	• Evidence of which the auditor has direct personal knowledge is the most reliable evidence.
Evidence from External Source	• Independent evidence obtained from external sources is more reliable than internal evidence, if that evidence is truly Independent and complete.
Reliability of Visual Evidence	• Visual evidence is highly reliable for conforming the existence of assets, but not their ownership value.
Examining figures less reliable	• Drawing conclusions solely through examining relationship between figures in the account (analytic Review) is less reliable evidence.
Oral Evidence Least reliable	• Oral evidence must be considered as the least reliable, whenever feasible, auditor should attempt to obtain documentary confirmation of oral evidence.
Reliability of information generated within entity	• The reliability of information generated within the auditee entity is a function of the reliability of internal control systems within the entity.
Photocopies less reliable	• Photocopies are less reliable than the originals, the source of photocopies should be identified by noting the source and as far as possible the photocopies should be certified.
Accepted Evidences	• Evidence, which is accepted by the auditee entity, is always reliable.
Gain increased assurance	• The auditor may gain increased assurance when audit evidence obtained from different source is consistent.

Sharing draft report with management with category of risk involved with each remark and qualification

After the exit meeting and the completion of the audit procedures, the auditor should prepare an executive summary of audit findings. The summary explains the key audit issues, the category of risk, their resolution, agreed adjustments. After discussing the executive summary the audit certificate should be signed by the auditor and by the management or person authorized by the management of the company.

The executive summary is a high-level summary, which explains audit findings, while it is a concise document; it should contain sufficient information to stand alone as a summary of the evidence which supports audit team's conclusion on the appropriate form of audit certificate. The executive summary should include:

- (i) a summary of the auditee's operations and purpose;
- (ii) a summary of the regularly framework within which the auditee operates;
- (iii) an explanation of the audit approach and the balance between test of controls and substantive procedures;
- (iv) a summary of the key risk identified;
- (v) a commentary on key balances;
- (vi) a commentary on the accounting policies and significant account areas;
- (vii) a summary of the result of audit procedures;
- (viii) details of areas where difficult questions of principle or judgement were involved;
- (ix) matters brought forward from previous year audit;
- (x) a summary of other important matters for attention;
- (xi) outstanding matters, for example, outstanding reappointment orders or letter authorizing agreed amendments to the financial statement;
- (xii) a summary of matters carried forward to the next years audit; and
- (xiii) a conclusion on the appropriate form of audit certificate.

The report should clearly mention the process name; significant findings with respect to the criteria; analysis of the consequences of the findings; and recommendations of the auditor. Each observation should be supported by a set of facts and each recommendation to the management should be supported by a business reasons for implementation.

Further, the replies on the auditor's observations and recommendations/comments of the management of the Auditee's company should be obtained and should be recorded in the audit file. Also, in case where the auditor opinion is other than the unmodified opinion, the full rationale should be given in the executive summary.

Different stages of communication and discussion should be as under:

1. **Preliminary Draft:** At the conclusion of fieldwork, the auditor should draft the report and present it to the entity's management for auditee's comments.
2. **Exit Meeting:** The auditor should discuss with the management the findings, observations, recommendations and text of draft and obtain their comment on the draft, achieve consensus and reach an agreement on the audit findings.
3. **Formal Draft:** The auditor should prepare a formal draft, in view of the outcome of the exit meeting and other discussions. Upon review of such changes by the auditor and the management, the final report should be issued.
4. **Final Report:** The report should be submitted to the appointing authority or such members of management, as directed.

Auditor's Responsibility

The Auditor's Report shall include a section with the heading "Auditor's Responsibility". Auditor's Report shall state that the responsibility of the Auditor is to express the opinion on the compliance with the applicable laws and maintenance of Records based on audit. The Auditor's Report shall also state that the audit was conducted in accordance with applicable Standard. The Auditor's Report shall also explain that those standards require that the Auditor comply with Statutory and Regulatory requirements and plan and perform the audit to obtain reasonable assurance about compliance with applicable laws and maintenance of Records.

Auditor's Report shall state that due to the inherent limitations of an audit including internal, financial and operating controls, there is an unavoidable risk that some misstatements or material non-compliances may not be detected, even though the audit is properly planned and performed in accordance with the standards.

The Auditor has a responsibility to perform procedures to identify, assess and respond to the risks of material misstatement or non-compliance arising from the Auditee's failure appropriately to account for or disclose an event or transaction.

Auditor's Report includes a separate section with heading "Auditor's Responsibility" that will state or express the opinion of the Auditor about the following:

- Whether the audit has been conducted as per the applicable Auditing Standards.
- Whether the Auditor has obtained reasonable assurance about whether the statements prepared, documents or records maintained by the Auditee are free from misstatement.
- That Auditor has the responsibility to only express his opinion on the evidences collected, information received and records maintained by the Auditee or given by the Management.
- Whether the Auditee has followed applicable laws, act, rules or regulations in maintaining their records, documents, statements, or have complied with applicable laws or rules while performing any corporate action

Format of Report

The report shall be addressed to the Appointing Authority unless otherwise specified in Audit Engagement Letter or provided in the applicable law. The report shall be detailed enough to serve its intended purpose. Where specific formats (like MR-3 for Secretarial Audit Report) are prescribed, those formats shall be followed for reporting. If any information cannot be conveniently captured within the paragraphs of the report, it shall be given in the form of annexure(s).

Signature block shall mention the name of the Audit Firm, the name of the Auditor, along with certificate of practice number, the membership number of the Auditor specifying whether associate or fellow member. The auditor shall clearly mention date and place of signing the report. In case report is signed by two different persons on different dates or different places; same shall be mentioned in the report.

Audit report is the result of the audit performed in as per its scope and objectives. It includes a summary of information and can consist of further observation. In case of an audit of compliances, Audit Report may point out areas of compliance and non-compliance, as well as areas for improvement. The report is addressed to the Appointing Authority or otherwise, as may be prescribed in applicable law, acts rules or regulations. The Appointing Authority would be the Board of Company, in case Auditee is a Company and in other cases, it would be the persons who have been entrusted with the responsibility of governance and compliances of the Auditee. Further, the Appointing Authority may also include Court, Tribunal or Regulators or any officer thereof, depending upon the type of Auditee's entity as explained in the Guidance Note on CSAS-1.

The Audit Report must be prepared in detail so that the purpose of preparing the report and showcasing the true state of affairs of the Auditee can be attained. Furthermore, the Audit Report prepared must be precise, accurate, clear and should be unbiased with suggestions and opinions. The detailed Audit Report means that Auditor must try to explain and point out each and every minute compliance, non-compliance or any improvement in the business procedures, documents, statements or any transactions or any other area that has been audited so as to form an

accurate Audit opinion and in case the provided format of Audit Report as per the laws, rules or regulations is not enough to provide detailed statement, the Auditor shall attach additional annexures or pages to give full disclosures and opinions thereon.

The Audit Report must be signed by one or more Auditors as the case may be at the end of the Audit Report along with the name of their Firm, Firm's Registration No., Designation of the Auditor in the Firm (like partner, proprietor etc.), Certificate of Practice No. and Membership No. of the Auditor, whether the Auditor is a Fellow or Associate member of the Institute. The report must mention the correct date and place of signing and if two Auditors are signing the same report at different date and place then, the same shall be mentioned.

Limitation

If, after accepting the Audit Engagement, the Appointing Authority imposes a limitation on the scope of the Audit which, in the opinion of the Auditor, is likely to result in the need to express a modified opinion or to disclaim an opinion, the Auditor shall request the Appointing Authority to remove the limitation.

4.3.2 If the Appointing Authority refuses or fails to remove the limitation, the Auditor shall communicate the matter to the Management and determine whether it is possible to perform alternative procedure to obtain sufficient and appropriate Audit Evidence.

4.3.3 If the Auditor is unable to obtain sufficient and appropriate Audit Evidence, the Auditor shall determine the implications as follows: (a) If the Auditor concludes that the possible effects of unavailable Audit Evidence could be non-material, the Auditor shall modify the opinion; or (b) If the Auditor concludes that the possible effects of unavailable Audit Evidence could be material, the Auditor shall express disclaimer of opinion.

Limitation on the scope of audit means when the Auditor appointed for performing the Audit will not be able to obtain appropriate or complete Audit Evidences due to the restrictions or limitations imposed on the process of Audit which ultimately affects the Auditor's opinion.

The Auditor's inability to obtain sufficient and appropriate Audit Evidence (also referred to as a limitation on the scope of the audit) may arise from:

- (a) Circumstances beyond the control of the Auditee;
- (b) Circumstances relating to the nature or timing of the Auditor's work;
- (c) Limitations imposed by Management.

An inability to perform a specific procedure does not constitute a scope limitation if the Auditor can obtain sufficient appropriate Audit Evidence by performing alternative procedures. Limitations imposed by Management may have other implications for the Audit, e.g. for the Auditor's assessment of fraud risks.

If after obtaining the Audit engagement, the Appointing Authority imposes a limitation on the scope of Audit, which is likely to affect the Auditor's opinion, the Auditor shall request the Authority to remove the limitation. If Management refuses the Auditor's request to remove a limitation that Management has imposed on the scope of the audit, the Auditor should communicate the matter with those charged with governance. When a limitation on the scope of the audit imposed by Management is not removed, the Auditor should determine whether it is possible to perform alternative procedures to obtain sufficient appropriate Audit Evidence on which to base an unmodified opinion. If the Auditor is unable to obtain sufficient appropriate Audit Evidence, the Auditor should determine the implications as follows:

- if the possible effects of the scope limitation are material but not pervasive to the business procedures, documents, or underlying transactions, the Auditor should modify the opinion;
- if the possible effects of the scope limitation are both material and pervasive to the compliance of laws, rules and regulations or underlying transactions or other business procedures/activities so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the Auditor should disclaim an opinion.

Pre requisite for the Reporting:

An Audit report should be:

- **Accurate** - Free from errors and distortions and faithful to the underlying facts.
- **Objective** - Fair, impartial, and unbiased and is a result of a fair minded and balanced assessment of all significant and relevant information.
- **Clear** - Easily understandable and logical, avoiding unnecessary technical language and providing all significant and relevant information.
- **Concise** - To the point, avoid unnecessary elaboration, superfluous detail, redundancy, repetitiveness and wordiness.
- **Constructive** - Helpful to the engagement client and the organization and leads to improvements where needed.
- **Complete** - Lacking nothing that is essential to the target audience and includes all significant and relevant information and observations to support recommendations and conclusions.
- **Timely** - Opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

Submission of Audit Report

After considering the clarifications/replies of the management, the auditor should prepare the audit report in prescribed format. Sometimes the report is addressed to the members but is to be submitted to the Board. The report shall contain the opinion on the statutory compliances examined by the Auditor and shall state whether in his opinion the company is carrying out/not carrying out due compliances of the applicable provisions of the various laws. The report shall be provided with or without qualifications.

Signing of Audit Report

The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare in the auditor's report the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.

However, in case of secretarial audit report the report should be signed by the secretarial auditor who conducted or under whose supervision the secretarial audit was conducted indicating his FCS/ACS number along with certificate of practice number issued by the Institute of Company Secretaries of India.

In case of PCS firm, the secretarial audit report may be signed by the partner who conducted or under whose supervision the secretarial audit was conducted indicating his FCS/ACS number along with his certificate of practice number. The secretarial audit report cannot be signed by an employee of the PCS firm even if he/she may be a member of the ICSI holding certificate of practice number.

Reporting with Qualification

1. A qualification, reservation or adverse remarks, if any, should be stated by the auditor at the relevant places in his report in bold type or in italics.
2. If the auditor is unable to express an opinion on any matter, he should mention that he is unable to express an opinion on that matter and the reasons therefor.
3. If the scope of work required to be performed is restricted on account of restrictions imposed by the company or on account of circumstantial limitations (like certain books or papers being in the custody of another person who is not available or a government authority), the report should indicate such limitations.
4. If such limitations are so material that the Auditor is unable to express any opinion, the Auditor should state that in the absence of necessary information and records, he is unable to report on compliance(s) relating to such areas by the Company.

Further, the Board of directors, in its report prepared under section 134(3) of the Companies Act, 2013, shall provide and explanation in full on any qualification or observation or other remarks made by the Company Secretary in practice in the secretarial audit report.

As per Peer Review Guidelines of the ICSI, it is mandatory to mention the Peer Review Certificate Number in Secretarial Audit Report/Annual Secretarial Compliance Report and the signature of the PCS should be in following format :

	For XYZ & Associates
	Company Secretaries Name
	FCS
Date:	CP
Place:	PR 123/2018

Question:

As a Practising Company Secretary, you are conducting a Secretarial Audit of a company engaged in the business of production of food products for children. You found an anomaly in usage of a product that is prohibited as per FSSAI. You decided to take the expert opinion of a scientist in this matter.

Prepare a request letter for preparing report on non-compliance and anomaly.

LESSON ROUND UP

- An unqualified opinion contains no reservations concerning the company. This is also known as a “clean” opinion, meaning that the affairs of the company are presented fairly.
- The auditor should express modified opinion when the auditor concludes that there is non-compliance, with the applicable laws in terms of timelines and process or the records as a whole are not free from misstatement; etc.
- The modification on opinion can be in the following three categories depending upon the nature and severity /extremity of the matter under consideration: the qualified opinion; the adverse opinion; the disclaimer of opinion.
- The auditor should obtain audit evidence which are competent, relevant and reasonable evidence to support his judgement and conclusions.
- An Audit report should be Accurate, Clear, Concise, Constructive and Complete.

GLOSSARY

Misstatement	Misstatement means any information or statement which is false, incorrect, incomplete, misleading or misrepresents, omits or suppresses a material fact.
Materiality	Materiality is the threshold above which missing or incorrect information is considered to have an impact on the decision making of the Auditor. Information is considered as material if its omission or misstatement could influence the opinion of the Auditor. Materiality can also be construed in terms of net impact.
Third Party	Third Party means any person who does not have a direct connection with the audit but whose inputs or opinion might influence the audit conclusion and includes an expert.
Advocacy threat	There is an apparent threat to the Auditor’s objectivity, if he becomes an advocate for (or against) the Auditee’s position in any adversarial proceedings or situations.

TEST YOURSELF

(These are meant for recapitulation only, answer to these questions are not to be submitted for evaluation)

1. What do you mean by Audit Opinion and describe the various forms of Auditor's Opinion?
2. Explain under what circumstances the Auditor should express the Qualified Opinion and how the Auditor should express the same in the audit report.
3. Explain the manner for signing of secretarial audit report.

LIST OF FURTHER READINGS

- Company Secretaries Auditing Standards
- Guidance Note on CSAS
- Articles published by Professionals

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- <https://www.icsi.edu/auditing-standard/>

[illegible]

Lesson 16

Secretarial Audit – Fraud Detection and Reporting

Key Concepts One Should Know

- Audit
- Penalty
- Related Party
- Investigation
- Misrepresentation
- Disclosure
- Special resolution

Learning Objectives

To understand:

- Section 143(12) of the Companies Act, 2013.
- The duties of auditors to report fraud.
- The process of reporting frauds by auditors.
- Various aspects of the reporting of fraud with specific reference to Secretarial Audit.

Regulatory Framework

- The Companies Act, 2013
- The Indian Contract Act, 1872
- The Indian Penal Code, 1860

Lesson Outline

- Introduction
- Types of Frauds
- Procedure for Reporting of Fraud
- Fraud v/s Non-compliance
- Speculation
- Suspicion
- Professional Responsibilities
- Early Warning Signals (EWS)
- Investigation by SFIO
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READING
- OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

INTRODUCTION

In general, the term “Fraud” can be defined as ‘dishonestly obtaining a benefit, or causing a loss, by deception or other means’. More specifically, “*Fraud*” is defined by *Black’s Law Dictionary* as:

1. A knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or her detriment.
2. A misrepresentation made recklessly without belief in its truth to induce another person to act.
3. A tort arising from a knowing misrepresentation, concealment of material fact, or reckless misrepresentation made to induce another to act to his or her detriment.
4. Unconscionable dealing; in contract law, the unfair use of the power arising out of the parties’ relative positions and resulting in an unconscionable bargain.

Consequently, fraud includes any intentional or deliberate act to deprive another’s property or money by guile, deception, or other unfair means.

The Indian Contract Act, 1872

Fraud is defined in section 17 of the Indian Contract Act, 1872 as follows:

“Fraud” means and includes any of the following acts committed by a party to a contract, or with his connivance, or by his agents, with intent to deceive another party thereto his agent, or to induce him to enter into the contract;

1. The suggestion as a fact, of that which is not true, by one who does not believe it to be true;
2. The active concealment of a fact by one having knowledge or belief of the fact;
3. A promise made without any intention of performing it;
4. Any other act fitted to deceive;
5. Any such act or omission as the law specially declares to be fraudulent.

Explanation.—Mere silence as to facts likely to affect the willingness of a person to enter into a contract is not fraud, unless the circumstances of the case are such that, regard being had to them, it is the duty of the person keeping silence to speak, or unless his silence, is, in itself, equivalent to speech.

Indian Penal Code, 1860

Section 25 of IPC defines “Fraudulently” as:

As a person is said to do a thing fraudulently if he does that thing with intent to defraud but not otherwise.

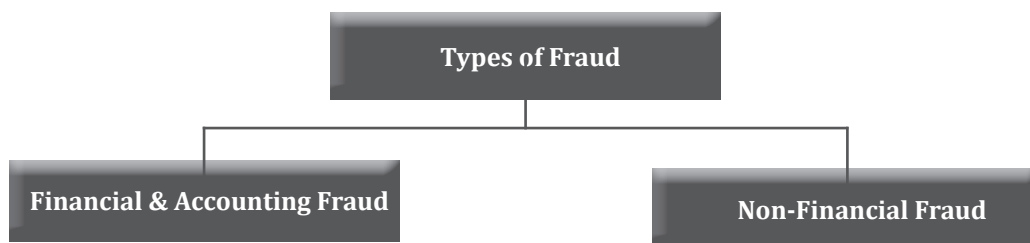
The Companies Act, 2013

“Fraud” under explanation to section 447 of the Companies Act, 2013 is defined as under:

- (i) “fraud” in relation to affairs of a company or anybody corporate, includes any act, omission, concealment of any fact or abuse of position committed by any person or any other person with the connivance in any manner, with intent to deceive, to gain undue advantage from, or to injure the interests of, the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss;
- (ii) “wrongful gain” means the gain by unlawful means of property to which the person gaining is not legally entitled;
- (iii) “wrongful loss” means the loss by unlawful means of property to which the person losing is legally entitled.

TYPES OF FRAUD

Fraud against a company can be committed either internally by employees, managers, officers, or owners of the company, or externally by customers, vendors, and other parties. Accordingly, the fraud consists of some deceitful practice or willful device, resorted to with intent to deprive another of his right, or in some manner to do him an injury.



The financial & accounting fraud include the fraud relating to the financial statement by overstating revenue, earnings and assets – along with understating liabilities (or just plain concealing them) are the most common activities found with this type of fraud. The asset misappropriation is also a most susceptible fraud in the companies which are closely held. Further the tampering, accounts receivable skimming, fake billing schemes, payroll schemes, fake or duplicate expense reimbursement schemes and inventory schemes are also the part of the financial and accounting fraud. Also, the misuse of company assets is one of the problematic and serious kinds of fraud, as the unauthorized use of company assets, significant open up the company to liability. Also, under the growing technology and easy exchange of information and technology, the chances of the theft of intellectual property and trade secrets are increased and such fraud damage the position of the company in the market and its Research activities.

In case of the non-financial fraud, the fraud includes the false or misleading information, inadequate disclosure produced by the Company to the public or regulatory bodies, false reporting of governance norms and doing business surpassing the regulatory requirement and approvals from the shareholders.

DUTY TO REPORT FRAUD

A very significant duty has been cast on the Company Secretary in Practice under section 143 of the Companies Act, 2013. It provides that if the Company Secretary in Practice, in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving the prescribed amount is being or has been committed against the company by its officers or employees of the company, he shall immediately report the matter to the Central Government, or to the Audit Committee or the Board.

Duty of Report Fraud to Central Government

The section 143(12) read with the Companies (Audit and Auditors) Rules, 2014 provides that if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud which involves or is expected to involve individually an amount of rupees one crore or above, is being or has been committed against the company by its officers or employee, the auditor shall report the matter to the Central Government.

Duty of Report Fraud to Audit Committee/ Board

In case of a fraud involving lesser than rupees one crore, the auditor shall report the matter to audit committee or to the board immediately but not later than two days of his knowledge of the fraud and he shall report the matter specifying the following:-

- (a) Nature of fraud with description;
- (b) Approximate amount involved; and
- (c) Parties involved.

Disclosures in the Board's Report

The following details of each of the fraud reported to the Audit Committee or the Board during the year to be disclosed in the Board's Report:-

- (a) Nature of fraud with description;
- (b) Approximate amount involved;
- (c) Parties involved, if remedial action not taken; and
- (d) Remedial actions taken.

Questions: What type of frauds are required to be disclosed in Board report?

Options:

- (A) Frauds not reported to Board
- (B) Frauds not reported to Audit Committee
- (C) Frauds reported by Auditor to Board of Director as Audit Committee but not reported to Central Government

Answers: (C)

Consequence on failure in Reporting of fraud

In case, Company Secretary in Practice does not comply with the provisions of section 143(12), he shall be punishable with fine which shall be liable to a penalty of five lakh rupees in case of a listed company, and one lakh rupees in case of any other company [section 143(15)]. Further, section 143(13) provides that no duty to which an auditor of a company is subject to shall be regarded as having been contravened by reason of his reporting the matter (fraud) if it is done in good faith.

PROCEDURE FOR REPORTING OF FRAUD

(i) Reporting of frauds by auditor involving amount more than Rs. 1 crore

If an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an amount of rupees one crore or above, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the Central Government. Auditor should report such frauds as soon as possible but not later than 60 days of his knowledge about the frauds:

STEP-I - Report to Board & Audit Committee

Auditor shall forward his report to the board of directors or the audit committee, as the case maybe, within 2 days of his knowledge of the fraud, seeking their reply or observations within 45 (forty-five) days;

STEP-II - Report to Central Government after reply of board

On receipt of such reply or observations, the auditor shall forward his report and the reply or observations of the board or the audit committee along with his comments (on such reply or observations of the board or the audit committee) to the central government within 15 fifteen days of receipt of such reply or observations;

STEP-IIA - Report to Central Government if no reply received

In case the auditor fails to get any reply or observations from the board or the audit committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the board or the audit committee for which he failed to receive any reply or observations within the stipulated time.

Other Points to be kept in mind: The report shall be on the letter-head of the auditor containing

- Postal address;
- e-mail address;
- contact number (telephone/ mobile);
- signed by the auditor with his seal;
- indicate his membership number;
- Report shall be in the form of a statement as specified in Form ADT-4.

(ii) Reporting of frauds by auditor involving amount less than Rs. 1 crore

As per the Sub-rule (3) of Rule 13 of the Companies (Audit and Auditors) Rules, 2014 in case of fraud involving an amount less than Rs. 1 Crore, the auditor shall report the matter of fraud to the audit committee or to the board within 2 days of his knowledge of the fraud.

The report should specify the nature of the fraud with description, approximate amount of the fraud and parties involved in the fraud.

In such case, as per sub-rule (4), the Board shall disclose in its report (Board's Report) the nature of fraud with description, approximate amount of the fraud, parties involved in the fraud and remedial action taken. Name of parties should be disclosed only when the board or audit committee has not taken any remedial action against the fraud.

Fraud detection and reporting requires the practicing company secretary to focus beyond compliance

In the matter of *Globe Motors Limited v. Mehta Teja Singh & Company*, the Delhi High court observed that although an agreement in which a director was interested could not be said to be invalid in view of compliance with the requirements of the Act, yet it is only a formal aspect of compliance with the statutory provisions; the basic question is as to the conduct of the director and whether it satisfies the test considering their fiduciary relationship to the company. Justice Sachar further observed that the directors are expected to display utmost good faith towards the company in their dealings with the company or on behalf of the company; they should not use the company's money or other property or information or other matters in their possession in order to gain any advantage to themselves. Therefore, a practicing company secretary should not be satisfied only with compliance during secretarial audit. He needs to look beyond and satisfy himself that the transactions which have taken place during audit period do not contain any fraud element.

"Fraud" in relation to affairs of a company or anybody corporate includes any act, omission, concealment of any factor abuse of position committed by any person or any other person with the connivance in any manner, with intent to deceive, to gain undue advantage from or to injure the interest of the company or its shareholders or its creditors or any other person whether or not there is any wrongful gain or wrongful loss.

On perusal of explanation under section 447 of the Companies Act, 2013, the fraud covers:

- (a) Any act committed by any person or any other person with the connivance in any manner with intent to deceive the company or shareholders or creditors or any other person whether or not there is any wrongful gain or wrongful loss.
- (b) Any omission committed by any person or any other person with the connivance in any manner with intent to deceive the company or shareholders or creditors or any other person whether or not there is any wrongful gain or wrongful loss.
- (c) Any concealment of any fact committed by any person or any other person with the connivance in any manner with intent to deceive the company or shareholders or creditors or any other person whether or not there is any wrongful gain or wrongful loss.
- (d) Any abuse of position committed by any person or any other person with the connivance in any manner with intent to deceive the company or shareholders or creditors or any other person whether or not there is any wrongful gain or wrongful loss.
- (e) Any act committed by any person or any other person with the connivance in any manner with intent to gain undue advantage from the company or shareholders or creditors or any other person.
- (f) Any act committed by any person or any other person with the connivance in any manner with intent to injure the interest of the company or shareholders or creditors or any other person whether or not there is any wrongful gain or wrongful loss.
- (g) Any omission committed by any person or any other person with the connivance in any manner with intent to gain undue advantage from the company or shareholders or creditors or any other person.

- (h) Any omission committed by any person or any other person with the connivance in any manner with intent to injure the interest of the company or shareholders or creditors or any other person whether or not there is any wrongful gain or wrongful loss.
- (i) Any concealment of any fact committed by any person or any other person with the connivance in any manner with intent to gain undue advantage from the company or shareholders or creditors or any other person.
- (j) Any concealment of any fact committed by any person or any other person with the connivance in any manner with intent to injure the interest of the company or shareholders or creditors or any other person whether or not there is any wrongful gain or wrongful loss.
- (k) Any abuse of position committed by any person or any other person with the connivance in any manner with intent to gain undue advantage from the company or shareholders or creditors or any other person.
- (l) Any abuse of position committed by any person or any other person with the connivance in any manner with intent to injure the interest of the company or shareholders or creditors or any other person whether or not there is any wrongful gain or wrongful loss.

During the performance of the Secretarial Audit, the Practicing Company Secretary should examine the various transactions during the period of audit to identify whether any element in the transaction may result to a fraud in the company.

Questions: The format of Secretarial Audit is in:

Options:

- (A) Form MGT-8
- (B) Form MR-3
- (C) Form MR-4

Answers: (B)

Transaction which may involve the fraud

In the past, "Fraud" has been noticed in many cases of scams in the following kinds of transactions:-

- Related Party Transactions
- Excessive Managerial remuneration
- Insider Trading
- Inter Company transactions
- Mergers/demergers/acquisitions
- IPO frauds

Other means of Corporate fraud are the inadequate disclosures, false or misleading information, theft of assets, false expenses, corruption, theft in formation, fraudulent applications, misuse of assets, dishonest business partners, fraudulent billing.

These areas are not exhaustive but only some examples are given so as to guide fraud detection.

Who is considered as an Auditor for Fraud Reporting?

The auditor includes the

- Statutory Auditors of the company appointed under section 139 of the Companies Act, 2013,
- Company Secretary in Practice conducting Secretarial Audit under section 204 of the Companies Act, 2013,
- Cost Accountant in practice conducting Cost Audit under section 148 of the Companies Act, 2013 and the Branch Auditors referred to in section 143(8) of the Companies Act, 2013.

However, the Internal Auditor or such other professionals appointed under any other statutes rendering other services to the company such as a tax auditor appointed under Income Tax Act, GST auditors appointed under the respective GST legislations are not covered under section 143 of the Companies Act, 2013.

Reporting of Fraud already reported by the management

The frauds which are already identified by the management should also be considered by the secretarial auditors and should review the impact of such fraud on the company in line with his scope of audit engagements.

The Auditor should also review the steps taken by the management. On dissatisfaction, the auditor may state reasons and request the management to perform additional procedures. If additional procedures are not performed within forty-five days of request, consider reporting the matter to the central government.

Reporting of Fraud by Secretarial Auditor already reported by other auditors

The Companies Act, 2013 has provided the duties and responsibilities of the each of the auditors such as for Accounting/ Financial related fraud the statutory auditors shall report, while in case of non-financial fraud, the Secretarial Auditor, and in case of the fraud relating to the costing fraud it needs to be reported by the Cost accountant in Practice.

Instances may appear of a fraud in which the impact of such fraud is extending to area covered by all the auditors. In such cases, all the auditors should report such fraud in the manner prescribed under the act.

FRAUD V/S NON-COMPLIANCE

The term fraud can be defined as act or course of deception, an intentional concealment, omission, or perversion of truth, to

1. gain unlawful or unfair advantage,
2. induce another to part with some valuable item or surrender a legal right, or
3. inflict injury in some manner.

A fraud is always intentional; however a non-compliance may be intentional or unintentional.

Willful fraud is a criminal offense which calls for severe penalties, and its prosecution and punishment. However, incompetence or negligence in managing a business or even a reckless waste of firm's assets (for example by speculating on the stock market) does not normally constitute a fraud.

Non-Compliance: The term non-compliance refers to failure to comply with the laws, rules regulations etc., the term non-compliance is commonly used in regard to a failure to meet the compliance requirements or failure to doing compliance be it the failure in following procedures, filing of information, eligibility conditions, reporting etc.

The relationship between Fraud and non-compliance can be constructed as the non-compliance in the company may lead to a fraud, however it may also be noted that the fraud can also be made in the compliant company.

SPECULATION

The term "Speculation" is defined as an act of trading in an asset or conducting a financial transaction that has a significant risk of losing most or all of the initial outlay with the expectation of a substantial gain. With speculation, the risk of loss is more than offset by the possibility of a huge gain, otherwise there would be very little motivation to speculate. It may sometimes be difficult to distinguish between speculation and investment, and whether an activity qualifies as speculative or investing can depend on a number of factors, including the nature of the asset, the expected duration of the holding period, and the amount of leverage.

Such as the Foreign Exchange Market, Bond Market, Stock Market and Specially the derivatives segment which comprises of futures and options contracts which is typically used by brokerages and high net worth individuals to bet on the direction of the markets. Due to this, the Indian capital markets have tilted towards speculative instruments having implications of a high level of speculative trading activity compared to investment activity.

SUSPICION

Suspicion is the positive tendency to doubt the trustworthiness of appearances and therefore to believe that one has detected possibilities of something unreliable, unfavorable.

The following transactions relating to company formation and management may be considered as the suspicious transactions which may or may not be with the group companies, where the detailed audit is needed to be performed are:

1. subsidiaries which have no apparent purpose;
2. companies which continuously make substantial losses;

3. complex group structures without cause;
4. uneconomic group structures for tax purposes;
5. frequent changes in shareholders and directors;
6. unexplained transfers of significant sums through several bank accounts;
7. use of bank accounts in several currencies without reason;
8. purchase of companies which have no obvious commercial purpose;
9. sales invoice totals exceeding known value of goods;
10. makes unusually large cash payments in relation to business activities which would normally be paid by cheques, banker's drafts etc; and
11. transferring large sums of money to or from overseas locations with instructions for payment in cash.

DETECTION OF FRAUD

The auditor shall exercise professional judgment and maintain professional scepticism throughout the planning and performance of the audit to detect and report the fraud envisaged under the provisions of section 143 (12) of the Companies Act, 2013 read with Companies (Audit and Auditors) Rules, 2014. 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.

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, complaint under whistle blower mechanism, and reports of the other auditors, etc. The auditor should ensure to collect sufficient evidence which substantiates his suspicion of the commission of the fraud against the auditee from its employees and officers.

PROFESSIONAL RESPONSIBILITY AND PENALTY FOR INCORRECT AUDIT REPORT

Section 448 of Companies Act, 2013 deals with penalty for false statements. The section provides that if in any return, report, certificate, financial statement, prospectus, statement or other document required by, or for the purposes of any of the provisions of this Act or the rules made thereunder, any person makes a statement, –

- (a) which is false in any material particulars, knowing it to be false; or
- (b) which omits any material fact, knowing it to be material, he shall be liable under section 447.

Section 447 deals with punishment for fraud which provides that any person who is found to be guilty of fraud, involving an amount of at least Rs.10,00,000 or 1% of the turnover of the company, whichever is lower shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud. In case, the fraud in question involves public interest, the term of imprisonment shall not be less than three years.

In case where the fraud involves an amount less than ten lakh rupees or one per cent. of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to fifty lakh rupees or with both.

In view of this, a Company Secretary in Practice may become liable according to the penal provisions of section 448, for any false statement in any material particular or omission of any material fact in the Secretarial Audit Report. However, a person will be penalised under section 448 in case he makes a statement, which is false in any material particular, knowing it to be false, or which omits any material fact knowing it to be material.

It is pertinent to note that section 448 applies to “any person”. In view of this, a Company Secretary in Practice, who is an independent professional, may attract the punishment, as prescribed in section 448 in case his observations in the Secretarial Audit Report turns out to be false or he omits any material fact, knowing it to be false or material.

Section 204(4) of the Companies Act, 2013 provides that if a Company Secretary in Practice contravenes the provisions of section 204, he shall be liable to a penalty of two lakh rupees.

Besides, the Company Secretary in Practice shall be liable for professional or other misconduct mentioned in First or Second Schedule or in both the Schedules to the Company Secretaries Act, 1980 and where held guilty, be liable for the following actions:

- (i) where found guilty of professional or other misconduct mentioned in the First Schedule:
 - (a) reprimand;
 - (b) removal of name from the Register of members up to a period of three months;
 - (c) fine which may extend to one lakh rupees.
- (ii) where found guilty of professional or other misconduct mentioned in the Second Schedule:
 - (a) reprimand;
 - (b) removal of name from the Register of members permanently or such period as may be thought fit by the Disciplinary Committee;
 - (c) fine which may extend to five lakh rupees.

EARLY WARNING SIGNALS OF FRAUDS DETECTIONS

The auditors may take some clues from the Reserve Bank of India (Frauds classification and reporting by commercial banks and select FIs) directions, 2016 along with the other reasons which provides an Early Warning Signals (EWS) for to be alert that some of the wrong-doing in the company, which are as under:

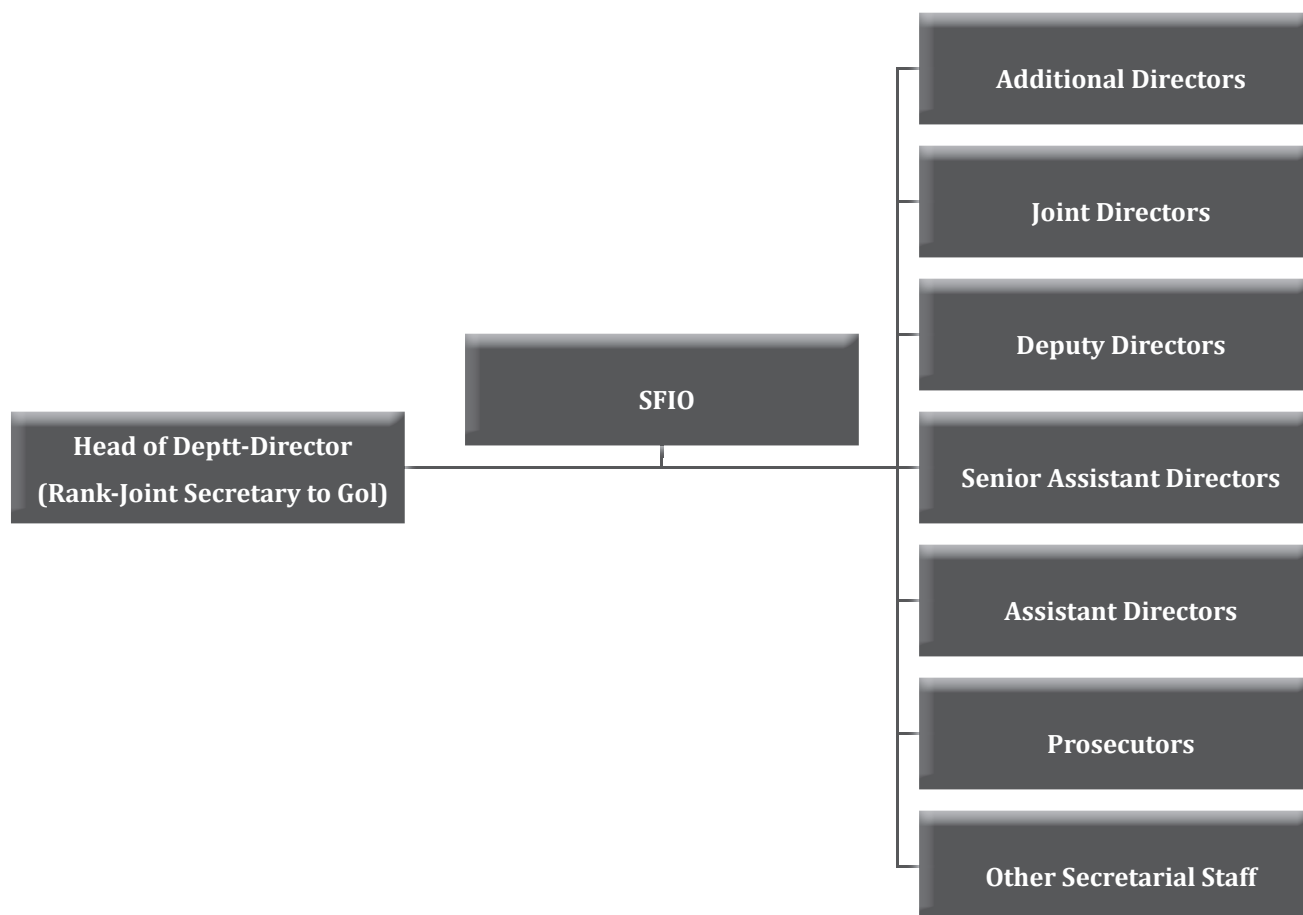
1. Default in undisputed payment to the statutory bodies as declared in the Annual report.
2. Bouncing of high value cheques.
3. Frequent change in the scope of the project to be undertaken by the borrower.
4. Foreign bills remaining outstanding with the bank for a long time and tendency for bills to remain overdue.
5. Delay observed in payment of outstanding dues.
6. Frequent invocation of BGs and devolvement of LCs.
7. Under insured or over insured inventory.
8. Invoices devoid of TAN and other details.
9. Dispute on title of collateral securities.
10. Funds coming from other banks to liquidate the outstanding loan amount unless in normal course.
11. In merchanting trade, import leg not revealed to the bank.
12. Request received from the borrower to postpone the inspection of the godown for flimsy reasons.
13. Funding of the interest by sanctioning additional facilities.
14. Exclusive collateral charged to a number of lenders without NOC of existing charge holders.
15. Concealment of certain vital documents like master agreement, insurance coverage.
16. Floating front / associate companies by investing borrowed money.
17. Critical issues highlighted in the stock audit report.
18. Liabilities appearing in ROC search report, not reported by the borrower in its annual report.
19. Frequent request for general purpose loans.
20. Frequent ad hoc sanctions.
21. Not routing of sales proceeds through consortium I member bank/ lenders to the company.

22. LCs issued for local trade I related party transactions without underlying trade transaction.
23. High value RTGS payment to unrelated parties.
24. Heavy cash withdrawal in loan accounts.
25. Non-production of original bills for verification upon request.
26. Significant movements in inventory, disproportionately differing vis-a-vis change in the turnover.
27. Significant movements in receivables, disproportionately differing vis-à-vis change in the turnover and/or increase in ageing of the receivables.
28. Disproportionate change in other current assets.
29. Significant increase in working capital borrowing as percentage of turnover.
30. Increase in Fixed Assets, without corresponding increase in long term sources (when project is implemented).
31. Increase in borrowings, despite huge cash and cash equivalents in the borrower's balance sheet.
32. Frequent change in accounting period and/or accounting policies.
33. Costing of the project which is in wide variance with standard cost of installation of the project.
34. Claims not acknowledged as debt high.
35. Substantial increase in unbilled revenue year after year.
36. Large number of transactions with inter-connected companies and large outstanding from such companies.
37. Substantial related party transactions.
38. Material discrepancies in the annual report.
39. Significant inconsistencies within the annual report (between various sections).
40. Poor disclosure of materially adverse information and no qualification by the statutory auditors.
41. Raid by Income tax /sales tax/ central excise duty officials.
42. Significant reduction in the stake of promoter /director or increase in the encumbered shares of promoter/director.
43. Resignation of the key personnel and frequent changes in the management.
44. Delayed filing of statutory returns.
45. Frequent resignation of Auditors
46. Frequent changes in the Independent Directors.

INVESTIGATION OF FRAUD BY SFIO

Serious Fraud Investigation Office (SFIO) has been established through the Government of India vide Notification NO. S.O.2005 (E) dated 21.07.2015. Earlier, the SFIO was set up by Government of India vide Resolution No. 45011/16/2003-Admn.I dated 02.07.2003. It is a multi-disciplinary organization under the Ministry of Corporate Affairs, of experts in the field of accountancy, forensic auditing, law, information technology, investigation, company law, capital market and taxation etc. for detecting and prosecuting or recommending for prosecution while collar crimes/frauds.

SFIO is headed by a Director as Head of Department in the rank of Joint Secretary to the Government of India. The Director is assisted by Additional Directors, Joint Directors, and Deputy Directors, Senior Assistant Directors, Assistant Directors, Prosecutors and other secretarial staff. The Headquarter of SFIO is at New Delhi, with five Regional Offices at Mumbai, New Delhi, Chennai, Hyderabad & Kolkata.



Investigation into the affairs of a company is assigned to SFIO, where Government is of the opinion that it is necessary to investigate into the affairs of a company –

1. on receipt of a report of the registrar or inspector under section 208 of the Companies Act, 2013;
2. on intimation of a special resolution passed by a company that its affairs are required to be investigated;
3. in the public interest; or
4. on request from any department of the Central Government or a State Government.

The powers and duties of the officers and employees SFIO is a multi-disciplinary investigation office having experts from various fields viz. financial sector, capital market, accountancy, forensic audit, taxation, law, information technology etc.

By virtue of Companies Act, 2013, SFIO has been accorded statutory status and the scope of reference to SFIO for investigation into the affairs of a corporate by Central Government has been enlarged to include cases involving 'Public Interest' and also on request from any Department of Central/State Government.

Procedure for decision making process, including channels of supervision and accountability

As the investigations are carried out under the provisions of the Companies Act, the Officer of SFIO appointed as Investigating Officer (IO) by the Government has the final say in the matter related to investigation. The working groups of the officers constituted by the Director, SFIO in consultation with the I.O. to assist the Investigating Officer are required to render him all possible assistance in the respective areas of their specialization so that the issues are examined from a multidisciplinary angle. He supervises the entire investigation and coordinates with subject specific team leaders in the matters related thereto. The Investigating Officer, after conclusion of his investigation, submits the Investigation Report to the Central Government in the Ministry of Corporate Affairs.

For smooth functioning of the administration of the office, the Director, SFIO has been declared as 'Head of Department' (HOD). He exercises powers of HOD. Under him there is an administration division headed by a Deputy Director.

Manner of discharging functions of SFIO

For each investigation that is to be carried out by the officers of SFIO, the Central Government while ordering the same assigns a time frame. The investigation has to be completed within that time frame.

The subject specific groups of officers which render necessary assistance to the Investigating Officer have to examine the issues involved in the case within a given time frame and give requisite inputs to the Investigating Officer.

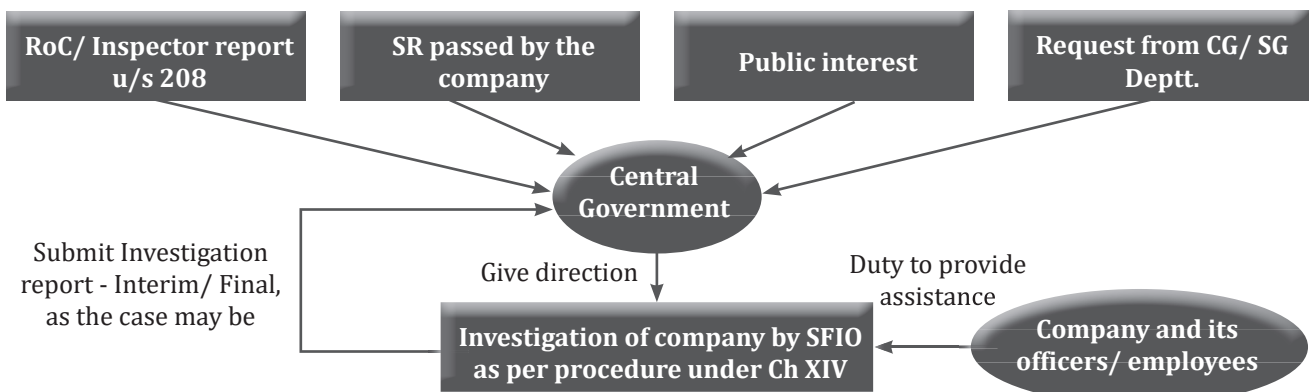
Since the organization is engaged in investigation, the law governing investigation and other related laws such as Criminal Procedure Code, Evidence Act, various manuals and Laws on taxation, import and export, banking, stock market etc., are used by the officers of this organization.

Investigation Procedure

- (i) As per Section 212 (1) of the Companies Act, 2013, the Central Government may assign the investigation into the affairs of a company to the Serious Fraud Investigation Office –
 - (a) on receipt of report of the Registrar or Inspector under section 208;
 - (b) on intimation of a special resolution passed by a company requesting an investigation into its affairs;
 - (c) in public interest;
 - (d) on the request of any Department of Central Government or State Government

On receipt of such order from the Central Government, Director, SFIO may designate such number of Inspectors as he may consider necessary for the purpose of such investigation.

- (ii) As per sub-section (3) of section 212 of Companies Act, 2013, the investigation into the affairs of a company shall be conducted in the manner and by following the procedure specified in Chapter XIV of Companies Act, 2013. The SFIO shall submit its report to the Central Government within the period specified in the order.
- (iii) As per sub-section (4) of section 212 of Companies Act, 2013, the Director SFIO shall cause the affairs of the company to be investigated by an investigating officer, who shall have the powers of the Inspector under section 217 of the Companies Act, 2013.
- (iv) As per sub-section (5) of section 212 of Companies Act, 2013, it shall be the responsibility of the company, its officers and employees, who are or have been in the employment of the company to provide all information, explanation, documents and assistance to the investigating officer as he may require for conduct of investigation.
- (v) As per sub-section (11) of section 212 of Companies Act, 2013, the Serious Fraud Investigation shall submit an interim report, if so directed by the Central Government.
- (vi) As per sub-section (12) of section 212 of Companies Act, 2013, on completion of investigation, the SFIO shall submit the Investigation Report to the Central Government.



LESSON ROUND UP

- The Accounting/ Financial related fraud shall be reported by the statutory auditors, whereas in case of non-financial fraud by the Secretarial Auditor and in case of the fraud relating to the costing Fraud it needs to be reported by the Cost Accountant in practice.
- Suspicion is the positive tendency to doubt the trustworthiness of appearances and therefore to believe that one has detected possibilities of something unreliable, unfavorable.
- Early Warning Signals (EWS) are the caution for the auditor, which provide an alert that there is some wrongdoing in the company.
- SFIO is a multi-disciplinary investigation office having experts from various fields viz. financial sector, capital market, accountancy, forensic audit, taxation, law, information technology etc.

GLOSSARY

Asset misappropriation	It involves third parties or employees in an organisation who abuse their position to steal from it through fraudulent activity.
Insider Trading	The trading of a listed company's securities based on material, unpublished price sensitive information about the company.
Intellectual Property	It is a category of intangible asset and includes trademark, copyright, patent, design and geographical indication.
Senior Fraud Investigation Office	It is an office established by the Central Government to investigate frauds relating to a companies.
Unconscionable bargain	It is an unfair provision or clause identified in a contract that could deem the entire contract invalid.
Undue advantage	It means advantage or favor in any form that is not authorized by law or contract and/ or could not be obtained through lawful or proper means.
Tort	It is a civil wrong that causes a claimant to suffer loss or harm, resulting in legal liability for the person who commits the tortious act.
Trade secret	It is a practice or process of a company that is generally not known outside of the company.

TEST YOURSELF

(These are meant for recapitulation only. Answers to these questions are not to be submitted for evaluation)

1. As a practicing company secretary, how would you respond when fraud is detected during Secretarial Audit?
2. Define the various Early Warning Signals of the fraud.
3. Discuss the professional responsibility and penalty for incorrect audit report under the Companies Act, 2013.
4. Define the term Suspicion and Speculation.

LIST OF FURTHER READING

- E-CS Nitor Issue No. 12, Volume 2 dated November 15, 2014
- Guidance Note on Reporting on Fraud under Section 143(12) of the Companies Act, 2013 by the Institute of Chartered Accountants of India

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- <http://www.mca.gov.in/>
- <https://www.rbi.org.in/>
- <https://www.indiacode.nic.in/>

Lesson 17

Quality Review

Key Concepts One Should Know

- Associate
- Attestation and Auditing Services
- Engagement records
- Practice Units
- Peer Review
- Consortium Lending
- Impending peer review
- Chinese Wall

Learning Objectives

To understand:

- How Peer Review is directed towards maintenance as well as enhancement of quality of attestation services.
- How Peer Review provide guidance to members to improve their performance and adhere to various statutory and other regulatory requirements.
- The set up of Quality Review Board and its objective i.e. to review and enhance the quality of the services rendered by the members of the ICSI.
- The aim of the Board to standardize the practices followed by the Company Secretaries and enhance the quality of the services rendered by the members of ICSI on continuous basis.
- The detailed systems and procedures relating to the Peer review and the guideline issued by the quality review board of ICSI.

Lesson Outline

- Introduction
- Peer Review for Company Secretaries
- Objective & Benefits of Peer Review
- Scope of Peer Review
- Process of Peer Review
- Quality Review Board
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

INTRODUCTION

The Company Secretaries Act, 1980 (the Act) was enacted to make provision for the regulation and development of the profession of Company Secretaries. The Institute of Company Secretaries of India set up under the said Act has been conducting examinations and prescribing standards for adherence by its members.

The concept of whole-time practice, which gained its initial recognition in 1988, got further momentum after the enactment of the Companies (Amendment) Act, 2000 which required Compliance Certificate to be issued by Practicing Company Secretary for certain size of companies. Members in practice are also being recognised for issuing certificates under various laws. The Companies Act, 2013, introduced concept of Secretarial Audit to specified class of companies, which shows confidence of the Regulators on the Profession of Company Secretaries.

Excellence is the hallmark of success in a competitive environment. The performance can be judged and enhanced to that level of excellence only by evaluation by a competent professional. The Council of the Institute, therefore, in its 202nd meeting held on 25th and 26th August, 2011 decided to introduce Peer Review for Practicing Company Secretaries to periodically review the Practice Units and evaluate the quality, sufficiency of systems, procedures and practices, so that excellence in their performance can be maintained.

The Council of the Institute has been constituted under the Company Secretaries Act, 1980 for discharging the functions assigned to the Institute under the Act. Section 15(1) of the Act provides that “The Institute shall function under the overall control, guidance and supervision of the Council and the duty of carrying out the provisions of the Act shall be vested in the Council”, and enumerates various other duties of the Council. With a view to regulate the profession of Company Secretaries and in terms of the powers vested, the Council is authorised to issue guidelines for Peer Review and also modify/ amend/ adopt new guidelines from time to time. These guidelines serve as a mechanism intended to further enhance the quality of professional services rendered by Practicing Company Secretaries over a period of time, thereby ensuring that the profession of Company Secretaries continues to serve the society in the manner envisaged.

OBJECTIVES OF PEER REVIEW

Technical Standard and Proper Systems

- (a) The main objective of Peer Review is to ensure that in carrying out their professional assignments; the Practice Units (a) comply with the Technical Standards laid down by the Institute and (b) have in place proper systems (including documentation systems) for maintaining the quality of the work they perform.

Enhancement of Quality

- (b) Peer Review is directed towards maintenance as well as enhancement of quality of Attestation and Audit Services and to provide guidance to members to improve their performance and adhere to various statutory and other regulatory requirements. Essentially, through a review of Attestation and Audit Services engagement records, Peer Review identifies the areas where a practicing member may require guidance in improving the quality of his/her performance and adherence to various requirements as per applicable Technical Standards.

Peer review process and expectations from the members

- (c) These guidelines provide a framework of the Peer Review process and the expectations from member during the process of Peer Review.

PEER REVIEW - DEFINITION

The dictionary meaning of the term “Peer” is, a person of the same legal status or a person who is equal to another, in abilities, qualifications, age, background, etc. “Review” means to look back upon (a period of time, sequence

of events, etc.) Thus, “Peer Review” is a self improvement process and is a method of evaluation of a person’s work or performance, by a person or group of people, in the same occupation, profession, or industry. Professional peer review focuses on the performance of professionals, with a view to improving quality, upholding standards, or providing certification. Professional Peer Review activity is widespread in the field of accounting, law, engineering (e.g., software peer review, technical peer review, etc.), aviation and even forest fire management.

Peer review for Company Secretaries

Peer Review contemplates examination of the systems and approach of a Practice Unit (PU) by another member of the Institute with the objective of identifying the areas, where the member may require guidance in improving the quality of his performance and adherence to the requirements of various technical standards. The focus lies on the promotion of continuing quality improvement in an atmosphere of openness and mutual trust that contributes to enhancing transparency and comparability. Good practice is valued and mutual learning is encouraged in a dynamic and motivating process, from which both the Practice Unit and the Reviewer get benefit.

A Peer Review examines whether a Practice Unit has adequate policies and procedures (including documentation systems) in place to comply with the Technical Standards of ICSI and other legal requirements for maintaining the quality of the Services/ work they perform.

Rationale of Peer Review

The concept of whole-time practice, which received its initial statutory recognition in 1988, has gained momentum after the enactment of the Companies (Amendment) Act, 2000 which required Compliance Certificate to be issued by a Company Secretary in Practice for Companies having a prescribed paid up capital. Company Secretaries in Practice are also being recognised for issuing certificates under various laws.

Excellence is the hallmark of success in a competitive environment. Performance can be judged and enhanced to a level of excellence only by evaluation by a competent professional. The Council of the Institute, therefore, decided to introduce Peer Review for Practising Company Secretaries (PCS) to periodically evaluate the quality, sufficiency of systems, procedures and practices, so that excellence in their performance can be maintained.

Authority for Peer Review

The Council of the Institute of Company Secretaries of India is constituted under the Company Secretaries Act, 1980, for discharging the functions assigned to the Institute under the Act. Section 15(1) of the Act provides that “The Institute shall function under the overall control, guidance and supervision of the Council and the duty of carrying out the provisions of the Act shall be vested in the Council”, and enumerates various other duties of the Council. With a view to regulate the profession of Company Secretaries and in terms of the powers vested, the Council has issued guidelines for Peer Review of Attestation and Audit Services by Company Secretaries in Practice. The guidelines serve as a mechanism intended to further enhance the quality of professional work of Company Secretaries in Practice (PCS) over a period of time, thereby ensuring that the profession of Company Secretaries continues to serve the society in the manner envisaged

The Guidelines on Peer Review are issued in relation to conduct of Peer Review of members rendering services:

- to promulgate an appropriate mechanism for ensuring the quality of professional services and guide the members in a manner that the Council considers appropriate;
- to provide guidance in relation to the statutory powers and obligations with respect to the parties involved in Peer Review;
- to prescribe the scope of Peer Review and the procedures to be adopted during the process of Peer Review; and
- to establish the expected conduct of members during a peer review.

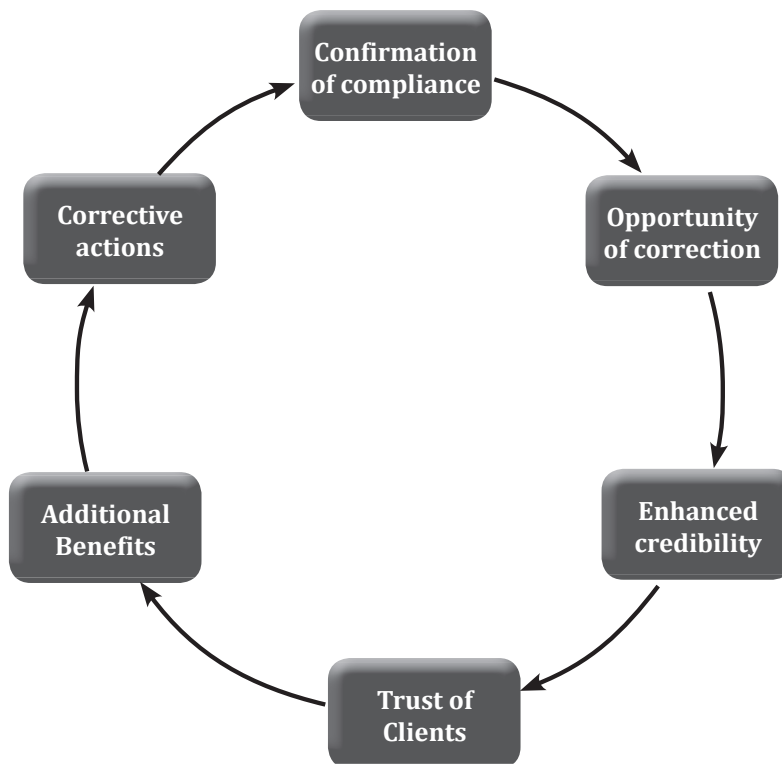
OBJECTIVES OF PEER REVIEW

The main objective of peer review is to ensure that in carrying out their services, the PCS has complied with the technical standards laid down by the Institute and has in place proper systems (including documentation systems) for maintaining the quality of the services/ work they provide. The Council has specified the technical standards in relation to which peer review is to be carried out in the guidelines for peer review of attestation services by practising company secretaries. Peer review does not seek to redefine the scope and authority of the technical standards specified by the council but seeks to enforce them within the parameters prescribed by the technical standards.

Peer review is directed towards maintenance as well as enhancement of quality of attestation services and to provide guidance to members to improve their performance and adhere to various statutory and other regulatory requirements. Essentially, through a review of attestation services engagement records, peer review identifies the areas where a practising member may require guidance in improving the quality of his performance and adherence to various requirements as per applicable technical standards and regulatory requirements.

Benefits of Peer Review

There are significant benefits which a Practice Unit will obtain in undergoing a Peer Review. These may be summarised below:



1. A successful Peer Review will provide comfort to the Practice Unit that it has adhered to various statutory, documentary and other regulatory requirements.
2. If deficiencies are noticed and corrective measures suggested, the Practice Unit will have an opportunity to correct the deficiencies and thereby enhance professional competence.
3. If a Peer Review Certificate is issued in favour of the Practice Unit it enhances credibility of the Practice
4. Unit in the eyes of the general public.
5. Since a Chinese Wall exists between the Peer Review Process and the Disciplinary Proceedings, the Practice Unit will benefit from Peer Review without any apprehension of any disciplinary proceedings being initiated against for any deficiencies noticed on its part.
6. Clients of the P.U. will benefit from knowing that their Practice Unit is periodically reviewed by the ICSI.
7. Furthermore, the benefits of getting Peer Reviewed Units can be seen by Guidelines issued by Council of the Institute from time to time. The benefits given by the Council to the Peer Reviewed Units are as follows:
 - an additional limit of 5 secretarial audits per partner/PCS in case the unit is peer reviewed. (For Secretarial Audit Reports issued for FY 2016-17 onwards)
 - an additional limit of 5 (five) Annual Secretarial Compliance Report under SEBI (LODR) Regulations, 2015 individually / per partner in case the unit has been Peer Reviewed. (w.e.f. 1st April, 2020)

To ensure the quality of services rendered by members of the Institute to their clients and to the society as a whole, the Council has decided to make Peer Review mandatory in phased manner as follows:

Services	Applicability	Effective date (w.e.f.)
• Secretarial Audit Report / Annual Secretarial Compliance Report under SEBI (LODR) Regulations, 2015	Top 100 companies as per market capitalization as on 31st March, 2020.	April 1, 2020
• Certification of Annual Return in terms of Section 92 (2) of the Companies Act, 2013	Top 500 companies as per market capitalization as on 31st March, 2021	April 1, 2021.
• Compliance Certificate under Schedule V, Clause E of SEBI (LODR) Regulations, 2015	all listed companies	April 1, 2022.
• Half yearly Share Capital Reconciliation Certificate under Regulation 40 (9) of SEBI (LODR) Regulation, 2015	all companies.	April 1, 2023
• Quarterly Share Capital Reconciliation Certificate under Regulation 76 of SEBI (Depository Participants) Regulation, 2018		
• Internal Audit of Operations of the Depository Participants		April 1, 2020
• Diligence Report and Certificate under SEBI (Delisting of equity shares) Regulation 2021		June 10, 2021
• Diligence Report for banks incase of consortium lending/ multiple banking arrangements		July 1, 2020
Further the Council has decided that the PCS shall mandatorily mention the Peer Review Certificate number while signing / certifying the above in the following format:		
Date:	For XYZ & Associates	
Place:	Company Secretaries	
	Name	
	FCS	
	CP	
	PR	

SCOPE OF PEER REVIEW

Under the scope of Peer review, the following attestation services are covered:

At present the following Attestation and Audit Services are covered under the purview of Peer Review.

- Annual Returns Certified/Signed under Companies Act, 2013
- Certificates Issued under Regulation 40 (9) of SEBI (LODR) Regulations, 2015
- Secretarial Audit Reports issued Section 204 of the Companies Act, 2013 / Regulation 24A of SEBI(Listing Obligations and Disclosure Requirements) Regulations, 2015
- Annual Secretarial Compliance Reports under SEBI (LODR) Regulations, 2015
- Internal Audits under Section 138 of the Companies Act, 2013
- Audit Reports issued under Clause 76 of SEBI (Depositories & Participant Regulations) 2018

- (g) Certificate issued under Regulation 56 of LODR Regulation 34(3) read with Schedule V, Para C, Clause (b) (i)
- (h) Compliance Certificates issued under Clause E, Schedule V of SEBI (LODR) Regulations, 2015
- (i) Internal Audit of Registrar and Share Transfer Agent (RTA) under SEBI Circular No. SEBI/HO/MIRSD/CIR/P/2018/73
- (j) Internal Audit of Credit Rating Agencies under SEBI Circular No. SEBI/MIRSD/CRA/Cir-01/2010
- 11) Issuance of Internal Audit Certificate for operations of the Depository Participants
- (k) Half yearly bank due diligence certificates issued.

Since law is a dynamic subject, situations may arise whereby regulatory prescriptions may necessitate certification / recognition in other areas also in due course. The Council and the Peer Review Board may include other services under the scope of Peer Review from time to time.

Question: Which of the given options is not a part of Attestation services under the scope of peer review?

Options: (A) Compliance Certificates under SEBI (LODR) 2015

(B) Internal Audits under Section 138 of Companies Act, 2013

(C) Search Report

(D) Half Yearly bank due diligence certificate

Answer: (C)

Guidelines for mandatory Peer Review for rendering certain Professional Services.

The ceiling on number of Annual Secretarial Compliance Reports to be issued by PCS is 5 (five) reports individually / per partner in each financial year w.e.f. April 1, 2020 and an additional limit of 5 (five) Secretarial Compliance Reports individually / per partner in case the Unit has been Peer Reviewed.

The Council has approved the recommendations of the Peer Review Board making Peer Review mandatory for rendering Professional Services viz. Secretarial Audit, Secretarial Compliance Report under SEBI (LODR) and Diligence Reports for Banks and it has decided to issue the following Guidelines:-

- (a) Secretarial Audit / Annual Secretarial Compliance Report under SEBI (LODR) of Top 100 companies as per market capitalisation to be undertaken only by Peer Reviewed PCS w.e.f. April 1, 2020;
- (b) Secretarial Audit / Annual Secretarial Compliance Report under SEBI (LODR) of Top 500 companies as per market capitalisation to be undertaken only by Peer Reviewed PCS w.e.f. April 1, 2021;
- (c) Secretarial Audit / Annual Secretarial Compliance Report under SEBI (LODR) of all listed companies to be undertaken only by Peer Reviewed PCS w.e.f. April 1, 2022;
- (d) Secretarial Audit of all companies to be undertaken only by Peer Reviewed PCS w.e.f. April 1, 2023;
- (e) Issuance of Diligence Report for banks in case of Consortium Lending / Multiple Banking Arrangements to be undertaken only by Peer Reviewed PCS w.e.f. July 1, 2020.
- (f) Internal Audit of Operations of the Depository Participants w.e.f. April 1, 2020.
- (g) Diligence Report and Certificate under SEBI (Delisting of equity shares) Regulation 2021, w.e.f. June 10, 2021.

Qualifications for Peer Reviewer

To be empanelled as Peer Reviewer, an individual (Qualifications)–

- (a) Be a member with at least 10 years of post qualification experience as Company Secretary;
- (b) Be currently holding Certificate of Practice as issued by the Institute.

Further to be empanelled as Peer Reviewer, a member shall not have (Disqualifications): -

- (a) disciplinary action / proceedings pending against him during the past 3 years initiated by the government/ regulatory body/ statutory body;
- (b) been convicted by a Competent Court whether within or outside India, of an offence involving moral turpitude and punishable with transportation or imprisonment.

The Reviewer's Approach

- (a) The approach of the Reviewer should be courteous, professional and helpful throughout the review process.
- (b) He should be appreciative of good practices while suggesting areas of improvement.
- (c) He should adopt a collaborative approach with the Practice Unit during the review process and should ensure minimum disruption to the Practice Unit during the peer review.

- (d) He should be able to provide practical and insightful comments in a discussion mode as a Peer during the review process.
- (e) He should try and give value addition to Practice Unit and not merely adopt a tick box approach.
- (f) In determining issues which are subjective, the purpose is not to replace the PU's opinion with the opinion of the Reviewer but to verify the process followed in exercise of judgment by the Practice Unit. Verification of the process will include verification of working papers maintained by the Practice Unit.

Expected Qualities of Reviewer

The nature and complexities of peer review requires the exercise of professional judgment. The reviewer should:

- Be well acquainted with the technical aspects of the attestation services.
- Know the provisions of Code of Conduct of ICSI.
- Have studied various cases decided on Code of Conduct of ICSI.
- Get himself/herself acquainted with decisions of various courts on 'cases relating to deficiency in service'.
- Be aware of relevant provisions of CS Act 1980, Consumer Protection Act, Evidence Act, IPC, etc.
- Have studied the technical standards like Secretarial Standards, Guidance Notes, Notifications and Guidelines issued by Council of ICSI.
- Be aware of evolving standards and best practices in the field.
- Be good at drafting, written and spoken English.
- Display professional and courteous behavior while on peer review visit.
- Understand his limitations.
- Be clear about what is outside the scope of Peer Review.

PEER REVIEW PROCESS

Once a practice unit is selected for review, the professional services rendered by it during the immediately preceding financial year shall be subject to review. The Review shall focus on:

- (i) Compliance with Technical Standards
- (ii) Quality of Reporting
- (iii) Office systems and procedures with regard to compliance of services including appropriate infrastructure.
- (iv) Training Programs for staff (including trainees) concerned, including appropriate infrastructure.

The term Technical Standards means and include

1	• Auditing Standards issued by the Institute of Company Secretaries of India.
2	• Compliance of the Guidance Notes issued by the Institute of Company Secretaries of India which are applicable in the context of the specific engagements being reviewed:
3	• Compliance of the provisions of the various relevant Statutes and/or Regulations, which are applicable in the context of the specific engagements being reviewed; and
4	• Notifications/Directions issued by the Council of Institute of Company Secretaries of India.

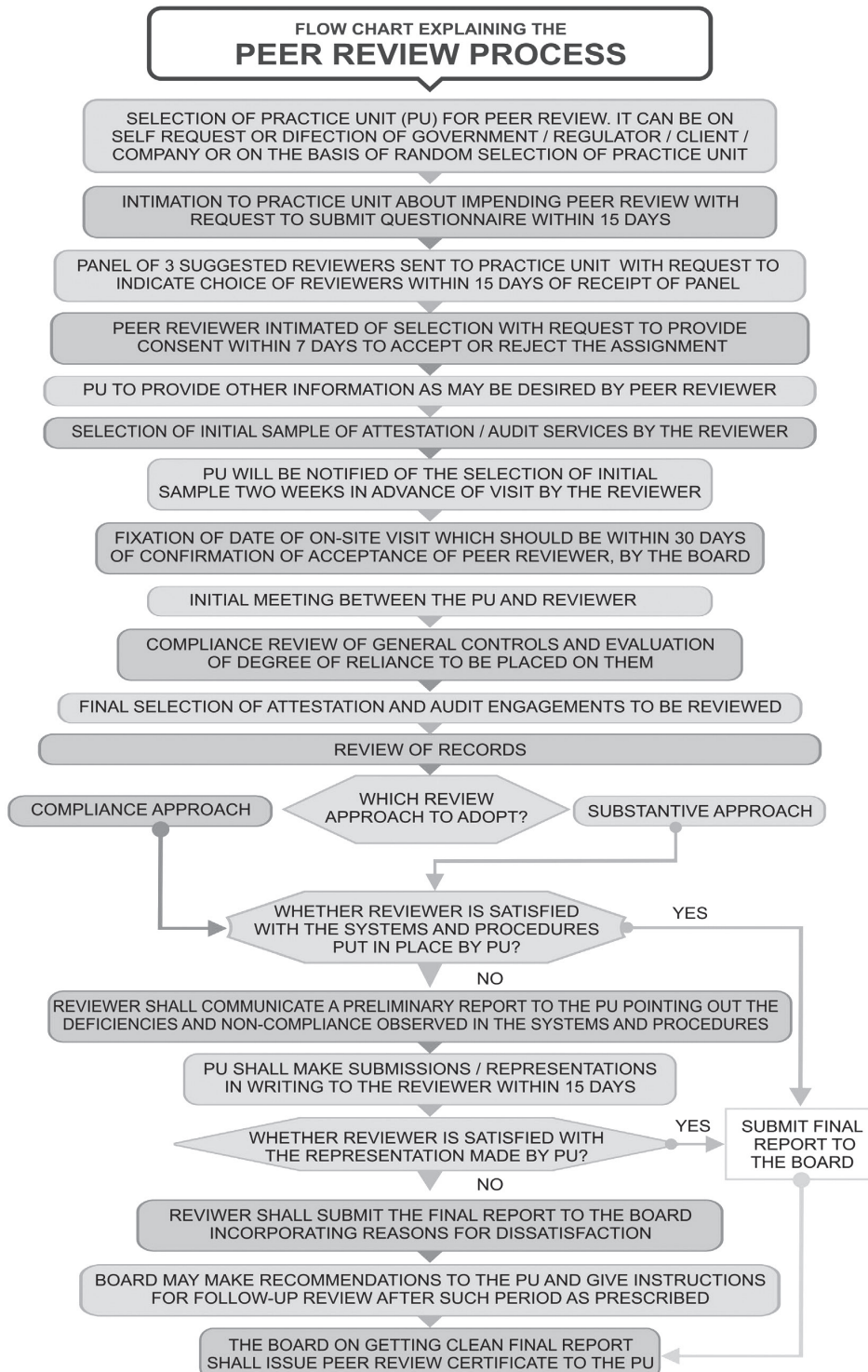
Applicability of the Guidelines on Peer Review

The guidelines on Peer Review shall apply to all or any of the following cases:

- (a) Whenever Peer Review is mandated on the Instructions of Government / Regulators
- (b) Whenever Peer Review is requested Voluntarily by the Practice Unit
- (c) Whenever Peer Review is conducted on the basis of random selection

- (d) Upon the recommendation of the Board of discipline or Disciplinary Committee of ICSI / Quality Review Board / Council of ICSI The Council of the Institute on any legislative amendment to law may require a Peer Review to be conducted of any Practice Unit.

A Peer Review is said to be mandated when the Council of the Institute or any legislative amendment to law requires a Peer Review to be conducted. A Peer Review is said to be requested when a Practice Unit (PU) requests the Peer Review Board to have itself Peer Reviewed on a voluntary basis. A Peer Review is said to be conducted when a Peer Review is undertaken based on random selection initiated by the Peer Review Board Peer Review Process.



Empanelment of Peer Reviewers

The Peer Review Board has been empowered to maintain a panel of Reviewers. Para 10 of the peer review Guidelines provides for the qualifications of the reviewer which is as under:

1. The nature and complexity of Peer Review require the exercise of professional judgement. Accordingly, an individual to be empanelled as Peer Reviewer shall (Qualifications):-
 - (bh) Be a member with at least 10 years of post qualification experience as Company Secretary;
 - (bi) Be currently holding Certificate of Practice as issued by the Institute.
2. Further to be empanelled as Peer Reviewer, a member shall not have (Disqualifications): -
 - (a) disciplinary action / proceedings pending against him during the past 3 years.
 - (b) been convicted by a Competent Court whether within or outside India, of an offence involving moral turpitude and punishable with transportation or imprisonment;
3. The Board may examine the quality of the report and shall have powers to remove the Reviewer from the panel of Peer Reviewers, in case the quality of the review/report fails to match the desired standards.
4. Sitting members on the Council / Regional Council and sitting Office Bearers of Managing Committee of the Chapter(s) of the ICSI shall not act as Peer Reviewers till they demit their office.
5. The requirement of at least ten years' experience as a member does not necessarily entail his/her experience as a Practicing Company Secretary. Even a member who has earlier been in employment for a decade can seek empanelment as a Reviewer provided he/she is holding a certificate of practice on the date of making the application for empanelment as reviewer.
6. The Board has prescribed a format for inviting applications from members fulfil the above criteria who are willing to be empanelled as Reviewers. The application form seeks to collate information on the experience of the member, infrastructure available, professional experience, educational qualification, practice areas, etc. which would enable the Board to assess the core competence of the applicant for empanelment as reviewer. When a Peer Review is required to be conducted, the Board would endeavour to match the relevant experience and standing of the Reviewer with the profile of the P.U. which is to be Peer Reviewed.
7. A copy of the application format for empanelment of Reviewer is may be downloaded from the webpage of the Peer Review Board at the ICSI portal www.icsi.edu.

Statement of Confidentiality

The process of Peer Review requires high level of integrity on the part of the Peer Reviewer and any Authorised Assistant who may assist him during the Review. The Board has prescribed a Statement of Confidentiality for this purpose. Before accepting to undertake a Peer Review, the Reviewer and any other Authorised Assistant who may assist him in the Peer Review, are required to sign this Statement of Confidentiality and shall send the same to the Peer Review Board. This statement of Confidentiality should be renewed every year.

Strict confidentiality provisions shall apply to all those involved in the Peer Review process, namely, Reviewers, members of the Board, the Council, or any person who assists any of these parties. Those persons subject to the secrecy provision:

1. shall at all times after their appointment preserve and aid in preserving secrecy with regard to any matter coming to their knowledge in the performance or in assisting in the performance of any function, directly or indirectly related to the process and conduct of Peer Review.
2. shall not at any time communicate any such matter to any other person; and
3. shall not at any time permit any other person to have any access to any record, document or any other material, if any, which is in their possession or under their control by virtue of their being or having been so appointed or their having performed or having assisted any other person in the performance of such a function.

Non-compliance with the secrecy provisions in the above clause shall amount to professional misconduct as defined under Section 22 of the Company Secretaries Act, 1980.

A statement of confidentiality shall be filled in by the person(s) who are responsible for the conduct of Peer Review i.e., Reviewers/ the members of the Board and others who assist them.

METHODOLOGY TO BE FOLLOWED BY REVIEWER

(a) Offsite review

- This contemplates studying the information given by the PU in the Questionnaire and based on the same make his own observations about possible areas where improvement is possible and to note other aspects to be discussed in personal meeting with PU.

(b) Onsite review

- Verification of information given by the PU.
- Test checks in respect of attestation assignments handled by the PU.
- Interaction with the staff & trainees of PU should be a part of the peer review.
- Calling for the records in respect of the client maintained by the PU to verify whether proper systems and procedures have been followed.

Compliance with Peer Review Guidelines

Practice units are required to comply with the provisions of the Peer Review guidelines. Practice units failing in this regard will be required to undergo appropriate review of their quality controls by the Board in terms of such specific directions as may be given to it by the Council in this regard from time to time and as intimated to the members. The Obligations of the Practice Unit includes the following :

1. Access to records or documents:

1. Any person to whom this clause applies and who is reasonably believed by a Reviewer to have in his/ her possession or under his/her control any record or other document, which contains or is likely to contain information relevant to the Peer Review shall:
 - (i) Produce to the Reviewer or allow him/her access to, any record or document specified by the Reviewer or any other record or document which is of a class or description so specified and which is in his/her possession or under his/her control/ being in either case a record or other 12 Peer Review Manual document, which the Reviewer reasonably believes is or may be relevant to the Peer Review, within such time as the Reviewer may reasonably require;
 - (ii) If so required by the Reviewer, allow and provide him such explanation or further particulars in respect of anything produced in compliance with the requirements under sub clause (i) above, as the Reviewer shall specify; and
 - (iii) Provide to the Reviewer all assistance in connection with Peer Review which he/she is expected to provide.
2. Where any information or matter relevant to a Practice Unit is recorded otherwise than in a legible form, the Practice Unit shall provide and present to the Reviewer a reproduction of any such information or matter, or of the relevant part of it in a legible form, with a suitable translation in English if the matter is in any other language and such translation is requested for by the Reviewer.
3. The Practice Unit shall ensure that the Reviewer is given access to all documents relevant to his review no matter which office of the Practice Unit, these documents may be available in, in case the Practice Unit has more than one office.
4. A Practice Unit shall allow the Reviewer to inspect, examine or take any abstract of or extract from engagement record or copy therefrom which may be required by the Reviewer.

2. For the purpose of this clause a person means an Individual / Partner/ Designated Partner / Sole Proprietor of the Practice Unit to which the particular review relates or any person employed by or whose services are engaged by such unit.

Cost of Peer Review

The cost of Peer Review for the reviewer and his qualified assistant(s) is decided by the Board from time to time, shall be borne by the Practice unit. In case reviewer has to conduct a second review, the same rate would apply to the second review also. Each of the branch/ office under review would be considered as a separate unit for the purpose of payment of cost of Peer Review.

If a company/concern requests the Board for the conduct of peer review of its secretarial auditor (practice unit), the Board shall take due cognizance of such request and in that case the cost of the peer review shall be borne by such company/ concern.

If the Council / Government or any regulatory body requests the Board for conduct of peer review of any Practice Units, the Board shall take due cognizance of such request and in that case the cost of peer review shall be borne by the referred practice unit.

The Cost of Peer Review shall be paid by the practice unit within 30 days from the receipt of invoice from the Peer Reviewer.

Example: SEBI requested for the conduct of peer review of a Firm. Who is required to pay the cost of review?

This cost should be paid by the Practise Unit.

Periodicity of Peer Review

The Peer Review of every Practice Unit should be mandatorily carried out at least once in a block of five years and the validity of the Peer Review Certificate shall be five years from the date of issue. If the Board so decides or otherwise at the request of the Practice Unit, the Peer Review for a practice unit can be conducted at shorter intervals. Further, in case the PU is reviewed within two year of its incorporation, the validity of the Peer Review Certificate shall be two years.

Review Framework

Essentially, a peer review entails a review of attestation engagement records and related financial/other statements to ascertain whether the practice unit is adhering to technical standards. Where a practice unit is not following technical standards in certain situations, suggestions and recommendations for improvement may be made, and possibly followed by a further review, in keeping with the primary thrust of peer review.

Reporting

The central element of a peer review is the assessment i.e. the professional judgment by the peers. The Guidelines for Peer Review contains provisions for the report of Peer Reviewer. It has been provided that at the end of an on-site review, the reviewer shall, before making his report to the Board, communicate a preliminary report to the practice unit. The reviewer shall report on the areas where systems and procedures had been found to be deficient or where he has noticed non-compliance with reference to any other matter. In arriving at this conclusion, the Reviewer shall be expected to examine the materiality of the non-compliance or deficiency, the number of occasions when such non-compliance was noticed and its overall impact on the quality of attestation service rendered by the PU.

QUESTIONNAIRE FOR PRACTICE UNITS

The Peer Review process requires each Practice Unit to provide some basic information about the PU to the Reviewer as contemplated in the Guidelines in the questionnaire specifically designed by the Board for the purpose.

The questionnaire with the answers provided, would enable the reviewer to make a fair assessment as to the Key Control Areas prevalent in the PU and the degree of reliance that can be placed on the internal control mechanism and records maintained by the PU.

Most of the questions are of objective type which can be answered in simple YES or NO. Some of the questions may require a little explanation from the PU. In case any question is not relevant to a particular PU, it may be replied by writing "Not Applicable" as the answer, with reasons for the same.

The questionnaire is expected to act as guidance to the PUs as to the basic internal control measures that each Practice Unit should normally undertake. Non-existence of any of the internal control measures as elucidated in the questionnaire does not necessarily mean that the PU has failed in any aspect related to quality of service. Still it is desirable that the PU has in place all the internal control mechanisms contained in the questionnaire as a measure of good practice.

All the responses to the questionnaire would be kept strictly confidential by the reviewer and his team and no information contained therein would be shared with any third party.

The reviewer places a great deal of reliance on the responses provided by the PU in the questionnaire while designing his / her review plan. Care should therefore be taken by the PU while answering the questions.

REVIEW PROCESS



(i) Preparation

A practice unit will be notified in writing about an impending peer review and will be sent a Questionnaire for completion, the PU is required to send the duly filled in Questionnaire to the Board.

Return of completed Questionnaire - The practice unit shall have to complete and return the Questionnaire within 15 days of the notification. The information will be used for the planning of the review. In addition, practice units will be required to enclose a complete list of their attestation services clients for the year in respect of which the review is being done.

The Board will send a panel of three suggested names of reviewers, along with their brief profiles. The practice unit will have to give its choice of reviewer within a period of 15 days from the day of receipt of the panel sent by the Board. In case the practice unit would like to have reviewers from another State/ Region (and undertakes to bear the extra costs that would be incurred for TA/DA etc.) and none of the reviewers as identified by the Board for the practice unit are from outside the place of business of the practice unit, then the practice unit may make a special request to the Board to provide names of reviewers from outside the State/Region where the practice unit has its/ his place of business. The Board will send an assignment letter to the selected reviewer for his/her consent.

(ii) Planning

On acceptance of the peer review by the selected reviewer, the PU will be notified.

The reviewer may also require the PU to provide any other information the reviewer considers necessary to facilitate the selection of a sample of attestation services engagements, representative of the practice unit's client portfolio, for review.

- Sample of Attestation services Engagements
 - (a) From the complete attestation services client list, an initial sample will be selected by the reviewer. Practice units will be notified of the selection in writing about two weeks in advance, requesting the relevant records of the selected attestation services clients to be made available for review.
 - (b) At the execution stage, the initial sample may be reduced to a smaller actual sample for review. However, if the reviewer considers that the actual sample does not cover a fair cross-section of the practice unit's attestation services engagements, he may make further selections.
- Confirmation of visit

In consultation with the practice unit, date(s) will be set for the on-site review to be carried out. Flexibility will be permitted to ensure that practice units are not inconvenienced at especially busy periods. The on-site review date(s) will be arranged by mutual consent such that the review is concluded within sixty days of notification.

(iii) Execution*(i) On site review*

Peer review visits will be conducted at the practice unit's head office or other officially noted/ recorded place of office. The complete on-site review of a practice unit may take one or two full days depending upon the size of the practice unit and scope of the peer review. This is based on the assumption that the practice unit concerned has made all the necessary information and documentation available to the reviewer for his review. However, in any case this on-site review should not extend beyond three working days.

(ii) Initial meeting

An initial meeting will be held between the reviewer and the sole proprietor/ a partner of the practice unit designated to deal with the review (designated partner). The primary purpose of this meeting is to discuss the agenda of the peer visit and confirm the accuracy of the responses given in the Questionnaire. The description of the system in the Questionnaire may not fully explain all the relevant procedures and policies adopted by the practice unit and this initial meeting can provide additional information. The reviewer should have a full understanding of the system and be able to form a preliminary evaluation of its adequacy at the conclusion of the meeting. During the meeting, a decision can also be taken on the evaluation method and the person(s) in the office of the PU to be interviewed and who will be able to assist the Reviewer in completing the Peer Review Process during his/her visit.

(iii) Compliance Review-General Controls

- (a) The reviewer may carry out a compliance review of the General Controls and evaluate the degree of reliance to be placed upon them. The degree of reliance will, ultimately, affect the attestation services engagements to be reviewed. The following five key controls will be considered as General Controls:
 - Independence
 - Maintenance of Professional Skills and standards
 - Outside Consultation
 - Staff Supervision and Development
 - Office Administration

Practice units are expected to address each of the five key control areas.

- (b) In each key control area there shall be supplementary questions and matters to consider. These are intended to ensure that the controls that are expected to be maintained, are installed and operated within practice units.
- (c) All questions in the questionnaire may not necessarily be relevant to particular types of practice units because of its size, nature and type of its practice. However, practice units should still assess their internal control systems to ascertain whether they address the objectives under the five key control areas.
- (v) The Reviewer should evaluate these general controls to understand the functioning of the office of the Practice Unit.

(iv) Selection of attestation services engagements to be reviewed

- (a) The number of attestation services engagements to be reviewed depends upon:
 - The number of practicing members involved in attestation services engagements in the practice unit;
 - The degree of reliance placed, if any, on general quality controls; and
 - The total number of attestation services engagements undertaken by the practice units for the period under review.
- (b) The engagements reviewed should be a balanced sample from a variety of different types of companies. Accordingly, if the reviewer considers that the actual sample is not representative of the practice unit's attestation services client portfolio, he may make further selections from the initial sample or from the complete attestation services client list.
- (c) The Reviewer should not undertake Peer Review of attestation engagements which have been the subject matter of disciplinary proceedings nor should the Practice Unit influence the Reviewer to select such engagements for Peer Review.

(v) Review of records

The reviewer may adopt a compliance approach or substantive approach or a combination of both in the review of attestation services engagement records.

(a) Compliance approach - Attestation services engagements

- The compliance approach is to assess whether proper control procedures have been established by the practice unit to ensure that attestation services are being performed in accordance with Technical Standards.
- Practice units should have procedures and documentation sufficient to cover each of the key areas. If Members in smaller practices find some of the documentation too elaborate for their clients and they tailor their attestation services documentation to suit their particular circumstances with justification for doing so should be provided to the reviewer.
- If the size of the Practice Unit is small or medium (a matter left to the judgement of the Reviewer), the Compliance Approach may not be appropriate. In such a case, the Reviewer may choose the Substantive Approach for conduct of Review.

(b) Substantive approach - Attestation services Engagements

A substantive approach will be employed if the reviewer chooses not to place reliance on the practice unit's general controls on attestation engagements or is of the opinion that the standard of compliance is not satisfactory or not appropriate in the case of a specific Practice Unit selected for Peer Review. This approach requires a review of the attestation working papers in order to establish whether the attestation work has been carried out as per norms of Technical Standards.

REVIEW PROCESS AS PER PEER REVIEW MANUAL

The methodological approach involved in peer review can be described in terms of four stages viz., preparation, planning, execution and reporting, which are summarized below:

Planning

Notification - A Practice Unit will be notified in writing about an impending Peer Review and will be sent a Questionnaire for completion.

Return of completed Questionnaire - The Practice Unit shall have to complete and return the Questionnaire to the Secretariat within 15 (fifteen) days of receipt. The information will be used for the planning of the review. In addition, Practice Units will be required to enclose a complete list of their Attestation and Audit Services and to provide any other information as the Reviewer may consider necessary to facilitate the selection of a sample of Attestation and Audit Services, engagement records, which represents the Practice Unit's client portfolio, for review.

Sample of Attestation and Audit Services Engagements:-

- (a) From the complete list of Attestation and Audit Services, an initial sample will be selected by the Reviewer. Practice Units will be notified of the selection in writing about 2 (two) weeks in advance, requesting the relevant records of the selected Attestation and Audit Services, to be made available for review.
- (b) At the execution stage, the initial sample may be reduced to a smaller actual sample for review. However, if the reviewer considers that the actual sample does not cover a fair cross-section of the Practice Unit's Attestation and Audit Services engagements, he/she may make further selections.

Execution

Initial meeting

An initial meeting may be held between the Reviewer and an Individual / partner/ sole proprietor of the Practice Unit concerned to conduct the review. The primary purpose of this meeting is to confirm the accuracy of the responses given in the Questionnaire. The description of the system in the Questionnaire may not fully explain all the relevant procedures and policies adopted/ followed by the Practice Unit and this initial meeting can provide additional information. The Reviewer should gather a full understanding of the system, and be able to form a preliminary opinion/evaluation of its adequacy at the conclusion of the meeting.

Confirmation of visit

In consultation with the Practice Unit, date(s) will be set for the on-site review to be carried out. Flexibility will be permitted to ensure that members are not uncomfortable at especially busy periods. The on-site review date(s) will be decided by mutual consent such that the review is concluded within 30 (thirty) days of intimation or any other time as may be extended by Peer Review Board keeping in view of the Practical difficulties.

Peer Review visits will be conducted at the Practice Unit's head office or any other office/branch for which Peer Review has been initiated. The complete on-site review of a practice unit may take at least a full day depending upon the size of the Practice Unit. This is based on the assumption that the Practice Unit concerned has made all the necessary information and documentation available to the Reviewer for review. However, in any case this on-site review should not extend beyond 3 (three) working days.

Compliance Review - General Controls

- (a) The Reviewer may carry out a compliance review of the General Controls and evaluate the degree of reliance to be placed upon them. The degree of reliance will, ultimately, affect the Attestation and Audit Services engagements to be reviewed. The following 5 (five) key controls will be considered as General Controls:
 - Independence;
 - Professional skills and standards;
 - Outside consultation;

- Staff supervision and development;
 - Office administration including maintenance of registers and records. Practice Units are expected to address each of the 5 (five) key control areas.
- (b) In each key control area there shall be supplementary questions and matters to consider. These are intended to ensure that the kind of controls that are expected to be maintained, are installed and operated within Practice Units.
- (a) All questions in the Questionnaire may not necessarily be relevant to particular types of Practice Units because of the size and culture etc. However, Practice Units should still assess their internal control systems to ascertain whether they address the objectives under the five key control areas.

Selection of Attestation and Audit Services engagements to be reviewed

- (a) The number of Attestation and Audit Services engagements to be reviewed depends upon:
- The number of practicing members involved in Attestation and Audit Services engagements in the Practice Unit;
- The degree of reliance placed, if any, on general quality controls; and
 - The total number of Attestation and Audit Services engagements undertaken by the Practice Units for the period under review.
- (b) The engagements reviewed should be a balanced sample from a variety of different types of companies. Accordingly, if the Reviewer considers that the actual sample is not representative of the Practice Unit's Attestation and Audit Services client portfolio, he may make further selections from the initial sample or from the complete Attestation and Audit Services list.

Review of Records

The Reviewer may adopt a compliance approach or substantive approach or a combination of both in the review of engagement records.

(a) Compliance approach

The compliance approach is to assess whether proper control procedures have been established by the Practice Unit, to ensure that Attestation and Audit Services are being performed in accordance with Technical Standards.

Practice units should have procedures and documentation sufficient to cover each of the key areas. Members in smaller practices may find some of the documentation too elaborate for most of their clients and so should tailor their documentation to suit their particular circumstances with justification for doing so provided to the reviewer.

(b) Substantive approach

A substantive approach will be employed if the Reviewer chooses not to place reliance on the Practice Unit's specific controls on attestation engagements or is of the opinion that the standard of compliance is not satisfactory.

This approach requires a review of the working papers in order to establish whether the attestation and audit work has been carried out as per norms of Technical Standards.

Reporting

(i) Preliminary Report of Reviewer

- At the end of an on-site review, the reviewer shall, before making his report to the Board, communicate a preliminary report to the Practice Unit (in case he/she finds any deficiency in the systems and procedures of the Practice Unit in rendering Professional Services to the clients). The Reviewer shall report on the areas where systems and procedures had been found to be deficient or where non-compliance with reference to any other matter was noticed.
- The Practice Unit shall make submissions or representations, in writing to the Reviewer, concerning the preliminary report within 15 (fifteen) days from the date of receipt of preliminary report from Reviewer.

(ii) Final Report of Reviewer

- (a) The Reviewer will submit a Final Report to the Board with a copy to the Practice Unit (the Reviewer's Report), incorporating the findings. The Final Report will be examined/inspected by the Board in terms of the degree of compliance with the Technical Standards by the reviewed Practice Unit. The model forms of such Final Reports shall be communicated to the Reviewer by the Board.
- (b) The Board may, if deems fit, issue Peer Review Certificate to the Practice Unit.

OR

- (c) The Board, having regard to the Report and any submissions or representations attached to it, may make recommendations to the Practice Unit concerned regarding the application by it of Technical Standards; if it is of the opinion that:
 1. In case the review is related to a firm, any one or more or all of the partners in the firm may have failed to observe, maintain or apply, as the case may be, Technical Standards;
 2. In case the review is related to a member practicing on his own account, the member may have failed to observe, maintain or apply, as the case may be, Technical Standards; Then;
 3. Issue instructions to the Reviewer to carry out, within such period as may be specified in the instructions (which period shall not commence earlier than six months after the date on which the instruction is issued), a further Peer Review as regards the Practice Unit to which the report relates; and
 4. Specify in the instruction, the matters as regards which the review is to be carried out.
- (d) The Board will make recommendations to the Practice Unit where:

Based on the report of the Reviewer, it appears that the Practice Unit has satisfied all key control objectives, which the Board has determined and/or prescribed in respect of maintenance of/ adherence to Technical Standards but where further improvements could be made to internal quality control systems; and Based on the report of the reviewer, it appears that the Practice Unit has satisfied the major key control objectives but some weaknesses exist in others. The Practice Unit is expected to consider the recommendations for rectifying the weaknesses thus identified and informed by the Board and take all necessary actions to ensure that all key control areas are addressed.

- (e) A follow up review will be required where the Practice Unit has not satisfied the Board that all the key control objectives have been maintained and where, in the view of the Board the deficiencies are likely to materially affect the overall quality of engagements of the Practice Unit. In such cases the Board will also make recommendations, which it expects the practice unit to implement in order to ensure the maintenance of Technical Standards. The implementation of these recommendations will be examined during the follow up review.

(iii) The Reviewer shall not communicate any Report(s) unless the examination of such Report(s) and related records has been made by him/her or by a partner or an employee of his/her firm.**OFFICE SYSTEMS AND PROCEDURES**

Under the guidelines for peer review of attestation services by practising company secretaries, the peer review is expected to examine the office systems and procedures with regard to compliance of attestation services.

The reviewer shall verify whether the practice unit has adequate office systems and procedures in place. However, the extent and scale of these systems may vary from one practice unit to another, depending upon the size and scale of practice of the practice unit.

The reviewer shall particularly examine the following aspects, besides forming his own judgment during the review:

1. Whether the practice unit has a document management system which should ideally include the filing system, record storage and retrieval system (whether in hard copy or soft copy),
2. Whether allocation of attestation assignments among the trainees are commensurate with the capability of the staff, whether the assignments are properly carried out and the attestation services are verified by the proprietor or partner of the practice unit or a qualified assistant in the office of the practice unit before authentication.

Training programs for staff (including apprentices) concerned with attestation functions, including appropriate infrastructure.

Proper training and capacity development of the apprentice trainee(s) and other staff in the office of the practice unit is very essential to maintain the quality of attestation services. As it may become difficult for the practice unit to attend to every attestation service, most practice units generally rely on the trainees for execution of the attestation services. In this context, the peer reviewer may examine whether:

1. The apprentice trainees are maintaining a training diary to record the work done every day the dairy is being examined by the proprietor/partner/qualified assistant of the practice unit periodically.
2. Whether any staff induction process is in place.
3. Whether the staff are periodically encouraged to attend any training program or any other capacity building programme, including any in-house mechanism for their professional development.
4. Whether the office of the practice unit is equipped with a library or reference material relating to professional services.
5. Whether the overall décor/appearance of the office of the practice unit is satisfactory.

The list furnished above is only illustrative. The peer reviewer may like to examine any other matters also. However, in doing so, the peer reviewer shall keep in mind the size of the practice unit and its scale of operations.

Referral of Disputes and Appeal

Limitation Period for referral of Dispute	<ul style="list-style-type: none"> Where a dispute arises over the powers of Reviewers or the process or conclusions reached after the review or to any other matter related to the review, the Practice Unit, the Reviewer or both may refer the dispute, in writing, to the Board. Such referral shall have to be made within 2 (two) months of occurrence of the issue in dispute, in such manner as may be prescribed by the Board in this regard.
Dispute to be decided within 6 Months	<ul style="list-style-type: none"> Where the dispute is referred, the Board shall decide the dispute within 6 (six) months of the reference and communicate such decision to each of the parties to the dispute, simultaneously.
Issuing Directions and their compliance	<ul style="list-style-type: none"> The Board issue directions relating to the matter in dispute to such Practice Unit or the Reviewer concerned and require such Unit or Reviewer to comply with them within 30 (thirty) days and send a report to the Board of the said compliance within 15 (fifteen) days of such compliance
Appeal to Council	<ul style="list-style-type: none"> Where either of the parties are dissatisfied with the decision of the Board, it may refer the matter to the Council within 2 (two) months in such manner as may be prescribed.

QUALITY REVIEW BOARD

Quality Review Board (QRB) is constituted by Government of India in exercise of the powers conferred by Section 29 A of the Company Secretaries Act, 1980 (56 of 1980) read with rules 8, 9 and 10 of the Company Secretaries Procedures of Meetings of Quality Review Board, and Terms and Conditions of Service and Allowances of the Chairperson and Members of the Board Rules, 2006.

The Board has been set up to review and enhance the quality of the services rendered by the members of the ICSI. The Board aims to standardize the practices followed by the Company Secretaries and enhance the quality of the services rendered by the members of ICSI on continuous basis.

The Company Secretaries Act, 1980 provides for the regulation of the profession of Company Secretaries in India. The Act was amended in the year 2006 and sections 29A to 29D were inserted making provision for the establishment of Quality Review Board. Accordingly, the Government of India, Ministry of Corporate Affairs, vide their notification no. S.O. 68 (E) dated 6th February, 2012 constituted QRB of the Institute of Company Secretaries of India for promoting “Quality” considerations in rendering various professional (both statutory and non-statutory) services by the Members of the Institute. Government of India, Ministry of Corporate Affairs, vide their notification no. G.S.R. 736(E) dated 27th November, 2006 also notified the Company Secretaries Procedures of Meeting of Quality Review Board, and Terms and Conditions of Service and Allowance of Chairpersons and Members of the Board, Rules, 2006. The relevant legislations are given below:

THE COMPANY SECRETARIES (AMENDMENT) ACT, 2006

The below sections were inserted by the Company Secretaries(Amendment) Act, 2006 in the Company Secretaries Act, 1980.

Section 29A. Establishment of Quality Review Board

1. The Central Government shall, by notification, constitute a Quality Review Board consisting of a Chairperson and four other members.
2. The Chairperson and members of the Board shall be appointed from amongst the persons of eminence having experience in the field of law, economics, business, finance or accountancy.
3. Two members of the Board shall be nominated by the Council and other two members shall be nominated by the Central Government.

Section 29B. Functions of Board

The Board shall perform the following functions, namely:—

1. to make recommendations to the Council with regard to the quality of services provided by the members of the Institute;
2. to review the quality of services provided by the members of the Institute including secretarial Audit services; and
3. to guide the members of the Institute to improve the quality of services and adherence to the various statutory and other regulatory requirements.

Section 29C. Procedure of Board

The Board shall meet at such time and place and follow in its meetings such procedure as may be specified.

Section 29D. Terms and conditions of service of Chairperson and members of Board and its expenditure

1. The terms and conditions of service of the Chairperson and the members of the Board, and their allowances shall be such as may be specified.
2. The expenditure of the Board shall be borne by the Council.

GUIDANCE MANUAL ON QUALITY OF AUDIT AND ATTESTATION SERVICE

Objective of Guidance Manual

The objective of the Manual is:

1. To guide the Company Secretaries to establish policies, procedures & systems to maintain the highest standards of quality in the assignments undertaken by them
2. To establish and maintain a system of quality control to provide it with reasonable assurance that
 - (a) the firm and its personnel comply with the technical/professional standards and applicable legal and regulatory requirements; and
 - (b) the reports or certificates issued by the firm or engagement partners are appropriate in the circumstances.

The Guidance Manual on Quality of Audit and Attestation Services by Company Secretaries also deals with a firm's responsibilities for its system of quality control for audits and reviews and other assurance and related services engagements.

Quality Management System

It is important to understand the meanings of Quality Assurance (QA) and Quality Control (QC) as both terms are the integral part of the quality management systems. For an effective operation, it is important to realise the differences between these terms.

An Effective Quality Management Systems (QMS) contribute enormously to the success of a Practicing Unit, whereas when it is poorly understood, the QMS are likely to be weak and ineffective in ensuring the timely delivery and incompetent in satisfying the customer's requirements.

Quality Assurance includes Guideline for Practice and Prevention

Quality Assurance is focused on planning, documenting and agreeing on a set of guidelines that are necessary to assure quality which are issued by the various regulators on time to time. One of the example for quality assurance is instruction kit of various e-forms, whereas the purpose of the Instruction kit is to provide guidance on the requirement of the form and to have correct record in place.

Normally the QA guideline provides DO's and Don'ts, Instructions, verification methodology, possible errors and defect along with the remedial action required for the same.

The purpose of QA is to prevent defects from entering into system and In other words, QA is a pro-active management practice that is used to assure a stated level of quality in place.

The quality assurance could also be considered as a tool of risk mitigation. However, the effective communication between the Company, its directors KMP's, officers is very important to take informed decision and to take support and guidance from experts before taking and corporate Action, which may cause a risk to the company, its directors Kmp,s Officers and Other stakeholders.

Quality Control includes Strategy of Detection and Improvement

Quality Control can be referred as the examination of Output, Review of the work and assignment already taken place, on the various parameter like time involved, number of resubmission, deficiency, cost, manpower, expertise engaged etc. QC involves verification of output conformance to desired quality levels. This means to checked delivery against customer requirement.

ICSI GUIDANCE MANUAL ON QUALITY MANAGEMENT SYSTEMS

Quality Control Elements within the Firm

Leadership Responsibilities	Ethical Requirements	Familiarity Threat	Integrity
Objectivity	Professional Competence and Due Care	Confidentiality	Professional Conduct
Technical Standards	Human Resources	Performance Evaluation	Monitoring
Reporting & Corrective Measures	Quality	Evaluating Client Information	Preconditions of accepting/continuing any professional engagement
Limitation on Scope	Other factors affecting Engagement Acceptance	Agreement on engagement terms	Criteria for declining, and withdrawing from an Engagement
Integrity of Client and Ethical requirements of Firm		Assignment of Human Resources	Assignment of Engagement Partners

Leadership Responsibilities

1. The firm should assign responsibility for each assignment to one of its partners or the team leader who shall be responsible for overall quality of such assignment.
2. The proprietor of the entity/partners of the firm shall be responsible for quality maintenance and quality improvement of which recommended features are:
 - (a) Communication of the quality control policies and procedures to all team members / relevant personnel. The methods for communication, scope and frequency thereof should be established.
 - (b) Establishing a process that encourages personnel to communicate their views or concerns on quality control matters.
 - (c) Clearly establishing responsibilities of the proprietor of the entity / partners of the firm and other senior personnel for quality control.
 - (d) Promotion of an internal culture of quality and provision of related practical guidance including coverage in professional development programs.
 - (e) Demonstration of firm's overriding commitment to quality, above commercial considerations through the firm's policies and procedures.
 - (f) Addressing performance evaluation, compensation and promotion; and devotion of sufficient resources for the development, documentation and support of quality control policies and procedures.
 - (g) Ensuring possession of appropriate qualifications, experience, ability and authority of those to whom responsibilities for quality control and performance are assigned.

3. In order to ensure and achieve above quality parameters, it is necessary to set a procedure for documentation, which will cover the following areas–
 - (a) Documenting quality control policies and procedures of the firm and its circulation to all relevant personnel.
 - (b) Documenting & circulating policies & procedures whereby individual employees/personnel can communicate their views or concerns on quality control matters.
 - (c) Documenting responsibilities of the Partner and other senior personnel for quality control and circulation among concerned personnel and Governing Board of the firm.
 - (d) Documenting and circulating relevant practical guidance (including coverage in professional development programs) for quality control.
 - (e) Documenting the firm's requirement of appropriate qualifications, experience, ability and authority of those to whom responsibilities for quality controls and performance are assigned.
4. The firm shall keep and preserve the above documents for prescribed period (unless prescribed by any statute, rules or authority, the firm shall decide and document the period of preservation which should not be less than three years). However, putting those policy documents in public domain is optional.

Ethical Requirements

5. The firm, its partner or the team leader responsible for the assignment should ensure whether members of the audit team have complied with relevant ethical requirements.
6. It is recommended that ethical requirements may be fulfilled by the following:
 - (l) Methods and processes for establishing, promoting, and monitoring ethical conduct among all personnel.
 - (m) Policies and procedures to identify non-compliance with ethical requirements and to document both the issues identified and how they were resolved.
7. Ethical requirements include:
 - (a) independence;
 - (b) Integrity;
 - (c) Objectivity;
 - (d) Professional competence and due care;
 - (e) Confidentiality;
 - (f) Professional conduct; and
 - (g) Technical standards
8. The firm, its partner or the team leader responsible for the assignment should assess the independence requirements which apply an assignment. In this regard, the independence policy issues are:
 - (a) Policies and procedures should be in place to provide reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements, maintain independence where required to do so.
 - (b) Communication to, and education of, partners and professional staff, including non-audit personnel, to ensure that they understand the independence policies that relate to their activities.
 - (c) Policies and procedures to identify and evaluate circumstances and relationships that create threats to independence so that appropriate action may be taken to eliminate or reduce the threat to an acceptable level by applying safeguards or, if considered appropriate, by withdrawing from the engagement.
 - (d) Policies and procedures required to ensure compliance with the auditor's independence requirements of the relevant laws & rules.

- (e) Requirements for engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable it to evaluate the overall impact, if any, on independence requirements of accepting or continuing with an engagement.
- (f) Requirements for the engagement partner to obtain information, consider breaches if any of the firm's independence policies, take appropriate action and document conclusions on compliance with independence requirements that apply to the audit engagement.
- (g) Requirements for personnel to promptly notify the firm of circumstances and relationships that creates a threat to independence so that appropriate action may be taken.
- (h) Maintenance of adequate records to identify, communicate, and monitor compliance with, specific independence requirements (e.g., prohibited investment lists) so that appropriate action can be taken regarding identified threats to independence.
- (i) Policies and procedures to provide the firm with reasonable assurance that it is notified of breaches of independence requirements so that it may take appropriate action to resolve such situations.
- (j) Periodic written (or electronic) confirmation (at least annually) of compliance with firm policies on independence by all personnel required to be independent.
- (k) Processes in place to evaluate the appropriateness of undertaking non-assurance services for audit clients.
- (l) Policies and procedures to reduce the familiarity threat including rotation of individuals with a significant role in a listed company audit engagement and limitations on employment of former partners, directors or lead auditors by audit clients or their related companies.
- (m) Policies concerning fees and pricing (including fees that constitute a significant proportion of the firm's fees, overdue fees and pricing in proposals).
- (n) Disciplinary procedures regarding non-compliance with independence policies and procedures.
- (o) Policies when there is actual or threatened litigation between the firm and an auditee.
- (p) Policies and practices when independence is determined to be impaired including reporting to any regulatory authority where required.
- (q) Policies and procedures regarding communication with the audit committee of an auditee including provision of information to the client company allowing adequate disclosure of non-audit services in the director's report or any other document for disclosure.

Familiarity Threat

- 9. A familiarity threat arises when, by virtue of a close or long-term relationship with a client, its directors, officers or employees, the firm or person on an engagement team may become too sympathetic to the client's interests compromising the independence of the auditor/firm.
- 10. Rotation requirement - deploying the same principal auditor on an audit or assignments from the firm over a prolonged period of time may create a familiarity threat. This threat is particularly relevant in the context of the audit/assignments of listed entities and safeguards should be applied in such circumstances to reduce such threat to an acceptable level.

Integrity

- 11. While carrying out the assignments, firm should ascertain the integrity aspects of the client. This is particularly applicable in case of new clients though such periodical assessment may also be carried in case of existing clients.
- 12. Integrity is associated with soundness or moral principles and character in dealings with others. For assessing and evaluating the integrity the following aspects of the client may be considered:
 - (a) The identity, business reputation and attitude of the owners and key management personnel and related parties.

- (b) The nature of the client's operations, including its business practices.
- (c) Attitude of the management towards compliance of various statutory requirements including implementation of Secretarial Standards, the internal control systems, internal audit etc.
- (d) Limitations suggested / imposed on the scope of work.
- (e) The reasons for the proposed appointment of the firm and non re-appointment of the previous firm.

Objectivity

13. The test of objectivity shall be whether the audit was carried out in an impartial and fair manner without favor or prejudice. The auditor should base his assessment and opinion purely on facts, evidences, sound analysis and judgement.

Professional Competence and Due Care

14. Firm should take due care in reporting and authenticating documents and statements applying his professional skills and maintaining objectivity and integrity. While exercising due care and reflecting professional competence, firm should possess:
- (a) An understanding of Secretarial Standards applicable to fulfill the responsibilities;
 - (b) special skills (for example, industry specific knowledge) necessary to perform the work on the non-financial information of the particular component; and
 - (c) an understanding of the applicable cost/financial reporting framework that is sufficient to fulfill the responsibilities.

Confidentiality

15. Confidentiality is the spirit of company secretarial profession and as a professional, complete confidentiality of information obtained during assignment is the basic requirement.
16. Relevant ethical requirements establish an obligation for the firm's personnel to observe at all times the confidentiality of information contained in engagement documentation, unless specific client authority has been given to disclose information, or there is a legal or professional duty to do so.

Professional Conduct

17. Company Secretaries are looked upon as trustworthy guardians caring for consumer protection, investor protection, guides to corporate world in secretarial leadership. As corollary their professional conduct must also be illustrative and aboveboard.
18. The members of the Institute of Company Secretaries of India are bound by a code of conduct. This code stipulates and binds Company Secretaries to the highest level of care, duty and responsibility to their employers and clients, the public and their fellow professionals.

Technical Standards

19. The firm should be fully conversant with various pronouncements by the regulatory bodies and should keep updated with the technical standards which may be prescribed from time to time.

Human Resources: Requirements, Training & Development

20. In case of a professional firm, human resources are the prime assets responsible for success or failure of the firm. The constitution of the team and members which make the team is the major determinant in rendering the quality of professional services and hence, this element is dealt with in a separate chapter.

Performance Evaluation

21. Performance Evaluation is necessary for developing and maintaining competence and commitment to ethical principles which include:
- (a) Making personnel aware of the Firm's expectations regarding performance;
 - (b) Providing personnel with evaluation of performance;
 - (c) Helping personnel understand that advancement to provisions of greater responsibility depends, among other things, upon performance quality; and
 - (d) Explaining personnel in clear terms that the failure to comply with the firm's policies and procedures;
 - (e) may result in disciplinary action.
22. In order to evaluate the performance, maintenance of the documents, containing following aspects is recommended:
- (a) Overall quality on each assignment and the responsibility of the engagement partner.
 - (b) Engagement quality and consistency through use of Manuals and/or software tools or other forms.
 - (c) of standardized documentation and industry or subject matter-specific guidance.
 - (d) Supervision, quality control and documentation of work during the engagement.
 - (e) Review by more experienced personnel, including the engagement partner, of work performed by less experienced team members prior to issuing the report.
 - (f) Policies and procedures for the assembly of final engagement files on a timely basis after the engagement reports have been finalised.

Monitoring

23. Monitoring refers to a process which is an ongoing exercise for evaluation of firm's quality control systems which also includes periodic inspection of completed assignments on sample basis to provide the firm with reasonable assurance that its quality control systems are operating effectively.
24. A firm has to monitor its personnel, performance procedures, system for reporting and so on as an ongoing exercise. Certain areas for monitoring operations are identified as under–

Monitoring issues for Professional Development

- (a) Monitor continuing professional education programs and maintain appropriate records, both on a firm and on an individual basis.
- (b) Review periodically the records of participation by personnel to determine compliance with firm's requirements.
- (c) Review periodically evaluation reports and other records prepared for continuing education programs to evaluate whether the programs are being presented effectively and are accomplishing firm's objectives.
- (d) Consider the need for new programs and for revision or elimination of ineffective programs.

Monitoring of Employees and Performance Procedures

- (a) Define the scope and content of the firm's monitoring program.
- (b) Determine the monitoring procedures necessary to provide reasonable assurance that the firm's other quality control policies and procedures are operating effectively.
- (c) Determine objectives and prepare instructions and review programs for use in conducting monitoring activities.
- (d) Provide guidelines for the extent of work and criteria for selection of engagements for review.

- (e) Establish the frequency and timing of monitoring activities.
 - (f) Establish procedures to resolve disagreements which may arise between reviewers and engagement or management personnel.
25. Establish levels of competence etc. for personnel to participate in monitoring activities and the method of their selection. The relevant issues:
- (a) Determine criteria for selecting monitoring personnel, including levels of responsibility in the firm and requirements for specialised knowledge.
 - (b) Assign responsibility for selecting monitoring personnel.
 - (c) Conduct monitoring activities.
 - (d) Review and test compliance with the firm's general quality control policies and procedures.
 - (e) Review selected engagements for compliance with professional standards and with the firm's quality control policies and procedures.

Reporting & Corrective Measures

26. Provide for reporting the firm's findings to the appropriate management levels, for monitoring actions taken or planned, and for overall review of the firm's quality control system. The steps are:
- (a) Discuss general findings with appropriate management personnel.
 - (b) Discuss findings on selected engagements with engagement management personnel.
 - (c) Report both, general and selected engagement findings and recommendations to firm's Management together with corrective actions taken or planned.
 - (d) Determine that planned corrective actions were taken.
 - (e) Determine need for modification of quality control policies and procedures in view of results of monitoring activities and other relevant matters.

Quality with respect to Customer & Customer Relationship Acceptance & continuation of client relationship and specific assignments

27. A firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements which will provide reasonable assurance to the firm that it will undertake or continue relationship with client only when it satisfies the following tests:
- (a) The firm has competence, capability, time & resources to carry out the assignment.
 - (b) The firm complies with the relevant ethical requirements.
 - (c) The firm has considered the integrity of the client and ensured the same at an acceptable level.
28. The firm should establish procedures for evaluation of prospective clients and for their approval as clients. Evaluation procedures could include the following:
- (a) Obtain and review available secretarial records, annual reports, annual return, minutes book and ROC returns, regarding prospective client.
 - (b) Enquire from third parties as to any information regarding the prospective client and its management and principals which may have a bearing on evaluating the prospective client. Enquiries may be directed to the prospective client's bankers, legal advisers, investment bankers, and the financial or business community who may have such knowledge.
 - (c) Communicate with the outgoing Company Secretary. Request in writing if there are any unusual circumstances surrounding the proposed change which the firm should be aware of, so that it may determine whether it should accept nomination.
 - (d) Consider circumstances which would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks.

- (e) Evaluate the firm's independence and ability to serve the prospective client. In evaluating the firm's ability, consider needs for technical skills, knowledge of the industry and personnel.
- (f) Determine that acceptance of the client would not violate the Code of Professional Ethics applicable to the firm, its partners and staff.

Evaluating Client Information

- 29. Designate an individual or group, at appropriate management levels, to evaluate the information obtained regarding the prospective client and to make the acceptance decision.
- 30. Evaluate clients upon the occurrence of specified events to determine whether the relationships ought to be continued. Events specified for this purpose could include:
 - (a) the expiration of a time period;
 - (b) a major change in one or more of the following:
 - (i) Management
 - (ii) Directors
 - (iii) Ownership
 - (iv) Legal Advisers
 - (v) Financial condition
 - (vi) Litigation status
 - (vii) Scope of the engagement
 - (viii) Nature of the client's business; and
 - (c) the existence of conditions which would have caused the firm to reject a client had such conditions existed at the time of the initial acceptance.

Preconditions of accepting/continuing any professional engagement

- 31. Prior to acceptance of any engagement, the firm, in order to establish whether the precondition for a professional assignment are present, shall:
 - (a) Determine whether the reporting framework to be applied in the preparation, audit, review of the secretarial/ non-financial statements is acceptable; and
 - (b) Obtain the agreement of management that it acknowledges and understands its responsibility:
 - (i) For the preparation of the secretarial/ non-financial statements in accordance with the applicable reporting framework, including where relevant their fair presentation;
 - (ii) For such internal control/systems/procedure as management determines is necessary to enable the preparation of secretarial/ non- financial statements that are free from material misstatement, whether due to fraud or error; and
 - (iii) To provide the firm with:
 - (a) Access to all information of which management is aware that is relevant to the preparation/ audit/review etc. of the secretarial/ non- financial statements such as records, documentation and other matters;
 - (b) Additional information that the firm may request from management for the relevant purpose; and
 - (c) Unrestricted access to persons within the entity, from whom the auditor determines it necessary to obtain audit evidence.

Limitation on Scope Prior to Engagement Acceptance

32. If management or those charged with governance impose a limitation on the scope of the auditor's work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the Secretarial/non-financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

Other factors affecting Engagement Acceptance

33. If the preconditions for an audit/professional assignment are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement:
- (a) If the auditor assesses that the reporting framework to be applied in the preparation of the secretarial/non-financial statements is unacceptable, or
 - (b) If the agreement has not been concluded.

Agreement on Engagement Terms

34. The Firm shall agree upon the terms of engagement with the management or those charged with governance, as appropriate. The agreed terms of the engagement shall be recorded in an engagement letter or other suitable form of written agreement and shall include:
- (a) The objective and scope of engagement;
 - (b) The responsibilities of the firm;
 - (c) The responsibilities of management;
 - (d) Identification of the applicable financial reporting framework; and
 - (e) Reference to the expected form and content of any reports and a statement that there may be circumstances in which a report may differ from its expected form and content.
35. If law or regulation prescribes in sufficient detail the terms of the engagement referred to above, the firm need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities.
36. Decision to accept or continue any professional engagement and the need for disclosure of any content of the report or view of the individual firm, to appropriate authorities other than the clients (Regulator, Government or other authorities), if any, shall be based on above considerations subject to paragraphs 31 & 32 above.

Criteria for declining, and withdrawing from an Engagement

37. Based on the evaluation of client information and the following factors, the firm will determine and document the boundary conditions beyond which it would be prudent to decline, or withdraw from an engagement:
- (a) Client's status/information that is likely to impact adversely on the independence of the firm.
 - (b) Ability of the firm to provide appropriate service to the client, considering needs for technical skills, knowledge of the industry and personnel.
 - (c) Consider circumstances which would cause the firm to regard the engagement as one requiring special attention or presenting unusual risks.

Integrity of client and ethical requirements on the part of the firm

38. In this context, the following policies and procedures are needed:
- (a) Procedures for the validation of the integrity and reputation of the client or potential client, including key members of management and those charged with governance.
 - (b) Procedures to determine the competence of the firm or practitioner to perform the engagement and availability of resources and adequate time to do so.

- (c) Ability to meet the ethical and independence requirements.
- (d) Policies and procedures where information is obtained subsequent to an engagement acceptance or continuation which, if the information had been obtained earlier, would have caused the engagement to be declined.

Assignment of human resources for engagement performance

39. The following policies and procedures need to be established in this context:
- (a) Policies and procedures for assigning the responsibility for each engagement to an engagement partner and communicating this information to client management and those charged with governance.
 - (b) Policies and procedures regarding engagement partner capability, competence and authority.
 - (c) Policies and procedures regarding assigning appropriate staff with the necessary capabilities, competence and time to perform engagements.

Assignment of Engagement Partners -Policies & Procedures

- a) Establish policies and procedures for assigning the responsibility for each engagement to an engagement partner and communicating this information to client management and those charged with governance.
- b) Policies and procedures regarding engagement partner capability, competence and authority.

Format

QUALITY REVIEW BOARD

QUESTIONNAIRE FOR SEEKING INFORMATION FROM THE PRACTICE UNIT BY THE BOARD

Part – A – Profile of the Practice Unit (Firm / Practicing Company Secretary)

1. Name of the Practice Unit (PU)
2. Status: Individual Partnership Proprietorship LLP
3. Date of establishment of the firm/Practising Company Secretary Registration (dd/mm/yyyy)
4. Address of the firm/PCS: a) Professional b) Residential
5. Telephone Number with STD code
6. Mobile Number(s)
7. Email ID
8. Website Address
9. ACS / FCS Number
10. C.P Number
11. Number of partners including self
12. Number of Annual Returns Certified in last 3 financial years ended on March 31,

Year – 1	Year - 2	Year -3

13. No of Certificates Issued under LODR in last 3 financial years ended on March 31:

Year – 1	Year - 2	Year -3

14. Number of Companies in which you are a director
15. No. of filling/attestation/certification with ROC/statutory body covered under the Companies Act, 2013 or

under Securities Laws in last 3 financial years ended on March 31

Year - 1	Year - 2	Year -3

16. No. of Secretarial audit in last 3 financial years ended on March 31:

Year - 1	Year - 2	Year -3

17. Period under Review (dd/mm/yyyy) _____ to (dd/mm/yyyy) _____ (Please note: The period under review shall be previous two financial years)

18. Particulars of the constitution of the firm as on last day of the financial year under review:

Name(s)	Membership Number	Years of Practice/ Association with the firm (in years)	Experience (in years)

19. Particulars of Company Secretaries employed:

Name(s)	Membership Number	Association with the firm (in years)	Experience (in years)

20. Furnish details of change in constitution (partners / company secretaries employed), if any, during the year(s) under review:

Name(s)	Membership Number	Date of Joining the firm	Date of Leaving the firm

21. Number of other staff employed

Qualified Assistant ⇒

Other Professionals (specify qualifications) ⇒

Trainees ⇒

Other than above ⇒

22. Does the PU have any branch offices? ((Please tick) Yes No

23. If yes, please give the name(s) of member(s) in charge of each branch, their location, membership number,

address and turnover from attestation services of branches:

Sr. No.	Member in charge	M.No.	Location	Address	Turnover (Rs. In Lacs)

24. Major Areas of Practice:

Company Law – Attestation Services	
Company Law – Non-attestation Services	
SEBI – Attestation Services	
SEBI – Non-attestation Services	
GST	
Customs	
FEMA	
Appearances before Judicial and QuasiJudicial Bodies	
Corporate Restructuring	
Insolvency Bankruptcy Code	
Income Tax	
IPR	
Reconciliation of Share Capital	
Audit Others	

Part – B – General Control

Maintenance of Professional Skills and Standards

- Whether any partner/employee/associate of the PU who is a member of the Institute has received any order under Chapter V of the Institute of Company Secretaries Act, 1980 for Misconduct. If so, details thereof.
- Does the PU mandate that all Company Secretaries employed by it comply with the Guidelines for Compulsory Attendance of Professional Development Programmes by the Members issued by the ICSI?
- Is there an in-house mechanism for continuing professional education?
- Does the PU monitor the continuing professional education by way of maintaining records thereof?
- Does the PU sponsor the Company Secretaries appointed by it for various Professional Development Programmes organized by ICSI and other professional bodies?
- Does the PU maintain a repository / library/e-library containing case studies, Journals, magazines, books of interest, etc. for reference?

Outside Consultation

- Does the PU have any mechanism in place for outside consultation?
- Are there any induction procedures established for new employees like:
 - Orientation to the firm and the profession?
 - Discussion of office procedures including:
 - Distribution of reference material
 - Requirements of ICSI

- Continuing Professional Education
 - Independence
9. Is there a system for scheduling and staffing for carrying out an engagement?
 10. Work Assignment Whether the work is assigned to the assistant CS, on the basis of their skill and competence before assigning of attestation engagement?
 11. Whether the progress of the attestation services is monitored and reviewed regularly?

Part – C – Performance of Attestation Engagements

Service Record Administration

12. Does the PU ensure receipt of engagement letters before commencing the assignment?
13. Does the PU have appropriate procedures for the new engagements?
14. Are there any procedures established to ensure proper documentation with regard to attestation services?
15. Does the PU maintain records in a manner so that the records are easily retrievable, as and when required?

Substantive Tests and Due Diligence

16. Whether Know Your Client (KYC) has been done for the clients voluntarily by the PU?
17. Does the firm obtain representation from the management on matters material to the information?
18. (a) Does the PU obtain sufficient and appropriate documents/information (b) are the same properly recorded.
19. Whether the PU as a policy consult the outgoing professional who was doing the the assignment prior to the PU taking up the same?

Attestation Service Conclusion and Reporting

20. Does the PU document the findings and reasons thereof while carrying out attestation services?
21. In case of a qualified report, does the PU provide reasons or disclaimers for such qualifications?
22. Does PU reports or fraud discovered during the course of review, to the appropriate authority.

Signature:

Name :

Date :

LESSON ROUND UP

- Professional peer review focuses on the performance of professionals, with a view to improving quality, upholding standards, or providing certification.
- Peer Review is directed towards maintenance as well as enhancement of quality of attestation services and to provide guidance to members to improve their performance and adhere to various statutory and other regulatory requirements
- A Peer Review examines whether a Practice Unit has adequate policies and procedures in place to comply with the Technical Standards of ICSI and other legal requirements.
- The eligibility for become a Peer Reviewer need to be a Member of the Institute who should—
 - Possess at least 10 years of post-membership experience and
 - Be currently in whole time practice as a Company Secretary.

GLOSSARY

Concurrent Records	The records relating to the professional assignments, such as correspondence of the Practice Unit with its clients, query letters, information sought from clients, engagement letters, forms uploaded on regulators' database, details of Board and General meetings, copies of paid challans etc.
Permanent records	It includes KYC, master data on Ministry of Corporate Affairs website, signatory details, details of CIN, DIN, authorised and paid up capital, information available on regulators' database, etc.
Reviewer	It means any member engaged, to carry out Peer Review, from the panel of Peer Reviewers as maintained by the Board.
Qualified Assistant	It means a person assisting the reviewer for carrying out peer review, who is a member of the Institute and has undergone adequate training in the manner considered appropriate by the Board.
Engagement Partner	It means the partner or other person in the firm who is a member of the Institute of Company Secretaries of India and is in full time practice and is responsible for the engagement and its performance, and for the report/ certificate that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
Network firm	It means a firm under the common ownership, management or control.
Quality Assurance	It means the process established to ensure that requisite controls are in place, properly implemented, monitored; and potential ways of strengthening, improving and enlarging the controls.

TEST YOURSELF

(These are meant for recapitulation only. Answers to these questions are not to be submitted for evaluation).

1. What are the practice areas covered under the scope of peer review?
2. What is Peer Review? Describe the process for performing peer review.
3. Describe the Quality Review guidelines on pre-conditions of accepting/continuing any professional engagement.
4. What are the leadership responsibilities covered under the quality control elements within the firm.
5. Prepare a questionnaire for seeking information from the Practice Unit by the Quality Review Board.

LIST OF FURTHER READINGS

- Peer Review Manual - Third Edition
- Guide to conduct quality review
- Articles by the professionals and Firms.

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- <https://www.icsi.edu/qboard/home/>
- <https://www.icsi.edu/prb/home/>

[illegible]

Lesson 18

Values, Ethics and Professional Conduct

Key Concepts One Should Know

- Professional Ethics
- Ethical Principles
- Ethical Dilemma
- Business dynamism
- Ethical leadings
- Integrity
- High Standards of professional competence
- Fair dealing
- Inadvertent Disclosures
- Integrity of Evidence

Learning Objectives

To understand:

- The importance of Ethics, values and good governance that are the fundamentals of life which should be followed in all circumstances and have been a matter of respect, be it in individual context or in the corporate world.
- How the Business dynamism demands various evils and vulnerable situations which have pointed out the need to imbibe and inculcate the culture for adherence to ethical practices, governance and leadership.
- Various practical aspects of ethical values, ethical dilemmas, and ethical leadership encompassing various human virtues which are ultimately built upon conscience.

Lesson Outline

- Introduction
- Types of Ethics
- Professional Ethics
- Ethical Principles for Company Secretaries
- Fundamental Duties of Professionals
- Ethical Dilemma
- Recent Case relating to Ethics and Governance
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

INTRODUCTION

India has a very strong history and deep roots of culture, principles and ethics which have come down to us across generations, through the immortal Shrimad Bhagavad Gita which is useful in getting answers to various complex situations and ethical dilemmas. The great epic, Ramayana is also a very important document which has thrown light on aspects like values and character. *Nitishatak* by a noted scholar, *Bhartruhari*, and the teachings of Arya Chanakya (*Chanakya Neeti*) cannot be ignored while talking of character, ethical practices, values and good governance. Aesop's Fables, Panchatantra and Hitopadesh are also fictional sources of moral codes.

Today's doing business is full of temptations and distractions driven by greed to earn unlimited profits, market share, market-standing (in terms of numbers), performance, etc., coupled with tremendous pressure and compulsion to remain ahead; wherein organizations alluring individuals working therein to ignore or lose hold on ethical aspects of a business. Social life is dominated by numerical success where "the ends justify the means". Of late, this attitude and temperament believing the philosophy "the ends justify the means" has led to a substantial depletion of good character, ethical standards, practices and good governance. This has led to loss of humanity, and ultimately, happiness of self and society.

The term "ethics" is derived from the Greek word "ethos" which refers to character or customs or accepted behaviours. The Oxford Dictionary states ethics as "the moral principle that governs a person's behaviour or how an activity is conducted". The synonyms of ethics as per Collins Thesaurus are – conscience, moral code, morality, moral philosophy, moral values, principles, rules of conduct, standards.

In the world of intense competition, every professional work on certain principles and beliefs which are nothing but the values. Likewise, ethics is implemented in the organisation to ensure the protection of the interest of stakeholders like customers, suppliers, employees, society and government.

TYPES/BRANCHES OF ETHICS

The four main branches of ethics include descriptive ethics, normative ethics, meta-ethics and applied ethics which can be defined as under:

Descriptive Ethics deals with what people actually believe (or made to believe) to be right or wrong and accordingly holds up the human actions acceptable or not acceptable or punishable under a custom or law. Descriptive Ethics is also called comparative ethics because it compares the ethics or past and present; ethics of one society and other.

Normative Ethics deals with "norms" or set of considerations how one should act. Thus, it is a study of "ethical action" and sets out the rightness or wrongness of the actions. It is also called prescriptive ethics because it rests on the principles which determine whether an action is right or wrong.

Meta-Ethics or "analytical ethics" deals with the origin of the ethical concepts themselves. It does not consider whether an action is good or bad, right or wrong. Rather, it questions – what goodness or rightness or morality itself is. It is basically a highly abstract way of thinking about ethics.

Applied Ethics deals with the philosophical examination, from a moral standpoint, of particular issues in private and public life which are matters of moral judgment. This branch of ethics is most important for professionals in different walks of life including doctors, teachers, administrators, rulers and so on. There are six key domains of applied ethics viz. Decision ethics {ethical decision making process}, Professional ethics {for good professionalism}, Clinical Ethics {good clinical practices}, Business Ethics {good business practices}, Organizational ethics {ethics within and among organizations} and social ethics.

Business Ethics is one of the branches of Applied Ethics which is mostly used in various organizations & Corporates. It can be defined as, "The application of a moral code of conduct to the strategic and operational management of a business."

KEY DIFFERENCES BETWEEN ETHICS AND VALUES

The fundamental differences between ethics and value are described in the given below points:

- Ethics refers to the guidelines for conduct, that address question about morality. Value is defined as the principles and ideals, which helps them in making the judgement of what is more important.

- Ethics is a system of moral principles. In contrast to values, which is the stimuli of our thinking.
- Values strongly influence the emotional state of mind. Therefore it acts as a motivator. On the other hand, ethics compels to follow a particular course of action.
- Ethics are consistent, whereas values are different for different persons, i.e. what is important for one person, may not be important for another person.
- Values tell us what we want to do or achieve in our life, whereas ethics helps us in deciding what is morally correct or incorrect, in the given situation.
- Ethics determines to what extent our options are right or wrong. As opposed to values, which defines our priorities for life.

To summaries ethics are consistently applied over the period and remains same for all the human beings. Values have an individualistic approach, i.e. it varies from person to person but remains stable, relatively unchanging but they can be changed over time due to a significant emotional event.

ETHICAL PRACTICES

Beneficence: The principle of beneficence guides the decision maker to do what is right and good. This priority makes an ethical perspective and possible solution to a dilemma acceptable and resolvable. This is also related to the principle of utility, which states that one should attempt to generate the largest ratio of good over evil possibility. This principle stipulates that ethical theories should strive to achieve greatest amount of good because people benefit from the most good.

Least Harm: This theory deals with situations in which no choice appears beneficial. In such cases, decision makers seek to choose to do the least harm possible and to do harm to the fewest people. This principle is mainly associated with the utilitarian ethical theory discussed below.

Utilitarian: This is a normative ethical theory that places the locus of right and wrong solely on the outcome or consequences of choosing one action/policy over other. As such, it moves beyond the scope of one's own interest and takes into account the interest of others.

Autonomy: This principle states that decision making should focus on allowing people to be autonomous; that is, to be able to make decisions that apply to their own workplace or lives. In other words, people should have control over their own selves as much as possible because they are the only people who completely understand their chosen type of work/life style. Each individual deserves respect because only he/she has had those exact life experiences and understands own emotions, motivations, and physical capabilities in an intimate manner. In essence, this ethical principle is an extension of the ethical principle of beneficence because a person who is independent usually prefers to have control over his own experiences in order to secure the lifestyle that he/she enjoys.

Justice: The justice ethical principle states that decision makers should focus on actions that are fair to all those involved. This means that ethical decisions should be consistent with the ethical theory unless extenuating circumstances that can be justified and exist in the case. This also means that cases with extenuating circumstances must contain a significant and vital difference from other similar cases that justify the inconsistent decision.

The principles of integrity in business are guided by a set of core ethics that influence their decisions and behavior which includes: Accountability, Commitment to Excellence, Concern for Others, Fairness, Honesty, Integrity, Abiding Law, Leadership, Loyalty Morale, Keeping Promises, Reputation, Respect for others, Trustworthiness etc.

Question: The principle of guides the decision maker to do what is right and good.

Options: (A) Utilitarian
(B) Autonomy (C) Beneficence
(D) Justice

Answer: (C)

PROFESSIONAL ETHICS

Ethics arises from three main factors, moral attitudes as a result of consciousness or awareness-raising, culture as a result of education and the use of know-how and the application of standards as a result of learning and training.

Ethics amount to fundamental moral attitudes, binding values and irrevocable standards. A distinguishing characteristic of a profession is the ability to combine ethical standards with the performance of technical skills. The

professionals being exclusive custodian of expertise need to profess high ethical and moral values and to redeem their noble traditions. Every professional should desire for introspection and a dynamic movement to promote a value revolution with deeper conviction and creative consciousness, leading himself to be good professional. The collective wisdom prevail to inculcate highest standards of professional ethics and moral values and adherence to Professional code of conduct in its true letter and spirit.

The principles which govern the conduct of a professional broadly encompasses, Integrity, Professional independence, Professional competence, Objectivity, Ethical behavior, Conformance to technical standards, if any and Confidentiality of information acquired in the course of professional work. The professionals are expected to conduct themselves in such a manner so as to uphold the grace, dignity and professional standing of the institute.

Companies in the India have begun to fulfill their corporate social responsibility, either voluntarily or in compliance with mandates or statutes, respecting social ethics, thereby, setting up healthy and sensible corporate ethics on the following parameters:

- Complying with the laws of land where business is conducted and engaging in fair practices in the light of social ethics.
- Aiming to become a sensible corporate citizen and striving for harmony with local society.
- Disclosing information in a timely manner and engaging in honest and transparent communications mode.
- Protecting the irreplaceable earth and contributing to the preservation of the environment.
- Respecting fundamental human rights and individuality and building up a corporate culture with a broad vision which fosters the spirit of corporate ethics.

MODEL ETHICAL PRINCIPLES FOR COMPANY SECRETARIES

Professionalism is the virtue, conduct, aim, value or quality that characterize or marks a profession or professional person; it implies quality of workmanship or service. Having a reputation for excellence and being thought of as someone who exhibits professionalism under any circumstances can open doors for him/her in the individual's workplace or personal ambition. Professionals like the Company Secretaries are highly valued by their profession. For any professional the below can be the Golden Rules of Ethics for Professionals. It is recommended to apply these Golden Rules of Professionalism for enjoying a reputable, professional and prosperous career in providing service to the client/ organization:

- **Strive for excellence:** This is the first step to achieving greatness in whatever endeavor one undertakes; it is the quality that marks one's work to stand-out. Excellence is a quality of service which is remarkably good and so it surpasses ordinary standards, it should be made a habit to make a good impression on clients and colleagues.
- **Be trustworthy:** In today's society trust is an issue and one who exhibits trustworthiness is on a fast track to professionalism. It is all about fulfilling an assigned task, not letting down the client's expectations, it is being dependable and reliable when called upon to deliver service. In order to earn this trust, worthiness and integrity it must be sustainably proven over a time-span.
- **Be accountable:** It implies that one should be able to stand tall and be counted upon for all actions undertaken; this is also construed as a quality of being credible and responsible for actions performed and their consequences - good or bad.
- **Be courteous and respectful:** Courteousness is more than being friendly, polite and well-mannered with a gracious consideration towards others. It makes social interactions in the workplace run smoothly; avoid conflicts and earn respect. Respect is a positive feeling of esteem or deference for a person or organization; it is built over span of time and can be lost with one single inconsiderate action; continual courteous interaction is required to be maintained to enhance the respect gained.
- **Be honest, open and transparent:** Honesty is a facet of moral character that connotes positive and virtuous attributes such as truthfulness, straightforwardness, good conduct, loyalty, fairness, sincerity, openness in communication and generally operating in a manner for others to notice the perfection with which actions are performed; a virtue highly appreciated and valued by clients, employers and colleagues because it builds trust and personal reputation.

- **Be competent and improve continually:** Competence is the core ability of a professional to do a job properly. It is a combination of quality of knowledge, skill, acumen and behaviour used to perform. Competency grows through experience and to the extent one is willing to learn and adapt. Continuous self-development is a pre-requisite in offering professional service at all times.
- **Be ethical:** Ethical behavior is acting within certain moral codes in accordance with the generally accepted code of conduct or rules. It is always safe for a professional to “play by the rules” where the rule book is inadequate; and acting with a clear moral conscience is the right way to adopt.
- **High Integrity:** Honorable action is behaving in a way that portrays “nobility of soul, magnanimity of person” derived from virtuous conduct and integrity in adherence to the dictum of “wholeness or completeness” of character in line with certain values, beliefs and principles with consistency in action and outcome.
- **Be respectful of confidentiality:** Confidentiality is respecting the set of rules or promises that restricts one from further or unauthorized dissemination of information. Over the course of one’s career, information will come to be possessed in strict confidence - either from the organization or from colleagues; and it is important to be true to such confidentiality. One gains trust and respect of those confiding and enhances professional credibility within the organization.
- **Set Good Examples:** Applying the foregoing rules helps one to improve traits of professionalism by imparting knowledge to those around and below the rank and file. One ought to show and lead by setting good exemplary life all along. Modern corporate governance rightly demands a comprehensive, interdisciplinary approach to the management and control of companies.

Therefore, professionals need to practice with a sense of responsibility the evolving principles of good corporate governance across the globe on a continual basis. Excellence can be bettered through continuous up-gradation of research and interaction between the relevant practices and control of respective disciplines of Compliance, accounting, finance, law and management functions to deliver the highest quality of good corporate governance.

In this context the corporate looks upon Company Secretaries to provide the impetus, guidance and direction for achieving world-class ethical business practices and strategic corporate governance.

The ICSA (UK) Code of Professional Ethics and Conduct comprises four core principles to which all Fellows, Associates, graduates, students and affiliated members registered need to follow.

1. Integrity

Integrity is the quality of being honest and having strong moral principles. The term has been described judicially as connoting “moral soundness, rectitude, and steady adherence to an ethical code”. It requires that members are impartial, independent and informed. Displaying integrity includes:

- acting professionally in your business dealings;
- displaying a proper understanding and appreciation of your role and responsibilities;
- being respectful of others at all times;
- not accepting or offering improper gifts, hospitality or other inducements;
- avoiding conflicts of interest, or, where a conflict arises, making sure that everyone involved is aware of the interest;
- recognising and considering the ethical issues arising from, and the interests of the groups or stakeholders who may be affected by, your choices, decisions and actions;
- avoiding involvement in any unethical, misleading, illegal or covert behaviour;
- not knowingly ignoring (or turning a blind eye to) unethical, misleading, illegal or obscure behaviour; and
- avoiding bringing the profession into disrepute.

2. High standard of service/professional competence

A high standard of service or professional competence should be delivered throughout one's working life. This involves an understanding of relevant technical, professional and business developments. Professional competence also takes account of the wider implications and expectations of our members. This includes:

- maintaining professional knowledge and skills which are required to perform the role which you are employed to carry out;
- completing CPD as required by the UKRIAT Committee (this does not apply to students);
- communicating effectively and promptly with your clients, colleagues and stakeholders to ensure that they are able to make informed decisions;
- acting within your level of competence; if this requires an admission to your client that you are unable to perform a task then this should be communicated effectively;
- upholding the requirements of the Royal Charter and byelaws made under it; and
- respecting the confidentiality of information acquired through professional relationships save where there is a legal or regulatory requirement to disclose or report that information.

3. Transparency

Transparency requires that members are clear and open in their business and professional conduct. This includes:

- being open and frank in any business dealings;
- not being underhand in any business transaction; and
- treating all work as if it was reported in the public domain.

4. Professional behavior

Professional behavior requires that members act in a way which conforms to the relevant laws of the jurisdiction in which they are residing and/or undertaking business transactions. It requires them also to pay regard to all regulations which may have a bearing on their actions and to adhere to the byelaws, specifically byelaw which states that the following actions or inactions may result in disciplinary proceedings:

- becoming bankrupt or insolvent;
- being convicted of an offence which might bring discredit on the Institute or the profession;
- failing to uphold the code of professional conduct and ethics;
- behaving, by doing something or not doing something, in a way considered by the Disciplinary Tribunal to bring the Institute or the profession into disrepute;
- disobeying any decisions of the Council or of one of its Divisional Committees;
- breaking any of the Institute's byelaws or Charter or Regulations;
- failing to comply or co-operate with a disciplinary investigation; or
- failing to comply with a decision or any conditions made by a Disciplinary or Appeal Tribunal.

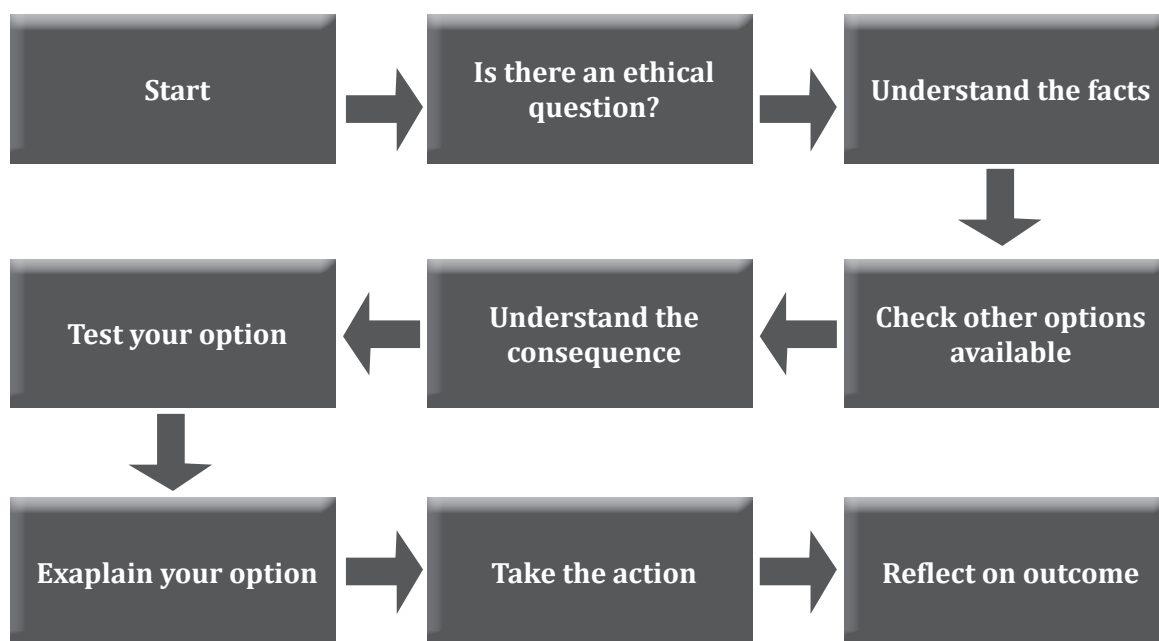
The Singapore association of the Institute of Chartered Secretaries and Administrators (ICSA) requires members to observe the highest standards of professional conduct and ethical behaviour in all their activities. By maintaining these standards, members enhance their reputation as corporate advisors and increase confidence in the management and administration of private and public sector organisations. As the conduct of an individual member can reflect upon the wider profession of corporate management and the Institute's membership as a whole, the Code sets out what are deemed to be appropriate standards of professional conduct:

- Members are required to uphold the Institute's Charter and comply with the Bye-laws.

- Members shall at all times be cognisant of their responsibilities as professional people toward the wider community.
- Members shall at all times safeguard the interests of their employers, colleagues or clients provided that Members shall not knowingly be a party to any illegal or unethical activity.
- Members shall not enter into any agreement or undertake any activity which may be in conflict with the legitimate interest of their employer or client or which would prejudice the performance of their professional duties.
- Members shall not use any confidential information obtained in the performance of their duties for personal gain nor in a manner which would be detrimental to their employer, client or any other party.
- Members shall ensure the currency of their knowledge, skills and technical competencies in relation to their professional activities.
- Members shall refrain from conduct or action which detracts from the reputation of the Institute.

Ethical Decision Worksheet

This worksheet is designed for assisting in making ethically responsible decision:



1. Analyse the situation?

Analyse the situation?

Check whether you have choices?

What is at stake?

2. Understand the facts

What are the facts?

Is anything required to be done?

3. Understand the options available

What al options are available?

Do any Rule/regulation/laws/professional ethics influence your options?

4. Understand the consequences of the options <i>What are the consequences of each available option?</i> <i>Who will be affected by each available option?</i> <i>How will the parties be affected by these option?</i>
5. Test the option you plan to take <i>Identify the best option.</i> <i>Review the difficulty level of preferred option:</i> <i>Is the option difficult for others to understand?</i> <i>Can I justify my actions on that option?</i> <i>How to implement the decision?</i>
6. Explain the option you have decided upon <i>Explain the actions – you should be able to justify them in a logical manner</i> <i>You should have kept records of your decision.</i>
7. Act on the chosen option <i>Make a plan to implement your decision?</i>
8 Reflect on the outcome <i>How did my decision turn out?</i> <i>Who was affected and how?</i>

ICSI CODE OF CONDUCT

The purpose of Code of Conduct is to lay down certain ground rules to promote ethical conduct and good practices and to deter wrong-doing and also to make the relationship mutually pleasant and productive and to enhance the sense of community with common values and mission. Further, Code of Conduct is a step towards ethical decision making in which strategic management decisions result from due deliberations and objective analysis of facts, distanced from personal biases, leanings, subjectivity or emotional perceptions. The matters covered under the Code are of utmost importance to the Institute of Company Secretaries of India (“Institute”), its members, students and other stakeholders including Government, Regulators, Trade and Industry and other users of services of the Company Secretaries.

Fundamental duties of Professional

Fair Dealing	Not Exploiting undue Professional Opportunity	No Misuse of Mistakes of Other Solicitor	Maintaining Confidentiality
Making Inadvertent Disclosure	Avoid Conflicts	Honor Undertakings of professionals	Maintaining Integrity of evidence
Due care while dealing with Client documents	Dealing with other persons	promote Anti-discrimination and Anti-Harassment	Dealing with Media

(i) Fair Dealing

Each member of the institute should endeavor to deal fairly with the Clients, other members and students. No Member of the Institute should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing practice.

In addition to strict compliance with all legal aspects, all members are expected to observe the highest standards of business and personal ethics.

A Professional must also:

- act in the best interests of a client in any matter in which he represents the client;
- be honest and courteous in all dealings in the course of legal practice;
- deliver legal services competently, diligently and as promptly as reasonably possible;
- avoid any compromise to their integrity and professional independence; and
- comply with applicable Rules and the law.

(ii) Professional Opportunity

The professional should not exploit for their own personal gain, opportunities that are discovered through third party, information or position unless the opportunity is disclosed fully in writing and permits to pursue such opportunity.

(iii) Mistakes of Other Solicitor

A professional must not take unfair advantage of the obvious error of another professional or other person, if to do so would obtain for a client a benefit which has no supportable foundation in law or fact.

(iv) Confidentiality

The client's confidential information is a valuable asset. All confidential information must be used for the benefit and in the best interest of client. Every professional must safeguard the confidentiality as above.

The confidential information, discussions, documents and data should be dealt with utmost care and should not be shared or passed on to any person/outsider under any circumstances, directly or indirectly without authorization.

A professional must not disclose any information which is confidential to a client and acquired by him during the client's engagement to any person who is not:

- a partner, promoter, director, or employee of the firm of the professional; or
- a professional or an employee of, or person otherwise engaged by, the firm of professional or by an associated entity for the purposes of delivering or administering legal services in relation to the client, except the following:
 - the client expressly or impliedly authorises disclosure;
 - the professional is permitted or is compelled by law to disclose;
 - the professional discloses the information in a confidential setting, for the sole purpose of obtaining advice in connection with the solicitor's legal or ethical obligations;
 - the professional discloses the information for the sole purpose of avoiding the probable commission of a serious criminal offence;
 - the professional discloses the information for the purpose of preventing imminent serious physical harm to the client or to another person; or
 - the information is disclosed to the insurer of the professional or its associated entity.

(v) Inadvertent Disclosure

A professional who reads part or all of the confidential material before becoming aware of its confidential status must:

- notify the same or the other person immediately; and not read any more of the material.
- If a professional is instructed by a client to read confidential material received in error, the solicitor must refuse to do so.

(vi) Conflicts

Each professional should avoid any conflict of interests with that of the client. A 'conflict of interest' exists where the interests or benefits of one person or entity conflict with the interests or benefits of the client. The professional must avoid situations involving actual or potential conflict of interest.

Any situation that involves or may involve a conflict of interest must be promptly disclosed. No transaction, which involves an actual or potential conflict of interest, should be undertaken by professional.

A professional must not act for a client where there is a conflict between the duty to serve the best interests of a client and the interests of the professional or an associate of the professional, except as permitted.

A professional must not exercise any undue influence intended to dispose the client to benefit the professional in excess of the professional fair remuneration for legal services provided to the client.

A professional must not borrow any money, nor assist an associate to borrow money, receiving a financial benefit from a third party in relation to any dealing where the professional represents a client, or from another service provider to whom a client has been referred by the professional, provided that the professional advises the client:

- that a commission or benefit is or may be payable to the professional in respect of the dealing or referral and the nature of that commission or benefit;
- that the client may refuse any referral and the client has given informed consent to the commission or benefit received or which may be received.

(vii) Undertakings

A professional who has given an undertaking in the course of legal practice must honour that undertaking and ensure the timely and effective performance of the undertaking, unless released by the recipient or by a court of competent jurisdiction.

A professional must not seek from another professional, or that professional's employee, associate, or agent, undertakings in respect of a matter, that would require the co-operation of a third party who is not party to the undertaking.

(viii) Integrity of evidence

A professional must not:

- advise or suggest to a witness that false or misleading evidence should be given nor condone another person doing so; or
- coach a witness by advising what answers the witness should give to questions which might be asked.

A professional will not have breached by:

- expressing a general admonition to tell the truth;
- questioning and testing in conference the version of evidence to be given by a prospective witness; or
- drawing the witness's attention to inconsistencies or other difficulties with the evidence, but must not encourage the witness to give evidence different from the evidence which the witness believes to be true.

(ix) Client documents

A professional with designated responsibility for a client's matter, must ensure that, upon completion or termination of the law practice's engagement:

- the client or former client, or another person authorised by the client or former client, is given any client documents, (or if they are electronic documents copies of those documents), as soon as reasonably possible when requested to do so by the client, unless there is an effective lien.

- a professional may destroy client documents after a period of 7 years has elapsed since the completion or termination of the engagement, except where there are client instructions or legislation to the contrary.

(x) Dealing with other persons

A professional must not in any action or communication associated with representing a client:

- make any statement which grossly exceeds the legitimate assertion of the rights or entitlements of the client, and which misleads or intimidates the other person;
- threaten the institution of criminal or disciplinary proceedings against the other person if a civil liability to the client is not satisfied; or
- use tactics that go beyond legitimate advocacy and which are primarily designed to embarrass or frustrate another person.
- In the conduct or promotion of a professional practice, the solicitor must not seek instructions for the provision of legal services in a manner likely to oppress or harass a person who, by reason of some recent trauma or injury, or other circumstances, is, or might reasonably be expected to be, at a significant disadvantage in dealing with the solicitor at the time when the instructions are sought.

(xi) Anti-discrimination and Harassment

A professional must not in the course of practice, engage in conduct which constitutes:

- discrimination;
- sexual harassment
- workplace bullying – “bully by proxy”

(xii) Dealing with the Media

- A professional must not publish or take steps towards the publication of any material concerning current proceedings which may prejudice a fair trial or the administration of justice.
- To adhere to practice promotion, advertising and solicitation rules, codes and legislation in use and avoid Conflicts of interest
- Maintaining public confidence and faith in the profession

Question: A professional must not publish or take steps towards the publication of any material concerning which may prejudice a fair trial or the administration of justice.

Option: (A) current proceedings (B) Past Proceedings (C) Future Proceedings (D) None of these

Answer: (A)

Ethical Dilemma

Dilemma means a situation in which a difficult choice has to be made between two courses of action, either of which entails contravening a moral principle. An ethical dilemma or ethical paradox is a decision-making problem between two possible moral imperatives, neither of which is unambiguously acceptable or preferable. The complexity arises out of the situational conflict in which obeying one would result in transgressing another.

Ethical Dilemma is the situation where a person's view regarding selecting an object or the alternative includes series of outcomes, which is very confusing. Each outcome has a serious overlapping outcome, which cannot be at a time wrong for one person but the same may be ethically wrong for the other.

An “absolute” or “pure” ethical dilemma only occurs when two (or more) ethical standards apply to a situation but are in conflict with each other. In ethical dilemma, if we obey one decision then it would bring about disobeying another.

Ethical dilemma is also known as moral dilemma. Ethical dilemmas make the situations too difficult. A person has to choose only one way from two of them - a moral or an immoral way. Ethical dilemmas can be seen everywhere in daily lives. However, everybody has their own particular experience towards ethical dilemma. Ethical dilemmas assume that the chooser will abide by societal norms, such as codes of law or religious teachings, in order to make the choice ethically impossible.

Some examples of ethical dilemmas include:

- A secretary discovers her boss has been laundering money, and she must decide whether or not to turn him in.
- A doctor refuses to give a terminal patient morphine, but the nurse can see the patient is in agony.

- While responding to a domestic violence call, a police officer finds out that the attacker is the brother of the police chief, and the police chief tells the officer to “make it go away”
- A government contractor discovers that intelligence agencies have been spying on its citizens illegally, but is bound by contract and legalities to keep his confidentiality about the discovery.

Common Causes of Loss of Ethics and Values

1. **Unclear Policies in some cases:** Managers and employees exhibit poor ethical behaviour because the company does not offer a clear model of ethics. Some businesses have no formal ethical policy documents and offer no guidance at all. Others have policies that are unclear, vague, inconsistent or not consistently enforced.
2. **Conflict between Organisational & Individual Goal:** When the Organizational & Individual Goals overlap, it becomes difficult to balance things. The problem arises when one thing has to be sacrificed for the sake of others. To achieve Organisational goal, Individual goal, has to be compromised and vice versa so this leads to Ethical Dilemma.
3. **Cultural Value & Background:** Every individual decision is based on background. For some people it may be ethical to give priority for self and then decide about others but for some others it may be other way round. Thus background & value system creates the ethical Dilemma.
4. **Situation when a decision is taken by a manager:** It may be so that situation demands him to decide on certain things which dealing with Ethical Dilemmas. Each Company's culture is different, but some companies stress profits and results above all. In these environments, management may turn a blind eye to ethical breaches if a worker produces results, given the firm's mentality of “the end justifies the means.” are not beneficial for all but will benefit the company alone. Example - Automation of a plant.
5. **Dynamic & Different Human Nature:** Ethical Dilemma arises due to difference of the opinion among the group of people. Whatever is ethical for one person, may be unethical for another.
6. **Ambition and Discrimination** Individual workers may be under financial pressure or simply hunger for recognition. If they can't get the rewards they seek through accepted channels, they may be desperate enough to do something unethical, such as falsifying numbers or taking credit for another person's work to get ahead. Though diversity is an important part of business, some people may not be comfortable with people from different backgrounds and possibly be reluctant to treat them fairly. This kind of discrimination is not only unethical but illegal and still remains common.
7. **Pressure from Management:** Each company's culture is different, but some companies stress profits and results above all. In these environments, management may turn a blind eye to ethical breaches if a worker produces results, given the firm's mentality of “the end justifies the means.” Whistle-blowers may be reluctant to come forward for fear of being regarded as untrustworthy and not a team player. Therefore, ethical dilemmas can arise when people feel pressurised to do immoral things to please their bosses or when they feel that they can't point out their co-workers' or superiors' bad behaviours.
8. **Negotiation Skills:** While these factors can cause ethical dilemmas for workers within their own companies, doing business with other firms can also present opportunities for breaches. Pressure to get the very best deal or price from another business can cause some workers to negotiate in bad faith or lie to get a concession.
9. **Conflicting Values:** Ethical dilemmas may occur because of conflicting values between two or more people in an organization. One manager may value product quality over quantity while another may value thriftiness. These managers may discuss changing to a cheaper supplier for a material used in production because of the potential to save money. However, the first manager may object because he knows the cheaper material will produce a product of lesser quality, which is not good for customers. Without a culture of shared values, the least ethical choice may be approved.

Organisation for Economic Co-operation and Development (OECD) has also described various principles on “Corporate Governance” one of these Principle includes Disclosure and Transparency, which states “The Corporate Governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.”

An Organization Transparency checklist includes the below mentioned traits:

- Board meetings (Dates, times and locations of Board meetings are conveyed at least one week in advance of the meetings)
- Financial disclosure statements (Non-profits should consider posting their audited financial statements on their website)
- Freedom of information legislation (Rules that guarantee access to data held by the state; they establish a “right-to-know” legal process where requests can be made for government-held information)
- Budgetary reviews
- Annual audits
- Annual Reports (Posted on the organization’s website for easy access)
- Strategic plans and priorities
- Board of Directors and names of key staff as well as their contact information (Posted on the organization’s website)
- Straight talking leadership
- Open culture and operations (many voices on behalf of the organization)
- Disclosed partnerships
- Frank, open communications including the good and bad
- Core values & Code of conduct

HOW TO RESOLVE ETHICAL DILEMMA

Think about outcomes if you find yourself in a situation when this approach doesn’t work, you can resolve a right versus right dilemma by finding the highest “right.” Kidder wrote that there are three ways to make the best choice when faced with these types of dilemmas:

Resolving ethical dilemmas

Ends-based: Select the option that generates the most good for the most people.

Rule-based: Choose as if you’re creating a universal standard. Follow the standard that you want others to follow.

Care-based: Choose as if you were the one most affected by your decision. Once you’ve identified an ethical right versus right dilemma, lay out your options according to these three principles. One approach will immediately present itself as the “most right”.

STRATEGY FOR OVERCOMING FROM THE EVILS

For any organization the systematic and rigorous approach coupled with efforts is necessary to keep governance standards at the highest level by nurturing of ethical values and standards well embedded from the inception of the organization. It needs further conscious cultivation during the growth phase. It is equally important to remember that organizations or institutions act through its own employees.

Technology is only a means — a handmaid available at the disposal of humans and it cannot be a substitute; even in the society of the future where robots will take a dominating and universal position. Therefore, the human beings need proper and rigorous grooming. Thus, it is necessary that any attempt to address ethical issues is to be handled by human beings and not machines.

The human traits and characteristics shape human behavior and a few probable solutions are explained below:

(i) Satisfaction

To achieve happiness it is essential that the culture of 'being satisfied' is developed. However, the most challenging and unanswerable question on satisfaction is "How much is Enough". The issue is very difficult to resolve especially in the corporate field where expansion is the prime direction in which it is supposed to move; yet it is the need of the hour to understand and remain satisfied with what is achieved within the validly available means.

(ii) Ends not to justify the means

It is often said that the results matter and what was done to achieve the same is of no consequence. The statement may appear encouraging; but reading between the lines it is not the intention to achieve results by compromising ethics and values. The need of compromising ethics and values arises when there is a dearth of valid means to achieve the end-result. The thirst to succeed, vaulting ambition and flawed education are equally responsible elements. It is essential to note that however worth the cause may be, the means to achieve the same should also be equally valid. An irregular or an unethical action leading to a good outcome may not necessarily justify the method of achieving the goal.

(iii) Ethical Leadership

The Professional should lead the organisation like Krishna as he led Pandvas to success by guiding them to fight morally. It is the duty of the leader driving the organization to ensure use of proper and ethical means in his conduct. It is equally essential that the leader walks the talk and sets an example of good governance and ethical leadership.

(iv) Character

Professional should always consider the old idiom: If Character Is Lost Everything Is Lost. The idiom amply highlights the importance of good character. Character is generally built or earned by virtues like courage, honesty, values and ethics. Great leaders and eminent personalities are judged by their character. A good character is synonymous to reliability.

Recent Cases on Values, Ethics and Professional conduct

*(i) Two recent events in the financial sector offer many corporate governance lessons.

In one case, the government and its agencies were involved and left behind questionable precedents. In another private sector institution, a former government employee is involved though the manner of his involvement raises questions. These events are juxtaposed with larger societal questions related to saving institutions and jobs and ensuring financial stability.

IDBI Bank

The first example relates to the government's decision to sell its stake in IDBI Bank to the Life Insurance Corp. of India (LIC). IDBI Bank's non-performing assets (NPAs) have been mounting, as have been its losses. Its capital adequacy barely meets the regulatory benchmarks. In short, the bank is floundering without a visible lifeline. The government, as the largest shareholder, provided one tranche of capital infusion but clearly that was not enough.

The speed at which the IDBI-LIC deal was approved seems to indicate that an inherent hierarchical priority has been superimposed over the IRDAI's approval process.

Thereafter, the government was faced with three choices.

One, to provide more capital. But the government's kitty is limited and must deal with competing claims.

Two, it could extinguish the legal entity by either merging it with a stronger public sector bank or shutting it down. The former option involves consciously infecting another public sector bank with IDBI's bugs. Shutting it down, on the other hand, is a political risk in a pre-election year.

Three, the government could sell it off, but no private sector bank would want to risk it. The next best solution: force-feed it to another public sector entity which cannot say no to the government.

Enter LIC, the government's preferred sick bay for ailing public sector banks, especially those which the government does not want to (or cannot) recapitalize, downsize or shut down. The transaction raises multiple questions about acceptable corporate governance norms.

First, how did LIC get the money to pay the government for its stake in IDBI Bank?

Any money it pays out has to be from policyholders' funds, or the premium they pay to the insurance company every so often. Ideally, any excess money belongs to policyholders and must be returned to them after deducting expenses and provisions. This then raises ethical questions: are the funds invested in IDBI Bank sourced from the surplus which should have been returned to policyholders but has now been diverted? Also, theoretically, LIC's investment in IDBI Bank breaches the investment mandate approved by government and regulator.

The other issue is the regulator's discretionary powers. The Insurance Regulatory and Development Authority (IRDAI) seems to have approved the IDBI-LIC deal in record time. In most other cases, IRDAI takes its time in assessing risks to policyholders and the impact any proposed deal is likely to have on the industry and its stability. The speed at which the IDBI-LIC deal was approved seems to indicate that an inherent hierarchical priority has been superimposed over the regulator's approval process, which accords undue urgency to deals involving the government. This is a dangerous precedent.

It can be argued that saving the bank is part of the sovereign's social and moral contract: It is duty-bound to ensure financial stability (which includes safety of depositors' money), save jobs and make all efforts to ensure asset turnaround. And, the argument goes, the government can circumvent some of the rules for this purpose.

Focusing on asset turnaround is also the philosophical keystone for the current bankruptcy and resolution process. The Committee Report on Resolution of Stressed Assets, or Sashakt, also echoes similar values. If we consider IDBI Bank to be a stressed asset, then its resolution process contradicts some of the committee's suggestions: transparent market-based solution, free from government intervention, paradigm shift in governance and risk process.

* Source: Live Mint Published on July 09, 2018 title Corporate Governance Lessons from IDBI-LIC deal and ICICI Bank.

ICICI Bank

The second example where corporate governance questions arise relate to ICICI Bank and the raging debate over the board's embarrassing flip-flops. The same board seems to have now waded into deeper, murkier waters in their attempts to ameliorate the early situation.

The board belatedly, and probably under pressure, has agreed to an independent probe into allegations of impropriety by chief executive Chanda Kochhar, who is on leave till the enquiry is complete. Thereafter, the board's process for selecting a new chief operating officer (COO) designate in Sandeep Bakhshi seemed as arbitrary and opaque. Interestingly, the press release announcing the board's decision to appoint Bakhshi as COO includes an intriguing statement: "Mr. Bakhshi will report to Ms Chanda Kochhar, who will continue in her role as MD & CEO of ICICI Bank... During her period of leave, the COO will report to the Board." If Bakhshi has to report to Kochhar for the next five years, assuming she gets a clean chit, how much discretion and independence will he exercise now?

Former bureaucrat Girish Chaturvedi has been appointed as the new chairman though it is unclear how the selection was made. Was there any government intervention? The ICICI Bank board is yet to share the processes it adopted for selecting Chaturvedi. There are also news reports of Chaturvedi and Bakshi having interacted earlier—as insurance secretary and chief executive officer (CEO) of ICICI Lombard, respectively. While it is good for any company to have the CEO and chairman acting in harmony, it is also true that too much familiarity breeds multiple evils, especially of the corporate governance type.

TATA'S

In another instances the Two of India's most iconic and respected companies have been hit by damaging publicity caused when their previous chairmen objected to the way the businesses were being run by their successors. In both cases, the main accusations have been that the new managements were breaking established traditions and ethics.

This has led to questions not only about the wisdom of the former chairmen's outbursts, but also what it has revealed concerning the general state of India's corporate integrity.

Tata, India's biggest and most respected conglomerate, has begun to emerge from its four months of damaging publicity with a new executive chairman, Natarajan Chandrasekaran, who took over on February 21, 2017 from Ratan Tata at Tata Sons, the main holding company.

Previously chairman for 21 years, Tata had reappointed himself as interim chairman on October 24, 2016, when he organized a boardroom coup that ousted his successor, Cyrus Mistry, triggering legal challenges to his action and media exposure to negative aspects of his legacy.

The other blue-chip company under scrutiny is Infosys, which is widely regarded as one of the most ethical and entrepreneurially successful of India's big information technology companies, rivaled only by Tata's TCS and Wipro. The criticisms were launched with maximum publicity by Narayana Murthy, who founded Infosys 36 years ago and served as the company's first CEO. Questions were raised about boardroom ethics and were aimed primarily at the current chief executive officer, Vishal Sikka, and at R. Seshasayee, the chairman of the board and former head of Hinduja Group's Ashok Leyland and IndusInd Bank.

Hero MotoCorp

In Another instance, The country's largest two-wheeler maker Hero MotoCorp has sacked around 30 employees for violation of the company's code of conduct, These executives were found fudging travel expense bills, accepting personal favours, gifts and other benefits from some of vendors, suppliers and dealers in violation of the company's internal 'code of conduct'.

The executives were given marching orders after "thorough investigations" into the allegations against them, All due legal procedures were followed before taking the final action. Third-party independent investigators were appointed to look into these cases once the anomalies were detected in the activity record of these executives.

Stressing on the significance of the step, the official said," We have always had a clearly laid out Code of Conduct for all our employees and it is absolutely mandatory for everyone working at Hero to abide by it. Integrity and value-based behaviour is a way of life at Hero and no one violating these principles has any place in this organisation".

Hero MotoCorp's management was unanimous in its view that the concerned employees could not continue in the company, once it was established. The employees were given due opportunities to present their cases. When confronted with evidence, they owned up to the wrongdoing, official said. He, however, declined to share the names and designations of the sacked employees.

Source <https://economictimes.indiatimes.com/news/company/corporate-trends/hero-motocorp-sacks-around-30-employees-for-ethics-code-violation/articleshow/64064208.cms>

PNB Fraud

In the matter of the PNB fraud, The CBI questioned a general manager of Punjab National Bank who handles the treasury section, in connection with the alleged Rs 12,636-crore fraud perpetrated by billionaire jeweler Nirav Modi and his uncle Mehul Choksi, The questioning came a day after the CBI arrested four people -- two employees and an auditor of Nirav Modi's group of companies, and a director of Gitanjali Group of Companies. It is alleged that Choksi and Modi got Letters of Undertakings (LoUs) and Foreign Letters of Credit (FLCs) of Rs 12,636 crore issued in favour of foreign branches of Indian banks based on fraudulent claims. The accused officials of PNB did not enter the instructions for these LoUs and in their internal software to avoid scrutiny. They were sent through an international messaging system for banking called SWIFT, which is used to pass instructions among banks globally to transfer funds. An LoU is a guarantee which is given by an issuing bank to Indian banks having branches abroad to grant short-term credit to the applicant. In case of default, the bank issuing the LoU has to pay the liability to the credit giving bank along with accruing interest. The PNB officials allegedly sent these messages to Indian banks - Canara Bank, State Bank of India, Bank of India, Axis Bank, Allahabad Bank -- located in Antwerp, Hong Kong, Bahrain, Mauritius, Frankfurt without making entries in the banking software about the LoUs. Upon receiving the messages from PNB under SWIFT, the banks abroad transferred these amounts into Nostro account of PNB with them. Nostro account is an account that a bank holds in a foreign currency in another bank to enable foreign trade by its clients.

Recent Cases Business and Professional Conduct

1. United Drags a Bloodied Passenger Off a Flight

United Airlines felt the fallout worldwide when two security officers forcibly removed a bloodied passenger off an overbooked United flight Consumers worldwide reacted with horror and quickly called for a boycott. Making matters worse: United CEO Oscar Munoz apologized for the incident in rather sanitized corporate speak, saying "this is an upsetting event to all of us here at United" — underestimating just how viscerally disturbing the video had been, and how dissatisfied fliers were with the airline industry. Adding salt to the open wound, media reports revealed that Munoz had called Dao "disruptive and belligerent" in a letter to employees.

While the incident wasn't expected to hurt profits, the debacle struck a chord among consumers who have dealt with years of flagging service standards aboard flights. Even after Dao and United settled out of court, the frustrations unleashed upon airlines would not stop, with complaints against airlines up 13% in the six months following the incident, according to data from the U.S. Department of Transportation.

2. 21st Century Fox and Bill O'Reilly

Sexual harassment allegations plagued many companies in 2017, including the entertainment giant 21st Century Fox. Fox's woes started in 2016, with former anchor Gretchen Carlson filing a lawsuit against Fox News Channel's news chief Roger Ailes, alleging sexual harassment. But it didn't stop there. It was reported that star commentator Bill O'Reilly had paid five millions to keep allegations of sexual harassment in the dark. Upon hearing the news, advertisers hastily suspended their segments during the O'Reilly Factor. By April, O'Reilly was out. Still, the news was upsetting to shareholders who considered the multiple allegations a sign of a company culture that allowed for sexual harassment. Adding fuel to the fire: Fox reportedly knew of the claims against O'Reilly when it decided to give him a new contract in January. Thus in November, Fox agreed to pay \$90 million to settle shareholder claims related to the O'Reilly and Ailes scandal, and create a council focused on creating a proper workplace environment.

3. Alphabet and Facebook

The year following the presidential election became one for Congress and internet titans to rethink their role in the democratic process. Amid speculation that fake news spread on social media may have influenced the 2016 elections, giants such as Facebook and Google appeared to dismiss the possibility. But that changed in 2017, with Facebook and Google which derive a major chunk of their revenue from ad placements both saying that they had found accounts tied to the Russian government. Facebook reported some 3,000 Kremlin-linked ads aimed at dividing the country that had been bought on its platform. Google, meanwhile, found tens of thousands of ads bought by Russia-linked entities on YouTube and Gmail. Twitter also revealed that a news outlet paid for by the Russian government, Russia Today, had spent \$274,000 in ads on the platform in 2016. There's no indication that the questions will stop any time soon. Twitter, Facebook, and Google are still investigating how much Russian activity there had been on their platforms. Adding to big tech's big problems: Congress appears to be taking a harder stance against the sector, with some on Capitol Hill questioning the way they are getting users to keep coming back.

4. Harvey Weinstein's Multiple Sexual Assault Accusations

Weinstein's story is one that can't be concocted in even the most twisted of Hollywood films. Starting in October, more than 100 actresses came forward with accusations of sexual misconduct against the Hollywood kingpin dating back for decades. Weinstein apologized — but it wasn't enough to save the producer of Oscar-winning films from termination from Weinstein Co. Nor did it calm the public's growing outrage over how Weinstein had managed to maintain his position for so long.

In his attempts to silence those accusations, Weinstein allegedly hired ex-Mossad agents to tail the accusers in question. But as turns out, it wasn't just Weinstein's reported spies and threats that kept him in power, but also a following of billionaire friends that kept him safe within Weinstein Co., despite signs that Weinstein was using company funds for personal projects in 2015. Weinstein later agreed to repay more than \$7 million to the company.

But perhaps the most significant sea change: It sparked a wave of once silent men and women to speak out about their experiences with sexual harassment.

Weinstein has categorically denied taking part in any non-consensual sex.

5. Equifax's Data Breaches

Credit rating firm Equifax makes its profits from selling personal, often sensitive information to financial institutions and lenders. But in September, it revealed that it had been at the center of one of the worst data breaches in history, with the information of some 145 million people, about half of the U.S. population, compromised. In the aftermath, CEO Richard Smith stepped down, as well as its chief information officer and chief security officer, amid revelations that Equifax was aware of the system flaw that the hackers took advantage of since March. Then, when the hack did happen, the firm waited a full two months before disclosing it. Meanwhile, the Justice Department is reportedly looking into whether top Equifax executives committed insider trading when selling some \$1.8 billion in shares just before the breach was disclosed.

6. Samsung's Bribery Charges

In 2016, Samsung dealt with exploding Note 7 batteries. In 2017, it was imploding corporate ranks. Originally planning to put their Lee Jae-yong at the head of the empire, the family-run Samsung conglomerate is now facing questions of succession after Lee was caught in a sprawling political scandal that took down former South Korean President Park Guen-hye. Lee Jae-yong is now facing five years (and potentially 12) in jail for offering allegedly offering bribes to Park, embezzlement, and hiding assets overseas. Samsung Electronics co-CEO Kwon Oh-hyun meanwhile also resigned in October, citing Samsung's leadership woes. "As we are confronted with unprecedented crisis inside out, I believe that time has now come for the company [to] start anew, with a new spirit and young leadership to better respond to challenges arising from the rapidly changing IT industry," he said in a statement. While Samsung's long-term health is still on shaky ground, the company's near-term outlook belies those worries. The company posted record-breaking profits in the third quarter of \$12.8 billion, almost triple the number it posted a year earlier.

7. Kobe Steel, Mitsubishi Materials, and Japan's Corporate Governance Woes

Japan's economy notched its longest GDP growth streak since 2001 in the third quarter of 2017. But underlying it's steady recovery: A wave of quality-faking admissions from some of Japan's biggest companies that's has raised questions about the country's standing as a manufacturing powerhouse.

In October, Kobe Steel revealed that it falsified information on some items sold to Boeing, Ford, Toyota, and others since 2007; Mitsubishi Materials, which said it faked data on auto and airplane parts affecting some 274 clients; and Toray, a manufacturing giant that revealed that it had fudged data for cords used to reinforce tires since 2008.

Carmakers Nissan and Subaru also recalled 1.2 million and 395,000 vehicles respectively in 2017, saying unqualified inspectors were allowed to vet their cars in the final checks for decades.

While the scandals haven't revealed any major safety issues, they are negative for Japanese businesses. As lower cost alternatives from China and South Korea have proliferated through the market, Japan has competed mainly by pointing to the high quality of its products as a bulwark.

Analysts, though, say the series of scandals that have come out in recent months suggest that those Japanese quality standards may have been set too high.

8. Wells Fargo's Woes Continue

After losing the trust of consumers in 2016 for creating millions of fake accounts, Wells Fargo struggled mightily to win back its customer base with promises of transparency and reform. But Wells Fargo's woes only deepened in 2017, when the company admitted that it had charged as many as 570,000 consumers for auto insurance that they did not need. Additionally, some 20,000 of those borrowers may have had their cars repossessed as a result. Wells Fargo said it would pay \$80 million in remediation. Wells Fargo's head of consumer banking and some 70 senior managers in the bank's retail banking segment were also cut as a result. In the same year, Wells Fargo also revealed that it had uncovered an additional 1.4 million fake accounts on top of the 2.1 million the bank previously disclosed had been created without consumer permission.

9. Apple's Slowed Down iPhones

The tech giant's year ended with a bang, after reports that Apple had purposely slowed down older iPhones to compensate for decaying batteries. It appeared to feed into a long-time conspiracy theory among some Apple users: that the company had been purposely slowing down old models when a new version came out in a bid to force consumers to upgrade. Now, the company is facing lawsuits for allegedly slowing down the devices without first warning consumers. In response, Apple has apologized for slowing down the iPhones, calling it a "misunderstanding," and offered to sell battery replacements for \$29 instead of the usual \$79. Apple has said that once the battery is replaced, the iPhone's speed will pick up again.

10. Money-Laundering Scandals in Europe

Denmark's largest bank, Danske Bank, came under fire from authorities from multiple countries, as it was revealed that the bank's Estonian branch may have assisted in money-laundering of up to EUR 200 billion. The bank was under investigation by authorities in multiple jurisdictions, including Denmark and the U.S. Then, Deutsche Bank's offices in Frankfurt were raided over suspicions of money-laundering related to the Panama Papers. In response to the scandals, European legislators have scrambled to improve anti-money laundering capabilities across the continent.

The revelations in the Danske Bank case came as a surprise to many, considering that Denmark is perceived internationally to be among the least corrupt countries in the world. In fact, 2018 has shown them that they need to be careful not to be blinded by the low perception of corruption in highly developed countries. What does this mean for compliance officers? Most importantly, compliance officers should continually check their own assumptions and biases about country risks and be prepared to adjust processes based on new information. Always keep in mind that perception and reality are not the same things.

Reference: <https://www.ganintegrity.com/blog/the-three-biggest-corporate-misconduct-stories-of-2018/>

11. Kingfisher Airlines (KLA)

KLA was another corporate fraud, which was first of its kind in the Airlines industry, which ultimately led to fall of the empire of King of good times. The airline was launched by flamboyant Vijay Mallya, well known as King of good times. Over a short period of time KLA established a reputation of finest private airline of the country, with high quality service standard and was enjoying second highest market share after Jet Airways.

The company resorted to borrowing funds by all possible means, including related parties and pledge of Kingfisher brand by over-valuation of brand value. Good times did not last long, and Vijay Malia had to sell its family jewel liquor and beer business to liquidate part of its debts.

Currently Vijay Malia is in the UK and fighting battle in courts to stop his repatriation into India. Consortium of banks led by SBI has exposure of around Rs, 9000 crores to now a virtually bankrupt airline. Most employees lost or quit jobs as salaries were not paid for months together. The company went to the extent of defaulting in depositing statutory dues like PF, TDS deducted from salaries to government authorities.

Kingfisher seems to me more of a case of business failures rather than corporate frauds.

Reference: <http://www.lawstreetindia.com/experts/column?sid=488>

12. ILFS

ILFS fraud was the largest corporate fraud in India and triggered a showdown in the economy, as the company was a key vehicle for infrastructure development of the country. Fraud occurred, in spite of marquee shareholders like LIC, SBI etc., being the largest shareholders, having representatives on board. ILFS had the largest debt exposure of around Rs. 91000 crores (including Rs, 20000 crores invested by PF and pension funds),

Fraud was perpetrated mainly by:

- Diversion of borrowed funds to related entities of some of members of top management team
- Imprudent lending to parties who were not credit worth for ulterior motives
- Evergreening of loans by routing money from one group company to another through an unrelated party
- Over invoicing of project costs by vendors, accounting of fake expenses etc and difference being routed back to related entities of some of members of top management team
- Overstatement of profits by non- provisioning of loans, accounting of fake expense, inappropriate recognition of project revenue etc.
- The company had unprecedented number of subsidiaries and group companies, (346) which were used to route above transactions
- Non – disclosure of some of these companies as related parties
- Non-disclosure some of subsidiaries, associates, joint ventures

Most of the mutual funds, insurance companies and PF gratuity funds had invested large sums in its debt issuance, due to the high credit rating of the company. It was a case of negligence by reputed credit rating agencies that rating was not downgraded in spite of clear signs of financial stress in the company. Rating was downgraded abruptly to lowest level from the highest only after the company defaulted in its repayment obligations.

Surprisingly, this public interest entity, was run for years by the same top management team, who were treating ILFS as personal property. Their subordinates and even Board were so overawed by their overpowering persona that no one dared to challenge their decisions. Fraud was going on for years, but could not be detected till the damage was done.

Like Satyam, the government suspended the board and appointed eminent experts to the board chaired by reputed and seasoned banker, Uday Kotak. Currently the company is under resolution process and some of its infrastructure has been sold.

Reference: <http://www.lawstreetindia.com/experts/column?sid=488>

13. DHFL

DHFL was the first ever fraud in a housing finance company, which happened mainly due to active involvement of promoters in syphoning of funds and alleged money laundering.

How fraud was committed:

- Granting of loans to related parties of promoters
- Loans granted to parties, who were not credit worthy or were unknown having same addresses in obscure locations
- Evergreening of bad loans
- Creation of around 6 lacs dummy accounts at one branch, using name of borrowers who had already repaid loans. These accounts were used to grant loans which were used to siphon funds to promoter companies. These loans ultimately turned out to be non-recoverable
- Utilisation of borrowed funds for personal purposes, such as acquiring personal properties, yachts etc.
- Consequently, huge amounts were shown as recoverable in the balance sheet, which were not recoverable

Reference: <http://www.lawstreetindia.com/experts/column?sid=488>

14. YES Bank

Fraud led to the unexpected and sudden fall of a private bank which was emerging as a good competition to other private banks. The bank had a differentiated business model, with focus on technology, branches network, focus on retail loans etc.

Promoter of the bank, Rana Kapoor had, over a short period of time, built an overwhelming image in the industry and had developed contacts with top industrialists of the country. Most of the decision making on key matters including large loans was centralised in his hands. He had the ambition to make YES Bank the largest private bank of the country. It was this ambition which perhaps led to the sharp downfall in fortunes of the bank, steeper than its rise to an eminent position in the banking industry.

- How fraud was committed:
- Imprudent lending practices
- Evergreening of loans
- Practice of charging high commission to borrowers, which was not in line with industry practices
- Overstatement of profits due to front loading of commission income
- Gross under provisioning of NPAs compared to RBI guidelines

During special inspection carried out by RBI (Asset quality reviews-AQR which was carried for all banks), significant differences were observed between actual and required provisioning for various years.

Finance ministry acted swiftly to restore the confidence in the banking system and a majority stake in the bank was acquired by SBI. Efforts are still on to ensure that the bank is restored to its original health by significant equity infusion by institutional investors and other measures.

Reference: <http://www.lawstreetindia.com/experts/column?sid=488>

Case Study:

Explain “how the fraud in DHFL case was committed”. What suggestions would you give to safe guard against that fraud in future?

LESSON ROUND UP

- The ethics include descriptive ethics, normative ethics, meta-ethics and applied ethics.
- Ethics refers to the guidelines for conduct, that address question about morality. Value is defined as the principles and ideals, which helps them in making the judgement of what is more important.
- Ethics arises from three main factors, moral attitudes as a result of consciousness or awareness- raising, culture as a result of education and the use of know-how and the application of standards as a result of learning and training.
- A professional must not exercise any undue influence intended to dispose the client to benefit the professional in excess of the professional fair remuneration for legal services provided to the client.

GLOSSARY

Descriptive Ethics	It deals with what people actually believe (or made to believe) to be right or wrong, and accordingly holds up the human actions acceptable or not acceptable or punishable under a custom or law. Descriptive Ethics is also called comparative ethics because it compares the ethics or past and present; ethics of one society and other.
Normative Ethics	It deals with “norms” or set of considerations how one should act. Thus, it’s a study of “ethical action” and sets out the rightness or wrongness of the actions. It is also called prescriptive ethics because it rests on the principles which determine whether an action is right or wrong.
Meta-Ethics or “analytical ethics”	It deals with the origin of the ethical concepts themselves. It does not consider whether an action is good or bad, right or wrong. Rather, it questions – what goodness or rightness or morality itself is. It is basically a highly abstract way of thinking about ethics.
Applied Ethics	It deals with the philosophical examination, from a moral standpoint, of particular issues in private and public life which are matters of moral judgment.
Beneficence	The principle of beneficence guides the decision maker to do what is right and good. This principle stipulates that ethical theories should strive to achieve greatest amount of good because people benefit from the most good.
Least Harm	This theory deals with situations in which no choice appears beneficial.
Utilitarian	This is a normative ethical theory that places the locus of right and wrong solely on the outcome or consequences of choosing one action/policy over other.

TEST YOURSELF

(These are meant for recapitulation only, Answer to these questions are not to be submitted for evaluation)

1. Define ethics and the various types of ethics.
2. What are principles which should be adopted by the company Secretaries to become successful?
3. Describe the duties of professional which are to be performed by every professional.
4. Define the common causes of loss of ethics and values by professionals.
5. Prepare a Ethical Decision Worksheet for the below situation. Assume facts. “X has to take a decision, where the best service provider is his near relative”

LIST OF FURTHER READINGS

Articles by the professionals and Firms

- Chartered Secretary : ICSI, New Delhi
- Student Company Secretary ebulletin : ICSI, New Delhi

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- <http://www.lawstreetindia.com/experts/column?sid=488>
- <https://www.ganintegrity.com/blog/the-three-biggest-corporate-misconduct-stories-of-2018/>

Lesson 19

Due Diligence – I

Key Concepts One Should Know

- Risk assessment
- Confidential Information
- Disclosing Party
- Scheme of Amalgamation
- Shareholders' Agreement
- Negotiation
- Potential buyer
- Target business
- Merger/ Demerger
- Takeover

Learning Objectives

To understand:

- Meaning, overview, objectives, scope of Due Diligence
- Need for Due Diligence
- Process of Due Diligence
- Types of Due Diligence
- Techniques of Due Diligence
- Risk assessment
- Concept of Non-Disclosure Agreement

Regulatory Framework

- SEBI (SAST) Regulation, 2011
- Foreign Contribution (Regulation) Act, 2010
- Foreign Contribution (Regulation) Rules, 2011
- Foreign Exchange Management Act, 1999

Lesson Outline

- Overview of Due diligence
- Need for Due diligence
- Objective of Due diligence
- Scope of Due diligence
- Conducting Due diligence
- Stage / Process of Due diligence
- Types of Due diligence
- Due diligence on Competition law
- Due diligence for Merger and Amalgamation
- Due diligence for Takeovers
- Due diligence for Issue of Securities
- Due diligence report for Bank
- FEMA Due diligence
- FCRA Due diligence
- Non-Disclosure Agreements
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

OVERVIEW OF DUE DILIGENCE

Due Diligence is the process by which confidential legal, financial and other material information is exchanged, reviewed and appraised by the parties to a business transaction, before entering into the transaction with the other party. However, in general the Due Diligence can be defined as under:

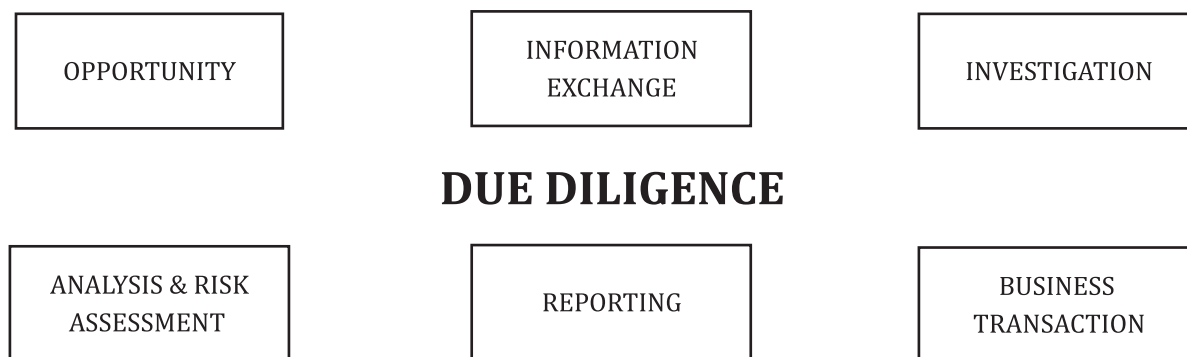
“Due diligence” is an analysis and risk assessment of an impending business transaction. It is the careful and methodological investigation of a business or persons, or the performance of an act with a certain standard of care to ensure that information is accurate, and to uncover information that may affect the outcome of the transaction.

As a part of the business strategy, the Companies before making any relationship with the other party conduct the background checks of the client, customer, supplier etc. to ensure that the parties to the transaction have the disclosed the information as required to proceed with the transaction and is a process to completely understand a business capability and its past performance.

While exploring any business opportunity, it is the foremost requirement for a corporate to investigate and evaluate the potential and risk associated with such business. The due diligence covers the activities relating to pre-transaction, during the transaction and post transaction exercise with all relevant aspects of the past, present, and predictable future of the any business.

After the conduct of the due diligence, a due diligence report prepared to provide information and insight on various aspects such as the risks of a transaction, the value at which a transaction should be undertaken, the warranties and indemnities that needs to be obtained from the vendor etc.

In any transaction, the seller does investigation of a buyer to ensure that the buyer has adequate resources to complete the transaction, as well as other business aspect covering the technical and human resource, cultural, taxation etc. which would affect the company after entering into the transaction. the chapter covers the various types of due diligence performed by the company on voluntarily and for entering to the any business transaction or before going for any corporate action relating to the merger, de-merger, amalgamation, take over, joint venture etc.



NEED FOR DUE DILIGENCE

In any business, instances of misrepresentations and fraudulent document disclosure and activities are not easily traceable and are not always obvious or straight and for a company it is necessary to uncover such misrepresentations, especially in case of the major business decision, as it would create a major impact on the business. The detailed due diligence of every business aspect explores all possible risk and provide the platform for becoming fully informed about the financials, business, internal systems, profitability, key operational aspects, management team, promoters and other material factors which help in making an informed decision. The ultimate object of the Due diligence is to protect the interests of the Company by providing reliable information on the target company before making any written commitments.

The main object of due diligence is like a peep hole to analyse target Companys before opening of the door, this includes the success and potential, opportunities for the growth of business, and the goals and objectives of the company. The due diligence exercise is needed to confirm that the nature and genuineness of a business, identify

defects/weakness and to avoid a bad business transaction, to gather information that is required for valuation of assets, and to negotiate in a better manner. Hence the due diligence exercise is considered as SWOT analysis which is essentially required to make an informed decision.

OBJECTIVES OF DUE DILIGENCE

The objective of due diligence is to verify the strategic identification or attractiveness of the target company, valuation, risk associated etc. The objective of due diligence may be to:

- Collection of material information
- Identification of strength and threats and weaknesses.
- To improve the bargaining position.
- Identification of areas where representations and warranties are required.

Generally, the SWOT analysis of any business carried out as a part of due diligence to reveal the strengths and weaknesses of not only the financials but also intangibles. To perform effectively, the potential buyer needs to be clear about the goals and motives for acquiring the target company, as well as the value the buyer is attempting to create with the purchase. For example, if there is a legal risk, such as an outstanding lawsuit, that will not only jeopardize the financial stability of the company but also the loyalty of existing customers. This will erode the target company's market of customers by a new and stronger competitor. The target company's talent is the asset desired, and much of this depends on employee relations and accordingly cultural issues have to be addressed in time.

A thorough due diligence helps to reveal any of the negatives, but the process of due diligence rarely goes smoothly because of one major stumbling block and that is availability of information. The target company is rarely eager to reveal to the other party that it is up for sale and wants to keep this information confidential from its competitors, customers and employees. So getting any information from these sources can be tricky, depending upon what the potential buyer wants to gain from the transaction. The buyer who aims to get new market of customers with the transaction wants to make sure that the target company has a good relationship with existing customers. But, during due diligence, the target company does not want any contact with its existing customers for fear that customers might leave because of the impending sale. As another example, a potential buyer sees the employee talent as the company's main asset, but the target company is nervous about letting the potential buyer talk to key employees because it does not want to let them know that it is going to be sold. Because of the confidential nature of transactions, not all the information that is necessary to make a good decision can be revealed. This is why services of experts are hired in due diligence before beginning the process so the buyer receives reliable guidance. Further, it is also critical to meet with trusted advisors - both inside and outside about what has been discovered and brainstorm the different scenarios of what can go wrong before going ahead with the deal.

Once a purchase price is agreed upon, the prospective buyer usually enters into a conditional agreement with a due diligence clause with the target business, in which the buyer has a limited period to conduct due diligence. During this time, the potential buyer requests full access to all relevant materials in the target business, customer, vendor, financial and other information in order to conduct a thorough investigation. Here, it is to be ensured that the potential buyer does not use this information for its own benefit if it decides to back out of the deal, hence a confidentiality agreement is usually signed to protect the target businesses' interests. But a possibility of re-negotiation of the purchase price or cancellation of the agreement on the part of buyer is seen if the information found is not acceptable to the potential buyer. Again after due diligence, the goal is to either reaffirm the purchase price or renegotiate, depending on what was discovered under Due diligence. But the ultimate goal is to make a rational decision based on the facts.

The necessity of the due diligence can be summarized as under:

- To investigate into the affairs of business as a prudent business person.
- To confirm all material facts related to the business.
- To access the risks and opportunities of a proposed transaction.
- To reduce the risk of post transaction.

- To confirm that the business is what as it appears.
- To create a trust between two unrelated parties.
- To identify potential deal killers defected in the target and avoid a bad business transaction.
- To gain information that will be useful for valuing assets.
- Representation & warranties for indemnification.
- Negotiation price concessions.
- To verify that the transaction complies with investment or acquisition criteria.
- To investigate & evaluate a business opportunity.
- To determine compliance with relevant laws and disclose any regulatory restrictions on the proposed transaction.
- To evaluate the condition of the physical plant and equipment; as well as other tangible and intangible assets.
- To ascertain the appropriate purchase price and the method of payment.
- To determine details that may be relevant to the drafting of the acquisition agreement.
- To discover liabilities or risks that may be deal-breakers.
- To analyze any potential antitrust issues that may prohibit the proposed M&A.
- To evaluate the legal and financial risks of the transaction.

SCOPE OF DUE DILIGENCE

Scope of due diligence is transaction based and is depending on the needs of the people who are involved in the potential investments, in addressing key uncovered issues, areas of concern/ threat and in identifying additional opportunities.

Due diligence is generally understood by the legal, financial and business communities/ potential investors to mean the disclosure and assimilation of public and proprietary information related to the assets and liabilities of the business being acquired. This information includes financial, human resources, tax, environmental, legal matters, intellectual property matters etc.

Due diligence would include thorough understanding of all the obligations of the target company: debts, rights and obligations, pending and potential lawsuits, leases, warranties, all high and impact laden contracts - both inter-corporate and intra-corporate.

The investigation or inspection would cover:

- Compliance with applicable laws
- Regulatory violations or disciplinary actions
- Litigation and assessment of feasibility of pursuing litigation
- Financial statements
- Assets - real and intellectual property, brand value etc.
- Unpaid tax liens and/or judgments
- Past business failures and consequential debt
- Exaggerated credentials/Fraudulent claims
- Misrepresentations or character issues
- Cross-border issues - double taxation, foreign exchange fluctuation, sovereign risk, investment climate, cultural aspects.
- Reputation, goodwill and other intangible assets.

FACTORS TO BE KEPT IN MIND WHILE CONDUCTING DUE DILIGENCE**1. Objectives and purpose**

A key step in any due diligence exercise is to develop an understanding of the purpose for the transaction. The goal of due diligence is to provide the party proposing the transaction with sufficient information to make a reasoned decision as to whether or not to complete the transaction as proposed. It should provide a basis for determining or validating the appropriate terms and price for the transaction incorporating consideration of the risks inherent in the proposed transaction.

The following factors may be kept in mind in this regard:

- (i) Be clear about your expectations in terms of revenues, profits and the probability of the target company to provide you the same.
- (ii) Consider whether you have resources to make the business succeed and whether you are willing to put in all the hard work, which is required for any new venture.
- (iii) Consider whether the business gives you the opportunity to put your skills and experience to good use.
- (iv) Learn as much as you can about the industry you are interested in from media reports, journals and people in the industry.

2. Planning the schedule

Once it is decided for a particular business, make sure of the following things:

- Steps to be followed in due diligence process
- Areas to be checked
- Aspects to be checked in each area
- Information and other material to be requested from the seller

3. Negotiation for time

Sometimes, it may be the case that, sellers want the process to get over as soon as possible and try to hurry the proceedings. When the seller gives a short review period, negotiations can be made for adequate time to have a complete review on crucial financial and legal aspects.

4. Risk Minimisation

All the information should be double checked- financials, tax returns, patents, copyrights and customer base to ensure that the company does not face a lawsuit or criminal investigation. The financials are very important and one needs to be certain that the target company did not engage in creative accounting. The asset position and profitability of the company are vital.

Since, due diligence exercise deals with the overall business, it is important to consider aspects such as:

- background of promoters
- performance of senior management team
- organizational strategy
- business plans
- risk management system
- technological advancement
- infrastructure adequacy
- optimum utilization of available resources

5. Information from external sources

The company's customers and vendors can be quite informative. It may be found from them whether the target

company falls in their most favored clients list. Any flaws that the audit uncovers help to re-negotiate down the sale price. Hence, the Due diligence is “a chance to get a better deal”.

6. Limit the report with only material facts

While preparing the report it is advisable to be precise and only the information that has a material impact on the target company is required to be included.

7. Structure of information

Once the due diligence process is over, while preparing the report, information has to be structured in an organized manner in order to have a better correlation on related matters.

STAGES / PROCESS OF DUE DILIGENCE

A due diligence process can be divided into three stages i.e. (i) Pre Diligence, (ii) Diligence, and (iii) Post Diligence.

(i) Pre Diligence	(ii) Diligence	(iii) Post Diligence
<ul style="list-style-type: none"> • Signing LOI/Term Sheet • Signing of NDA • Collation of data • Identifying issues 	<ul style="list-style-type: none"> • Submission of Due Diligence Report - summarised or detailed, as the case may be • Execution of shareholders' agreement 	<ul style="list-style-type: none"> • Rectification of non-compliances • Application / petition of compounding of various offences • Negotiating Shareholders' agreement

(i) Pre diligence

A pre diligence is primarily the activity of management of paper, files and people.

1. Signing the Letter of Intent (LOI) and the Non-Disclosure Agreement (NDA)/ Engagement letter.
2. Receipt of documents from the company and review of the same with the checklist of documents already supplied to the company.
3. Identifying the issues.
4. Organising the papers required for a diligence.
5. Creating a data room.

The first and foremost step for the management of the target company, is that the investor is to sign a Letter of Intent (LOI) or a term sheet which underlines the various terms on which the proposed deal is going to be concluded. After the receipt of the LOI the investors sign an NDA with the various agencies who is going to conduct the due diligence, be it finance, accounting, legal or a secretarial diligence. The company would usually receive a checklist from the agency conducting the diligence. The checklist is invariably exhaustive in nature, and therefore, the company may either collate and compile the documents in-house or outsource this to an external agency. While the data is being collated care should be taken to ensure that there are no loose ends that may probably arise.

As regards a data room, some of the important things that one should take cognizance of from the corporate viewpoint are the following:

- (a) Do not delay deadlines (leads to suspicion).
- (b) Mark each module of the checklist provided separately.
- (c) In case some issues are not applicable spell it out as “Not Applicable”.
- (d) In case some issues cannot be resolved immediately, admit it.
- (e) Put a single point contact to oversee the process of diligence.

- (f) Keep a register, to track people coming in and going out.
- (g) An overview on the placement of files.
- (h) Introduction to the point person.

During the diligence, care should be taken to adhere to certain hospitality issues, like:

- (a) Be warm and receptive to the professionals who are conducting diligence.
- (b) Enquire on the Due Diligence team.
- (c) In case of any corrections - admit and rectify.

As regards the process of diligence, as a professional care should be taken to scrutinize every document that is made available and ask for details and clarifications, since the Due diligence is a time bound activity and is needed to be wrapped up at the earliest. However, the company may be provided an opportunity to clear the various issues that may arise out of the diligence.

(ii) Diligence

After the diligence is conducted, the professionals submit a report which in common parlance which is called as Due Diligence report. These reports can be of various kinds, a summary report; a detailed report or the like; and the findings mentioned in the report can be very significant, in as much as the deal is concerned.

There are certain terms used to define the outcome of these reports:

Deal Breakers: In there report, the findings can be very glaring and may expose various non-compliances that may arise - any criminal proceedings or known liabilities.

Deal Diluters: The findings arising out a diligence may contain violations which may have an impact in the form of quantifiable penalties and in turn may result in diminishing the value of company.

Deal Cautioners: It covers those findings in a diligence which may not impact the financials, but there exist certain non-compliances which though rectifiable, require the investor to tread a cautious path.

Deal Makers: Which are very hard to come by and may not be a reality in the strict sense, are those reports wherein the diligence team have not been able to come across any violations, leading them to submit what is called a 'clean report'.

It may be noted that only after the reporting formalities are over and various rectifications are carried out, the "shareholders agreement" (which is the most important document) is executed. This agreement contains certain standard clauses like the tag along and drag along rights; representations and warranties; condition precedents and other clauses that have an impact on the deal.

(iii) Post Diligence

Post diligence sometimes result in rectification of non-compliances found during the course of due diligence. There can be interesting assignments arising out of the diligence made by the team of professionals. It can range from making applications/filing of petition for compounding of various offences or negotiating the shareholders' agreement, since the investors will be on a strong wicket and may negotiate the price very hard.

TECHNIQUES OF DUE DILIGENCE AND RISK ASSESSMENT

Due diligence and risk assessment and control represent separate and distinct processes that take place prior to the commencement and throughout the duration of a commercial agreement respectively.

The Due diligence and risk assessment and control processes are central to good business practice. These processes are particularly important in taking leadership in the market and charge premium rate services. Where services are delivered to clients through Associates, which can, on occasion, include many different parties, the professional should prior to contracting with such party write down the expectation from such party in the process of due diligence.

All parties in the Due diligence team should be confident that the established team is for good positive business and industry-wide growth. Such processes are built on the following four cornerstones:

Know your client - all businesses have risks, and these can vary significantly dependent on the nature of the company and the services being operated. It is important to know your client so you can properly identify the risks involved and assess how to manage them. This is not to limit or prevent commercial relationships forming but to ensure they are properly managed whether an issue ultimately arises or not.

Properly identify the risks - this goes beyond listing risks or simply identifying larger more obvious risks that may affect any commercial dealings. It involves proper consideration of the range and types of risks associated with particular clients and the services they provide taking into account all the circumstances. This allows for effective management of the commercial relationship and careful preparation for handling of any problems that may arise.

Actions taken to control any risks - once risks are identified, industry members must make a proper assessment of the issues that would arise if incidents occur and take proportionate steps to minimise the likelihood of such issues resulting in consumer harm. Steps taken need not involve significant resources in advance. Good process planning and/or staff training may have a positive impact on a company's ability to respond effectively when incidents do occur. Even matters that are perceived to be unlikely or appear minor can pose long term difficulties, if businesses are under prepared to respond to matters that do arise.

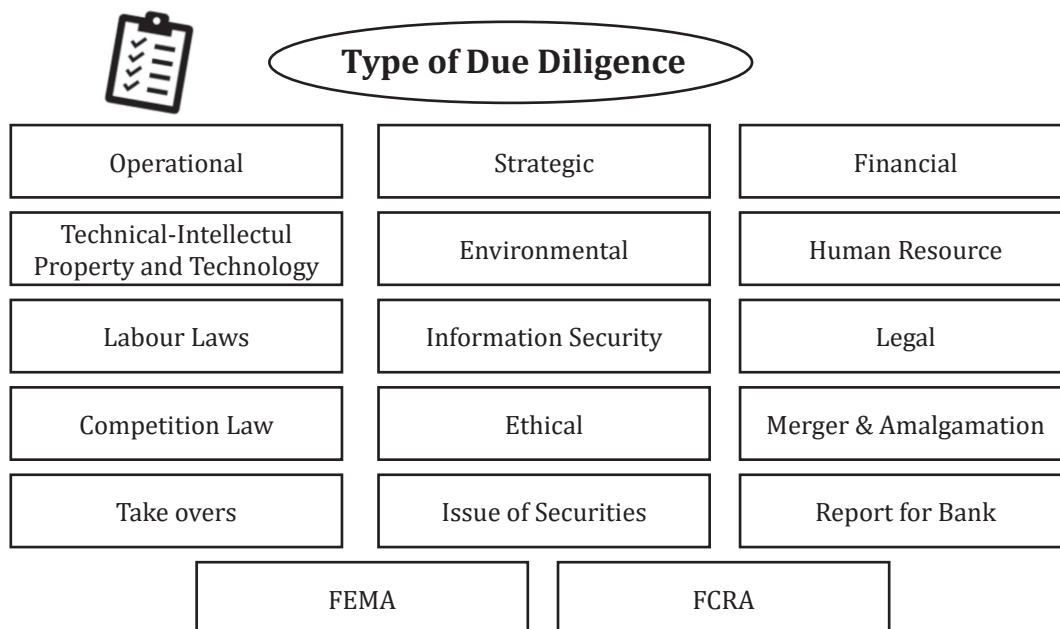
The formulation of an action plan could be based on the following:

- To periodically test and/or monitor certain 'risks' that would normally be associated to a particular service category (e.g. for a subscription service, it may be prudent to test the clarity of promotions, whether reminder messages have been sent, with delivery confirmation noted, and that 'STOP' commands have been properly processed);
- The frequency of such testing should reflect the risk posed by both the client and the service type. For example, a client with no breach history, or where none of the directors are linked to other companies with breaches, and low- risk service types (such as football score updates), would require far less monitoring than a client with an extensive breach history that provides a high- risk category of service (e.g. a subscription-based lottery alerts system with a joining fee);
- 'Mystery shopper' testing could be used as and when appropriate;
- Internal mechanisms to enable 'whistle-blowing' by staff, where appropriate;
- Putting in place internal checks that correlate with unusual patterns of activity which may indicate consumer harm (e.g. spikes in traffic and/or consumer complaints made directly to the provider about one specific service);
- Having a procedure to alter and address instances of non-compliant behaviour;
- Monitoring of the client's service to ensure that any directions given by the Phone-paid Services Authority have been complied with;
- Producing a compliance file, comprising of a written record of the assessment, the subsequent action plan and evidence of any monitoring and/or testing required by the plan having taken place. This record does not necessarily need to be lengthy (although this will depend on the client and the actions taken under the plan) but should be made available to the Phone-paid Services Authority upon request.

Responding to incidents - even where a business makes significant effort to comply with regulations and legal requirements, they may not be immune to problems arising. Providers ought to be prepared to respond calmly and proactively to incidents, working closely with the regulator and other parties in the value chain to identify, mitigate and correct any fallout, providing support to consumers. Breaches ought to be identified and acknowledged quickly when they arise so that they can be remedied and services are therefore delivered to a high standard to consumers.

TYPES OF DUE DILIGENCE

In business transactions, the due diligence process varies for different types of companies. The relevant areas of concern may include the financial, legal, labour, tax, environment and market/commercial situation of the company. Other areas include intellectual property, real and personal property, insurance and liability coverage, debt instrument review, employee benefits and labour matters, immigration, and international transactions. The Business due diligence involves looking at quality of parties to a transaction, business prospects and quality of investment. The most important types of Due Diligence are :



OPERATIONAL DUE DILIGENCE

Operational due diligence aims at the assessment of the functional operations of the target company, connectivity between operations, technological up gradation in operational process, financial impact on operational efficiency etc. It also uncovers aspects on operational weakness, inadequacy of control mechanisms etc.

Operation due diligence involves verifying operational matters such as the various facilities, office layout, sitting capacity etc. The idea of doing this due diligence is to verify the various facilities owned by the target company and whether all costs are captured in the financials or not. It also gives a better picture of the kind of cost the buyer is going to incur in case they plan to go for expansion.

Further in operational due diligence the detailed index of the fixed assets and its locations, age of the assets including all lease agreements relating to various equipment, schedule of sales and purchases of major capital equipment during previous years/ last three years, real estate deeds, mortgages, title policies and other permits also need to be verified in operation due diligence.

STRATEGIC DUE DILIGENCE

Strategic due diligence tests the strategic rationale behind a proposed transaction and analyses whether the deal is commercially viable, whether the targeted value would be realized. It considers factors such as value creation opportunities, competitive position, and critical capabilities. Strategic due diligence focuses on determining how much adequate, realistic, and attainable is a deal's value. Strategic due diligence is broader and considers micro and macro-environmental factors of a business, connecting the legal and financial consideration with a long-term focus. Essentially strategic due diligence determines the question, "Whether a business plan can hold up to the market realities?"

FINANCIAL DUE DILIGENCE

One of the most important types of due diligence, is financial due diligence as it seeks to check whether the financials showcased in the Information Memorandum is correct or not. It also provides a deep understanding of all the company's financials, including but not restricted to audited financial statements for last three years, recent unaudited financial statements with comparable statements of last year, review of accounting policies, review of internal audit procedures, quality and sustainability of earnings and cash flow, condition and value of assets, potential liabilities, tax implications of deal structures, examination of information systems to establish the reliability of financial information, internal control systems etc.

The Financial Due diligence also review the company's projection and basis of such projections, capital expenditure plan, schedule of inventory, debtors and creditors, etc. Also, the process involves analysis of major top customer accounts, fixed and variable cost analysis, analysis on gross margins, customers with high profit margins and their contract period, internal control procedures etc. It will also involve the type of the company's order book and sales pipeline to better build projections.

Financial due diligence provides peace of mind to both corporate and financial buyers by analysing and validating all the financial, commercial, operational and strategic assumptions being made.

The Financial Due Diligence can further extended to tax due diligence which covers the Diligence on various taxes the company is required to pay and which ensure that the proper calculation with no intention of under-reporting of taxes. Status of any tax related case running with the tax authorities. The tax due diligence comprises an analysis of:

- tax compliance
- tax contingencies and aggressive positions
- transfer pricing
- identification of risk areas
- tax planning and opportunities

Illustrative Scope of Work under Financial Due Diligence

The limited scope of coverage of the Company Analysis and Financial Due diligence Report would be:

- Study of the financial statements of the Company for the financial periods ("Historical Period").
- Review and comment on the reasonability and consistency of significant accounting policies adopted.
- Highlight significant matters in internal audit reports, audit committee reports and other audit reports.
- Analyse quality of earnings with particular focus on:
 - recurring versus non-recurring transactions (income and expenditure).
 - changes in accounting policies.
 - impact of related party transactions, if any.
- Analyse the key drivers of revenue and margin growth with particular reference to:
 - price and volume changes of key products.
 - geographical distribution.
 - comments on the branch distribution network.
 - highlight significant issues in the lease rent agreement.
- Analysis of selling costs and marketing overheads.
- Analysis of interest cost and depreciation expense.
- Analysis of variances in significant administrative overheads.
- Analysis of movement in head count and employee costs during the reporting period.

- Highlighting the movement of debtors over the past few years.
- Analysis of the cost sheet and comment on the movements in the costs over the Historical Period.
- Analysis of historical trends in capex. Based on discussion with management, comment if there has been any deferred maintenance/replacement capex.
- Analysis of the basis of capitalisation and components of costs such as borrowing costs, pre-operative expenditure, exchange fluctuations, etc.
- Summarise details of investments held, highlighting investments in related entities, if any.
- Analysis of the trends in working capital during the reporting period.
- Analysis of and comment on the ageing profile of receivables and inventories. Inquire into provisioning policy and comment on provisions for uncollectible amounts and write-offs.
- Analysis of the basis of inventory valuation (physical verification of inventories will not be conducted).
- Comment on other current assets, loans and advances and major creditors. Comment on recoverability and provisioning for uncollectible amounts.
- Comment on the current liabilities including accounts payable and provisions/accruals.
- Obtaining bank reconciliations for key accounts and comment on reconciling items. Commitments, contingencies and litigation.
- Highlight significant claims, pending or threatened litigations against the company at latest available period, after discussions with the management of the Company their views on the likely outcome of the cases/claims.
- Highlight significant guarantees, performance bonds, letters of comfort or similar documents of assurance and any indemnities provided by / or for the benefit of the Company including details of such guarantees etc. given by the company for the period under review.
- Status of tax claims and disputes thereof, if any.
- Related party transactions.
- Highlight major related party transactions and comment on recoverability / payment of balance due from / to related parties at period end.
- Comment on key financial terms and conditions of such related party transactions after discussions with the Management.

TECHNICAL DUE DILIGENCE

Technical due diligence can be classified in to (i) intellectual property due diligence; and (ii) technology due diligence.

Intellectual Property Due Diligence

The company which owns Intellectual Property (IPs) use there IPs to monetize their business. These IPs are something that differentiates their product and service from their competitors. However, the concept of valuation of intangible assets related to Intellectual Property like Patents, Copyrights, Design, Trademarks, Brands etc., also getting greater importance as these Intellectual Properties of the business are now often sold and purchased in the market by itself like any other tangible asset. Many Indian companies and corporate entities do not give much importance to the portfolio management of their Intellectual Property Rights (IPR). The main objective of intellectual property due diligence is to ascertain the nature and scope of target company's right over the intellectual property to evaluate the validity of the same and to ensure whether there are no infringement claims.

Few of the items that need to be seen while conducting due diligence is:

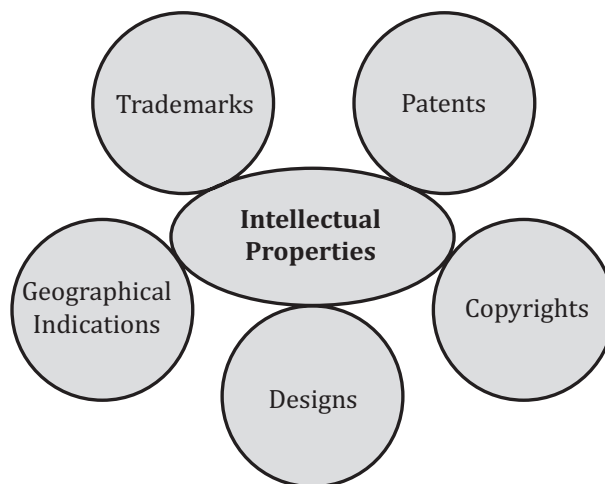
1. Schedule of patents and its application.
2. Schedule of copyrights, trademarks and brand names.

Question: *What is the period of validity of a patent in India?*

Options: (a) 10 years
(b) 20 years

Answer: (b)

3. Pending patents clearance documents.
4. Any pending claims case by or against the company in violation of intellectual property.



Technology Due Diligence

Technology due diligence help organizations in the decision-making process when acquiring new technologies or lines of business, or when they need a simple evaluation of how their current technology is functioning. Technology due diligence considers aspects such as current level of technology, company's existing technology, further investments required etc. Technology is a key component of merger and acquisition activities; it's imperative to look at IT considerations.

In case of mergers, the goal of Technical Due Diligence (TDD) is to identify how well an acquisition target's organization and technology assets meet the acquisition goals; inform the valuation process (what the acquirer will pay for the company or assets); and identify risks due to intellectual property issues, capability gaps in the technology assets and/or organization, and/or ability to support the go-forward business goals including post- acquisition integration of organization and assets.

ENVIRONMENTAL DUE DILIGENCE

Environmental due diligence analyses environmental risks and liabilities associated with an organisation. This investigation is usually undertaken before a merger, acquisition, management buy-out, corporate restructure etc.

Environmental due diligence provides the acquirer with a detailed assessment of the historic, current and potential future environmental risks associated with the target organisation's sites and operations.

It involves risk identification and assessment with respect to:

- Review of the environmental setting and history of the site.
- assessment of the site conditions.
- operations and management of sites.
- confirm legal compliance and pollution checks from regulatory authorities etc.

In regular course of business, the environmental audits for each property leased by the company an important one, because if the company violates any major rule, local authorities can exercise their right to penalize and cancel its operational right. It is important for the management of the company to carefully review the following:

List of important statutes for environment protection in India:

- *The National Green Tribunal Act, 2010*
- *The Air (Prevention and Control of Pollution) Act, 1981*
- *The Water (Prevention and Control of Pollution) Act, 1974*
- *The Environment Protection Act, 1986*
- *The Wildlife Protection Act, 1972*
- *The Forest Conservation Act, 1980*
- *Public Liability Insurance Act, 1991*
- *The Biological Diversity Act, 2002*

- List of environmental permits and licenses and validities of the same.
- All correspondence and notices with EPA, state, or local regulatory agencies.
- Whether the company's disposal methods of various by products are in sync with the regulated guidelines.
- Whether there are any contingent environmental liabilities or continuing indemnification obligations.

HUMAN RESOURCE DUE DILIGENCE

Human Resource Due Diligence aims at people or related issues. Key managers and scarce talent leave unexpectedly. Valuable operating synergies get disturbed when cultural differences between companies are not understood or are simply ignored. It is crucial to consider cultural and employees' issues upfront, for success of any venture.

Human Resource due diligence includes:

- Analysis of total employees, including current positions, vacancy, due for retirement and serving notice period.
- Analysis of current salaries, bonuses paid during last three years and years of service.
- All employment contracts with non-disclosure, non-solicitation and non-competition agreements between the company and its employees. In case there are few irregularities regarding the general contracts, focus must be given.
- HR policies regarding annual leave, sick leave and other forms of leave.
- Analysis of employee problems for alleged wrongful termination, harassment, discrimination and any legal case pending about the same.
- In case there are labor disputes, requests for arbitration, or grievance procedures currently pending and its financial impact needs to be seen.
- A list and description of all employee health benefits and welfare insurance policies or self-funded arrangements.
- Employee Benefit Schemes and schedule of grants of such scheme.

LABOUR LAWS DUE DILIGENCE

The purpose of a labour due diligence to conduct a comprehensive review. The compliance from a labour law perspective in order to identify gaps before an authority audit, any non-compliances relating to the inappropriate application of labour law regulations and to allow company to correct errors and deficiencies. The labour law due diligence is identify gaps and minimize labour law and payroll deficiencies before any regulatory action.

However, the Labour Law due diligence is important in case of the merger and acquisitions, takeovers, IPOs, joint ventures and winding up / liquidation of the companies. The scope of the labour law due diligence extends to all the labour & employment related central, state and local laws, rules and regulations applicable to the company.

During the payroll and labour due diligence the auditor should examine and review the following areas:

- Labour law regulations and agreements;
- Employment contracts, amendments to employment contracts;
- Information, job descriptions;
- Legal declarations/agreements regarding termination of employment;
- Maintenance of records;
- Verification of compliance by contractor engaged by the company;
- Observing liability as principal employer.

List of major labour laws in India:

1. *Employees Compensation Act, 1923*
2. *Payment of Wages Act, 1936*
3. *Minimum Wages Act, 1948*
4. *Factories Act, 1948*
5. *Maternity Benefits Act, 1961*
6. *Payment of Bonus Act, 1965*
7. *The Payments of Gratuity Act, 1972*
8. *Employees State Insurance Act, 1948*
9. *Industrial Disputes Act, 1947*
10. *Trade Unions Act, 1926*
11. *The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013*

INFORMATION SECURITY DUE DILIGENCE

Information security due diligence is often undertaken during the information technology procurement process to ensure that risks are uncovered. However, the regular review internal information security system helps to identify security gaps, as well as ensure that the company is acting with an acceptable standard of care elevate existing information security management system.

Information security due diligence apprises the acquirers with the target company's existing security network, its risk level, and ways to mitigate the risks. The information security due diligence covers the following:

- Information Security Measure
- Data Protection/ sharing policy
- Network and System design
- Wireless and Remote Access facility
- Incident management and data recovery

LEGAL DUE DILIGENCE

A legal due diligence covers the legal aspects of a business transaction, liabilities of the target company, potential legal pitfalls and other related issues. Legal due diligence covers intra-corporate and inter-corporate transactions.

It includes preparation of regulatory checklists, meeting with personnel, independent check with regulatory authorities etc. apart from the verification of following document.

- Copy of Memorandum and Articles of Association
- Minutes of Board Meeting for the last three years
- Minutes of all meetings or actions of shareholders
- Copy of share certificates issued to Key Management Personnel
- Copy of all guarantees to which company is a party
- All material contracts
- Copies of all loan agreements, bank financing agreements, line of credit to which company is a party
- Status of the order, awards issued by the various regulators and courts
- Status of Pending litigations
- Competition Law due diligence

DUE DILIGENCE OF COMPETITION LAW

Due diligence on competition law aspects is an examination of the actual operations and practices of an enterprise to determine the extent of its compliance with the competition law and to identify potential risks and liabilities and assess the adherence to and effectiveness of the company's competition law compliance policy and training program.

Primary components of Competition Law due diligence are:

- An examination of selected company documents.
- Interviews with selected company personnel.
- Identify specific business activities that potentially could create antitrust exposure for the company.
- The results of the due diligence may suggest an enterprise to have an effective competition law compliance programme.
- The results of the due diligence may result in variation of deal value, withdrawal of deal and also make suggestions to structure a compliance program.
- How to go about the process of due diligence of competition law.

Due diligence of competition law may be made under the following heads:

1. Due diligence of various agreements (both existing and proposed)
2. Due diligence on dominance and its likely abuse if any, (existing)
3. Due diligence on combinations (i.e. effect of proposed mergers & Acquisition)

1. Due Diligence of various agreements includes:

- Agreements relating to production, supply and distribution of goods or services.
- Agreement if any with competitor relating to production, marketing or bidding, price etc.
- Agreements with customers and distributors.
- Purchase agreements.
- Non-compete covenants.
- Technology transfer/technical know-how agreements.
- Concession agreements

2. Due diligence on abuse of dominance, if any includes:

- Examination as to the existence of dominance.
- Examination of relevant market, whether product or geographical Areas.
- Cases of abuse if any.

3. Due diligence on regulation of combinations:

The following aspects are to be analysed during due diligence process:

- Nature of combination.
- Acquisition of share, voting rights, assets or control or merger/amalgamation etc.
- Examination of total value of Assets or Turnover and the valuation methodology.
- Status of merger notification to be filed with CCI.
- Status of dominance after merger.

ETHICAL DUE DILIGENCE

Ethical Due Diligence measures ethical character of the company and identify the possibilities of ethical risks, which is a non-financial risk. It may relate to reputation, governance, ethical values etc. It helps an organization to decide whether the partner is ethically viable. This is an effective reputation management tool for any type of business decisions.

Ethical due diligence of management of a company involves assessing employees in terms of their fit with the ethical culture and values of the organization. Ethical performance assessment is also used as one of the parameter of the career development and promotion within the organization.

Carrying out the assessment of a company's ethics as part of a due diligence can add considerably to the depth of insight into the target company. For an ethics assessment to add this value, it is crucial that it is an accurate and reliable assessment.

DUE DILIGENCE FOR MERGER & AMALGAMATION

In case of the mergers and amalgamation of the companies, due diligence is a critical process which cannot be overlooked by the management as well as by the shareholders of the company while giving consent for the amalgamation. Due diligence in mergers not only requires the assessment of the financial, legal, and regulatory exposures but also requires insights into the target company's structure, operations, culture, human resources, supplier and customer relationships, competitive positioning and future outlook. The due diligence provides an assurance in taking decisions considering the factors which may be a potential deal-killers/shapers and provide

assurances that the acquisition is the right decision at the right price. Due diligence also provides management an insight, holistic view of the target company that which helps in the easy integration of the target's people and business.

Merger with an existing company will, generally, have the same features as an acquisition of an existing company. However, identifying the right candidate for a merger or acquisition is an art, which requires sufficient care and calibre.

Once an organization has identified the various strategic possibilities, it has to make a selection amongst them. There are several factors financial/ non-financial/ open/ hidden factors that influence the ultimate choice of strategy. The process of analysis of strategic choices on various aspects for merger is done through due diligence process.

Due Diligence Process in the M&A Strategy

Stages	For Buyer	For Seller
Preparation Stage	<ul style="list-style-type: none"> • M&A strategy formulation • Preparation of list of potential Targets • Appoint external advisor for evaluation of targets • Short list targets • Create due diligence team 	<ul style="list-style-type: none"> • Structure a business plan • Preparation of list of potential buyers • Appoint external advisor • Shortlist buyers
Pre diligence	<ul style="list-style-type: none"> • Approach targets • Negotiation of initial terms • Execute non-disclosure agreement • Compilation of list of data required 	<ul style="list-style-type: none"> • Approach buyers • Negotiate initial terms • Execution of non disclosure agreement • Creation of data room
Due diligence	<ul style="list-style-type: none"> • Inspection of data room • Analysis of private documents • Evaluation of risk and return • Structure the terms and conditions 	<ul style="list-style-type: none"> • Assistance in data room • Setting deadlines for offer
Negotiations	<ul style="list-style-type: none"> • Make final offer • Negotiate and agree on terms 	<ul style="list-style-type: none"> • Compile final offers • Select best offer • Negotiations
Post diligence	<ul style="list-style-type: none"> • Post merger integration and cultural adjustments 	<ul style="list-style-type: none"> • Termination of data room and ownership exchange

PREPARATION OF SCHEME OF AMALGAMATION

Persons Eligible for filling the petition before NCLT

1. An application for merger & amalgamation shall be filed with Tribunal (NCLT) by both the transferor(s) and the transferee company in the form of petition under section 230-232 of the Companies Act, 2013 for the purpose of sanctioning the scheme of amalgamation.
2. Where more than one company is involved in a scheme, such application may, at the discretion of such companies, be filed as a joint-application.

In case, the registered office of the companies involved is in different states, there will be two Tribunals having the jurisdiction over those. Both the companies shall have to file separate petition with the respective Tribunals. However as a matter of practice and smother the process, first registered office of companies may be shifted as per section 12 of the Companies Act, 2013 to a single jurisdiction.

1. Drafting of Scheme

The Scheme of amalgamation would comprise of various parts containing details about Transfer Company, Transferee Company. The Scheme in particular would comprise of the following in detail:

Introductory Part

1. Basic Details of the Transferor & Transferee company like date of incorporation, CIN and registered office and address for service of notice.
2. Main objects in Memorandum of Association of Transferor and Transferee Company
3. Jurisdiction of the Bench
4. Limitation
5. Facts of the case - reason in brief for going into merger or amalgamation
6. Nature of business
7. Share Capital of the companies involved and shareholding relationship between the companies involved
8. Definition Clause

Operating Part - The scheme

9. Appointed Date - The scheme shall clearly indicate an appointed date from which it shall be effective and the scheme shall be deemed to be effective from such date and not at a date subsequent to the appointed date.
10. Transfer of the undertaking of the Transferor Company or transfer of the Transferor Company per se
11. Transfer of assets
12. Transfer of debts and liabilities
13. Transfer of licenses, approvals / permissions
14. Transferor of Company's staff, workmen and employees
15. The transfer of undertaking or the Transferor Company not to affect the transaction / contracts of transferor Company
16. Enforcement of contracts, deeds, bonds and other instruments
17. Enforcement of Legal Proceedings
18. Issue and Allotment of Shares under the Scheme
19. Increase in Authorized Share Capital
20. Accounting Treatment
21. Conduct of business by the transferor Company till effective date
22. Dissolution of Transferor Company
23. Effect of Scheme
24. Expenses relating to the Scheme
25. Scheme conditional upon approval/sanctions
26. Effect of non-receipt of approvals
27. General terms and conditions applicable for the scheme

Prayer / Relief Part

28. Approval of scheme

29. Particulars of Bank draft evidencing payment of fee for the Application.

In additions to the above, a clean and clear drafting of the petition is require to be submitted to the NCLT, which would make process easier. Following are the standard guidelines for presenting an application or petition before NCLT prescribed in National Company Law Tribunal Rules, 2016 and Companies (Compromises, Arrangements and Amalgamations) Rules, 2016:-

- 1 The petition / application being filed shall fall under the proper territorial Jurisdiction of NCLT Bench.
- 2 The petition / application and all enclosures shall be legibly typewritten in English language.
- 3 The petition / application / appeal / reply shall be printed in double spacing on one side of the standard petition paper with an inner margin of about 4 cm width on top and with a right margin of 2.5 cm left margin of 5 cm and duly paginated, indexed and stitched together in paper book form .
- 4 The petition/ application shall be Filed in prescribed form with stipulated fee in triplicate by duly authorised representative of the companies or by an advocate duly appointed in this behalf.
- 5 The petition shall also be accompanied by an index and memo of the parties.
- 6 The cause title of the petition/application shall be “Before the National Company Law Tribunal” and it shall also specify the Bench to which it is presented.
- 7 All the relevant provisions of the Companies Act, 2013 / NCLT Rules, 2016 shall be clearly mentioned in the petition / application.
- 8 The petition/application shall be divided into paragraphs and shall be numbered consecutively and each paragraph shall contain a separate fact or point
- 9 The foot of petition / application shall have name and signature of the authorized representative.
- 10 The name of the petitioner / applicant along with complete address, viz, the name of the road street lane and municipal division or ward, municipal door and other number of the house, the name of the town or village; the post office; postal district and pin code shall be mentioned in the petition / application.
- 11 The fax number, mobile number, valid email addresses of the petitioner / applicant shall also be mentioned.
- 12 Every interlineations, eraser or correction or deletion in petition / application shall be initialed by the party or his authorized representative.
- 13 The affidavit verifying the petition in Form NCLT-6 shall be drawn on non-judicial/stamp paper of requisite value duly attested by Notary public / Oath Commissioner.
- 14 Full name, parentage, age, description of each party, date, address and in case a party sues or being sued in a representative character, has been set out in accordance to Rule 20(5) of the NCLT Rules, 2016.
- 15 Petition / application / appeal reply has been drawn in the prescribed form i.e. Form No. NCLT.1 with stipulated fee given in the Schedule of these rules. The fee is to be paid by way of demand draft / PO drawn in favour of the “The Pay & Accounts Officer, Ministry of Corporate Affairs, New Delhi” or can be paid through online at nclt.gov.in.
- 16 The documents attached with petition / application shall be duly certified by the authorized representative or advocate filing the petition or application.
- 17 The annexure to the petition / application shall be serially numbered.
- 18 The Vakalatnama shall bear court fee stamp.
- 19 The documents with regard to shareholding/paid-up capital/latest balance sheet of the petitioner / applicant shall be attached.

- 20 Document other than in English language shall be duly translated and accordingly a translated copy duly certified shall be attached with petition/application.

2. Submission of Application / Petition

Petition to the Tribunal for merger & amalgamation shall be submitted in Form No. NCLT-1 along with following documents:

- 1 A notice of admission in Form No. NCLT-2
- 2 An affidavit in Form No. NCLT-6
- 3 A copy of Scheme of Compromise and arrangement (Merger & Amalgamation)
- 4 The applicant shall also disclose to the Tribunal in the applicant, the basic on which each class of members or creditors has been identified for the purposes of approval of the scheme.

DUE DILIGENCE FOR TAKEOVERS

For any business, doing takeover of a business company is not an easy task. Moreover, it is an important financial investment that implies a number of risks, some of which can run the entire process around. Which make the takeover due diligence as one of the prerequisites for takeover of a business.

The Takeover Due diligence is generally conducted in different domains; Financial, Legal, Taxation, social life, environment, etc. The Takeover Due diligence covers the history of the company, past performance, the present, and the future of a company. In effect, it must respond to certain requirements of the buyer, i.e., maximize financial or non-financial benefits, and negotiate the risks of failure. Therefore, takeover due diligence is useful in allowing the buyer to confirm his or her decision of the sale, or in negotiating the conditions of the sale.

The takeover due diligence is having a great importance for a business as it synthetically expresses the overall value of the target enterprise. According to which the buyer will be able to analyze the potential of the target company while understanding the risks related in taking it over.

Thus, taking over a company brings inevitable risk, some of which can cause great detriment to the company. Due diligence allows the company to avoid a tragic end after being taken over. This being said, the acquisition audit is a complex process. Because of this, it is necessary to find people experienced in due diligence, so that the audit acquisition will be effective and useful.

The takeover due diligence allows the buyer to better discern the risks and opportunities linked to the target company. This due diligence will be performed once an agreement is signed or after the letter of intent. It will allow verification of the elements being negotiated between the parties, producing an accurate reflection of the current state of the target company.

Ministry of Corporate Affairs notified sub-section 11 and 12 to section 230 of Companies Act, 2013 w.e.f. 3rd February, 2020. The said sub-sections provides as under:

As per section 230(11) of the Act, any compromise or arrangement may include takeover offer made in such manner as may be prescribed:

It has been provided that in case of listed companies, takeover offer shall be as per the regulations framed by the Securities and Exchange Board.

As per section 230 (12) of the Act, an aggrieved party may make an application to NCLT in the event of any grievances with respect to the takeover offer of companies other than listed companies in such manner as may be prescribed and the NCLT may, on application, pass such order as it may deem fit.

The consequent amendment has also been made in the Companies (Compromise, Arrangements and Amalgamation) Rules, 2016 w.e.f. 3rd February, 2020, which is as under:

Rule 3(5) of the Companies (Compromise, Arrangements and amalgamation) Rules, 2016 provides that a member of the company shall make an application for arrangement, for the purpose of takeover offer in terms of section

230(11), when such member along with any other member holds not less than three-fourths of the shares in the company, and such application has been filed for acquiring any part of the remaining shares of the company.

Rule 3 (6) of the Companies (Compromise, Arrangements and amalgamation) Rules, 2016 provides that an application of arrangement for takeover offer shall contain:

- (a) the report of a registered valuer disclosing the details of the valuation of the shares proposed to be acquired by the member after taking into account the following factors: -
 - (i) the highest price paid by any person or group of persons for acquisition of shares during last twelve months;
 - (ii) the fair price of shares of the company to be determined by the registered valuer after taking into account valuation parameters including return on net worth, book value of shares, earning per share, price earning multiple vis-d-vis the industry average, and such other parameters as are customary for valuation of shares of such companies.
- (b) details of a bank account, to be opened separately, by the member wherein a sum of amount not less than one-half of total consideration of the takeover offer is deposited."

SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

Takeover of companies whose securities are listed on one or more recognized stock exchanges in India is regulated by the provisions of the Listing Agreements with various stock exchanges and the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. The compliances under the regulations include event based/continual disclosures, open offer requirements including public announcement, escrow account, obligations of acquirer/target company/merchant banker, undertaking/ authorization, offer price etc.

The following Compliances are required to be checked under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

Question: Which of the following is not a type of Demerger?

- Options:** (a) Spin-off
(b) Split-off
(c) Split-up
(d) Spin-up

1. Whether any acquisition/transfer has triggered open offer for acquiring shares of target company made accordance SEBI SAST Regulation 2011.
2. Ensure that a merchant banker of Category I has been appointed who is not an associate of or group of acquirers or the target company.
3. Ensure that an escrow account has been opened with the required deposit.
4. The consideration payable under the open offer shall be calculated at the offer price, assuming full acceptance of the open offer, and in the event the open offer is subject to differential pricing, shall be computed at the highest offer price, irrespective of manner of payment of the consideration. [Computed as per sub regulation (2) of regulation 16]
5. A letter duly authorizing target company to realize the value of escrow account as specified in these regulations.
6. An undertaking from the target company that, none of the Acquirer/Persons Acting in Concert have been prohibited by SEBI from dealing in securities, in terms of direction issued under Section 11B of SEBI Act, 1992.
7. An undertaking from the sellers, promoters, directors of the target company that they have not been prohibited by SEBI from dealing in securities, in terms if direction issued under section 11B of SEBI Act, 1992.
8. An undertaking from the target company that it has complied with the provisions of Listing Agreement and that any non-compliance or delayed compliance has been brought to the notice of Target Company.
9. An undertaking from the target company that it has complied with the provisions of these regulations and that any non-compliance or delayed compliance has been brought to the notice of Target Company.
10. A public announcement of an open offer to the shareholder of the target company has been given and detailed public statement has been published as per the prescribed timeline in case of Acquirer acquires the shares or voting rights of the target company in excess of the limits prescribed under Regulation 3 and 4 of these regulations.

11. The public announcement has been sent to all the stock exchanges on which the shares of the target company are listed to SEBI and to the target company at its registered office within one working day of the date of the public announcement.
12. A detailed public statement has been published by the acquirer through the Manager to the Open Offer within maximum 5 working days from the date of public announcement as provided in regulation 13(4).
13. In case of indirect acquisition where none of condition specified in regulation 5(2) are satisfied, the detailed public statement has been published not later than five working days of the completion of the primary acquisition of shares or voting rights in or control over the company or entity holding shares or voting rights in, or control over the target company.
14. The compliances relating to publication of public announcement and detailed public statement by the acquirer has been complied under regulation 14.
15. The public announcement contains the information as provided in regulation 15.
16. The acquirer through the manager to the offer has filed a draft letter of offer along with the fee as prescribed in regulation 16, with SEBI for its observations within 5 working days of publication of Detailed Public Statement.
17. The offer price is not less than the price as calculated under regulation 8 for frequently or infrequently traded shares.
18. The minimum of 25% of voting capital of the company is being offered subject to minimum public holding requirements (Regulation-3).
19. The acquirer has made complete payment of consideration whether in the form of cash, or as the case may be, by issue, exchange or transfer of securities, to all shareholders who have tendered shares in acceptance of the open offer, within ten working days of the expiry of the tendering period Regulation 18(9).
20. The unclaimed balances, if any, lying to the credit of the special escrow account at the end of seven years from the date of deposit thereof, has been transferred to the Investor Protection and Education Fund established under the Securities and Exchange Board of India (Investor Protection and Education Fund) Regulations, 2009, Regulation 22(3).
21. Ensure that:
 - (a) any person, who along with PACs crosses the threshold limit of 5% of shares or voting rights, has disclosed his aggregate shareholding and voting rights to the Target Company at its registered office and to every Stock Exchange where the shares of the Target Company are listed within 2 working days of acquisition or the disposal as per the format specified by SEBI. (Regulation 29(1) read with Regulation 29(3))
None: It is 10% in cost of listed entry which has listed its selected securities on innoveter growth platform.
 - (b) any person, who together with persons acting in concert with him, holds shares or voting rights entitling them to five per cent or more of the shares or voting rights in a target company, has disclosed the number of shares or voting rights held and change in shareholding or voting rights, even if such change results in shareholding falling below five per cent, if there has been change in such holdings from the last disclosure made under sub-regulation (1) or under this sub regulation; and such change exceeds two per cent of total shareholding or voting rights in the target company, in such form as may be specified. (Regulation 29(2) read with Regulation 29(3))
22. Continual disclosures of aggregate shareholding has been made within 7 days of financial year ending on March 31 to the target company at its registered office and every stock exchange where the shares of the Target Company are listed by: (Regulation 30).
 - (a) Shareholders (along with PACs, if any) holding shares or voting rights entitling them to exercise 25% or more of the voting rights in the target company.
 - (b) Promoter (along with PACs, if any) of the target company irrespective of their percentage of holding.
23. The promoter (along with PACs) of the target company has disclosed details of shares encumbered by them or any invocation or release of encumbrance of shares held by them to the target company at its registered office and every stock exchange where shares of the target company are listed, within 7 working days of such event.

Checklist for Acquirer

Preliminary Examination of a Target Company:

The acquirer has to undertake a preliminary study on the target company, before taking any action for taking over a company. He may consider the following points.

It may be noted that this list is not an exhaustive checklist and it varies depends on size of the company nature of industry

- (a) Information has to be collected on Target Company and to be analysed on financial and legal angle.
- (b) Register of members to be examined to verify the profile of the shareholders.
- (c) Title of the target company with respect to immovable properties may be verified.
- (d) Financial statements of Target Company have to be examined.
- (e) Examination of Articles and Memorandum of Association of the Company.
- (f) Examination of charges created by the Company.
- (g) Applicability of FEMA provisions if any relating to FDI has to be looked into.
- (h) Import and Export of technology, if any.
- (i) Business prospects etc.

A Merchant Banker of Category I have to be appointed. It has to be ensured that the merchant banker is not an associate of or group of acquirers or the target company.

Escrow Account:

1.
 - (i) An escrow account has to be opened and the following sum has to be deposited.
 - (ii) The escrow amount shall be calculated in the following manner, as specified in regulation 17, - For consideration payable under the public offer,-
On the first 500 crores - 25 per cent; of the consideration
On the balance consideration - An additional amount equal to 10% of balance consideration.
If, an open offer is made conditional upon minimum level of acceptance, hundred percent of the consideration payable in respect of minimum level of acceptance or fifty per cent of the consideration payable under the open offer, whichever is higher, shall be deposited in cash in the escrow account.
In case of indirect acquisitions where public announcement has been made in terms of clause (e) of sub-regulation (2) of regulation 13 of these regulations, an amount equivalent to hundred per cent of the consideration payable in the open offer shall be deposited in the escrow account.
2. The consideration payable under the open offer shall be computed as provided for in sub-regulation (2) of regulation 16 and in the event of an upward revision of the offer price or of the offer size, the value of the escrow amount shall be computed on the revised consideration calculated at such revised offer price, and the additional amount shall be brought into the escrow account prior to effecting such revision.
3. The escrow account referred to in Regulation 17(1) may be in the form of, -
 - (a) cash deposited with any scheduled commercial bank;
 - (b) bank guarantee issued in favour of the manager to the open offer by any scheduled commercial bank;
 - or
 - (c) deposit of frequently traded and freely transferable equity shares or other freely transferable securities with appropriate margin:

Provided that securities sought to be provided towards escrow account under clause (c) shall be required to conform to the requirements set out in sub-regulation (2) of regulation 9.

Question: Which of the following is not considered a takeover defence?

- Options:** a) Poison pill
b) Golden parachute
c) Tender offer
d) Staggered board

Answer: (C)

The deposit of securities shall not be permitted in respect of indirect acquisitions where public announcement has been made in terms of clause (e) of sub regulation (2) of regulation 13 of SAST regulations.

Regulation 9(2) specifies the following requirements.

- (a) such class of shares are listed on a stock exchange and frequently traded at the time of the public announcement;
- (b) such class of shares have been listed for a period of at least two years preceding the date of the public announcement;
- (c) the issuer of such class of shares has redressed at least ninety five per cent. of the complaints received from investors by the end of the calendar quarter immediately preceding the calendar month in which the public announcement is made;
- (d) the issuer of such class of shares has been in material compliance with the listing Regulations for a period of at least two years immediately preceding the date of the public announcement:

Provided that in case where the Board is of the view that a company has not been materially compliant with the provisions of the listing Regulations, the offer price shall be paid in cash only;

- (e) the impact of auditors' qualifications, if any, on the audited accounts of the issuer of such shares for three immediately preceding financial years does not exceed five per cent. of the net profit or loss after tax of such issuer for the respective years; and
 - (f) the Board has not issued any direction against the issuer of such shares not to access the capital market or to issue fresh shares.
4. In the event of the escrow account being created by way of a bank guarantee or by deposit of securities, the acquirer shall also ensure that at least one per cent of the total consideration payable is deposited in cash with a scheduled commercial bank as a part of the escrow account.
 5. For such part of the escrow account as is in the form of a cash deposit with a scheduled commercial bank, the acquirer shall while opening the account, empower the manager to the open offer to instruct the bank to issue a banker's cheque or demand draft or to make payment of the amounts lying to the credit of the escrow account, in accordance with requirements under these regulations.
 6. For such part of the escrow account as is in the form of a bank guarantee, such bank guarantee shall be in favour of the manager to the open offer and shall be kept valid throughout the offer period and for an additional period of thirty days after completion of payment of consideration to shareholders who have tendered their shares in acceptance of the open offer.
 7. For such part of the escrow account as is in the form of securities, the acquirer shall empower the manager to the open offer to realise the value of such escrow account by sale or otherwise, and in the event there is any shortfall in the amount required to be maintained in the escrow account, the manager to the open offer shall be liable to make good such shortfall.
 8. The manager to the open offer shall not release the escrow account until the expiry of thirty days from the completion of payment of consideration to shareholders who have tendered their shares in acceptance of the open offer, save and except for transfer of funds to the special escrow account as required under regulation 21.
 9. In the event of non-fulfillment of obligations under these regulations by the acquirer the Board may direct the manager to the open offer to forfeit the escrow account or any amounts lying in the special escrow account, either in full or in part.
 10. The escrow account deposited with the bank in cash shall be released only in the following manner;-
 - (a) the entire amount to the acquirer upon withdrawal of offer in terms of regulation 23 as certified by the manager to the open offer:

Provided that in the event the withdrawal is pursuant to clause (c) of sub-regulation (1) of regulation 23, the manager to the open offer shall release the escrow account upon receipt of confirmation of such release from the Board;

- (b) for transfer of an amount not exceeding ninety per cent of the escrow account, to the special escrow account in accordance with regulation 21;
- (c) to the acquirer, the balance of the escrow account after transfer of cash to the special escrow account, on the expiry of thirty days from the completion of payment of consideration to shareholders who have tendered their shares in acceptance of the open offer, as certified by the manager to the open offer;
- (d) the entire amount to the acquirer upon the expiry of thirty days from the completion of payment of consideration to shareholders who have tendered their shares in acceptance of the open offer, upon certification by the manager to the open offer, where the open offer is for exchange of shares or other secured instruments;
- (e) the entire amount to the manager to the open offer, in the event of forfeiture for non-fulfillment of any of the obligations under these regulations, for distribution in the following manner, after deduction of expenses, if any, of registered market intermediaries associated with the open offer, -
 - (i) one third of the escrow account to the target company;
 - (ii) one third of the escrow account to the Investor Protection and Education Fund established under the Securities and Exchange Board of India (Investor Protection and Education Fund) Regulations, 2009; and
 - (iii) one third of the escrow account to be distributed pro-rata among the shareholders who have accepted the open offer. Undertakings/Authorisation:

Ensure to obtain following undertakings/authorization:

1. A letter duly authorizing Target Company to realize the value of escrow account in terms of Takeover Regulations.
2. An undertaking to Target Company that none of the Acquirer/Persons Acting in Concert have been prohibited by SEBI from dealing in securities, in terms of direction issued under Section 11B of SEBI Act.
3. An undertaking from the sellers, promoters, directors of the Target Company that they have not been prohibited by SEBI from dealing in securities, in terms of direction issued under Section 11B of SEBI Act.
4. An undertaking from the Target Company that it has complied with the provisions of Listing Agreement, and that any non-compliance or delayed compliance has been brought to the notice of Target Company.

DUE DILIGENCE FOR ISSUE OF SECURITIES

A public company may issue securities to public through prospectus - Public offer by complying with the provisions of companies Act 2013 Part I of chapter III - Prospectus and Allotment of Securities; or through private placement by complying with the provisions of Part II of chapter III - Prospectus and Allotment of Securities; or through a rights issue or a bonus issue in accordance with the provisions of the Act and in case of a listed company or a company which intends to get its securities listed also with the provisions of the Securities and Exchange Board of India Act, 1992 and the rules and regulations made thereunder; the key regulation governing the issue of securities and preparation of financial information are:

- The SEBI (Issue of Capital and Disclosure Requirement) Regulations, 2009/2018
- The SEBI (Listing Obligation and Disclosure Requirement) Regulations, 2015.

The SEBI ICDR Regulations provide the guidelines relating to conditions for various kind of issue including public and right issue, the ICDR regulations provide detailed provisions:

1. relating to public issue such as conditions an Initial Public offer (IPO) and Further Public Offer (FPO) conditions

In India, public issue is regulated by which legislation?

- a) Companies Act 2013
- b) Securities and Exchange Board of India, 1992
- c) Securities (Contract) Regulation Act, 1956
- d) All of the above

2. relating to pricing in public offering, conditions governing promoters' contribution, restriction on transferability of promoters' contribution, minimum offer to public, reservations, manner of disclosures in offer documents etc.

The SEBI (LODR) Regulations, 2015 lay down the broad principles for periodic disclosure to be given by the listed entities operating in different segments of capital markets.

A private company may issue securities by way of rights issue or bonus issue in accordance with the provisions of the Act; or through private placement by complying with the provisions of Part II of chapter III - Prospectus and Allotment of Securities & Chapter IV -Share Capital & Debentures of Companies Act, 2013.

The scope and comprehensiveness of the Issue of Securities due diligence is important not only from a legal standpoint to avoid liability but also from a reputational perspective as the reputation of the company and its promoters and other participants may be significantly vanished, if on a later date it appears that the company and other participants are failed to uncover and disclose to prospective investors critical issues relating to the issuer or the Securities.

While the specific requirements in connection with issue of securities are different under the Companies Act, 2013 and SEBI Laws & Regulations made thereunder, any non-compliance in these regulations are generally impose liability if the offering memorandum or prospectus contains a materially incorrect or misleading statement or omits a material fact, however in certain conditions the complete issue of securities stand cancelled. The violation of any applicable liability provisions may result in liability for offering participants, in particular the issuer and the underwriters. These liability provisions emphasize the need for careful preparation of all materials to be used in issue of securities offerings, in particular the offering memorandum or prospectus.

DUE DILIGENCE REPORT FOR BANK

The Reserve Bank of India vide its Notification No. DBOD NO. BP. BC. 46/08.12.001/2008-09 dated September 19, 2008 advised all the scheduled commercial Banks (excluding Rural regional Banks and Local Area Banks) to obtain regular certification (DILIGENCE REPORT Annex III-part I) by a professional, preferably a Company Secretary, regarding compliance of various statutory prescriptions that are in vogue, as per specimen given in the aforesaid notification. Further RBI vide its Notification dated January 21, 2009 also advised all Primary Urban Cooperative Banks to obtain Diligence Report. Subsequently the RBI vide its Notifications dated December 08, 2008 and February 10, 2009 revised the format of Diligence Report for Scheduled Commercial Banks and also for Primary Urban Cooperative Banks vide its Notification dated February 12, 2009

The Practising Company Secretary (PCS) is required to certify compliance in respect of matters specified in the RBI Notification as already stated in the prescribed format which has been subsequently revised and streamlined by RBI.

Format of Diligence Report (ANNEXURE 3 TO THE NOTIFICATION)

To
The Manager,
_____ (Name of the Bank)

I/We have examined the registers, records, books and papers of Limited having its registered office at as required to be maintained under the Companies Act, 1956 / 2013 (the Act) and the rules (As contained in RBI Notification No. DBOD. No. BP.BC. 110/08.12.001/2008-09 dated February 10, 2009 read with RBI Notification No. UBD.PCB.No. 49/13.05.000/2008-09 dated February 12, 2009) made thereunder, the provisions contained in the Memorandum and Articles of Association of the Company, the provisions of various statutes, wherever applicable, as well as the provisions contained in the Listing Agreement/s, if any, entered into by the Company with the recognized stock exchange/s for the half year ended on

In my/our opinion and to the best of my/our information and according to the examination carried out by me/us and explanations furnished to me/us by the Company, its officers and agents. I/We report that in respect of the aforesaid period:

1. The management of the Company is carried out by the Board of Directors comprising of as listed in Annexure, and the Board was duly constituted. During the period under review the following changes that

- took place in the Board of Directors of the Company are listed in the Annexure, and such changes were carried out in due compliance with the provisions of the Companies Act, 1956. (Now Companies Act 2013)
2. The shareholding pattern of the company as on was as detailed in Annexure During the period under review the changes that took place in the shareholding pattern of the Company are detailed in Annexure
 3. The company has altered the following provisions of
 - (i) The Memorandum of Association during the period under review and has complied with the provisions of the Companies Act, 1956 (Now Companies Act, 2013) for this purpose.
 - (ii) The Articles of Association during the period under review and has complied with the provisions of the Companies Act, 1956 (Now Companies Act, 2013) for this purpose.
 4. The company has entered into transactions with business entities in which directors of the company were interested as detailed in Annexure
 5. The company has advanced loans, given guarantees and provided securities amounting to Rs. to its directors and/or persons or firms or companies in which directors were interested, and has complied with Section 295 of the Companies Act, 1956. (Now to be in compliance with Section 185 of Companies Act, 2013).
 6. The Company has made loans and investments; or given guarantees or provided securities to other business entities as detailed in Annexure and has complied with the provisions of the Companies Act, 1956. (Now to be in compliance with Section 186 of Companies Act, 2013).
 7. The amount borrowed by the Company from its directors, members, financial institutions, banks and others were within the borrowing limits of the Company. Such borrowings were made by the Company in compliance with applicable laws. The break up of the Company's domestic borrowings were as detailed in Annexure (Now to be in compliance with Section 180 of Companies Act, 2013).
 8. The Company has not defaulted in the repayment of public deposits, unsecured loans, debentures, facilities granted by banks, financial institutions and non-banking financial companies. (Section 73- 76 of Companies Act 2013)
 9. The Company has created, modified or satisfied charges on the assets of the company as detailed in Annexure Investments in wholly owned Subsidiaries and/or Joint Ventures abroad made by the company are as detailed in Annexure (Now to be in compliance with Section 77-87 of Companies Act, 2013).
 10. Principal value of the forex exposure and Overseas Borrowings of the company as on are as detailed in the Annexure under.
 11. The Company has issued and allotted the securities to the persons-entitled thereto and has also issued letters, coupons, warrants and certificates thereof as applicable to the concerned persons and also redeemed its preference shares/debentures and bought back its shares within the stipulated time in compliance with the provisions of the Companies Act, 1956 (now to be in compliance with relevant sections of Companies Act, 2013) and other relevant statutes.
 12. The Company has insured all its secured assets. (Now to be in compliance with relevant provisions of Chapter IV of Companies Act, 2013.)
 13. The Company has complied with the terms and conditions, set forth by the lending bank/financial institutions at the time of availing any facility and also during the currency of the facility.
 14. The Company has declared and paid dividends to its shareholders as per the provisions of the Companies Act, 1956. (Now to be in compliance with relevant sections of Chapter VIII of Companies Act, 2013).
 15. The Company has insured fully all its assets.
 16. The name of the Company and or any of its Directors does not appear in the defaulters' list of Reserve Bank of India.
 17. The name of the Company and or any of its Directors does not appear in the Specific Approval List of Export Credit Guarantee Corporation.

18. The Company has paid all its Statutory dues and satisfactory arrangements had been made for arrears of any such dues.
19. The funds borrowed from banks/financial institutions have been used by the company for the purpose for which they were borrowed.
20. The Company has complied with the provisions stipulated in Section 372A of the Companies Act in respect of its Inter Corporate loans and investments. (Now to be in compliance with Section 186 of Companies Act, 2013).
21. It has been observed from the Reports of the Directors and the Auditors that the Company has complied with the applicable Accounting Standards issued by the Institute of Chartered Accountants in India.
22. The Company has credited and paid to the Investor Education and Protection Fund within the stipulated time, all the unpaid dividends and other amounts required to be so credited.
23. Prosecutions initiated against or show cause notices received by the Company for alleged defaults/offences under various statutory provisions and also fines and penalties imposed on the Company and or any other action initiated against the Company and /or its directors in such cases are detailed in Annexure
24. The Company has (being a listed entity) complied with the provisions of the Listing Agreement (Now to be in compliance with the SEBI (LODR) Regulations, 2015).
25. The Company has deposited within the stipulated time both Employees' and Employer's contribution to Provident Fund with the prescribed authorities.

Note: The qualification, reservation or adverse remarks, if any, are explicitly stated and may be stated at the relevant paragraphs above place(s).

Place:

Signature:

Date:

Name of Company Secretary/Firm:

C.P. No.:

GUIDANCE ON DILIGENCE REPORTING

The following paragraphs outline the compliance inputs that may be relied upon by the PCS for the purpose of issue of Diligence Report. Compliance inputs and checklist are indicative and PCS shall not exclusively rely upon that but use that as a guide and apply his own judgment to determine what is to be checked and to what extent.

Period of Reporting

Annexure III to the above RBI Notification provides that the Diligence Report shall be made on a half yearly basis.

Secretary in Whole-Time Practice

Section 2(25) of the Companies Act, 2013 defines "Company Secretary in practice" as a secretary who is deemed to be in practice under sub-section (2) of Section 2 of the Company Secretaries Act, 1980. Thus, a member of the Institute of Company Secretaries of India, who is not in full-time employment, can become a Secretary in whole-time practice (hereinafter referred to as PCS) after obtaining from the Council of the Institute a Certificate of Practice under Section 6 of the Company Secretaries Act, 1980 and the regulations thereunder.

Right to Access Records and Methodology for Diligence Reporting

To enable the PCS to issue the Diligence Report, the Company (borrower) should provide the PCS access at all times to the books, papers, minutes books, forms and returns filed under various statutes, documents and records of the company, whether kept in pursuance of the applicable laws or otherwise and whether kept at the registered office of the company or elsewhere which he considers essential for the purposes of Diligence Reporting. The PCS shall be entitled to require from the officers or agents of the company such information and explanations as he or she may think necessary for the purpose of such Reporting. However, depending on the facts and circumstances, he/she may obtain a letter of representation from the company in respect of matters where verification by PCS may not be practicable, for example matters like -

- (i) disqualification of directors;
- (ii) show cause notices received;
- (iii) persons and concerns in which directors are interested, etc.

Reporting with Qualification

The qualification, reservation or adverse remarks, if any, may be stated by the PCS at the relevant places. It is recommended that the qualifications, reservations or adverse remarks of PCS, if any, should be stated in **thick type** or in italics in the Diligence Report.

If the PCS is unable to form any opinion with regard to any specific matter, the PCS shall state clearly the fact that he is unable to form an opinion with regard to that matter and the reasons thereof. If the scope of work required to be performed is restricted on account of limitations imposed by the company or on account of circumstantial limitations (like certain books or papers being in custody of another person or Government Authority), the Report shall indicate such limitation.

If such limitations are so material as to render the PCS incapable of expressing any opinion, the PCS should state that:

“in the absence of necessary information and records, he or she is unable to report compliance(s) or otherwise by the Company”.

PCS shall have due regard to the circulars and/or clarifications issued by the Reserve Bank of India from time to time. It is recommended that a specific reference of such circulars at the relevant places in the Report shall be made, wherever possible.

Professional Responsibility and Penalty for False Diligence Report

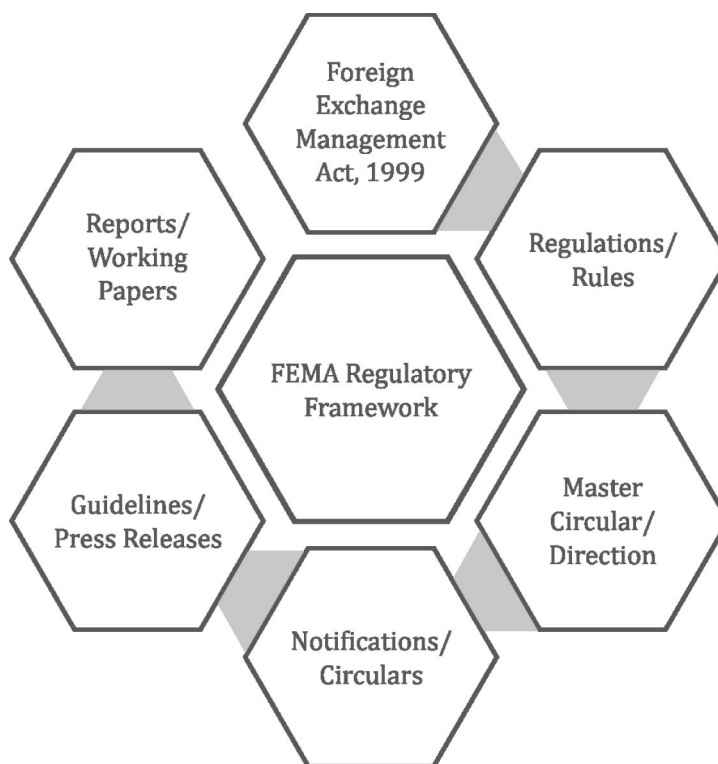
While the RBI Notification has opened up a significant area of practice for Company Secretaries, it equally casts immense responsibility on them and poses a greater challenge whereby they have to justify fully the faith and confidence reposed by the banking industry and measure up to their expectations. Company Secretaries must take adequate care while issuing Diligence Report.

Any failure or lapse on the part of a Practising Company Secretary (PCS) in issuing a Diligence Report may not only attract penalty for false Reporting and disciplinary action for professional or other misconduct under the provisions of the Company Secretaries Act, 1980 but also make him liable for any injury caused to any person due to his/her negligence in issuing the Diligence Report. Therefore, it becomes imperative for the PCS that he/she exercises great care and caution while issuing the Diligence Report and also adheres to the highest standards of professional ethics and excellence in providing his/her services. While preparing the Diligence Report the PCS should ensure that no field in the report is left blank. If there is nothing to be reported or the field is not applicable to the company, then the PCS should write ‘none’ or ‘nil’ or ‘not applicable’ as the case may be.

The PCS should obtain a list of statutes applicable to the Company before proceeding with the assignment for issue of Diligence Report.

Communication to earlier incumbent:

As per the provisions of clauses (8) and (11) of Part I of the First Schedule to the Company Secretaries Act, 1980, whenever a new incumbent is assigned the Diligence Report work, he should first communicate his appointment to the earlier incumbent in writing by registered post. Where, however, in the same year a Company Secretary in whole-time practice is appointed in place of another Company Secretary in whole time practice, who was appointed initially, the new incumbent should not only first communicate the same to the previous incumbent in writing by Registered Post but also first seek his consent (preferably in writing).



FEMA DUE DILIGENCE

Foreign Exchange Management Act (FEMA) is the legislation which governs the foreign currency in India. The main aim of FEMA is to facilitate external trade, balance the payments, promote the orderly development, and maintain the foreign exchange market in India. Doing Compliance for cross border transactions in India is a big challenge for most of the companies covered in the FEMA. Further, an increased flow of funds, inbound as well as outbound has increased the level of check on compliances in context of foreign exchange. This requires companies to keep a regular eye on foreign exchange transactions, in context of sectoral caps, investment caps, to circumvent from the huge penalties. The FEMA Due diligence helps to avoid damaging circumstances and is helpful in ensuring compliance of Foreign Exchange laws. The FEMA Due diligence covers all types of cross border transactions - import, export, debt funding, equity capital infusion, transfer of shares etc.

The following are covered under the FEMA Due diligence:

- Capital Accounts transactions
- Current account transaction
- Currency Transactions
- Regulations, Master Directions and Circulars issued by RBI
- FDI Policy, approvals
- Setting up of Business through Liaison office, Branch office, project office, wholly owned subsidiaries, joint ventures, foreign institutional investors, and foreign venture capital investor, Non-Resident of India/ person of Indian origin.

FCRA DUE DILIGENCE

The Foreign Currency (Regulations) Act, 2010, the FCRA Rules, 2011, and FCRA Amendment Rules, 2015 were respectively enacted to regulate the inflow of foreign funds received by NGOs. The FCRA, 2010 replaces the erstwhile Foreign Contribution (Regulation) Act of 1976.

On 20th September 2020, the Foreign Contribution (Regulation) Amendment Bill, 2020 was introduced in Lok Sabha. The Bill was passed by Lok Sabha on 21st September 2020 and subsequently the Bill was ratified by Rajya Sabha on 23rd September 2020. The Bill was assented to by the President on 28th September 2020 and accordingly, the Government notified September 29, 2020 as the effective date of enforcement of the said amendments.

The FCRA legislation states that an organization cannot receive funding from a foreign source, unless it is registered under the Foreign Currency (Regulations) Act, 2010 or has obtained special government approval for a specific project. Also, the registered NGOs need to comply with various post-registration requirements, as detailed in the provisions of the Act and its rules of enforcement.

NGOs in India are categorized under three legal categories: society, trust, and a limited company. These may be founded for a specific cultural, economic, educational, religious, or social purpose. These organizations are heavily regulated by respective state and government agencies.

However, at the state level, an NGO can be registered as any of the following:

- Society under the Registrar of Societies;
- Public trust through the execution of a trust deed; or,
- Limited company under Section 8 of the Companies Act, 2013.

The Income Tax Department (IT Department) and Ministry of Home Affairs regulate registration and require all NGOs to file annual tax returns and submit audited account statements to their respective agencies. All types of NGOs are treated equally under the Income Tax Act of 1961.

In order to be eligible for tax exemption status, an NGO must be founded for a charitable purpose. As defined in India law, 'charitable purposes' include relief for the poor, education, medical relief, and the advancement of any other object of general public utility. Once this status is established, charitable organizations can apply for an 80G certificate to enable donors to claim tax rebates against their donations.

Scope of the Act

The FCRA and its enforcement rules regulate "foreign contributions" received from "foreign sources", whereby such 'sources' are entities established in a foreign territory. The Act categorically defines 'foreign contributions' as a donation, delivery, or transfer made by a foreign source of: Any article (unless offered for individual personal use), the value of which must not exceed (Rs 25,000); Currency - foreign or Indian; or, foreign securities, including all foreign debentures, bonds, shares, stocks, and other instruments of credit (income or interest generated from these sources are also treated as foreign contribution under the FCRA).

Registration and Prior Approval

Once approved by the Ministry of Home Affairs (MHA), NGOs are legally entitled to accept foreign funds under the FCRA. To obtain this eligibility, NGOs can either opt for special permission or go for a long-term registration that is valid for a period of five years. In the case of the former, MHA approval must always be sought prior to receiving contributions. In the case of the latter, NGOs only have to apply for renewal six months prior to the ending of the registration period.

Foreign Funding

NGOs have to open and maintain bank accounts, which will exclusively deal with the receipt and utilization of foreign contributions, as required under FCRA rules. A separate set of accounts and records must be maintained, exclusively for these transactions.

The FCRA Amendment Act, 2020 provides that the remittances of foreign contribution shall be received only in an account designated as "FCRA Account", which shall be opened in such branch of the State Bank of India at New Delhi, as notified by the Central Government. Another FCRA account in any scheduled bank may be opened for keeping or utilising the foreign contribution received.

Question: *What is the maximum limit of percentage of foreign contribution that could be used for meeting administrative expenses by the recipient company?*

Options: a) 50%
b) 20%

Answer: (b)

The FCRA also mandates that foreign contributions must be utilized only for the purpose for which they were received. Under Section 7 of the FCRA, the transfer of contributions is not allowed.

Under the FCRA Amendment Act, 2020, a person or entity is prohibited from transferring contributions to any other person no matter whatsoever.

Due Diligence & Reporting Requirements

The most important reporting requirement under the FCRA is the submission of annual returns. All NGOs are required to submit their annual returns to the central government (MHA) within nine months from the closure of the previous financial year. This return has to include all the details of the contributions received, namely:

- Source and manner in which it is received;
- Purpose for which it was received; and,
- Manner of usage of the contributions.

It is necessary of the entities who receive foreign funding should review the updated FCRA norms and meet their compliance obligations meticulously to avoid any regulatory actions. As once an entity appears under the government scanner for non-compliance, such organizations may face all manner of restrictions and regulatory obstacles.

NON DISCLOSURE AGREEMENT (NDA)

NDAs are common in business, as it provide a safeguard to protect trade secrets and other confidential information which are meant to be kept under wraps. Information commonly protected by NDAs might include research & development activities, innovations for a new product, client information, sales and marketing plans, or a unique manufacturing process. The non disclosure agreement ensure that the business secrets will stay underground, and in case of any failure, the company is eligible to have legal recourse and to sue for damages.

The agreement explicitly spells out that the person receiving the information need to keep the same as secret and have limited use for the purpose it has been provided by the company. This means it will be considered as breach of agreement, when it encourages others to breach it, or allow others to access the confidential information through improper or unconventional methods.

A non-disclosure agreement is defined as a legally enforceable contract that creates a confidential relationship between a person who holds some kind of trade secret and a person to whom the secret will be disclosed.

The Confidentiality agreements typically serve three key functions:

- To protect sensitive information. By signing an NDA, participants promise to not divulge or release information shared with them by the other people involved. If the information is leaked, the injured person can claim breach of contract.
- In the case of new product or concept development, a confidentiality agreement can help the inventor keep patent rights. In many cases, public disclosure of a new invention can void patent rights. A properly drafted NDA can help the original creator hold onto the rights to a product or idea.
- Confidentiality agreements and NDAs expressly outline what information is private and what's fair game. In many cases, the agreement serves as a document that classifies exclusive and confidential information.

Content of the Non-Disclosure Agreements

1. *Definitions and exclusions of confidential information;*

Definitions of confidential information spell out the categories or types of information covered by the agreement. This specific element serves to establish the rules-or subject/consideration-of the contract without actually releasing the precise information.

2. *Obligations from all involved people or parties; and time periods.*

At the same time, nondisclosure agreements often exclude some information from protection. Exclusions might comprise information already considered common knowledge or data collected before the agreement was signed.

Additionally, Time periods are also commonly addressed in NDAs and usually require that the party receiving the information stays mum for a number of years. This specific information is usually up for negotiation.

Sample Non-Disclosure agreement is placed below:

XYZ Limited

Non-Disclosure Agreement

This Agreement is entered into effective as of _____ between _____. (the “Company”) and _____, (“Recipient”). Recipient is acting as an expert advising the Company in connection with a [_____], and for that purpose, the Company may make certain Confidential Information (as defined below) available to the Recipient (the “Purpose”).

As a condition to, and in consideration of, the Company’s furnishing of Confidential Information to the Recipient, the Recipient agrees to the restrictions and undertakings contained in this Agreement.

IT IS HEREBY AGREED AS FOLLOWS.

1. Definitions

In this Agreement:

1.1 Confidential Information:

- (a) means any information disclosed by one Party (the “Disclosing Party”) to any other Party (the “Receiving Party”) or which is otherwise communicated to or comes to the attention of the Receiving Party whether such information is in writing, oral or in any other form or media and whether such disclosure, communication or coming to the attention of the Receiving Party occurs prior to or during this Agreement; and
- (b) includes without limit:
 - (i) any information which can be obtained by examination, testing or analysis of any hardware, any component part thereof, software or material samples provided by the Disclosing Party under the terms of this Agreement;
 - (ii) all information disclosed by one Party to any of the other Parties relating directly or indirectly to the Purpose;
 - (iii) the fact that the Parties are interested in or assessing the Purpose and/or are discussing the Purpose with each other; and
 - (iv) the terms of any agreement reached by the Parties or proposed by any of the Parties (whether or not agreed) in connection with the Purpose;
 - (v) all knowledge, information or materials (whether provided in hardcopy or electronic or other form or media) whether of a technical or financial nature or otherwise relating in any manner to the business affairs of the Disclosing Party (or any parent, subsidiary or associated company of that party) software, samples, devices, demonstrations, know-how or other materials of whatever description, whether subject to or protected by copyright, patent, trademark, registered or unregistered design.

2. Undertakings

Subject to clause 3 below and in consideration of the disclosure of Confidential Information by the Disclosing Party, the Receiving Party agrees:-

- (i) to keep confidential and not disclose to any third party, copy, reproduce, adapt, divulge, publish or circulate any part of or the whole of any Confidential Information without the prior written consent of the Disclosing Party; and

- (ii) to restrict access to the Confidential Information disclosed to it under this Agreement to those of its employees and officers who need to know the same strictly for the Purpose; and
- (iii) not to use Confidential Information disclosed to it under this Agreement for any purpose other than the Purpose; and
- (iv) not to combine any part of or the whole of the Confidential Information with any other information; and
- (v) not to disclose the whole or any part of the Confidential Information to any third party without (a) the prior written consent of the Disclosing Party and (b) prior to disclosure to such third party procuring that the third party is bound by obligations which are no less onerous than those contained in this Agreement; and
- (vi) to procure that each employee and officer to whom Confidential Information is disclosed under this Agreement is, prior to such disclosure, informed of the terms of this Agreement and agrees to be bound by them; and
- (vii) to procure that the Confidential Information in its possession is stored securely and that physical access to it is controlled.

3. Exceptions

3.1 The protections and restrictions in this Agreement as to the use and disclosure of Confidential Information shall not apply to any information which the Receiving Party can show:-

- (a) is, at the time of disclosure hereunder, already published or otherwise publicly available; or
- (b) is, after disclosure hereunder published or becomes available to the public other than by breach of this Agreement; or
- (c) is rightfully in the Receiving Party's possession with rights to use and disclose, prior to receipt from the Disclosing Party; or
- (d) is rightfully disclosed to the Receiving Party by a third party with rights to use and disclose; or
- (e) is independently developed by or for the Receiving Party without reference or access to Confidential Information disclosed hereunder.

3.2 The Receiving Party shall not be in breach of Clause 2 if it can demonstrate that any disclosure of Confidential Information was made solely and to the extent necessary to comply with a statutory or judicial obligation.

4. No title of Use

Nothing contained in this Agreement shall be construed as conferring upon the Receiving Party any right of use in or title to Confidential Information received by it from the Disclosing Party, other than as expressly provided herein:-

- (i)
- (ii)

5. No Obligation to Disclose, No Representations

Nothing in this Agreement shall be construed as?

- (i) creating an obligation on any of the Parties to disclose particular information; or
- (ii) creating an obligation on the parties to negotiate; or
- (iii) as a representation as to the accuracy, completeness, quality or reliability of the information.

6. Term & Termination

- 6.1 Subject to clause 3, the obligations contained in clause 2 shall continue to apply for so long as the Receiving Party has in its possession or has procured that any third party authorized under this Agreement has in its possession any Confidential Information.
- 6.2 The Receiving Party shall, on the request of the Disclosing Party, return to the Disclosing Party (whose property they shall remain) all documents and things containing Confidential Information, together with all relevant samples and models which it has in its possession pursuant to this Agreement.

7. Miscellaneous

- 7.1 No Party shall assign its rights and/or obligations pursuant to this Agreement without the prior written consent of the other Party.
- 7.2 No failure or delay by either party in exercising any rights, power or legal remedy available to it hereunder shall operate as a waiver thereof.
- 7.3 In the event any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement but this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been set forth herein, and the Agreement shall be carried out as nearly as possible according to its original terms and intent.
- 7.4 This Agreement shall be construed and governed in all respects in accordance with the laws of India and the Parties hereby submit to the jurisdiction of the Indian courts.
- 7.5 The signing of this Agreement shall not be construed as the forming of an agency, joint venture, employment or partnership.

Signed for and on behalf "XYZ Limited"

By its duly authorized representative

(Signature) _____

(Name) _____

(Title/position) _____

(Date) _____

Signed for and on behalf "ABC Limited"

By its duly authorized representative

(Signature) _____

(Name) _____

(Title/position) _____

(Date) _____

LESSON ROUND UP

- The objective of due diligence is to Collection of material of information, Identification of strength and threats and weaknesses, to improving the bargaining position, Identification of areas where representations and warranties are required.
- A due diligence process can be divided into three stages i.e. (i) Pre diligence, (ii) Diligence, and (iii) Post Diligence.
- Operational due diligence aims at the assessment of the functional operations of the target company, connectivity between operations, technological up gradation in operational process, financial impact on operational efficiency etc.
- Due diligence and risk assessment and control represent separate and distinct processes that take place prior to the commencement, and throughout the duration, of a commercial agreement respectively.

GLOSSARY

Acquisition	Acquisition means, directly or indirectly, acquiring or agreeing to acquire shares or voting rights in, or control over, a target company.
Business Transaction	Business Transaction includes any corporate action relating to the merger, de-merger, amalgamation, take over, joint venture etc.
Exaggerated credentials	Exaggerated Credentials means overstating and misleading the documents, reports, valuations, company's profile etc to describe it as more impressive than it really is.
Intellectual Property	Intellectual Property is a category of intangible asset and includes trademark, copyright, patent, design and geographical indication.
Joint Venture	A joint venture means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.
PACs (Persons Acting in Concert)	Persons acting in concert means persons who, with a common objective or purpose of acquisition of shares or voting rights in, or exercising control over a target company, pursuant to an agreement or understanding, formal or informal, directly or indirectly co-operate for acquisition of shares or voting rights in, or exercise of control over the target company.
SWOT Analysis	A SWOT Analysis is a technique used to determine and define one's Strengths, Weaknesses, Opportunities, and Threats - SWOT.
Target Company	A target company includes a company chosen as an attractive capital restructuring option by a potential acquirer.
Term sheet	A term sheet is a document containing the material terms and conditions of a potential business agreement, establishing the basis for future negotiations between a seller and buyer.

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation)

1. What are the stages of M&A due diligence?
2. Prepare a check list for M&A due diligence.
3. What is the process involved in takeover?
4. Draft the confidentiality clause of the non-disclosure agreement.

LIST OF FURTHER READINGS

- 1. Background Material on Due Diligence by the Institute of Chartered Accountants of India
- 2. Secretarial Audit Compliance Management & Due Diligence - Taxmann

OTHER REFERENCES (INCLUDING WEBSITES / VIDEO LINKS)

- 1. <https://fcraonline.nic.in/home/index.aspx>
- 2. <https://www.sebi.gov.in/>
- 3. <https://www.rbi.org.in/>
- 4. <https://ipindia.gov.in/>
- 5. <https://labour.gov.in/>
- 6. <https://www.cci.gov.in/>

[illegible]

Lesson 20

Due Diligence – II

Non Compliances, Penalties and Adjudications

Key Concepts One Should Know

- Prosecution
- Officer in default
- Bailable offence
- Special Court
- Settlement
- Show Cause Notice
- Adjudication
- Qualification/ Reservation/ Adverse remarks
- Disclaimer
- Mens rea
- Cognizable
- Compoundable
- Summons Case
- Warrants Case

Learning Objectives

To understand:

- Impact of non-compliances of corporate laws
- Adherence to various rules, regulations, laws, standards, guidelines etc.
- Protection of stakeholders of an organization
- Compounding of offences under corporate laws
- Penalty/ fine levied due to non-compliances
- Adverse effects of non-compliances on business

Regulatory Framework

- The Companies Act, 2013 and rules thereunder
- The SEBI Act, 1992
- SEBI (LODR) Regulations, 2015
- The SCRA, 1956
- The Depositories Act, 1996
- Foreign Exchange Management Act (FEMA), 1999 and rules/ regulations/ notification/ orders/ directions/ circulars issued there under Criminal Procedure Code, 1973

Lesson Outline

- Introduction
- Non-Compliances under Companies Act, 2013
- Prosecution procedures
- Complaint by Registrar and Serious Fraud Investigation Office
- Compounding
- Non-Compliances under SEBI Act, 1992
- Penalties and Adjudication at SEBI
- Non compliances under LODR Regulations
- Contravention and Compounding under FEMA
- Section wise Offence/ Default under Companies Act, 2013
- LESSON ROUND-UP
- GLOSSARY
- TEST YOURSELF
- LIST OF FURTHER READINGS
- OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

INTRODUCTION

Corporate compliance involves adhering/following to a wide range of rules, regulations, laws and standards which are designed to protect business, employees, stakeholders and other stakeholders involved in the organization. For any business, adhering to the laws and standards, and monitoring the compliance of the business processes has evolved as a major concern for the business owners. Monitoring not only refers to continuously observing possible compliance violations but also includes predicting possible compliance violations in the future. Since the concept of business process compliance is vast, thus approaches related to process monitoring are hard to identify. Monitoring the compliance of business processes with relevant regulations, constraints, and rules during runtime has evolved as a major concern in practice.

The cost of non-compliance and monetary fines have been continuously increasing in the past few years. However, business owners are getting impatient as these consequences would affect the organization in many ways. Increased complexity, enforced business changes, and individuals being held personally accountable are all set to continue because of continuous compliance failures.

The penalties for non-compliance for corporate governance depends upon the nature of violation and the document violated. It is not uncommon for a professional to mistakenly violate any legal requirement and governance norms. In certain situation the applicable laws are discovered to be in conflict with one another. In these cases, the compliance which is more complex or harsh need to be complied by the company and its officers. Further, non-compliances which include the public money and have social interest are considered as more serious violations, such as Public Deposits or abusing a position of power, can result in penalties ranging from Closure, suspension to expulsion from stock exchanges. In extreme cases, such abuses can result in civil or criminal prosecution.

PROSECUTORIAL PROCEDURES

Generally, every Law, Rule and Regulation has defined procedures for fulfilling the compliance requirement and such compliance requirement also has a prescribed method of resolving any conflicts or accusations of wrongdoing which includes for investigation as well as for prosecution by the regulator and compounding of the offence by the company. Especially when it comes to different regulators, different companies have different compliance requirement and manner for dealing with violations.

NON-COMPLIANCES UNDER THE COMPANIES ACT, 2013

The Ministry of Corporate Affairs (MCA) administers the Companies Act, 2013 (hereinafter called the 'Act') with its Headquarter at New Delhi and is executing its prose through the office of Regional Director ("RD"), Registrar of Companies ("ROC"), Official Liquidator ("OL") and Serious Fraud Investigation Office ("SFIO").

The complaints are being filed by the MCA for offences under the "Act", on account of various violations, which are detected through filing under the Act with ROCs, scrutiny of such documents, public complaints including complaints from inspection or stakeholders' investigation carried out under the Act. Taking into accounting these violations, the Act contemplates the creation of Special Courts to try such complaints so that these offences are dealt in a separate Court for quick disposition of the case.

Under the Companies Act, 2013 Offences can be classified in the following manner:

- (i) **Depending on the type of punishment:** Punishment includes fine, penalty and imprisonment. The law may impose either of these or a combination of these as an alternative or an addition. As such, there are following types of offences:
 - Offences punishable with imprisonment only.
 - Offences punishable with fine only.
 - Offences punishable with fine or imprisonment.
 - Offences punishable with fine or imprisonment or both.
 - Offences punishable with fine and imprisonment.
 - Offences punishable with penalty only.

Such Offences can be broadly categorised into 3 categories:

- (i) Those punishable mandatorily with imprisonment,
- (ii) Those where imprisonment might be ordered, and
- (iii) Where there is no scope of imprisonment.

(ii) **Depending on Cognizability:** Whether a person can be arrested with or without a warrant will depend on whether the offence is 'cognizable' or 'non-cognizable', as defined under Cr. PC:

- Cognizable Offences are offences for which a police officer may, in accordance with law, arrest without warrant.
- Non-cognizable Offences are offences for which a police officer has no authority to arrest without warrant.

(iii) **Depending on Bail-ability:** This covers the offences which are Bailable or which require the Judicial Custody.

Categories of Default/Non Compliances			
1	Non-maintenance of statutory registers/Books	6	Non-adherence of Corporate Governance Norms
2	Default/delay in filing of statutory documents	7	Not-maintaining RO or change without intimation
3	Non holding/delayed holding of meetings	8	Non-adherence of Accounting principles, Standards & Audit Rule
4	Non-issuance of notices, defective resolutions, agreements	9	Financial Statements not presented
5	Un-approved Financial or Non-financial transactions	10	Incomplete/no prescribed disclosures

Types of Offences

**"Compoundable"
and
"Non-compoundable"**

**"Cognizable"
and
"Non-cognizable"**

**"Bailable"
and
"Non-Bailable"**

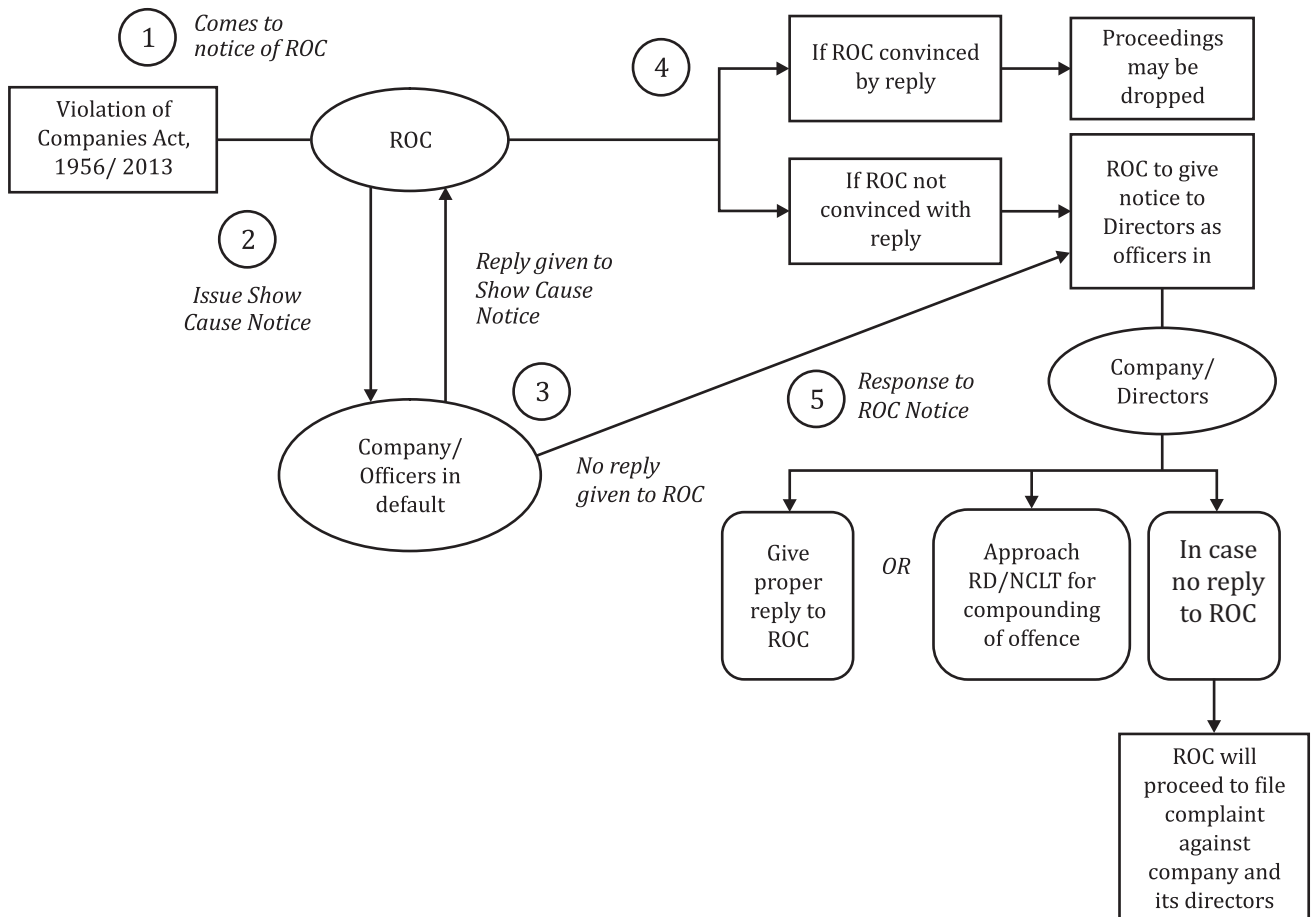
PROCESS OF PROSECUTION UNDER THE COMPANIES ACT, 2013

Generally, at the time of scrutinizing the Balance Sheet and Other Financial/Non-Financial Statements of the Company, if Registrar of Companies comes across any lapses on part of the Company in recording the transactions and irregularities etc. and observes provisions of Companies Act 1956/2013 has been violated by the Company and Officers in preparation of these Statements, the Registrar of Companies issues show cause notice to the company / officers in default. On such Show cause notice being issued to the company, it is the responsibility of the Company to make sure all details sought by the Registrar of Companies ("ROC") is properly provided to the satisfaction of the Registrar of Companies. If Registrar of Companies is convinced with the explanation given by the company and upon getting proper documents and back papers, he may drop the proceedings.

In case, the company is not in a position to prove its genuineness in providing the details sought for by the Registrar of Companies, then the Registrar of Companies will serve show cause notice to the directors as officers in default and company stating that why action shall not be taken by the Registrar of Companies against the company for the lapse in compliance as observed by Registrar of Companies. In such case the company has an option of either satisfying the Registrar of Companies by providing required documents and details sought for or if it is not in a position to prove

that the company genuinely recorded the financial transactions and maintain books of accounts in compliance with the provisions of the Act, approach Regional Director/National Company Law Tribunal ("NCLT") to compound the offences committed by the company accepting that there are lapses on part of the Company as well as directors in complying the provisions of the Act.

In case, the company has failed to compound the offences with Regional Director/National Company Law Tribunal ("NCLT"), then the Registrar of Companies will proceed further to file a complaint against the company and its directors with the authority having jurisdiction to try the said offences after obtaining permission from the Ministry.



As per provision of Section 441(1) of the Companies Act, 2013, any offence punishable under this Act, whether committed by a company or any officer thereof not being an offence punishable with imprisonment only, or punishable with imprisonment and also with fine, may, either before or after the institution of any prosecution, be compounded by

- (a) the Tribunal; or
- (b) where the maximum amount of fine which may be imposed for such offence does not exceed twenty- five lakh rupees, by the Regional Director or any officer authorised by the Central Government.

Further, as per amended provision of section 441(6) of the Companies Act, 2013, Notwithstanding anything contained in the Code of Criminal Procedure, 1973, any offence which is punishable under the Companies Act, 2013 with imprisonment only or with imprisonment and also with fine shall not be compoundable.

Before the above amendment, any offence which is punishable under Companies Act, 2013 with imprisonment or fine, or offence punishable with imprisonment or fine or with both, shall be compoundable with the permission of the Special Court, in accordance with the procedure laid down in the Act for compounding of offences.

However, the committee constituted by the Government to review the offences under the Companies Act, 2013 in its report recommended that the clause (a) of sub section (6) of section 441 should be omitted on the fact that the

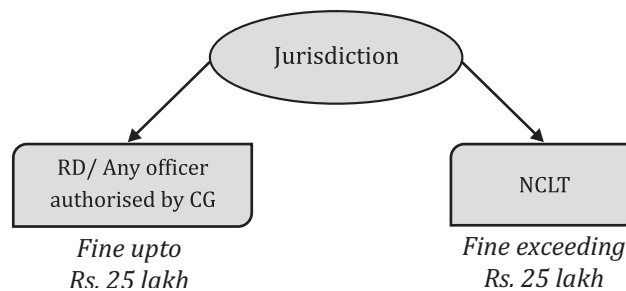
requirement of the permission of the Special Court for compounding of offence is a redundant provision in the light of the NCLAT judgment dated 29.08.2017 in *Cinopolis India Pvt. Ltd. v. Roc*, CA(AT) No. 137 of 2017, while relying on the interpretation of section 621A of the Companies Act, 1956 (Corresponding to section 441 of the Companies Act, 2013) by the Supreme Court in *VLS Finance V. Union of India*, held that a prior approval of the Special Court before compounding of offence by the NCLT is not required.

Provision of Section 435 of the Act, 2013 provide that the Central Government may, for the purpose of providing speedy trial of offences under this Act, by notification, establish or designate as many Special Courts as may be necessary.

A Special Court shall consist of a single judge holding office as Session Judge or Additional Session Judge, in case of offences punishable under this Act with imprisonment of two years or more, and in case of other offences, a Metropolitan Magistrate or a Judicial Magistrate of the First Class.

The judge of the Special Court is appointment by the Central Government with the concurrence of the Chief Justice of the High Court within whose jurisdiction the judge to be appointed is working.

Any offence either before or after the institution of any prosecution, be compounded by the National Company Law Tribunal; or where the maximum amount of fine which may be imposed for such offence does not exceed twenty five lakh rupees, by the Regional Director or any officer authorized by the Central Government. The sum so specified shall not, in any case, exceed the maximum amount of the fine which may be imposed for the offence so compounded.



Section 439 of the Companies Act, 2013 provides that notwithstanding anything in the Code of Criminal Procedure, 1973, every offence under the Companies Act except the offences referred to in sub-section (6) of section 212 shall be deemed to be non-cognizable within the meaning of the said Code.

Section 212(6) provides that the offence covered under section 447 shall be cognizable and the Special Court shall not take cognizance of any offence referred to this sub-section except upon a complaint in writing made by the Director, Serious Fraud Investigation Office; or any officer of the Central Government authorised, by a general or special order in writing in this behalf by that Government.

No court shall take cognizance of any offence, which is alleged to have been committed by any company or any officer thereof, except on the complaint in writing of the Registrar, a shareholder or a member of the company, or of a person authorised by the Central Government in that behalf. However, the court may take cognizance of offences relating to issue and transfer of securities and non-payment of dividend, on a complaint in writing, by a person authorised by the Securities and Exchange Board of India.

DEALING WITH COMPLAINT BY ROC AND SFIO IN SPECIAL COURT

The Registrar of Companies and the SFIO are empowered to file complaint before a Magistrate if they are of an opinion that a particular company has been in default according to Companies Act, 2013 or is pursuing its activities violating the law of the land. They can file a complaint under section 190 of the Criminal Procedure Code, 1973. But the difference lies in how the complaint is treated.

The SFIO has been empowered under the section 212 of the Companies Act to file a complaint. The complaint of SFIO is treated as police report under section 173 of the Criminal Procedure Code, 1973. Whereas, the complaint filed by the Registrar of Companies is not considered as a police report but a private complaint under section 190 of

the Criminal Procedure Code, 1973. The complaint by the Registrar of Companies has to pass through the hurdle of pre-trial evidence on the same platform as that of the complaint of SFIO.

When a complaint is received by the Magistrate, the power to take cognizance on the basis of such complaint is under Section 190 of Criminal Procedure Code, 1973. However, further action on such complaint has to be taken under Sections 200-204 of Criminal Procedure Code, 1973.

Under Section 200 Criminal Procedure Code, 1973, the Magistrate has to record the statement of the complainant on oath, and also of other witnesses, if any. As the large number of complaints are filed by private individuals, many of which may be frivolous complaints. Therefore, it is considered necessary to verify the details of such complaints by examining the complainant on oath under Section 200 of Criminal Procedure Code, 1973. In certain “complaint” cases, action may have to be taken by the Magistrate under the provisions of Section 202 of Criminal Procedure Code, 1973, i.e., an inquiry by the Magistrate himself or an investigation by police, etc. After these steps, if the Magistrate does not find sufficient ground or finds no prima facie case to proceed further, he may dismiss the complaint under Section 203 of Criminal Procedure Code, 1973; on the other hand, if he finds sufficient ground to proceed, he may issue process under Section 204 of Criminal Procedure Code, 1973.

The complaint filed by SFIO does not have to pass through the process of section 200 to 203 as mentioned above. After a complaint has been filed by the SFIO, it is treated as police report and it directly proceeds to Section 204 and the next stage of trial that is issuing of summons or warrants. Whereas the complaint filed by the Registrar of Companies has to pass through the procedure mentioned under section 200 to 203 which causes a delay in the prosecution initiated by the Registrar of Companies.

Complaint by ROC	Complaint by SFIO
Complaint of ROC is considered as a private complaint under section 190 of the Criminal Procedure Code, 1973	Complaint of SFIO is treated as police report under section 173 of the Criminal Procedure Code, 1973
Complaint by ROC has to pass through the process of section 200 to 203 of Criminal Procedure Code, 1973	Complaint filed by SFIO does not have to pass through the process of section 200 to 203 of Criminal Procedure Code, 1973
The procedure causes delay in the prosecution initiated by ROC	Directly proceeds to Section 204 and the next stage of trial that is issuing of summons or warrants

Difference between Fine and Penalty

The Companies Act, 2013 contains provisions for adjudication of penalties by officers of the Central Government. Fine and penalty, though may sound similar, but are different. Fine can be imposed only by a NCLT/Court of law, but penalty may be imposed even by an administrative office(r). Therefore, imposition of fine requires prosecution in a Court of law, whereas penalty may be imposed by way of adjudication. There is no such requirement of the proceedings in case of levy penalties. Recent changes in Companies Act, 2013 through various amendments have taken many offences from the ambit of offences to the ambit to penalties. In general, Penalties are liabilities and Fines are Punishments. Courts in various instances have held that a penalty imposed for a tax delinquency is a civil obligation, remedial and coercive in its nature, and is far different from the penalty for a crime or a fine or forfeiture provided as punishment for the violation of criminal or penal laws Penalty is for civil obligations while fine is imposed for Criminal or quasi Criminal offences.

In the matter of SEBI V/s Cobot International, it was held that:

“The word ‘penalty’ by itself will not be determinative to conclude the nature of proceedings being criminal or quasi-criminal. *The relevant considerations being the nature of the functions being discharged by the authority and the determination of the liability of the contravenor and the delinquency*”

Example for difference between fine and penalty:

The Companies (Amendment) Ordinance, 2018 has substituted “Fine” to “Penalty” in section 53(3) of Companies Act, 2013

Old Provision

(3) Where a company contravenes the provisions of this section, the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees and every officer who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees, or with both.

New Provision

(3) Where any company fails to comply with the provisions of this section, such company and every officer who is in default shall be liable to a penalty which may extend to an amount equal to the amount raised through the issue of shares at a discount or five lakh rupees, whichever is less, and the company shall also be liable to refund all monies received with interest at the rate of twelve per cent. per annum from the date of issue of such shares to the persons to whom such shares have been issued.”

Under the old provision the minimum amount of fine was prescribed but under the new provisions the maximum amount of penalty is now prescribed.

Example for difference between fine and penalty:

The Companies (Amendment) Ordinance, 2018 has substituted “Fine” to “Penalty” in section 137(3) of Companies Act, 2013

Earlier text

punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees or with both

After the said amendment

shall be liable to a penalty of one lakh rupees and in case of continuing failure, with further penalty of one hundred rupees for each day after the first during which such failure continues, subject to a maximum of five lakh rupees

The word “**punishable**” in earlier text indicates the nature i.e. Punishment and the word “**Laible**” in the amended text indicates the nature i.e. Liability.

COMPOUNDING

As per the Black’s Law Dictionary, to “Compound” means “*to settle a matter by a money payment, in lieu of other liability.*” This definition thoughtfully represents the concept of Compounding as a *Settlement Mechanism*, a settlement by paying the penalty in lieu of facing the prosecution for the offence committed. The meaning of word compounding of offence is not defined under Companies Act, 2013, or any other previous Company law. However, if the provisions allowing compounding of offences under the company law are analyzed, it provides clear inference that *it is nothing but admission of guilt.*” In the process of compounding, the person may either *Suo-moto* or on receipt of notice of default / initiation of prosecution, admits the commission of default and make an application for compounding of the concern offence. The defaulters agree to pay penalty/fine which may be ordered by the Central Government or Tribunal. Compounding is essentially a compromise or arrangement between administrator of the enactment and person committing an offence. Compounding crime consists of receipt of some consideration (termed as compounding fees) in return for an agreement not to prosecute one who has committed an offence.

***Compounding of offences
– A simple way to avoid
litigation***

Prosecution can be avoided by 'compounding the offence', either before or after the institution of the prosecution. "To compound" means "to settle a matter by a money payment, in lieu of other liability". In short, compounding of an offence is a settlement mechanism, by which one is given an option to pay money in lieu of his prosecution, thereby avoiding a prolonged litigation.

COMPOUNDING OF CERTAIN OFFENCES UNDER COMPANIES ACT, 2013

Compoundable offence

The offences that are not mandatorily punishable with imprisonment are compoundable, as enlisted below:

- Offences punishable with fine only.
- Offences punishable with fine or imprisonment.
- Offences punishable with fine or imprisonment or both.
- In such types of offences, the punishment may or may not include imprisonment.

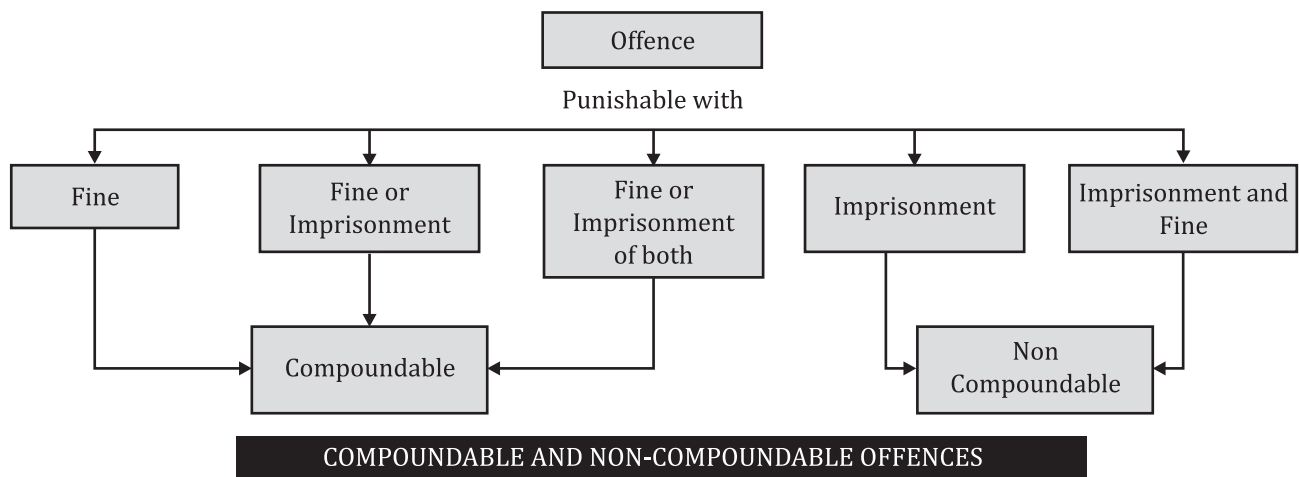
Any offence which is punishable under the Companies Act, 2013 with imprisonment or fine, or with imprisonment or fine or with both, shall be compoundable with the permission of the Special Court.

- True
- False

Non-compoundable Offence

Offences punishable with imprisonment mandatorily are non-compoundable offences. Therefore, the following offences are non-compoundable:

- Offences punishable with imprisonment only
- Offences punishable with both imprisonment and fine
- Any offence for which action is taken under Section 447, i.e., fraud, is non compoundable, as the punishment therefor is fine and imprisonment



Effects of Compounding

- If the offence is compounded before the institution of prosecution, the prosecution cannot be launched against the person by the Registrar or by any shareholder of the company or by any person authorised by the Central Government in relation to the offence which has been compounded.
- If the offence is compounded after the institution of prosecution, such compounding shall be brought by the Registrar in writing, to the notice of the Court in which the prosecution is pending. Then the person shall be discharged.

Case study on compounding

In case of xxxxxxxx Ltd., a Public Limited Company:

Facts

An appeal was filed u/s 454(5) of Companies Act, 2013 read with Companies (Adjudication of Penalties) Rules, 2014 before the Regional Director. This appeal was filled against the order of Registrar of Companies adjudication a penalty for violation of section 92(5) and section 137 (3) of the Act. The imposed a penalty of Rs. 5,87,000/- on the company and its directors.

Order

The Regional Director found technical non-compliances by Adjudicating Officer and revised the Penalty from Rs. 5,87,000/- to Rs. 58,700/- i.e. 10 % of the actual penalty imposed by ROC.

Case study on compounding

In the matter of xxxxxxxx Ltd., a Public Limited Company

Facts

An appeal was filed u/s 454(5) of Companies Act, 2013 read with Companies (Adjudication of Penalties) Rules, 2014 before the Regional Director. This appeal was filled against the order of Registrar of Companies adjudication a penalty for violation of section 203 of the Act. The penalty was levied due to non appointment of a Company Secretary by the Company. In hearing, the company submitted before the ROC, Adjudicating Authority that they have appointed a Company Secretary in compliance of section 203 of Companies Act, 2013 and requested to condone the penalties on the grounds of the default being unintentional, first time default. ROC imposed a Penalty of Rs. 5,00,000/- on the company and 1,67,000 on the officer of the company.

Order

The appeal was filed before the Regional Director. The regional director revised the penalty to Rs. 1,25,000/- for the Company and Rs. 41,750 for the officer of the company.

Decriminalization of offences

The roots of necessity to decriminalize certain compoundable offences are elevated from the Ministry of Corporate Affairs (MCA) vide order dated 13.07.2018, wherein, the MCA had constituted a review committee to review the offences which are prescribed under the Act and to analyse, examine and peruse the need to decriminalize some of the offences by making recommendation to the Central Government inter-alia on re-categorisation of certain 'acts' punishable as compoundable offences to 'acts' carrying civil liabilities, improvements to be made in the in-house adjudication mechanism etc.

The relevant recommendations regarding compoundable offences suggested by the Committee were as follows:

1. Re-categorizing of 16 offenses out of 81 which are in the category of compoundable offenses to an in-house adjudication framework wherein defaults would be subject to penalty by an adjudication officer.
2. Instituting a transparent and technology driven in-house adjudication mechanism and increasing the transparency in the in-house adjudication mechanism by minimizing physical interface, conducting proceedings on an online platform and publication of the orders on the website.
3. Strengthening the in-house adjudication mechanism by necessitating a concomitant order for making good the default at the time of levying penalty, to subserve the ultimate aim of archiving better compliance.
4. Declogging the NCLT by enlarging the jurisdiction of Regional Director (RD) by enhancing the pecuniary limits up to which they can compound offences under section 441 of the Companies Act, 2013.

Based on the recommendations made by the Committee, the Central Government brought in relevant changes by passing of the Companies (Amendment) Act, 2019.

Despite the ease in penal pressure brought about by the above enactment, the Government continued to feel the acute need to further liberalise and relax the stringent penal provisions of the Act. This clubbed with the urge to promote ease of doing business and to foster growth of corporates, led to the constitution of the Company Law Committee in September 2019.

The Company Law Committee recommended for the decriminalization of the Companies Act, 2013, as the much needed change in today's corporate world. In line with global practices, it is essential to strike a balance between civil and criminal liabilities for corporates. It was noted that serious violations of the law, especially wrongful conduct involving fraudulent elements, should be dealt with under criminal law, due to the nature of such wrongs and the degree of public interest involved, it may be prudent to adopt a strict approach to fraudulent conduct. However, procedural, technical and minor non-compliances, especially the ones not involving subjective determinations, may be dealt with through civil jurisdiction instead of criminal.

The Companies (Amendment) Act, 2020 removes the imprisonment for certain offenses, substitutes fine by penalty in and reduces amount of payable as penalty across the board. In certain minor omissions, etc. penal consequence has been omitted. The various aspects of Decriminalisation of offences are:

(i) Omission of certain offences

The Companies (Amendment) Act, 2020 has omitted certain offences which relate to the non-compliance of orders of the NCLT, i.e. orders with respect to variation of shareholders rights, rectification of register of members, publication of order of the NCLT for reduction of Share Capital, redemption of debentures on maturity or payment of interest etc. Further, offences provided under Section 342(6) of the Companies Act, 2013 related to the penal provisions w.r.t. non-cooperation by the Liquidator or any present and past officer of the Company, is omitted, leaving it to the prosecuting court to mandate cooperation.

(ii) Removing imprisonment and subjecting the offences to fine alone

Based on the recommendation of the CLC, the legislature has removed imprisonment for the certain listed offences while retaining the criminal liability to payment of fine alone, such as, for the contravention of the matters prescribed or to be stated in the prospectus as per Section 26, failure of the Company to comply with the requirements of the special license given to Section 8 companies, default in complying with buy-back requirements under Section 68 etc.

(iii) Re-categorization of Offences

Keeping in mind the overall pendency of cases in courts and in an attempt to alleviate the burden of such courts, the Companies (Amendment) Act, 2020 seeks to enforce and adopt a principle-based approach in removing the imposition of penal consequences in case of minute and technical defaults. Further, the levying of such monetary penalties can now be adjudicated by In-house Adjudication Mechanisms (IAM) as provided under section 454 of the Companies Act, 2013, without having to approach criminal courts. Thus, in case the default relates to non-compliance of section 92(4) or sub-section (1) or sub-section (2) of section 137 and such default has been rectified either prior to, or within thirty days of, the issue of the notice by the adjudicating officer, no penalty shall be imposed in this regard and all proceedings under this section in respect of such default shall be deemed to be concluded.

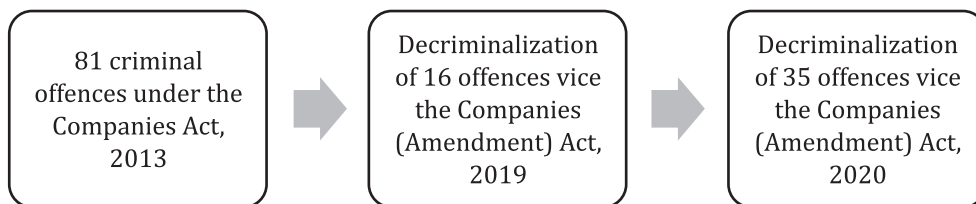
(iv) Extended applicability of section 446B

The Companies (Amendment) Act, 2020 extended applicability of Section 446B relating to lesser penalties for small companies and one person companies, to all provisions of the Companies Act, 2013 which attract monetary penalties and also extend the same benefit to Producer Companies and start-ups. In case of One Person Company, small company, Start-up company or Producer Company, or by any of its officer in default, or any other person in respect of such company, then such company, its officer in default or any other person, as the case may be, shall be liable to a penalty which shall not be more than one-half of the penalty specified in such provisions subject to a maximum of two lakh rupees in case of a company and one lakh rupees in case of an officer who is in default or any other person, as the case may be.

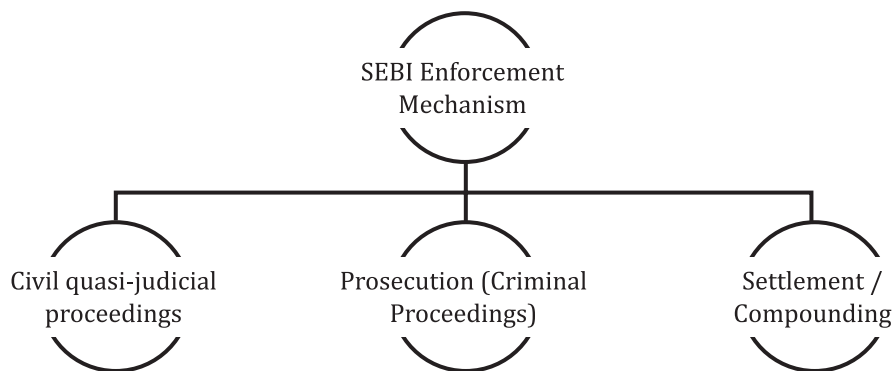
(v) Offences for which alternate mechanism is provided

The amendment has further brought in alternate framework or mechanism for the supervision of certain provisions such as non-compliance with the order of the RD directing change of name of the Company, the criminal fine provided under Section 16(3) is substituted by enabling the Central Government to allot a new name to the deterrent company and directed the Registrar to enter the new name in the register of companies in place of the old name and issue a fresh certificate of incorporation with the new name, which the company shall use thereafter. Another important change brought in under this mechanism is with regard to Section 441(5), in the case of noncompliance with the order of the compounding authority, punishment by way of imprisonment and criminal fine is substituted by doubling the compounding fee automatically. The intention of the legislature is to deter non-compliance by imposing a greater penalty, rather than by initiating a separate offence for the same noncompliance.

Further a contravention of Section 284 of the Companies Act, 2013 which deals with the failure of employees, promoters and directors to co-operate with the company liquidator, attracted an imposition of a fine as prescribed under the Act. However, the Amendment Act has removed such a fine and has empowered the company liquidator to apply to the NCLT in order to obtain directions from it.

**Enforcement Mechanism of The Securities and Exchange Board of India (SEBI)**

In terms of its mandate to protect the interest of investors and to regulate the securities market, SEBI is empowered to initiate the following types of proceedings:



A. Civil quasi-judicial proceedings: SEBI is empowered to initiate three types of civil quasi-judicial actions under governing legislations:

- (i) Adjudication proceedings under Chapter VIA of the SEBI Act, 1992 and the SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (and under the analogous provisions of the SCRA and Depositories Act and Rules issued thereunder) may result in imposition of maximum monetary penalty of Rupees 25 crore or upto 3 times the profit, whichever is higher.
- (ii) Enquiry Proceedings under Chapter V of SEBI (Intermediaries) Regulations, 2008 may inter alia result in suspension/ cancellation of certificate of registration of the registered Intermediary.
- (iii) Proceedings before the Board: The power of issuing directions including under Section 11, 11B, 11D of the SEBI Act (and under the analogous provisions of the SCRA and Depositories Act) has been delegated to the WTM. After making or causing to be made an enquiry, if the Board is satisfied that it is necessary to take any measures, the WTM may issue such directions as deemed appropriate.

- B. Prosecution (Criminal Proceedings):** Apart from civil proceedings, SEBI may also choose to initiate criminal proceedings by way of filing a criminal complaint under Section 24 of SEBI Act (and under the analogous provisions of the SCRA and Depositories Act) before the SEBI Special Court, which may result in imprisonment upto 10 years or/and fine upto 25 crore. These proceedings being criminal proceedings, the procedural laws as the Evidence Act, 1872 and the Code of Criminal Procedure, 1973 are also applicable.
- C. Settlement/Compounding:** Prior to the initiation or during the pendency of any civil/criminal proceedings or pending an appeal pursuant to such proceedings, an entity may choose to settle / compound the pending proceedings, as per the agreed terms and conditions provided in the SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 and Internal Circular No. ED/LAD/Cir:-1/2016. Such settlement/compounding proceedings are very significant from the perspective of enforcement, since they provide for expeditious disposal of cases saving resources of the regulator with similar benefits to the applicants, while taking into account the public interest. Section 24A of the SEBI Act, Section 23N of the SCRA and Section 22A of the Depositories Act permit composition of offences.
- In terms thereof appropriate administrative or civil actions viz. proceedings under sections 11, 11B, 11D, 12(3) and 15I of SEBI Act and equivalent proceedings under the SCRA and the Depositories Act, 1996 and other civil matters pending before SAT and courts could be settled between SEBI and a person (party) who may prima facie be found to have violated the securities laws or against whom administrative or civil action was commenced for such violation. Compounding of offences cover appropriate prosecution cases filed by SEBI before the criminal courts.
- D. Recovery:** When a person fails to pay the penalty imposed by the adjudicating officer, or fails to comply with any direction of SEBI for refund of monies or fails to comply with a direction of disgorgement order or fails to pay any fees due to SEBI, in order to recover such amounts, SEBI is empowered to initiate recovery proceedings under Section 28A of SEBI Act, 1992 r/w Section 226 and the Second Schedule of Income Tax Act, 1961 (and under the analogous provisions of the SCRA and Depositories Act).

Consent Order under SEBI Laws

Consent orders provide flexibility of a wider array of enforcement actions which will achieve the twin goals of an appropriate sanction and deterrence without resorting to long drawn litigation before SEBI, SAT, and Courts. Passing of consent orders also reduce regulatory costs and save time and efforts in pursuing enforcement actions. This effort could more effectively be used for pursuing cases which require the full process of enforcement action and for policy initiatives. Accordingly, the Board issued Circular No. EFD/ED/Cir-1/2007 on 20.04.2007 and guidelines under the SEBI Act, SCRA and Depositories Act, for, -

Consent order is similar to an out-of-court settlement for settling disputes with offenders of securities law.

- (i) Consent Orders; and
- (ii) considering requests for composition of offences,

The salient features of the modified Circular, included the following:

- A. Certain defaults including insider trading, front running, failure to make an open offer, redress investor grievances and respond to summons issued by SEBI, and defaults falling in the category of fraudulent and unfair trade practices which in the opinion of SEBI are very serious and/or have caused substantial losses to the investors were generally excluded from the consent process.
- B. No consent application was to be considered, if any violation was committed within a period of two years from the date of any consent order. However, if the applicant had already obtained more than two consent orders, no consent application was to be considered for a period of three years from the date of the last order.
- C. No consent application was to be entertained by SEBI before the completion of investigation / inspection, if any.
- D. In respect of proceedings pending before SEBI, no consent application was to be considered if filed after 60

days from the date of the service of the show cause notice. However, this condition was not applicable in case of proceedings pending before the Tribunal/Courts.

- E. The consent terms were to be determined in terms of the guidelines (annexed with the above referred circular), which inter alia, provided for the following objective parameters for determining the consent terms:
- A minimum Benchmark Amount for each category of default attributable to the default/violation for which the show cause notice issued or to be issued.
 - The Benchmark Amount to take into consideration the penalty imposed by the AO and the order passed by the WTM as the case may be.
 - Additional amounts for previous defaults/track record of the applicant.
 - Weightage given to the stage of the proceeding, nature of the default/violation, gravity of the default/violation, volume traded, price impact, net worth, profits made, nature of disclosure not made, its impact, etc.
- F. The consent terms also included other directives such as disgorgement of ill-gotten profits, etc., if considered necessary.
- G. The HPAC/ Panel of WTMs considering the facts and circumstances of the case and the gravity of the charges, were empowered to
- enhance the settlement amount in serious cases as per the scheme of the SEBI Act, or
 - reduce the settlement amount if the settlement amount is disproportionately higher considering the nature of violation, or
 - refuse to consider the case under the consent process.
- H. The HPAC consisted of a Chairman (a retired judge of a High Court) and three other external experts.
- I. Internal Committee/s comprised of a Chief General Manager not administratively associated with the case and Division Chiefs of the concerned Operational Department and Enforcement Department respectively to assist the HPAC.
- J. In case of rejection of the consent application, no subsequent application with respect to the same default was to be considered by SEBI at any stage thereafter.
- K. SEBI was to dispose of the consent application expeditiously preferably within a period of six months from the date of registration of the consent application.

After passing Consent order, where is it placed?

- Press release
- SEBI Website
- Both a and b

Highlights of SEBI (Settlement Proceedings) Regulations, 2018

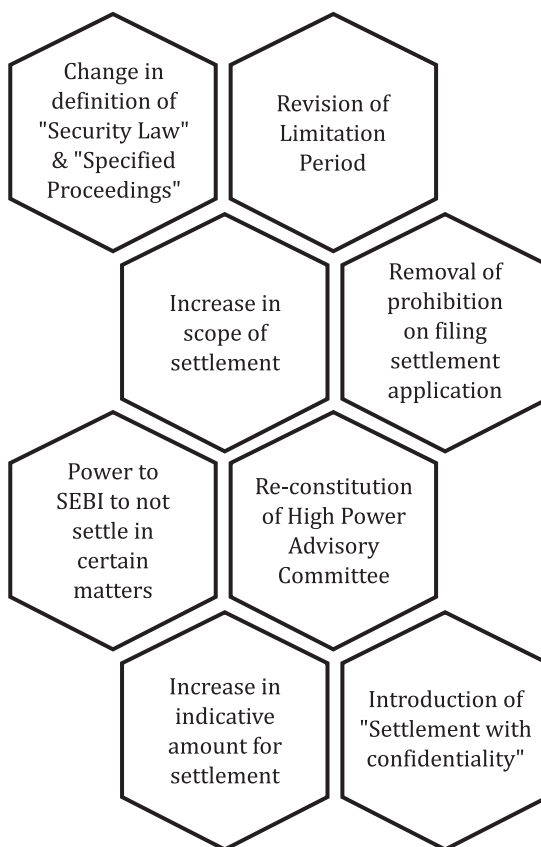
SEBI constituted a High-Level Committee under the Chairmanship of Retd. Justice A. R. Dave (Supreme Court of India) to examine the SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 and comprehensively re-work the regulations after taking into account developments in domestic and foreign jurisdictions. The SEBI (Settlement Proceedings) Regulations, 2018 provide a more effective mechanism, the essential concomitants of a legal proceeding, without compromising on deterrence or providing equitable remedies to the affected investors.

SEBI has introduced the SEBI (Settlement Proceedings) Regulations, 2018 that have been notified on 30.11.2018 and will come into effect from 01.01.2019. On the date of commencement of these Regulations the existing SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 has been repealed.

In pursuit of the objectives of SEBI (to protect the interests of investors in securities and to promote the development of and to regulate the securities market), as new challenges arise it is important to have a convergence or integration of the quasi-judicial processes within SEBI with the alternate dispute resolution process, to bring forth a more effective harmonized scheme to operate without any conflict and delay. The SEBI (Settlement of Administrative and Civil Proceedings) Regulations, 2014 introduced a mathematical and transparent system of calculating the

settlement amount. However, over a period of time it was noticed that there was a need for revision due to changes in securities laws, new products and increase in settlement amounts.

The followings are the key changes in the settlement Regulations through SEBI (Settlement Proceedings) Regulations, 2018



Definition of "Securities law" and "Specified Proceedings": As per the definitions "Securities Law" and "Specified Proceedings" prescribed under Old Settlement Regulations, settlement of offences was limited to the SEBI Act, the SCRA, the Depositories Act and the rules and regulations made thereunder.

Post the inclusion of "the relevant provisions of the any other law to the extent it is administered by the Board" in the definitions of "Securities Law" and "Specified Proceedings" under New Settlement Regulations, SEBI is now empowered to settle matters w.r.t. provisions pertaining to any other law which are administered by SEBI including specific provisions of Companies Act, 2013.

Limitation period for filing a Settlement Application: Under the New Settlement Regulations, SEBI revised the limitation period to ensure that only genuine applications are filed and the settlement process is not adopted as a means of forum shopping and to delay civil and administrative proceedings. The limitation period prescribed under New Settlement Regulations is as follows:

The Applicant shall file the settlement application within 60 days from the date service of SCN or Supplementary SCN, whichever is later.

SEBI may accept the application after the expiry of period of 60 days as specified above if it is satisfied that there were genuine reasons for not filing the same.

If the Settlement application is filed after 60 calendar days from the expiry of 60 days period as specified above i.e. 120 days from the service of SCN/Supplementary SCN; subject to the approval of SEBI, the settlement amount so determined will get increased by 25%.

No delayed application will be accepted by SEBI beyond the period of 180 days from the service of SCN/ supplementary SCN or after the first hearing whichever is earlier.

Settlement applications in case of repetitive defaults: SEBI, under the New Settlement Regulations, removed the provision prohibiting an applicant from filing a settlement application for an alleged default if such alleged default was committed within a period of twenty-four months from the date of the last settlement order w.r.t. different cause of action. However, the Settlement application shall not be considered under the following circumstances:

If an earlier application had been rejected for the same alleged default;

If there is any pending audit or investigation or inspection or inquiry in respect of any cause of action, except in case of applications involving confidentiality.

If there are any monies due under an order issued under securities laws which are liable for recovery.

Increasing the Scope of Settlement: Under the Old Settlement Regulations, SEBI specifically prohibited the Settlement for the defaults involving the following:

- Insider Trading and serious cases of fraudulent and unfair practices including front running provided if the applicant made good the losses due to the investors, his application may be considered;
- failure to make open offer;
- Defaults or manipulative practices by mutual funds, AIFs, CIS etc.
- failure to redress investor grievances;
- Non-compliance of notices and summons issued by Board or the AO, cases involving refund of monies to investors.

SEBI felt that the broad list of defaults which cannot be settled can be made principle based to settle the case purely depending upon the facts and circumstances of each case. Therefore, under the new regime all defaults can be settled including the defaults pertaining to PIT and PFUTP; except the alleged defaults which in the opinion of SEBI - have market wide impact, cause loss to a large number of investors, or affect the integrity of the market.

Settlement applied by fugitive economic offender, willful defaulter etc. may not be settled: Under the New Settlement Regulations, SEBI has the power to not settle the matter if the Applicant of such Settlement Application is:

- A willful defaulter
- A fugitive Economic offender or;
- Any such person who has defaulted in payment of any fees due or penalty imposed under securities laws.

The terms “willful defaulter” and “fugitive economic offender” are not defined under SEBI Acts and Regulations. Therefore, the definition of “Willful defaulter” shall be taken from RBI master circular DBR.No.CID.BC.22/20.16.003/2015-16 and the definition of “fugitive economic offender” shall be taken from The Fugitive Economic Offenders Act, 2018.

Issue of civil and administrative directions against the Applicant during the pendency of Settlement Proceedings: Under the New Settlement Regulations, a specific provision has been inserted clarifying that SEBI is empowered to issue interim civil and administrative directions against the Applicant if necessary, to protect the interest of investors and to maintain market integrity during the pendency of Settlement Proceedings.

Hence, filing of a Settlement Application under these Regulations will prohibit SEBI from taking any Penal action but it may for the interest of investors and market integrity issue interim civil and administrative directions.

Constitution of the High Powered Advisory Committee (“HPAC”): Under the Old Settlement Regulations, the constitution of HPAC included a judge of a High court and three external experts of securities market. Further, the Old Settlement Regulations did not specify a situation where a member or members of the HPAC may recuse themselves with regard to certain applications for reasons relating to conflict of interests.

HPAC constituted under the New Settlement Regulations can now have a judicial member who has been the Judge of the Supreme Court or a High Court and three external experts of securities market. Further, in order to impart transparency in the process, the role of the HPAC (including instances of recusal by members of the HPAC) are specifically defined under the New Settlement Regulation:

If any of the member of HPAC recused himself, then the remaining two or more members may submit their recommendation on the terms of settlement. In situations, where no consensus is arrived upon by the members of the HPAC, the Judicial member's recommendation would act as the veto. If the judicial member has recused himself then the recommendations of all the members would be submitted before the Panel of Whole Time Members.

Increase in Indicative Amount for Settlement: Earlier, the Indicative amount specified under Old Settlement Regulations for applicants was Rs. 2 lakhs for first time applicant and Rs. 5 lakhs for others. Under the New Settlement Regulations, the minimum Indicative amount has now been increased from 2 lakhs to 3 lakhs for first time applicants and from 5 lakhs to 7 lakhs for others. Settlement Schemes In the past, SEBI came up with Settlement Schemes to settle the case wherein there is large number of defaulters although under the Old Settlement Regulations there was no provision to regularize such Settlement Scheme.

Under the new regime, SEBI inserted the provision wherein it may provide for a Settlement Scheme for any class of persons involved in similar specified defaults. Settlement through settlement schemes in a regularized manner would help SEBI in speedy disposal of similar matters which in turn is beneficial to SEBI as well as investors.

Settlement with Confidentiality: A new chapter, "Settlement with Confidentiality" has been added to provide protection to any person that provides material assistance to the Board in its fact-finding process and proceedings. The application has to be made to the Board prior to or pending investigation, inspection, inquiry or audit.

The Board would then decide on the facts and circumstances of the case to accept or reject the application seeking confidentiality. The identity of the applicant seeking confidentiality and the information, documents, evidence furnished by the applicant would be considered as confidential under this Chapter. Any disclosures which are required to be made as per the law, then they would not be covered under the confidentiality clause. For any violation of the disclosure and reporting requirements, no applications would be accepted seeking confidentiality.

The chapter also provides for interim confidentiality and assurance where no action would be initiated against the applicant if the Board deems it necessary that the information provided to it relates to a possible securities law violation that has occurred, is ongoing or about to occur.

ADJUDICATION AT SEBI

In cases where the Securities and Exchange Board of India has reasonable ground to believe that the transactions in securities of a company are being dealt with in a manner detrimental to the investors or the securities market; or any intermediary or any person associated with the securities market has violated any of the provisions under SEBI laws, or the rules or the regulations made or directions issued by the Board, the Board may, at any time by order in writing, direct any person specified in the order to investigate the affairs of such intermediary or persons associated with the securities market and to report thereon to the Board.

Further, the Investigation authority may call for original or certified copies of the all the books, registers, other documents and record of, or relating to, the company or, as the case may be; and keep in its custody for six months.

The investigation authority may examine on oath, any manager, managing director, officer and other employee of any intermediary or any person associated with securities market in any manner, in relation to the affairs of his business and may administer an oath accordingly and for that purpose may require any of those persons to appear before it personally.

In case, where any person fails without reasonable cause or refuses for such action shall be punishable with imprisonment for a term which may extend to one year, or with fine, which may extend to one crore rupees, or with both, and also with a further fine which may extend to five lakh rupees for every day after the first during which the failure or refusal continues.

Further, the Investigating Authority has authorized to make an application to the Magistrate or Judge of such designated court in Mumbai or such other authority notified by the Central Government for an order for the seizure of such books, registers, other documents and record. Upon such application the Magistrate or Judge of the Designated Court may, by order, authorise the Investigating Authority -

- (a) to enter, with such assistance, as may be required, the place or places where such books, registers, other documents and record are kept;
- (b) to search that place or those places in the manner specified in the order; and
- (c) to seize books, registers, other documents and record, it considers necessary for the purposes of the investigation:

However, the Magistrate or Judge of the Designated Court should not authorise seizure of books, registers, other documents and record, of any listed public company or a public company (not being the intermediaries specified under section 12) which intends to get its securities listed on any recognised stock exchange unless such company indulges in insider trading or market manipulation.

PUNISHMENT FOR NON-COMPLIANCES UNDER SEBI ACT, 1992

Section 24(1) of the SEBI Act, 1992, Provide that without prejudice to any award of penalty by the adjudicating officer, if any person contravenes or attempts to contravene or abets the contravention of the provisions of SEBI Act or of any rules or regulations made thereunder, he shall be punishable with imprisonment for a term which may extend to ten years, or with fine, which may extend to twenty-five crore rupees or with both.

In case, if any person fails to pay the penalty imposed by the adjudicating officer or fails to comply with any of his directions or orders, he shall be punishable with imprisonment for a term which shall not be less than one month but which may extend to ten years, or with fine, which may extend to twenty-five crore rupees or with both.

Further, the Section 28A of the SEBI Act, 1992 also provides that if a person fails to pay the penalty imposed by the adjudicating officer or fails to comply with any direction of the Board for refund of monies or fails to comply with a direction of disgorgement order issued under section 11B or fails to pay any fees due to the Board, the Recovery Officer may draw up under his signature a statement in the specified form specifying the amount due from the person (referred to as certificate) and shall proceed to recover from such person the amount specified in the certificate by one or more of the following modes, namely:-

- (a) attachment and sale of the person's movable property;
- (b) attachment of the person's bank accounts;
- (c) attachment and sale of the person's immovable property;
- (d) arrest of the person and his detention in prison;
- (e) appointing a receiver for the management of the person's movable and immovable properties,

Further, Section 12A of the SEBI Act, 1992 which provides for the prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control provides that no person shall directly or indirectly:

- (a) use or employ, in connection with the issue, purchase or sale of any securities listed or proposed to be listed on a recognized stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of SEBI Act or the rules or the regulations made thereunder;
- (b) employ any device, scheme or artifice to defraud in connection with issue or dealing in securities which are listed or proposed to be listed on a recognised stock exchange;
- (c) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person, in connection with the issue, dealing in securities which are listed or proposed to be listed on a recognised stock exchange, in contravention of the provisions of this Act or the rules or the regulations made thereunder;

- (d) engage in insider trading;
- (e) deal in securities while in possession of material or non-public information or communicate such material or non-public information to any other person, in a manner which is in contravention of the provisions of this Act or the rules or the regulations made thereunder;
- (f) acquire control of any company or securities more than the percentage of equity share capital of a company whose securities are listed or proposed to be listed on a recognized stock exchange in contravention of the regulations made under this Act.

Composition of offences under SEBI Act, 1992

According to Section 24 A of the SEBI Act, 1992, any offence punishable under this Act, not being an offence punishable with imprisonment only, or with imprisonment and also with fine, may either before or after the institution of any proceeding, be compounded by a Securities Appellate Tribunal (SAT) or a court before which such proceedings are pending.

Power to Grant Immunity

According to Section 24B of the SEBI Act, 1992, the Central Government may grant an immunity to any person, who is alleged to have violated any of the provisions of this Act or the rules or the regulations made thereunder, has made a full and true disclosure in respect of the alleged violation, grant to such person, subject to such conditions as it may think fit to impose, immunity from prosecution for any offence under this Act, or the rules or the regulations made thereunder or also from the imposition of any penalty under this Act with respect to the alleged violation.

However, the immunity could not be granted by the Central Government in cases where the proceedings for the prosecution for any such offence have been instituted before the date of receipt of application for grant of such immunity.

PENALTIES AND ADJUDICATION UNDER SEBI ACT, 1992

(i) Penalty for failure to furnish information, return, etc.

Section 15A. If any person, who is required under SEBI Act or any rules or regulations made thereunder,-

- (a) to furnish any document, return or report to the Board, fails to furnish the same, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees;
- (b) to file any return or furnish any information, books or other documents within the time specified therefor in the regulations, fails to file return or furnish the same within the time specified therefor in the regulations, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees;
- (c) to maintain books of account or records, fails to maintain the same, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees.

(ii) Penalty for failure by any person to enter into agreement with clients

Section 15B. If any person, who is registered as an intermediary and is required under SEBI Act or any rules or regulations made thereunder to enter into an agreement with his client, fails to enter into such agreement, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees.

(iii) Penalty for failure to redress investors' grievances

Section 15C. If any listed company or any person who is registered as an intermediary, after having been called upon by the Board in writing, to redress the grievances of investors, fails to redress such grievances within

the time specified by the Board, such company or intermediary shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees.

(iv) Penalty for certain defaults in case of mutual funds Section 15D. If any person, who is-

- (a) required under SEBI Act or any rules or regulations made thereunder to obtain a certificate of registration from the Board for sponsoring or carrying on any collective investment scheme, including mutual funds, sponsors or carries on any collective investment scheme, including mutual funds, without obtaining such certificate of registration, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which he sponsors or carries on any such collective investment scheme including mutual funds subject to a maximum of one crore rupees;
- (b) registered with the Board as a collective investment scheme, including mutual funds, for sponsoring or carrying on any investment scheme, fails to comply with the terms and conditions of certificate of registration, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees;
- (c) registered with the Board as a collective investment scheme, including mutual funds, fails to make an application for listing of its schemes as provided for in the regulations governing such listing, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees;
- (d) registered as a collective investment scheme, including mutual funds, fails to dispatch unit certificates of any scheme in the manner provided in the regulation governing such despatch, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees;
- (e) registered as a collective investment scheme, including mutual funds, fails to refund the application monies paid by the investors within the period specified in the regulations, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees;
- (f) registered as a collective investment scheme, including mutual funds, fails to invest money collected by such collective investment schemes in the manner or within the period specified in the regulations, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees.

(v) Penalty for failure to observe rules and regulations by an asset management company

Section 15E. Where any asset management company of a mutual fund registered under SEBI Act, fails to comply with any of the regulations providing for restrictions on the activities of the asset management companies, such asset management company shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees.

(vi) Penalty for default in case of stock brokers Section 15F. If any person, who is registered as a stock broker under this Act,-

- (a) fails to issue contract notes in the form and manner specified by the stock exchange of which such broker is a member, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to for which the contract note was required to be issued by that broker;
- (b) fails to deliver any security or fails to make payment of the amount due to the investor in the manner within the period specified in the regulations, he shall be liable to a penalty which shall not be less than

one lakh rupees but which may extend to one lakh rupees for each day during which he sponsors or carries on any such collective investment scheme including mutual funds subject to a maximum of one crore rupees;

- (c) charges an amount of brokerage which is in excess of the brokerage specified in the regulations, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to five times the amount of brokerage charged in excess of the specified brokerage, whichever is higher.

(vii) Penalty for insider trading Section 15G.If any insider who,-

- (i) either on his own behalf or on behalf of any other person, deals in securities of a body corporate listed on any stock exchange on the basis of any unpublished price-sensitive information; or
- (ii) communicates any unpublished price-sensitive information to any person, with or without his request for such information except as required in the ordinary course of business or under any law; or
- (iii) counsels, or procures for any other person to deal in any securities of any body corporate on the basis of unpublished price-sensitive information, shall be liable to a penalty which shall not be less than ten lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of insider trading, whichever is higher.

(viii) Penalty for non-disclosure of acquisition of shares and takeovers Section 15H.If any person, who is required under this Act or any rules or regulations made thereunder, fails to,-

- (i) disclose the aggregate of his shareholding in the body corporate before he acquires any shares of that body corporate; or
- (ii) make a public announcement to acquire shares at a minimum price; or
- (iii) make a public offer by sending letter of offer to the shareholders of the concerned company; or
- (iv) make payment of consideration to the shareholders who sold their shares pursuant to letter of offer, he shall be liable to a penalty which shall not be less than ten lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such failure, whichever is higher.

(ix) Penalty for fraudulent and unfair trade practices

Section 15HA. If any person indulges in fraudulent and unfair trade practices relating to securities, he shall be liable to a penalty which shall not be less than five lakh rupees but which may extend to twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher.

(x) Penalty for contravention where no separate penalty has been provided

Section 15HB. Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the Board thereunder for which no separate penalty has been provided, shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one crore rupees.

(xi) Power to adjudicate

Section 15-I.

1. For the purpose of adjudging under sections 15A, 15B, 15C, 15D, 15E, 15F, 15G, 15H, 15HA and 15HB, the Board shall appoint any officer not below the rank of a Division Chief to be an adjudicating officer for holding an inquiry in the prescribed manner after giving any person concerned a reasonable opportunity of being heard for the purpose of imposing any penalty.
2. While holding an inquiry the adjudicating officer shall have power to summon and enforce the attendance of any person acquainted with the facts and circumstances of the case to give evidence or to produce any document which in the opinion of the adjudicating officer, may be useful for or relevant to the subject-matter of the inquiry and if, on such inquiry, he is satisfied that the person has failed to comply with the provisions of any of the sections specified in subsection (1), he may impose such penalty as he thinks fit in accordance with the provisions of any of those sections.

3. The Board may call for and examine the record of any proceedings under this section and if it considers that the order passed by the adjudicating officer is erroneous to the extent it is not in the interests of the securities market, it may, after making or causing to be made such inquiry as it deems necessary, pass an order enhancing the quantum of penalty, if the circumstances of the case so justify:

Provided that no such order shall be passed unless the person concerned has been given an opportunity of being heard in the matter:

Provided further that nothing contained in this sub-section shall be applicable after an expiry of a period of three months from the date of the order passed by the adjudicating officer or disposal of the appeal under section 15T, whichever is earlier.

(xii) Factors to be taken into account by the adjudicating officer.

Section 15J. While adjudging quantum of penalty under section 15-I, the adjudicating officer shall have due regard to the following factors, namely :-

- (a) the amount of disproportionate gain or unfair advantage, wherever quantifiable, made as a result of the default;
- (b) the amount of loss caused to an investor or group of investors as a result of the default;
- (c) the repetitive nature of the default.

Explanation.-For the removal of doubts, it is clarified that the power of an adjudicating officer to adjudge the quantum of penalty under sections 15A to 15E, clauses (b) and (c) of section 15F, 15G, 15H and 15HA shall be and shall always be deemed to have been exercised under the provisions of this section.

NON-COMPLIANCE WITH CERTAIN PROVISIONS OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015

SEBI vide its powers under Section 11A(2) of the SEBI Act, 1992 read with Section 9 and 21 of the Securities Contracts (Regulation) Act, 1956 and read with regulation 98 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations"), had issued a Circular dated November 30, 2015, specifying the uniform structure for imposing fines as a first resort for non-compliance with certain provisions of the Listing Regulations and the standard operating procedure for suspension of trading in case the non-compliance is continuing and/or repetitive. Thereafter, SEBI had issued another Circular dated October 26, 2016 advising the manner of freezing of holdings of the promoter and promoter group of a listed entity that failed to pay fines levied by the stock exchange(s). On the basis of the experience gained and to streamline the process, to maintain consistency and to adopt a uniform approach in the matter of levy of fines for non-compliance with certain provisions of the Listing Regulations, the manner of suspension of trading of securities of a listed entity and the manner of freezing the holdings of the promoter and promoter group of a non-compliant listed entity, it has been decided to SEBI has issued Circular on May 03, 2018, in super session of the Circulars bearing reference numbers CIR/CFD/CMD/12/2015 dated November 30, 2015 and SEBI/HO/CFD/CIR/P/2016/116 dated October 26, 2016. This Circular shall come into force with effect from compliance periods ending on or after September 30, 2018.

Through this circular the stock exchanges shall, having regard to the interests of investors and the securities market:

- (a) take action in case of non-compliances with the Listing Regulations and.
- (b) follow the Standard Operating Procedure ("SOP") for suspension and revocation of suspension of trading of specified securities However the Stock Exchanges may deviate from the above, if found necessary, only after recording reasons in writing.

In order to ensure effective enforcement of the Listing Regulations, the depositories, on receipt of intimation from the concerned recognized stock exchange, shall freeze or unfreeze, as the case may be, the entire shareholding of the promoter and promoter group in such non-compliant listed entity as well as all other securities held in the demat account of the promoter and promoter group. Further if a non-compliant entity is listed on more than one recognized stock exchange, the concerned recognized stock exchanges shall take uniform action in consultation with each other.

The recognized stock exchanges shall disclose on their website the action(s) taken against the listed entities for non-compliance(s); including the details of the respective requirement, amount of fine levied, the period of suspension, details regarding the freezing of shares, etc.

The recognized stock exchanges may keep in abeyance the action or withdraw the action in specific cases where specific exemption from compliance with the requirements under the Listing Regulations/moratorium on enforcement proceedings has been provided for under any Act, Court/Tribunal Orders etc.

For understanding the action to be taken in case of non-compliances it is suggested to refer the updated circulars of SEBI issued time & again.

STANDARD OPERATING PROCEDURE (SOP)

1. The SEBI has issued the following SOP for dealing with the Non compliances under SEBI (LODR) Regulation, 2015. If a listed entity is non-compliant with the provisions of the Listing Regulations, the stock exchange(s) should:
 - (a) **move the scrip of the listed entity to “Z” category wherein trades shall take place on ‘Trade for Trade’ basis by following the below procedure**
 - (i) If a listed entity commits default in complying with the provisions of the Listing Regulations as specified under paragraph 2 above, the concerned recognised stock exchange(s) shall, in addition to imposing fine under paragraph 1 in Annexure I of this Circular, move the scrip of the listed entity to “Z” category wherein trades shall take place on ‘Trade for Trade’ basis.
 - (ii) The recognized stock exchange(s) shall give 7 days prior public notice to investors before moving the scrip to “Z” category or while moving the scrip out of “Z” category. While issuing the notice, the recognized stock exchange(s) shall intimate the other recognized stock exchange(s) where the shares of the non-compliant entity are listed.
 - (iii) The recognised stock exchange(s) shall move back the scrip of the listed entity from “Z” category to the normal trading category (if not suspended as specified in paragraph B below), provided it complies with respective provisions of the Listing Regulations and pays the fine imposed as stated above. While moving the scrip back to normal trading category the recognized stock exchange(s) shall intimate the other recognized stock exchange(s) where the shares of the non-compliant entity are listed.
 - (b) **suspend trading in the shares of such listed entity by following the below procedure**
 - (i) Before suspending the trading of a scrip, the concerned recognized stock exchange(s) shall send written intimation to the non-compliant listed entity calling upon it to comply with respective requirement(s) and pay the applicable fine within 21 days of the date of the intimation. While issuing the said intimation, the recognized stock exchange(s) shall also inform other recognized stock exchange(s) where the shares of the non-compliant entity are listed to ensure that the date of suspension is uniform across all the recognised stock exchange(s). Simultaneously, the recognized stock exchange(s) shall give a public notice on its website proposing possible suspension of trading in the shares of the non-compliant listed entity.
 - (ii) If the non-compliant listed entity complies with respective requirement(s) and pays fine two working days before the proposed date of suspension, the trading in its shares shall not be suspended and the concerned recognized stock exchange(s) shall give a public notice on its website informing compliance by the listed entity. While issuing the said notice, the recognized stock exchange(s) shall send intimation of notice to other recognized stock exchange(s) where the shares of the entity are listed. Simultaneously, the recognized stock exchange(s) shall intimate the depositories to unfreeze the entire shareholding of the promoter and promoter group in such entity as well as all other securities held in the demat account of the promoter and promoter group, after one month from the date of compliance.

- (iii) In case of failure to comply with respective requirement(s) and/or pay fine within stipulated period, the recognized stock exchange(s) shall suspend the trading in the shares of a non-compliant listed entity. The entire shareholding of the promoter and promoter group in the non-compliant listed entity as well as all other securities held in the demat account(s) of the promoter and promoter group shall remain frozen during the period of suspension.
- (iv) While suspending trading in the shares of the non-compliant entity, the recognized stock exchange(s) shall send intimation of suspension to other recognized stock exchange(s) where the shares of the non-compliant entity are listed to ensure that the date of suspension is uniform across all the recognised stock exchange(s).
- (v) After 15 days of suspension, trading in the shares of non-compliant entity may be allowed on 'Trade for Trade' basis, on the first trading day of every week for 6 months. In this regard, the recognized stock exchange(s) shall give instruction to its trading members to obtain confirmation from clients before accepting an order for purchase of shares of the non-compliant listed entity on 'Trade for Trade' basis.
- (vi) The recognized stock exchange(s) shall put in place a system to publish a caution message on its trading terminals, as follows: "Trading in shares of the <Name of the Listed Entity> is presently under 'suspension and trade to trade basis' and trading shall stop completely and compulsory delisting may be initiated if <Name of the Listed Entity> does not become compliant by <Date>".

2. Criteria for suspension of the trading in the shares of the listed entities:

- (a) Failure to comply with regulation 17(1) with respect to board composition including appointment of woman director for two consecutive quarters;
- (b) Failure to comply with regulation 18(1) with respect to constitution of audit committee for two consecutive quarters;
- (c) Failure to comply with regulation 27(2) with respect to submission of corporate governance compliance report for two consecutive quarters;
- (d) Failure to comply with regulation 31 with respect to submission of shareholding pattern for two consecutive quarters;
- (e) Failure to comply with regulation 33 with respect to submission of financial results for two consecutive quarters;
- (f) Failure to comply with regulation 34 with respect to submission of annual report for two consecutive financial years;
- (g) Failure to submit information on the reconciliation of shares and capital audit report, for two consecutive quarters;
- (h) Receipt of the notice of suspension of trading of that entity by any other recognized stock exchange on any or all of the above grounds.

3. If the non-compliant listed entity complies with the Requisite requirement(s) after the date of suspension and pays the applicable fine, the recognized stock exchange(s) shall revoke the suspension of trading of its shares by following the below procedure

- (i) If the non-compliant listed entity complies with the aforesaid requirement(s) and pays the applicable fine after trading is suspended in the shares of the non-compliant entity, the recognized stock exchange(s) shall, on the date of compliance, give a public notice on its website informing compliance by the listed entity. The recognized stock exchange(s) shall revoke the suspension of trading of its shares after a period of 7 days from the date of such notice.

While issuing the said notice, the recognized stock exchange(s) shall send intimation of notice to other recognized stock exchange(s) where the shares of the entity are listed. After revocation of suspension, the trading of shares shall be permitted only in 'Trade for Trade' basis for a period of 7 days from the date of revocation and thereafter, trading in the shares of the entity shall be shifted back to the normal trading category.

- (ii) The recognized stock exchange(s) shall intimate the depositories to unfreeze the entire shareholding of the promoter and promoter group in such entity as well as all other securities held in the demat account of the promoter and promoter group, after three months from the date of revocation of the suspension
- 4. If the non-compliant listed entity fails to comply with the aforesaid requirement(s) or fails to pay the applicable fine within 6 months from the date of suspension, the recognized stock exchange(s) shall initiate the process of compulsory delisting of the non-compliant listed entity in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956, the Securities Contracts (Regulation) Rules, 1957 and the Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009 as amended from time to time.

CONTRAVENTION AND COMPOUNDING UNDER FEMA REGULATIONS

Contravention is a breach of the provisions of the Foreign Exchange Management Act (FEMA), 1999 and rules/ regulations/ notification/ orders/ directions/ circulars issued there under. Compounding refers to the process of voluntarily admitting the contravention, pleading guilty and seeking redressal. The Reserve Bank is empowered to compound any contraventions as defined under section 13 of FEMA, 1999 except the contravention under section 3(a) for a specified sum after offering an opportunity of personal hearing to the contravener. It is a voluntary process in which an individual or a corporate seeks compounding of an admitted contravention. It provides comfort to any person who contravenes any provisions of FEMA, 1999 [except section 3(a) of the Act] by minimizing transaction costs. Willful, malafide and fraudulent transactions are, however, viewed seriously, which will not be compounded by the Reserve Bank. Further, in terms of the proviso to rule 8 (2) of Foreign Exchange (Compounding Proceedings) Rules, 2000 inserted vide GOI notification dated February 20, 2017, if the Enforcement Directorate is of the view that the compounding proceeding relates to a serious contravention suspected of money laundering, terror financing or affecting sovereignty and integrity of the nation, such cases will not be compounded by the Reserve Bank.

Application for Compounding

Any person who contravenes any provision of the FEMA, 1999 [except section 3(a)] or contravenes any rule, regulation, notification, direction or order issued in exercise of the powers under this Act or contravenes any condition subject to which an authorization is issued by the Reserve Bank, can apply for compounding to the Reserve Bank. Applications seeking compounding of contraventions under section 3(a) of FEMA, 1999 may be submitted to the Directorate of Enforcement.

Timelines for application for compounding

When a person is made aware of the contravention of the provisions of FEMA, 1999 by the Reserve Bank or any other statutory authority or the auditors or by any other means, she/he may apply for compounding. One can also make an application for compounding, suo moto, on becoming aware of the contravention.

Documents for application for compounding

The compounding of contraventions under Foreign Exchange Management Act (FEMA), 1999 is a voluntary process by which an applicant can seek compounding of an admitted contravention of any provision of FEMA, 1999 under Section 13(1) of the FEMA, 1999.

The documents prescribed are given below:

1. The application having details of applicant, nature of contravention and facts of the cases
2. The details of irregularities whether relating to Foreign Direct Investment, External Commercial Borrowings, Overseas Direct Investment and Branch Office/ Liaison Office, as applicable.
3. Undertaking that the applicant is not under investigation of any agency such as DOE, CBI, etc. in order to complete the compounding process within the time frame
4. Mandate and details of their bank account:

Compounding of Contraventions under FEMA Regulations

As a measure of customer service and in order to facilitate the operational convenience, compounding powers have been delegated to the Regional Offices/ Sub-Offices of the Reserve Bank of India and they are accordingly empowered to compound the following contraventions of FEMA 20, FEMA 20(R), FEM (NDI) Rules and FEMA as per details below:

FEMA 20/2000-RB dated May 3, 2000	Brief Description of Contravention
Paragraph 9(1)(A) of Schedule 1	Delay in reporting inward remittance for issue of shares
Paragraph 9(1)(B) of Schedule 1	Delay in filing form FC(GPR) after issue of shares.
Paragraph 9(2) of Schedule 1	Delay in filing the Annual Return on Foreign Liabilities and Assets (FLA return)
Paragraph 8 of Schedule 1	Delay in issue of shares/refund of share application money beyond 180 days, mode of receipt of funds, etc.
Paragraph 5 of Schedule 1	Violation of pricing guidelines for issue of shares.
Regulation 2(ii) read with Regulation 5(1)	Issue of ineligible instruments such as non-convertible debentures, partly paid shares, shares with optionality clause, etc.
Paragraph 2 or 3 of Schedule 1	Issue of shares without approval of RBI or FIPB respectively, wherever required.
Regulation 10A (b)(i) read with paragraph 10 of Schedule 1	Delay in submission of form FC-TRS on transfer of shares from Resident to Non-Resident.
Regulation 10B(2) read with paragraph 10 of Schedule 1	Delay in submission of form FC-TRS on transfer of shares from Non-Resident to Resident.
Regulation 4	Taking on record transfer of shares by investee company, in the absence of certified from FC-TRS.
Regulation 14(6)(ii)(a)	Delay in filing Form DI to Reserve Bank after making Downstream Investment
Paragraphs 7(1) (for the period upto 02.03.2017) and 6(1) (for the period 03.03.2017 to 06.11.2017) of Schedule 9	Delay in reporting receipt of amount of consideration for capital contribution and acquisition of profit shares by Limited Liability Partnerships (LLPs) / delay in reporting disinvestment/transfer of capital contribution or profit share between a resident and a non-resident (or vice-versa) in case of LLPs
Regulation 10(A)(a)	Gift of capital instruments by a person resident in India to a person resident outside India without seeking prior approval of the Reserve Bank of India

In supersession of the earlier Notification No. FEMA 20/2000-RB dated May 3, 2000, the Reserve Bank has issued Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017 notified vide Notification No. FEMA 20(R)/ 2017-RB dated November 07, 2017.

FEMA 20(R)/ 2017-RB dated November 07, 2017	Brief Description of Contravention
Regulation 13.1(1)	Delay in reporting inward remittance received for issue of shares.
Regulation 13.1(2)	Delay in filing form FC(GPR) after issue of shares.
Regulation 13.1(3)	Delay in filing the Annual Return on Foreign Liabilities and Assets (FLA).

Paragraph 2 of Schedule I	Delay in issue of shares/refund of share application money beyond 60 days, mode of receipt of funds, etc.
Regulation 11	Violation of pricing guidelines for issue/transfer of shares.
Regulation 2(v) read with Regulation 5	Issue of ineligible instruments
Regulation 16.B	Issue of shares without approval of RBI or Government, wherever required.
Regulation 13.1(4)	Delay in submission of form FC-TRS on transfer of shares from Resident to Non-Resident.
Regulation 4	Receiving investment in India from non-resident or taking on record transfer of shares by investee company
Regulation 13.1(11)	Delay in filing Form DI to Reserve Bank after making Downstream Investment
Regulations 13.1(7) and 13.1(8)	Delay in reporting receipt of amount of consideration for capital contribution and acquisition of profit shares by Limited Liability Partnerships (LLPs) / delay in reporting disinvestment/transfer of capital contribution or profit share between a resident and a non-resident (or vice-versa) in case of LLPs
Regulation 10(5)	Gift of capital instruments by a person resident in India to a person resident outside India without seeking prior approval of the Reserve Bank of India

The Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 and Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019 i.e. Notification No. FEMA. 395/2019-RB, both notified on October 17, 2019, by Government of India and Reserve Bank of India respectively, have since superseded the earlier Notification No. FEMA 20(R)/ 2017-RB.

FEM (Non-Debt Instruments) Rules, 2019 dated October 17, 2019	Brief Description
Rule 2(k) read with Rule 5	Permission for making investment by a person resident outside India
Rule 21	Pricing Guidelines
Paragraph 3 (b) of Schedule I	Issue of shares without approval of RBI or Government, wherever required
Rule 4	Receiving investment in India from non-resident or taking on record transfer of shares by Investee Company
Rule 9(4) and Rule 13(3)	Transfer of equity instruments/ units of an Indian company from to a person resident outside India by way of gift with the prior approval of the Reserve Bank

FEM (Mode of Payment and Reporting of Non-Debt Instruments) Regulations dated October 17, 2019 (FEMA 395/2019-RB)	Brief Description
Regulation 3.1(I)(A)	Mode of payment - Purchase or sale of equity instruments of an Indian company by a person resident outside India

Regulation 4(1)	Reporting in Form Foreign Currency-Gross Provisional Return (FC-GPR) by an Indian company issuing equity instruments to a person resident outside India
Regulation 4(2)	Filing of Annual Return on Foreign Liabilities and Assets (FLA) by an Indian company which has received FDI or an LLP which has received investment by way of capital contribution
Regulation 4(3)	Reporting in Form Foreign Currency-Transfer of Shares (FC-TRS) for transfer of equity instruments held in an Indian company with FDI
Regulation 4(6)	Reporting in Form LLP (I) by an LLP receiving amount of consideration for capital contribution and acquisition of profit shares
Regulation 4(7)	Reporting in Form LLP (II) disinvestment / transfer of capital contribution or profit share held in an LLP between a resident and a non-resident (or vice versa)
Regulation 4(11)	Downstream investment by an Indian entity or an investment Vehicle

The officers attached to the Foreign Exchange Department, Central Office Cell, Reserve Bank of India, 6, Sansad Marg, New Delhi - 110001 are authorized to compound the contraventions as under:

What is the due date of filing FLA return?

Answer: April 30

Sr. No	FEMA Notification	Brief Description of Contravention
1	FEMA 7/2000-RB, dated 3-5-2000 / FEMA 7(R)/2015-RB dated 21-1-2016	Contraventions relating to acquisition and transfer of immovable property outside India
2	FEMA 21/2000-RB, dated 3-5-2000 / FEMA 21(R)/2018-RB, dated 26-3-2018 / Chapter IX of Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 dated 17-10-2019	Contraventions relating to acquisition and transfer of immovable property in India
3	FEMA 22/2000-RB, dated 3-5-2000 / FEMA 22(R)/2016-RB dated 31-3-2016	Contraventions relating to establishment in India of Branch office, Liaison Office or project office
4	FEMA 5/2000-RB, dated 3-5-2000 / FEMA 5(R)/2016-RB dated 1-4-16	Contraventions falling under Foreign Exchange Management (Deposit) Regulations, 2000

The contraventions for amounts of Rupees one hundred lakh (Rs. 1,00,00,000/-) or more under the jurisdiction of Panaji and Kochi offices shall be compounded at Mumbai Regional Office and Thiruvananthapuram Regional Office respectively, in case these offices are headed by an officer below the rank of a Chief General Manager.

Accordingly, applications for compounding related to the above contraventions may be submitted to the respective Regional Offices under whose jurisdiction they fall or to FED, CO Cell, New Delhi, as applicable. For all other contraventions, applications may continue to be submitted to CEFA, Foreign Exchange Department, Reserve Bank of India, 5th floor, Amar Building, Sir P. M. Road, Fort, Mumbai 400001.

Procession of Compounding Application

The Reserve Bank makes a scrutiny of the application to verify whether the required details and documents furnished by the applicant are prima-facie in order. Applications with incomplete details or where the contravention is not admitted will be returned to the applicant. On the admission of applications, the Reserve Bank will examine and decide if the contravention is technical, material or sensitive in nature. If technical, the applicant will be issued a cautionary advice. If the contravention is material, it will be compounded by

imposing an amount after giving an opportunity to the contravener to appear before the compounding authority for a personal hearing. If the contravention is sensitive in nature requiring further investigations, the same would be referred to the Directorate of Enforcement (DoE) for further investigation/ action. It may be noted that the Cases of contravention, such as, those having serious contravention suspected of money laundering, terror financing or affecting sovereignty and integrity of the nation are sensitive contraventions.

What is the timeframe for completing the compounding process?

- a. 270 days
- b. 180 days
- c. 90 days

Personal Hearing

It is not mandatory to attend the personal hearing. In case a person opts not to attend the personal hearing he may indicate his preference in writing. The application would be disposed of on the basis of documents submitted to the Compounding Authority. It may be noted that appearing for or opting out of the personal hearing does not have any bearing whatsoever on the amount imposed in the compounding order.

The Compounding Authority passes an order indicating details of the contravention and the provisions of FEMA, 1999 that have been contravened. The sum payable for compounding the contravention is indicated in the compounding order. The contravention is compounded by payment of the amount imposed.

On realization of the sum for which contravention is compounded, a certificate shall be issued by the Reserve Bank indicating that the applicant has complied with the order passed by the Compounding Authority. In case of non-payment of the amount indicated in the compounding order within 15 days of the order, it will be treated as if the applicant has not made any compounding application to the Reserve Bank and the other provisions of FEMA, 1999 regarding contraventions will apply. Such cases will be referred to the DoE for necessary action.

Reporting of the Non-Compliance by the Company Secretaries

For every auditor, it is his duty to give report to the Board of the company on the non-compliance found by him during the course of his audit assignments. The Company Secretary can primarily report on the non-compliance through:

1. Secretarial Audit Report in Form MR-3
2. Certification of Annual Return in Form MGT-8
3. Internal Audit Reports
4. Compliance & Due Diligence Report

All private companies are required to annex Secretarial Audit Report along with Board's Report?

- True
- False

Manner of Reporting of Non-Compliance

1. A qualification, reservation or adverse remarks, if any, should be stated by the Secretarial Auditor at the relevant places in his report in bold type or in italics.
2. When the professional is not able to express an opinion on any matter, he should mention that he is unable to express an opinion on that matter and the reasons therefor.
3. If the scope of work required to be performed is restricted on account of restrictions imposed by the company or on account of circumstantial limitations (like certain books or papers being in the custody of another person who is not available or a Government Authority), the Report should indicate such limitations.
4. If such limitations are so material that the professional is unable to express any opinion, he should state that in the absence of necessary information and records, he is unable to report on compliance(s) relating to such areas by the Company.
5. The professional may report with the Disclaimer of the fact and information.

SECTION WISE OFFENCE AND CONSEQUENCES THEREOF

1.	Section 8 Formation of companies with Charitable Objects, etc.	(11) If a company makes any default in complying with any of the requirements laid down in this section, the company shall, without prejudice to any other action under the provisions of this section, be punishable with fine which shall not be less than ten lakh rupees but which may extend to one crore rupees and the directors and every officer of the company who is in default shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to twenty-five lakh rupees, or with both: Provided that when it is proved that the affairs of the company were conducted fraudulently, every officer in default shall be liable for action under section 447.
2.	Section 10 A Commencement of business etc.	(2) If any default is made in complying with the requirements of section 10 A, the company shall be liable to a penalty of fifty thousand rupees and every officer who is in default shall be liable to a penalty of one thousand rupees for each day during which such default continues but not exceeding an amount of one lakh rupees. (3) Where no declaration has been filed with the Registrar under clause (a) of sub-section (1) within a period of one hundred and eighty days of the date of incorporation of the company and the Registrar has reasonable cause to believe that the company is not carrying on any business or operations, he may, without prejudice to the provisions of sub-section (2), initiate action for the removal of the name of the company from the register of companies under Chapter XVIII.
3.	Section 12 Registered Office of Company	(8) If any default is made in complying with the requirements of this section, the company and every officer who is in default shall be liable to a penalty of one thousand rupees for every day during which the default continues but not exceeding one lakh rupees.
4.	Section 15 Alteration of Memorandum or Articles to be Noted in Every Copy	(2) If a company makes any default in complying with the provisions of sub-section (1), the company and every officer who is in default shall be liable to a penalty of one thousand rupees for every copy of the memorandum or articles issued without such alteration.
5.	Section 16 Rectification of Name of Company	(3) If a company makes default in complying with any direction given under sub-section (1), the Central Government shall allot a new name to the company in such manner as may be prescribed and the Registrar shall enter the new name in the register of companies in place of the old name and issue a fresh certificate of incorporation with the new name, which the company shall use thereafter: Provided that nothing in this sub-section shall prevent a company from subsequently changing its name in accordance with the provisions of section 13.
6.	Section 17 Copies of Memorandum, Articles, etc., to be Given to Members	(2) If a company makes any default in complying with the provisions of this section, the company and every officer of the company who is in default shall be liable for each default, to a penalty of one thousand rupees for each day during which such default continues or one lakh rupees, whichever is less.
7.	Section 33 Issue of Application Forms for Securities	(3) If a company makes any default in complying with the provisions of this section, it shall be liable to a penalty of fifty thousand rupees for each default.

8.	Section 39 Allotment of Securities by Company	(5) In case of any default under sub-section (3) or sub-section (4), the company and its officer who is in default shall be liable to a penalty, for each default, of one thousand rupees for each day during which such default continues or one lakh rupees, whichever is less
9.	Section 40 Securities to be Dealt with in Stock Exchanges	(5) If a default is made in complying with the provisions of this section, the company shall be punishable with a fine which shall not be less than five lakh rupees but which may extend to fifty lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than fifty thousand rupees but which may extend to three lakh rupees.
10.	Section 46 Certificate of Shares	(5) If a company with intent to defraud issues a duplicate certificate of shares, the company shall be punishable with fine which shall not be less than five times the face value of the shares involved in the issue of the duplicate certificate but which may extend to ten times the face value of such shares or rupees ten crores whichever is higher and every officer of the company who is in default shall be liable for action under section 447.
11.	Section 53 Prohibition on Issue of Shares at Discount	(3) Where any company fails to comply with the provisions of section 53, such company and every officer who is in default shall be liable to a penalty which may extend to an amount equal to the amount raised through the issue of shares at a discount or five lakh rupees, whichever is less, and the company shall also be liable to refund all monies received with interest at the rate of twelve per cent. per annum from the date of issue of such shares to the persons to whom such shares have been issued.
12.	Section 56 Transfer and Transmission of Securities	(6) Where any default is made in complying with the provisions of sub-sections (1) to (5), the company and every officer of the company who is in default shall be liable to a penalty of fifty thousand rupees.
13.	Section 60 Publication of Authorised, Subscribed and Paid-Up Capital	(2) If any default is made in complying with the requirements of sub-section (1), the company shall be liable to pay a penalty of ten thousand rupees and every officer of the company who is in default shall be liable to pay a penalty of five thousand rupees, for each default.
14.	Section 64 Notice to be Given to Registrar for Alteration of Share Capital	(2) Where any company fails to comply with the provisions of sub-section (1) of Section 64, such company and every officer who is in default shall be liable to a penalty of five hundred rupees for each day during which such default continues, subject to a maximum of five lakh rupees in case of a company and one lakh rupees in case of an officer who is in default.
15.	Section 67 Restrictions on Purchase by Company or Giving of Loans by it for Purchase of its Shares	(5) If a company contravenes the provisions of this section, it shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to three years and with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

16.	Section 68 Power of Company to Purchase its Own Securities	(11) If a company makes any default in complying with the provisions of this section or any regulation made by the Securities and Exchange Board, for the purposes of clause (f) of sub-section (2), the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to three lakh rupees and every officer of the company who is in default shall be punishable with fine which shall not be less than one lakh rupees but which may extend to three lakh rupees.
17.	Section 74 Repayment of Deposits, etc., Accepted before Commencement of this Act	(3) If a company fails to repay the deposit or part thereof or any interest thereon within the time specified in sub-section (1) or such further time as may be allowed by the Tribunal under sub-section (2), the company shall, in addition to the payment of the amount of deposit or part thereof and the interest due, be punishable with fine which shall not be less than one crore rupees but which may extend to ten crore rupees and every officer of the company who is in default shall be punishable with imprisonment which may extend to seven years or with fine which shall not be less than twenty-five lakh rupees but which may extend to two crore rupees, or with both.
18.	Section 86 Punishment for Contravention	(1) If any company is in default in complying with any of the provisions of this Chapter, the company shall be liable to a penalty of five lakh rupees and every officer of the company who is in default shall be liable to a penalty of fifty thousand rupees.. (2) If any person wilfully furnishes any false or incorrect information or knowingly suppresses any material information, required to be registered in accordance with the provisions of section 77, he shall be liable for action under section 447.
19.	Section 88 Register of Members, etc.	(5) If a company does not maintain a register of members or debenture-holders or other security holders or fails to maintain them in accordance with the provisions of sub-section (1) or sub-section (2), the company shall be liable to a penalty of three lakh rupees and every officer of the company who is in default shall be liable to a penalty of fifty thousand rupees.
20.	Section 89 Declaration in Respect of Beneficial Interest in any Share	(7) If a company, required to file a return under sub-section (6), fails to do so before the expiry of the time specified therein, the company and every officer of the company who is in default shall be liable to a penalty of one thousand rupees for each day during which such failure continues, subject to a maximum of five lakh rupees in the case of a company and two lakh rupees in case of an officer who is in default.
21.	Section 90 Register of significant beneficial owners in a company	(10) If any person fails to make a declaration as required under sub-section (1), he shall be liable to a penalty of fifty thousand rupees and in case of continuing failure, with a further penalty of one thousand rupees for each day after the first during which such failure continues, subject to a maximum of two lakh rupees. (11) If a company, required to maintain register under sub-section (2) and file the information under sub-section (4), fails to do so or denies inspection as provided therein, the shall be liable to a penalty of one lakh rupees and in case of continuing failure, with a further penalty of five hundred rupees for each day, after the first during which such failure continues, subject to a maximum of five lakh rupees and every officer of the company who is in default shall be liable to a penalty of twenty-five thousand rupees and in case of continuing failure, with a further penalty of two hundred rupees for each day, after the first during which such failure continues, subject to a maximum of one lakh rupees.

		(12) If any person willfully furnishes any false or incorrect information or suppresses any material information of which he is aware in the declaration made under this section, he shall be liable to action under section 447.
22.	Section 91 Power to Close Register of Members or Debenture- Holders or Other Security Holders	(2) If the register of members or of debenture-holders or of other security holders is closed without giving the notice as provided in sub- section (1), or after giving shorter notice than that so provided, or for a continuous or an aggregate period in excess of the limits specified in that sub-section, the company and every officer of the company who is in default shall be liable to a penalty of five thousand rupees for every day subject to a maximum of one lakh rupees during which the register is kept closed.
23.	Section 92 Annual Return	(5) If any company fails to file its annual return under sub- section (4), before the expiry of the period specified therein, such company and its every officer who is in default shall be liable to a penalty of ten thousand rupees and in case of continuing failure, with further penalty of one hundred rupees for each day during which such failure continues, subject to a maximum of two lakh rupees in case of a company and fifty thousand rupees in case of an officer who is in default. (6) If a company secretary in practice certifies the annual return otherwise than in conformity with the requirements of this section or the rules made thereunder, he shall be liable to a penalty of two lakh rupees.
24.	Section 94 Place of keeping and Inspection of Registers, Returns, etc.	(4) If any inspection or the making of any extract or copy required under this section is refused, the company and every officer of the company who is in default shall be liable, for each such default, to a penalty of one thousand rupees for every day subject to a maximum of one lakh rupees during which the refusal or default continue.
25.	Section 99 Punishment for Default in Complying with Provisions of Sections 96 to 98	If any default is made in holding a meeting of the company in accordance with section 96 or section 97 or section 98 or in complying with any directions of the Tribunal, the company and every officer of the company who is in default shall be punishable with fine which may extend to one lakh rupees and in the case of a continuing default, with a further fine which may extend to five thousand rupees for every day during which such default continue.
26.	Section 100 Calling of Extraordinary General Meeting	(6) Any reasonable expenses incurred by the requisitionists in calling a meeting under sub-section (4) shall be reimbursed to the requisitionists by the company and the sums so paid shall be deducted from any fee or other remuneration under section 197 payable to such of the directors who were in default in calling the meeting.
27.	Section 102 Statement to be Annexed to Notice	(5) Without prejudice to the provisions of sub-section (4), if any default is made in complying with the provisions of this section, every promoter, director, manager or other key managerial personnel of the company who is in default shall be liable to a penalty of fifty thousand rupees or five times the amount of benefit accruing to the promoter, director, manager or other key managerial personnel or any of his relatives, whichever is higher.

28.	Section 105 Proxies	(3) If default is made in complying with sub-section (2), every officer of the company who is in default shall be liable to a penalty of five thousand rupees.
29.e	Section 111 Circulation of Members' Resolution	(5) If any default is made in complying with the provisions of this section, the company and every officer of the company who is in default shall be liable to a penalty of twenty-five thousand rupees.
30.	Section 117 Resolutions and Agreements to be Filed	(2) If any company fails to file the resolution or the agreement under section 117 (1) before the expiry of the period specified therein, such company shall be liable to a penalty of ten thousand rupees and in case of continuing failure, with a further penalty of one hundred rupees for each day after the first during which such failure continues, subject to a maximum of two lakh rupees and every officer of the company who is in default including liquidator of the company, if any, shall be liable to a penalty of ten thousand rupees and in case of continuing failure, with a further penalty of one hundred rupees for each day after the first during which such failure continues, subject to a maximum of fifty thousand rupees.
31.	Section 118 Minutes of Proceedings of General Meeting, Meeting of Board of Directors and Other Meeting and Resolutions Passed by Postal Ballot	(11) If any default is made in complying with the provisions of this section in respect of any meeting, the company shall be liable to a penalty of twenty-five thousand rupees and every officer of the company who is in default shall be liable to a penalty of five thousand rupees. (12) If a person is found guilty of tampering with the minutes of the proceedings of meeting, he shall be punishable with imprisonment for a term which may extend to two years and with fine which shall not be less than twenty-five thousand rupees but which may extend to one lakh rupees.
32.	Section 119 Inspection of Minute-Books of General Meeting	(3) If any inspection under sub-section (1) is refused, or if any copy required under sub-section (2) is not furnished within the time specified therein, the company shall be liable to a penalty of twenty-five thousand rupees and every officer of the company who is in default shall be liable to a penalty of five thousand rupees for each such refusal or default, as the case may be.
33.	Section 121 Report on Annual General Meeting	(3) If the company fails to file the report under sub-section (2) before the expiry of the period specified therein, such company shall be liable to a penalty of one lakh rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of five lakh rupees and every officer of the company who is in default shall be liable to a penalty which shall not be less than twenty-five thousand rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of one lakh rupees.
34.	Section 124 Unpaid Dividend Account	(7) If a company fails to comply with any of the requirements of this section, the company shall be liable to a penalty of one lakh rupees and in case of continuing failure, with a further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of ten lakh rupees and every officer of the company who is in default shall be liable to a penalty of twenty-five thousand rupees and in case of continuing failure, with a further penalty of one hundred rupees for each day after the first during which such failure continues, subject to a maximum of two lakh rupees.

35.	Section 127 Punishment for Failure to Distribute Dividends	Where a dividend has been declared by a company but has not been paid or the warrant in respect thereof has not been posted within thirty days from the date of declaration to any shareholder entitled to the payment of the dividend, every director of the company shall, if he is knowingly a party to the default, be punishable with imprisonment which may extend to two years and with fine which shall not be less than one thousand rupees for every day during which such default continues and the company shall be liable to pay simple interest at the rate of eighteen per cent per annum during the period for which such default continues
36.	Section 134 Financial Statement, Board's Report, etc.	(8) If a company is in default in complying with the provisions of this section, the company shall be liable to a penalty of three lakh rupees and every officer of the company who is in default shall be liable to a penalty of fifty thousand rupees.
37.	Section 136 Right of Member to Copies of Audited Financial Statement	(3) If any default is made in complying with the provisions of this section, the company shall be liable to a penalty of twenty-five thousand rupees and every officer of the company who is in default shall be liable to a penalty of five thousand rupees.
38.	Section 137 Copy of Financial Statement to be filed with Registrar	(3) If a company fails to file the copy of the financial statements under sub-section (1) or sub-section (2), as the case may be, before the expiry of the period specified therein, the company shall be liable to a penalty of ten thousand rupees and in case of continuing failure, with a further penalty of one hundred rupees for each day during which such failure continues, subject to a maximum of two lakh rupees, and the managing director and the Chief Financial Officer of the company, if any, and, in the absence of the managing director and the Chief Financial Officer, any other director who is charged by the Board with the responsibility of complying with the provisions of this section, and, in the absence of any such director, all the directors of the company, shall be liable to a penalty of ten thousand rupees and in case of continuing failure, with further penalty of one hundred rupees for each day after the first during which such failure continues, subject to a maximum of fifty thousand rupees.
39.	Section 140 Removal, Resignation of Auditor and Giving of Special Notice	(3) If the auditor does not comply with the provisions of sub-section (2), he or it shall be liable to a penalty of fifty thousand rupees or an amount equal to the remuneration of the auditor, whichever is less, and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of two lakh rupees.
40.	Section 147 Punishment for Contravention	(1) If any of the provisions of sections 139 to 146 (both inclusive) is contravened, the company shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with fine which shall not be less than ten thousand rupees but which may extend to one lakh rupees. (2) If an auditor of a company contravenes any of the provisions of section 139, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees or four times the remuneration of the auditor, whichever is less.

		<p>Provided that if an auditor has contravened such provisions knowingly or wilfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees or eight times the remuneration of the auditor, whichever is less.</p>
41.	Section 148 Central Government to Specify Audit of Items of Cost in Respect of Certain Companies	<p>(8) If any default is made in complying with the provisions of this section,-</p> <p>a) the company and every officer of the company who is in default shall be punishable in the manner as provided in sub-section (1) of section 147;</p> <p>b) the cost auditor of the company who is in default shall be punishable in the manner as provided in sub-sections (2) to (4) of section 147.</p>
42.	Section 157 Company to Inform Director Identification Number to Registrar	<p>(2) If any company fails to furnish the Director Identification Number under sub-section (1), such company shall be liable to a penalty of twenty-five thousand rupees and in case of continuing failure, with further penalty of one hundred rupees for each day after the first during which such failure continues, subject to a maximum of one lakh rupees, and every officer of the company who is in default shall be liable to a penalty of not less than twenty-five thousand rupees and in case of continuing failure, with further penalty of one hundred rupees for each day after the first during which such failure continues, subject to a maximum of one lakh rupees.</p>
43.	Section 159 Penalty for Default of Certain Provisions	<p>If any individual or director of a company makes any default in complying with any of the provisions of section 152 (appointment of Director), section 155 (Prohibition to Obtain More than One Director Identification Number) and section 156 (Director to Intimate Director Identification Number), such individual or director of the company shall be liable to a penalty which may extend to fifty thousand rupees and where the default is a continuing one, with a further penalty which may extend to five hundred rupees for each day after the first during which such default continues.</p>
44.	Section 165 Number of Directorships	<p>(6) If a person accepts an appointment as a director in contravention of sub-section (1) of section 165, he shall be liable to a penalty of two thousand rupees for each day after the first during which such contravention continues, subject to a maximum of two lakh rupees.</p>
45.	Section 172 Punishment for contravention of chapter (xi)	<p>If a company is in default in complying with any of the provisions of Chapter XI and for which no specific penalty or punishment is provided therein, the company and every officer of the company who is in default shall be liable to a penalty of fifty thousand rupees, and in case of continuing failure, with a further penalty of five hundred rupees for each day during which such failure continues, subject to a maximum of three lakh rupees in case of a company and one lakh rupees in case of an officer who is in default.</p>
46.	Section 178 Nomination and Remuneration Committee and Stakeholders Relationship Committee	<p>(8) In case of any contravention of the provisions of section 177 and this section, the company shall be liable to a penalty of five lakh rupees and every officer of the company who is in default shall be liable to a penalty of one lakh rupees.</p>

47.	Section 182 Prohibitions and Restrictions Regarding Political Contributions	(4) If a company makes any contribution in contravention of the provisions of this section, the company shall be punishable with fine which may extend to five times the amount so contributed and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to six months and with fine which may extend to five times the amount so contributed.
48.	Section 185 Loan to Directors, etc.	(4) If any loan is advanced or a guarantee or security is given or provided or utilised in contravention of the provisions of this section,- (i) the company shall be punishable with fine which shall not be less than five lakh rupees but which may extend to twenty-five lakh rupees; (ii) every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than five lakh rupees but which may extend to twenty-five lakh rupees; and (iii) the director or the other person to whom any loan is advanced or guarantee or security is given or provided in connection with any loan taken by him or the other person, shall be punishable with imprisonment which may extend to six months or with fine which shall not be less than five lakh rupees but which may extend to twenty-five lakh rupees, or with both.
49.	Section 186 Loan and Investment by Company	(13) If a company contravenes the provisions of this section, the company shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to two years and with fine which shall not be less than twenty-five thousand rupees but which may extend to one lakh rupees.
50.	Section 187 Investments of Company to be Held in its Own Name	(4) If a company is in default in complying with the provisions of section 187, the company shall be liable to a penalty of five lakh rupees and every officer of the company who is in default shall be liable to a penalty of fifty thousand rupees.
51.	Section 190 Contract of Employment with Managing or Whole-Time Directors	(3) If any default is made in complying with the provisions of sub-section (1) or sub-section (2), the company shall be liable to a penalty of twenty-five thousand rupees and every officer of the company who is in default shall be liable to a penalty of five thousand rupees for each default.
52.	Section 191 Payment to Director for Loss of Office, etc., in Connection with Transfer of Undertaking, Property or Shares	(5) If a director of the company contravenes the provisions of section 191, such director shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to one lakh rupees.
53.	Section 197 Overall Maximum Managerial Remuneration and Managerial Remuneration in Case of Absence or Inadequacy of Profits	(15) If any person contravenes the provisions of section 197, he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.

54.	Section 203 Appointment of Key Managerial Personnel	(5) If any company makes any default in complying with the provisions of this section, such company shall be liable to a penalty of five lakh rupees and every director and key managerial personnel of the company who is in default shall be liable to a penalty of fifty thousand rupees and where the default is a continuing one, with a further penalty of one thousand rupees for each day after the first during which such default continues but not exceeding five lakh rupees.
55.	Section 204 Secretarial Audit for Bigger Companies	(4) If a company or any officer of the company or the company secretary in practice, contravenes the provisions of this section, the company, every officer of the company or the company secretary in practice, who is in default, shall be liable to a penalty of two lakh rupees.
56.	Section 206 Power to Call for Information, Inspect Books and Conduct Inquiries	(7) If a company fails to furnish any information or explanation or produce any document required under this section, the company and every officer of the company, who is in default shall be punishable with a fine which may extend to one lakh rupees and in the case of a continuing failure, with an additional fine which may extend to five hundred rupees for every day after the first during which the failure continues.
57.	Section 213 Investigation into Company's Affairs in Other Cases	If after investigation it is proved that - i. the business of the company is being conducted with intent to defraud its creditors, members or any other persons or otherwise for a fraudulent or unlawful purpose, or that the company was formed for any fraudulent or unlawful purpose; or ii. any person concerned in the formation of the company or the management of its affairs have in connection therewith been guilty of fraud then, every officer of the company who is in default and the person or persons concerned in the formation of the company or the management of its affairs shall be punishable for fraud in the manner as provided in section 447.
58.	Section 221 Freezing of Assets of Company on Inquiry and Investigation	(2) In case of any removal, transfer or disposal of funds, assets, or properties of the company in contravention of the order of the Tribunal under sub-section (1), the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees, or with both.
59.	Section 222 Imposition of Restrictions Upon Securities	(2) Where securities in any company are issued or transferred or acted upon in contravention of an order of the Tribunal under sub-section (1), the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees, or with both.

60.	Section 232 Merger and Amalgamation of Companies	(8) If a company fails to comply with section 232(5), the company and every officer of the company who is in default shall be liable to a penalty of twenty thousand rupees, and where the failure is a continuing one, with a further penalty of one thousand rupees for each day after the first during which such failure continues, subject to a maximum of three lakh rupees.
61.	Section 238 Registration of Offer of Schemes Involving Transfer of Shares.	The director who issues a circular which has not been presented for registration and registered under clause (c) of sub-section (1), shall be liable to a penalty of one lakh rupees.
62.	Section 242 Powers of Tribunal	(8) If a company contravenes the provisions of sub-section (5), the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to one lakh rupees.
63.	Section 245 Class Action	(7) Any company which fails to comply with an order passed by the Tribunal under this section shall be punishable with fine which shall not be less than five lakh rupees but which may extend to twenty-five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to three years and with fine which shall not be less than twenty-five thousand rupees but which may extend to one lakh rupee
64.	Section 249 Restrictions on Making Application Under Section 248 in Certain Situations.	(2) If a company files an application under sub-section (2) of section 248 in violation of sub-section (1), it shall be punishable with fine which may extend to one lakh rupees.
65.	Section 274 Directions for Filing Statement of Affairs	(4) If any director or officer of the company contravenes the provisions of this section, the director or the officer of the company who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than twenty- five thousand rupees but which may extend to five lakh rupees, or with both.
66.	Section 338 Liability Where Proper Accounts not Kept	(1) Where a company is being wound up, if it is shown that proper books of account were not kept by the company throughout the period of two years immediately preceding the commencement of the winding up, or the period between the incorporation of the company and the commencement of the winding up, whichever is shorter, every officer of the company who is in default shall, unless he shows that he acted honestly and that in the circumstances in which the business of the company was carried on, the default was excusable, be punishable with imprisonment for a term which shall not be less than one year but which may extend to three years and with fine which shall not be less than one lakh rupees but which may extend to three lakh rupees.

67.	Section 350 Company Liquidator to Deposit Monies into Scheduled Bank	<p>(2) If any Company Liquidator at any time retains for more than ten days a sum exceeding five thousand rupees or such other amount as the Tribunal may, on the application of the Company Liquidator, authorise him to retain, then, unless he explains the retention to the satisfaction of the Tribunal, he shall-</p> <ol style="list-style-type: none"> pay interest on the amount so retained in excess, at the rate of twelve per cent. per annum and also pay such penalty as may be determined by the Tribunal; be liable to pay any expenses occasioned by reason of his default; and also be liable to have all or such part of his remuneration, as the Tribunal may consider just and proper, disallowed, or may also be removed from his office.
68.	Section 392 Punishment for Contravention	Without prejudice to the provisions of section 391, if a foreign company contravenes the provisions of this Chapter, the foreign company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to three lakh rupees and in the case of a continuing offence, with an additional fine which may extend to fifty thousand rupees for every day after the first during which the contravention continues and every officer of the foreign company who is in default shall be punishable with fine which shall not be less than twenty five thousand rupees but which may extend to five lakh rupees.
69.	Section 403 Fee for Filing, etc	<p>(1) Any document, required to be submitted, filed, registered or recorded, or any fact or information required or authorised to be registered under Companies Act, 2013 shall be submitted, filed, registered or recorded within the time specified in the relevant provision on payment of such fee as may be prescribed:</p> <p>Provided that where any document, fact or information required to be submitted, filed, registered or recorded, as the case may be, under section 92 or 137 is not submitted, filed, registered or recorded, as the case may be, within the period provided in those sections, without prejudice to any other legal action or liability under Companies Act, 2013 it may be submitted, filed, registered or recorded, as the case may be, after expiry of the period so provided in those sections, on payment of such additional fee as may be prescribed, which shall not be less than one hundred rupees per day and different amounts may be prescribed for different classes of companies:</p> <p>Provided further that where the document, fact or information, as the case may be, in cases other than referred to in the first proviso, is not submitted, filed, registered or recorded, as the case may be, within the period provided in the relevant section, it may, without prejudice to any other legal action or liability under the Companies Act, 2013 be submitted, filed, registered or recorded as the case may be, on payment of such additional fee as may be prescribed and different fees may be prescribed for different classes of companies:</p>

		<p>Provided also that where there is default on two or more occasions in submitting, filing, registering or recording of such document, fact or information, as may be prescribed, it may, without prejudice to any other legal action or liability under the Companies Act, 2013 be submitted, filed, registered or recorded, as the case may be, on payment of such higher additional fee, as may be prescribed.</p> <p>(2) Where a company fails or commits any default to submit, file, register or record any document, fact or information under sub-section (1) before the expiry of the period specified in the relevant section, the company and the officers of the company who are in default, shall, without prejudice to the liability for the payment of fee and additional fee, be liable for the penalty or punishment provided under Companies Act, 2013 for such failure or default.</p>
70.	Section 405 Power of Central Government to Direct Companies to Furnish Information or Statistics	<p>(4) If any company fails to comply with an order made under sub-section (1) or subsection (3), or knowingly furnishes any information or statistics which is incorrect or incomplete in any material respect, the company and every officer of the company who is in default shall be liable to a penalty of twenty thousand rupees and in case of continuing failure, with a further penalty of one thousand rupees for each day after the first during which such failure continues, subject to a maximum of three lakh rupees.</p>
71.	Section 449 Punishment for False Evidence.	<p>If any person intentionally gives false evidence-</p> <p>(a) upon any examination on oath or solemn affirmation, authorized under this Act; or</p> <p>(b) in any affidavit, deposition or solemn affirmation, in or about the winding up of any company under this Act, or otherwise in or about any matter arising under this Act,</p> <p>he shall be punishable with imprisonment for a term which shall not be less than three years but which may extend to seven years and with fine which may extend to ten lakh rupees.</p>
72.	Section 450 Punishment Where No Specific Penalty or Punishment is Provided	<p>If a company or any officer of a company or any other person contravenes any of the provisions of this Act or the rules made thereunder, or any condition, limitation or restriction subject to which any approval, sanction, consent, confirmation, recognition, direction or exemption in relation to any matter has been accorded, given or granted, and for which no penalty or punishment is provided elsewhere in this Act, the company and every officer of the company who is in default or such other person shall be liable to a penalty of ten thousand rupees, and in case of continuing contravention, with a further penalty of one thousand rupees for each day after the first during which the contravention continues, subject to a maximum of two lakh rupees in case of a company and fifty thousand rupees in case of an officer who is in default or any other person.</p>
73.	Section 451 Punishment in Case of Repeated Default	<p>If a company or an officer of a company commits an offence punishable either with fine or with imprisonment and where the same offence is committed for the second or subsequent occasions within a period of three years, then, that company and every officer thereof who is in default shall be punishable with twice the amount of fine for such offence in addition to any imprisonment provided for that offence.</p>

74.	Section 452 Punishment for Wrongful Withholding of Property	<p>452. (1) If any officer or employee of a company-</p> <p>(a) wrongfully obtains possession of any property, including cash of the company; or</p> <p>(b) having any such property including cash in his possession, wrongfully withholds it or knowingly applies it for the purposes other than those expressed or directed in the articles and authorised by this Act, he shall, on the complaint of the company or of any member or creditor or contributory thereof, be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.</p> <p>(2) The Court trying an offence under sub-section (1) may also order such officer or employee to deliver up or refund, within a time to be fixed by it, any such property or cash wrongfully obtained or wrongfully withheld or knowingly misapplied, the benefits that have been derived from such property or cash or in default, to undergo imprisonment for a term which may extend to two years.</p> <p>Provided that the imprisonment of such officer or employee, as the case may be, shall not be ordered for wrongful possession or withholding of a dwelling unit, if the court is satisfied that the company has not paid to that officer or employee, as the case may be, any amount relating to-</p> <p>(a) provident fund, pension fund, gratuity fund or any other fund for the welfare of its officers or employees, maintained by the company;</p> <p>(b) compensation or liability for compensation under the Workmen's Compensation Act, 1923 in respect of death or disablement</p>
75.	Section 453 Punishment for Improper Use of "Limited" or "Private Limited"	<p>If any person or persons trade or carry on business under any name or title, of which the word "Limited" or the words "Private Limited" or any contraction or imitation thereof is or are the last word or words, that person or each of those persons shall, unless duly incorporated with limited liability, or unless duly incorporated as a private company with limited liability, as the case may be, punishable with fine which shall not be less than five hundred rupees but may extend to two thousand rupees for every day for which that name or title has been used.</p>
76.	Section 454 Adjudication of Penalties	<p>(8) (i) Where company fails to comply with the order made under sub-section (3) or sub-section (7), as the case may be, within a period of ninety days from the date of the receipt of the copy of the order, the company shall be punishable with fine which shall not be less than twenty five thousand rupees but which may extend to five lakh rupees.</p> <p>(ii) Where an officer of a company or any other person who is in default fails to comply with the order made under sub-section (3) or sub-section (7), as the case may be within a period of ninety days from the date of the receipt of the copy of the order, such officer shall be punishable with imprisonment which may extend to six months or with fine which shall not be less than twenty-five thousand rupees but which may extend to one lakh rupees, or with both.</p>

77.	Section 454A Penalty for repeated default	Where a company or an officer of a company or any other person having already been subjected to penalty for default under any provisions of this Act, again commits such default within a period of three years from the date of order imposing such penalty passed by the adjudicating officer or the Regional Director, as the case may be, it or he shall be liable for the second or subsequent defaults for an amount equal to twice the amount of penalty provided for such default under the relevant provisions of this Act.
78.	Section 76A Punishment for Contravention of Section 73 or Section 76	Where a company accepts or invites or allows or causes any other person to accept or invite on its behalf any deposit in contravention of the manner or the conditions prescribed under section 73 or section 76 or rules made thereunder or if a company fails to repay the deposit or part thereof or any interest due thereon within the time specified under section 73 or section 76 or rules made thereunder or such further time as may be allowed by the Tribunal under section 73,-
		<p>(a) the company shall, in addition to the payment of the amount of deposit or part thereof and the interest due, be punishable with fine which shall not be less than one crore rupees or twice the amount of deposit accepted by the company, whichever is lower rupees but which may extend to ten crore rupees; and</p> <p>(b) every officer of the company who is in default shall be punishable with imprisonment which may extend to seven years and with fine] which shall not be less than twenty-five lakh rupees but which may extend to two crore rupees,</p> <p>Provided that if it is proved that the officer of the company who is in default, has contravened such provisions knowingly or wilfully with the intention to deceive the company or its shareholders or depositors or creditors or tax authorities, he shall be liable for action under section 447.</p>
79.	Section 42 Offer or Invitation for Subscription of Securities on Private Placement	<p>(9) If a company defaults in filing the return of allotment within the period prescribed under sub-section (8), the company, its promoters and directors shall be liable to a penalty for each default of one thousand rupees for each day during which such default continues but not exceeding twenty-five lakh rupees.</p> <p>(10) Subject to sub-section (11), if a company makes an offer or accepts monies in contravention of this section, the company, its promoters and directors shall be liable for a penalty which may extend to the amount raised through the private placement or two crore rupees, whichever is lower, and the company shall also refund all monies with interest as specified in sub-section (6) to subscribers within a period of thirty days of the order imposing the penalty.</p>
80.	Section 446A Factors for determining level of punishment.	<p>The court or the Special Court, while deciding the amount of fine or imprisonment under this Act, shall have due regard to the following factors, namely:-</p> <p>(a) size of the company;</p> <p>(b) nature of business carried on by the company;</p> <p>(c) injury to public interest;</p> <p>(d) nature of the default; and</p> <p>(e) repetition of the default.</p>

81.	Section 446B Lesser penalties for One Person Companies or small companies.	Notwithstanding anything contained in the Companies Act, 2013 if penalty is payable for non-compliance of any of the provisions of this Act by a One Person Company, small company, start-up company or Producer Company, or by any of its officer in default, or any other person in respect of such company, then such company, its officer in default or any other person, as the case may be, shall be liable to a penalty which shall not be more than one-half of the penalty specified in such provisions subject to a maximum of two lakh rupees in case of a company and one lakh rupees in case of an officer who is in default or any other person, as the case may be.
82.	Section 447 Punishment for Fraud.* <i>*for detailed information it is advised to refer Chapter 2 of Paper No.6 (Resolution of Corporate Disputes, Non-Compliances & Remedies of Professional Programme.</i>	Without prejudice to any liability including repayment of any debt under this Act or any other law for the time being in force, any person who is found to be guilty of fraud involving an amount of at least ten lakh rupees or one per cent. of the turnover of the company, whichever is lower shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud: Provided that where the fraud in question involves public interest, the term of imprisonment shall not be less than three years. Provided further that where the fraud involves an amount less than ten lakh rupees or one per cent. of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to fifty lakh rupees or with both.

The several sections of the Companies Act, 2013 refer to section 447 for punishing fraudulent conduct, the list of all such sections is as under:

S. No.	Section	Non-Compoundable offences under Companies Act, 2013
1	7(5) & (6)	fraud/false information during incorporation of company:
2	8(11) Proviso	Formation of companies with charitable objects, etc.- fraudulent conduct of affairs
3	34	Criminal liability for misstatements in prospectus
4	36	Punishment for fraudulently inducing persons to invest money
5	38(1)	Punishment for personation for acquisition, etc., of securities
6	46(5)	Fraud in connection with duplicate Certificate of Shares
7	56	Depository or depository participant, with an intention to defraud a person, has transferred shares
8	66(10)	Reduction of Share Capital fraud
9	76A Proviso	Punishment for contravention of section 73 or section
10	86	Wilfully furnishes any false or incorrect information or knowingly suppresses any material information
11	90(12)	False/incorrect information or suppression of any material information in respect of significant beneficial ownership
12	140(5)Proviso	Removal of Auditor involved in fraud

S. No.	Section	Non-Compoundable offences under Companies Act, 2013
13	206(4)Proviso	Power to call for information, inspect books and conduct enquires - conducting affairs of the company in a fraudulent manner
14	213 Proviso	Investigation into company's affairs in other cases
15	229	Penalty for furnishing false statement, mutilation destruction of documents to
16	251(1)	Fraudulent application for removal of name
17	339(3)	Liability for fraudulent conduct of business
18	448	Punishment for false statement

LESSON ROUND UP

- Every legislation has its own compliance requirement, investigation & prosecution mechanism by the regulator.
- Offences under companies Act, 2013 can be classified based on the:
 - Depending on the type of punishment
 - Depending on Cognizability
 - Depending on Bail ability
- Offences which is punishable with imprisonment or fine, or offence punishable with imprisonment or fine or with both, shall be compoundable with the permission of the Special Court
- The complaint of SFIO is treated as police report under section 173 of the Code of Criminal Procedure 1973. Whereas, the complaint filed by the Registrar of Companies is not considered as a police report but a private complaint under section 190 of the Code of Criminal Procedure, 1973
- Compounding is nothing but admission of guilt and the Compoundable offences are not mandatorily punishable with imprisonment.
- Offence which has been compounded, no prosecution can be launched against by the Registrar or by any shareholder of the company.
- SEBI may order to investigate the affairs of such intermediary or persons associated with the securities market and to report thereon to the Board through an Investigating authority.
- The stock exchanges shall follow the Standard Operating Procedure ("SOP") for suspension and revocation of suspension of trading of specified securities.

GLOSSARY

Decriminalisation	includes removing punishment of imprisonment for certain offences and reducing in fines and penalties liable to be paid.
Fugitive Economic Offender	means any individual against whom a warrant for arrest in relation to a Scheduled Offence has been issued by any Court in India, who- <ul style="list-style-type: none"> (i) has left India so as to avoid criminal prosecution; or (ii) being abroad, refuses to return to India to face criminal prosecution
Insider Trading	the trading of a listed company's securities based on material, unpublished price sensitive information about the company.
Limitation Period	period of limitation prescribed for any suit, appeal or application.

Standard Operating Procedure	is a step-by-step instructions compiled for the concerned person to carry out the requisite operations.
Wilful Defaulter	is a borrower who has the ability to repay the bank but wouldn't so deliberately, or such person has not utilized the borrowed funds for specified purpose, or siphoned off the funds, or disposed of the security as well.
Warrant case	is one where the offence is punishable with death or imprisonment for a term exceeding two years [Section 2(x) of CrPC].
Summons Case	All other cases are summons cases [Section 2(w) of CrPC].

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)

1. Draft a note on the Offences under the Companies Act, 2013
2. Define the Compounding of offence and its effect of the compounding.
3. Describe the penalty for failure to furnish information, return, etc. under the SEBI Act, 1992
4. Describe the Consequence of the Contravention of provision of Acceptance of Deposits under the Companies Act, 2013.

LIST OF FURTHER READINGS

- Offences Under Corporate Laws: Compounding, Adjudication, Prosecution and Relief & Remedies by Dr. K. S. Ravichandran

OTHER REFERENCES (INCLUDING WEBSITES/VIDEO LINKS)

- <https://www.sebi.gov.in/>
- <https://www.rbi.org.in/>
- <http://www.mca.gov.in/>
- <https://finmin.nic.in/>

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PROFESSIONAL PROGRAMME

SECRETARIAL AUDIT, COMPLIANCE MANAGEMENT AND DUE DILIGENCE

PP-SACM&DD

WARNING

It is brought to the notice of all students that use of any malpractice in Examination is misconduct as provided in the explanation to Regulation 27 and accordingly the registration of such students is liable to be cancelled or terminated. The text of regulation 27 is reproduced below for information:

“27. Suspension and cancellation of examination results or registration.

In the event of any misconduct by a registered student or a candidate enrolled for any examination conducted by the Institute, the Council or any Committee formed by the Council in this regard, may suo motu or on receipt of a complaint, if it is satisfied that, the misconduct is proved after such investigation as it may deem necessary and after giving such student or candidate an opportunity of being heard, suspend or debar him from appearing in any one or more examinations, cancel his examination result, or registration as student, or debar him from re-registration as a student, or take such action as may be deemed fit.

PROFESSIONAL PROGRAMME
SECRETARIAL AUDIT, COMPLIANCE MANAGEMENT AND DUE DILIGENCE
TEST PAPER

*[This Test Paper is for recapitulate and practice for the student.
Student need not submit responses/answers to this Test Paper]*

Time Allowed: 3 hours

Maximum Mark: 100

Total number of questions: 6

(All references to the sections relate to Companies Act 2013, unless stated otherwise)

PART – I (40 Marks)

(Compliance Management)

1. (a) The Compliance Chart of any company must contain the complete information on compliance dashboard, which provide a detailed compliance procedure to the compliance executor. Comment **(5 Marks)**
- (b) Identification of applicable law, rules and regulations is the most important step in corporate compliance management. Explain its importance. **(5 Marks)**
- (c) The Director of XYZ limited has requested you to prepare a checklist of compliances under the Companies Act, 2013 for a public limited company. You are requested to prepare the checklist. **(5 Marks)**
- (d) Certain exemptions have been given to section 8 companies under the Companies Act, 2013. Prepare a note for the Board of Directors explaining them the exemptions available. **(5 Marks)**

OR

- 1A. (i) Explain the importance of the setting up of the Compliance Framework. **(5 Marks)**
- (ii) Discuss the Common Obligations to Listed Entity under SEBI (LODR) Regulations, 2015. **(5 Marks)**
- (iii) The directors of the XYZ Private Limited have sought your guidance for appointment of first Statutory Auditor of the company. Prepare a note on the requirement of appointment of Statutory Auditor under the Companies Act, 2013. **(5 Marks)**
- (iv) Explain the guiding principles of Good Documentation **(5 Marks)**
2. (i) Explain the provisions related to maintenance and Inspection of documents in electronic for under Companies Act, 2013. **(5 Marks)**
- (ii) The Search and Status Report is not merely verbatim reporting of the information as made available but also, supplemented by observations/comments by the Company Secretary or such other professional who furnishes the Report. Explain the scope and importance of search and status report. **(5 Marks)**
- (iii) Prepare short notes:
 - (a) Search of Charges under the Companies Act, 2013.
 - (b) Examination of documents Registered on MCA 21 portal. **(5 Marks each)**

Part – II (60 Marks)

(Secretarial Audit and Due Diligence)

3. (i) Explain the provisions related to Secretarial Audit under the Companies Act, 2013 **(7 Marks)**
 - (ii) Briefly explain the Environment Audit and the write the various purposes of the Environment Audit. **(4 Marks)**
- Discuss the role of Internal Audit in organization control mechanism. **(4 Marks)**

OR

- 3A. (i) Describe the aspects that are required to be analyzed during corporate governance due diligence. **(5 Marks)**
- (ii) Explain the requirements of Corporate Social Responsibility under section 135 of the Companies Act, 2013. **(5 Marks)**
- (iii) The Takeover audit includes the compliances relating disclosure requirements(event based /continuous disclosures), Pricing, Open offer and verification of the compliance of various stage of takeover process etc., under the provision of the Companies Act, 2013 and the SEBI (Substantial Acquisition of Shares and Take- overs) Regulations, 2011. Comment. **(5 Marks)**
4. (i) Statutory audit the auditor shall fulfill the eligibility criteria as prescribed under section 141 of the Companies Act, 2013. Discuss. **(5 Marks)**
- (ii) Explain the requirements of communication to previous Auditor in case of Secretarial Audit. **(5 Marks)**
- (iii) Differentiate between the offence and Non-compliances. **(5 Marks)**
5. (i) CSAS-1 is not applicable for Audits entrusted on a voluntary basis by the Auditee to the Auditor. **(5 Marks)**
- (ii) Explain the essentials of Audit Planning. **(5 Marks)**
- (iii) Mr. A, a secretarial auditor found a fraud involving an amount 50 Crores rupees. Explain the duty of Secretarial Auditor to report the fraud. **(5 Marks)**
6. (i) Write a note on the legal due diligence and its scope. **(5 Marks)**
- (ii) Write short note on Human Resource Due Diligence. **(5 Marks)**
- (iii) Enumerate any ten Non-Compoundable offences under Companies Act, 2013 **(5 Marks)**

BIBLIOGRAPHY**Website:**

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4. <https://www.sebi.gov.in/>
5. <https://www.nn-group.com/>
6. <https://cag.gov.in/>
7. <https://www.investopedia.com/>
8. <https://www.wikipedia.org/>

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