

# Author's Note

- ✦ Amendments in this pdf are applicable for Nov. 2019.
- ✦ If you do not have much time to study whole RTP then I recommend to use these amendment notes along with my amendment notes of **May 2019**.
- ✦ It is highly recommended to practice the questions given in **RTP of May & Nov. 2019**.
- ✦ If you want to **score exemption** in Law & Audit then I recommend to make optimum use of my Fast track lectures, Free voice clips and Sanjeevani Course and **do not forgot to write High Quality Tests organised by Apnamentor**.
- ✦ I have tried my best to make it concise and error free. However, if you find any error then do mail me at [sanidhyasaraf@gmail.com](mailto:sanidhyasaraf@gmail.com).
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# AUDIT AMENDMENT SHEET- NOV 2019

Compiled By  
CA Sanidhya Saraf

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# 1

## COMPANY AUDIT

### Amendment in Section 140(3)

Penalty w.r.t Auditor's Failure to intimate about the resignation to the company and the ROC /CAG in case of Government companies.

**Minimum- Rs 50000**

or Amount equal to remuneration of auditor, whichever is less.

**Maximum – Rs 5,00000**

In case of continuing failure- Further penalty of Rs 500 for each day after the first, during which the failure continues.

### Amendment in Section 148 (Cost Audit)

The company shall within 30 days of the receipt of cost audit report furnish the CG such report along with full information and explanation on every reservation or qualification contained therein in Form CRA-4 in Extensible Business Reporting Language (XBRL) format in the manner as specified in the Companies (Filing of Documents and Forms in Extensible Business Reporting language) Rules, 2015 along with fees specified in the Companies (Registration Offices and Fees) Rules, 2014.



Provided that, if the companies have got extension of time of holding AGM u/s 96 (1) of Companies Act, 2013, may file form CRA -4 within resultant extended period of filing financial statements under section 137 of the Companies Act, 2013.

### Amendment in Section 132

#### Constitution of NFRA

The CG may, by notification, constitute a NFRA to provide for matters relating to accounting and auditing standards.

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**AUDIT AMENDMENT SHEET, NOV-2019**



## Functions of NFRA

- a** Make recommendations to the CG on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be;
- b** Monitor and enforce the compliance with ensuring compliance with accounting standards and auditing standards in such manner as may be prescribed; { For the purpose of monitoring and enforcing compliance of Auditing Standards, NFRA may review working papers and evaluate the sufficiency of the quality control system }.
- c** Oversee the quality of service of professions associated with ensuring compliance with such standards , and suggest measures required for improvement in quality of service and such other related matters as may be prescribed. { The NFRA may require an auditor to report on its governance practices and internal processes designed to promote audit quality }.
- d** Perform such other functions relating to clauses (a), (b) and (c) as may be prescribed. { NFRA may seek additional information or may require the personal presence of the auditor for seeking additional information or explanation in connection with the conduct of an audit }.

The NFRA shall consist of a chairman , who shall be a person of eminence and having Expertise in accountancy, auditing, finance or law to be appointed by the CG and such other members not exceeding fifteen consisting of part-time and full time members as may be prescribed. The chairperson and members shall make a declaration to the CG in the prescribed form regarding no conflict of interest or lack of independence in respect of their appointment.

The chairpersons and members, who are in full-time employment with NFRA shall not be associated with any audit firm (including related consultancy firms) during the course of their appointment and two years after ceasing to hold such appointment.

Any person aggrieved by the order of NFRA may prefer an appeal before the Appellate Tribunal in such manner and on payment of such fee as may be prescribed.



## **Powers of NFRA**

- a** Powers to investigate, either suo moto or on reference made to it by CG, matters of professional or other misconduct committed by any member or firm of Chartered Accountants.
- b** Powers of civil court.
- c** Power of NFRA to impose penalty on CA/CA firm for professional or other misconduct-



**Individuals**-Min **1 lakh** rupees and Max 5 times of fees received.

**Firms**-Min **5 lakh** rupees and Max 10 times of fees received.(earlier it was 10 lakh).

**Debarring a member** of the institute for a period of **6 months to 10 years**.

## **RULE-3**

NFRA shall have the power to monitor and enforce compliance of accounting or auditing standards, oversee the quality of service or undertake investigation of the following classes of companies and body corporate.

- a** Listed companies.
- b** Unlisted public companies having.
  - ☐ Paid-up-capital of at least **Rs 500** crores or
  - ☐ Average annual turnover of at least **Rs 1000** crores or
  - ☐ Aggregate outstanding loans, debentures and deposits of at least **Rs 500** crores as on 31<sup>st</sup> march of the immediately preceding financial year.

## **NOTE**

NFRA shall continue to govern these entities given in point (a) or (b) if they cease to fulfil the criteria given above for a period of 3 years.

- c** Insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act for the time being in force.
- d** Any body corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the NFRA by the Central Government in public interest; and



- e A body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d) above, if the income or net-worth of such subsidiary or associate company exceeds 20% of the consolidated income or consolidated net-worth of such company or the body corporate, as the case may be, referred to in clauses (a) to (d) above. { ie the networth or income of foreign subsidiary or associate exceeds 20 percent of consolidated net worth or income of Indian company given in (a) to (d).

## RULE-5

Every auditor referred to in Rule 3 shall file a return with NFRA on or before 30<sup>th</sup> April every year.

## Punishment in case of non-compliance

If a company or any officer of a company or an auditor or any other person contravenes any of the provisions of NFRA Rules, the company and every officer of the company who is in default or the auditor or such other person shall be punishable as per the provisions of section 450 of the Act.



# 2

## AUDIT COMMITTEE & CORPORATE GOVERNANCE

{Amendments of this Chapter has been extracted from RTP Nov 2019 and Jan 2019 Study Material}

## Applicability of limited review

The statutory auditor of a listed entity shall undertake a limited review of the audit of all the entities/companies whose accounts are to be consolidated with the listed entity as per Ind AS in accordance with guidelines issued by SEBI on this matter". Consequently.

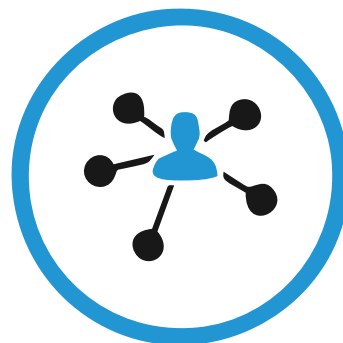
- o All listed entities whose equity shares and convertible securities are listed on a recognised stock exchange.
- o The statutory auditors of such entities.
- o All entities whose accounts are to be consolidated with the listed entity and
- o The statutory auditors of entities whose accounts are to be consolidated with the listed entity shall comply with the prescribed procedure.



## Subsidiary of Listed Entity

At least one independent director on the board of directors of the listed entity shall be a director on the board of directors of an unlisted material subsidiary, whether incorporated in India or not.

The term “material subsidiary” shall 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. { This is wrongly mentioned in RTP. It should have been 20 percent }.



## Composition of BOD { New Study Material }

1

The BOD of top 500 listed entities shall have at least one independent women director by April 1, 2019 and the BOD of the top 1000 listed entities shall have at least one independent women director by April 1, 2020. { The top 500 and 1000 entities shall be seen based on the market capitalisation of the immediately preceding financial year. }

2

The BOD of the top 1000 entities { with effect from April 2019 } and the top 2000 listed entities ( with effect from April 1, 2020 ) shall comprise of not less than six directors.

3

Non listed entity shall appoint a person or continue the directorship of any person as a non executive director who has attained the age of 75 years unless a SR is passed and explanatory statement should be annexed with the notice for such motion indicating justification for appointing such person.

4

A person shall not be a director in more than eight listed entities with effect from April 1, 2019 and in not more than seven listed entities with effect from April 1, 2020.

5

A person shall not serve as an independent director in more than seven listed entities.

6

Any person who is serving as a whole time director / managing director in any listed entity shall serve as an independent director in not more than three listed entities.





## Additional Role of Audit Committee

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 as on April 01, 2019.



## Approval of Remuneration of Directors

**1** W.e.f. April 01, 2019, approval of shareholders by special resolution shall be obtained every year, in case the annual remuneration payable to a single non-executive director exceeds fifty percent of the total annual remuneration payable to all non-executive directors.

**2** The fees or compensation payable to executive directors who are promoters or members of the promoter group, shall be subject to the approval of the shareholders by special resolution in general meeting, if-

**a**

The annual remuneration payable to such executive director exceeds rupees 5 crore or 2.5 *per cent of the net profits of the listed entity, whichever is higher; or*

**b**

Where there is more than one such director, the aggregate annual remuneration to such directors exceeds 5 per cent of the net profits of the listed entity.

**3** Approval of the shareholders under this provision shall be valid only till the expiry of the term of such director. For the purposes of this clause, net profits shall be calculated as per section 198 of the Companies Act, 2013.

### In this context, the auditor should

**1** Ascertain from the minutes of the Board of Directors' meetings, shareholders' meetings, relevant agenda papers, notices, explanatory statements etc., whether the remuneration of non-executive directors has been decided by the Board of Directors after receiving prior approval of the shareholders in the general meeting;

**2** Refer to the Articles of Association of the company, wherever applicable;

**3** Examine the Report of the Board of Directors on corporate governance to be included in the annual report of the company and ascertain whether the same contains the disclosures with respect to remuneration of directors and compensation to non-executive directors. The auditor should correlate this data with that contained in the financial statements.





## Obligations with respect to employees including Senior Management , KMP's, Directors and Promoters

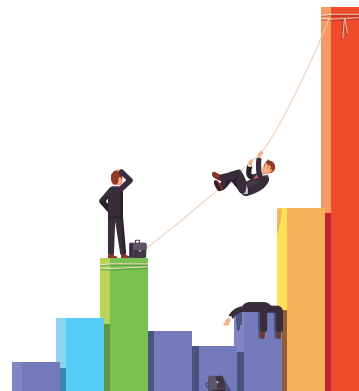
The Board shall meet at least four times a year, with a maximum time gap of one hundred and twenty days between any two meetings. The quorum for every meeting of the board of directors of the top 1,000 listed entities with effect from April 1, 2019 and of the top 2,000 listed entities with effect from April 1, 2020 shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director.



The participation of the directors by video conferencing or by other audio-visual means shall also be counted for the purposes of such quorum. The top 1,000 and 2,000 entities shall be determined on the basis of market capitalisation, as at the end of the immediate previous financial year.

### Risk Management Committee

- a The Board of Directors shall constitute a Risk Management Committee.
- b The majority of members of Risk Management Committee shall consist of members of the Board of Directors.
- c The Chairperson of the Risk Management Committee shall be a member of the Board of Directors and senior executives of the listed entity may be members of the committee
- d The risk management committee shall meet at least once in a year.
- e The Board of Directors shall define the role and responsibility of the Risk Management Committee and may delegate monitoring and reviewing of the risk management plan to the committee and such other functions as it may deem fit and such function shall specifically cover cyber security.
- f The provisions of this regulation shall be applicable to top 500 listed entities, determined on the basis of market capitalisation, as at the end of the immediate previous financial year.
- g The Chairperson of the Committee shall be a member of the Board of Director.



## Audit of Non-Banking Financial Company

Merging of NBFC's- three categories of NBFCs viz. Asset Finance Companies (AFC), Loan Companies (LCs) and Investment Companies (ICs) into a new category called Investment and Credit Company (NBFC-ICC).

Points to be covered in Audit of NBFC-Investment and Credit Company (NBFC-ICC) are given below (Learning 8 points are enough)



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- 1 Physically verify all the shares and securities held by a NBFC. Where any security is lodged with an institution or a bank, a certificate from the bank/institution to that effect must be verified.
- 2 Verify whether the NBFC has not advanced any loans against the security of its own shares.
- 3 Verify that dividend income wherever declared by a company, has been duly received by an NBFC and interest wherever due [except in case of NPAs] has been duly accounted for.
- 4 Test check bills/contract notes received from brokers with reference to the prices vis-à-vis the stock market quotations on the respective dates.
- 5 Verify the Board Minutes for purchase and sale of investments. Ascertain from the Board resolution or obtain a management certificate to the effect that the investments so acquired are current investments or Long Term Investments.
- 6 Check whether the investments have been valued in accordance with the NBFC Prudential Norms Directions and adequate provision for fall in the market value of securities, wherever applicable, have been made there against, as required by the Directions.
- 7 Obtain a list of subsidiary/group companies from the management and verify the investments made in subsidiary/group companies during the year. Ascertain the basis for arriving at the price paid for the acquisition of such shares.
- 8 Check whether investments in unquoted debentures/bonds have not been treated as investments but as term loans or other credit facilities for the purposes of income recognition and asset classification.
- 9 An auditor will have to ascertain whether the requirements of AS 13 "Accounting for Investments" or other accounting standard, as applicable, (to the extent they are not inconsistent with the Directions) have been duly complied with by the NBFC.



- 10** An auditor should examine whether each loan or advance has been properly sanctioned. He should verify the conditions attached to the sanction of each loan or advance i.e. limit on borrowings, nature of security, interest, terms of repayment, etc.
- 11** Obtain balance confirmations from the concerned parties.
- 12** Check whether the NBFC has not lent/invested in excess of the specified limits to any single borrower or group of borrowers as per NBFC Prudential Norms Directions.
- 13** An auditor should verify whether the NBFC has an adequate system of proper appraisal and follow up of loans and advances. In addition, he may analyse the trend of its recovery performance to ascertain that the NBFC does not have an unduly high level of NPAs.
- 14** Check the classification of loans and advances (including bills purchased and discounted) made by a NBFC into Standard Assets, Sub-Standard Assets, Doubtful Assets and Loss Assets and the adequacy of provision for bad and doubtful debts as required by NBFC Prudential Norms Directions.





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