Sub:- AP Registration Department-Chit Fund Companies-Auditing of Kapil chits (Kosta) Pvt,Ltd, Kapil Chits and Kapil Chits Hyderabad for Last 3 Financial years for all 87 branches of AP, IBA empanelled (Forensic Audit Firms) Scope of audit forwarding -Reg.

Ref:-Note orders of C&IG Vijayawada, Dt.25.07.2020.

***

The attention of the all Auditors of IBA empanelled (Forensic Audit Firms) is requested. This office requirement of scope of audit is placed below and requested to submit your proposals to the mail ID: cig.igrs@ap.gov.in.

SOA for Accountant Firm to Conduct Audit of Chit fund companies, Registered under The Chit Funds Act, 1982 (Central Act)

Objective:

The Objective is to monitor the activities of chit fund companies, by inviting the proposals from suitably qualified Chartered Accountant Firms to conduct Audit of Chit fund companies functioning in the state of Andhra Pradesh as per the provisions of The Chit Funds Act, 1982.

Scope of Audit:

The Scope of work intended to Audit the Chit fund companies; Act compliance and Validity of transactions, systems, Account Books, utilization of funds and analyses etc., for last 3 years of 87 Kapil chits branches across state.

The audit shall include the items mentioned below:
1. Chit Fund Act Compliance
2. Audit of Books and accounts
3. Falsification of Accounts
4. 2nd Account audit & transfer of money statement
5. Analysis of various spending's (Awards, Removals, replacements etc.,)
6. Inspect resolutions taken and implemented, if they were approved by those charged with governance i.e., Board Members etc.
7. Verify the FDRs/BGs and fixed Assets Register to ensure the validity for the confined period.
8. Any Flaws in systems & Policies

In the above aspects the Audit shall cover the following aspects:

a. Verification of Group/Value/tickets/ Subscribers list
b. Tax compliance (GST & PT)
c. Verification of PSO/CA/CCC validity's.
d. Governance procedures
e. Payments flow analysis
f. Prized Subscriber /Non Prized Subscriber payments
g. no.of company tickets in a Group
h. Subscribers enrolling audit.
i. Timely submission of statutory reports.
j. Any irregularities
k. Misstatements

Statutory norms to be covered under the audit

Some of the sections of the chit fund act are explained here, where scrutiny is required by the audit parties. This list is only recommendatory and not exhaustive.

Section 8: This section prescribes the minimum capital requirement to set up chit fund company. For a company the paid up capital should not be less than one lakh rupees. And the company should maintain a reserve fund with 10% of the profit. The company canutilize portion of the reserve fund only with the approval of the registrar.
The audit shall cover the adequacy of the paid up capital as per the company books. The audit shall also cover the maintenance of the reserve fund and any misappropriation therein.

2. **Section 13**: This section prescribes the aggregate amount of chits that can be conducted by the foreman.

<table>
<thead>
<tr>
<th>Category</th>
<th>Aggregate amount of chits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>Aggregate amount shall not be more than 1 lakh</td>
</tr>
<tr>
<td>Firm with more than 4 partners</td>
<td>Aggregate amount shall not be more than 6 lakh</td>
</tr>
<tr>
<td>Firms- other cases</td>
<td>Aggregate amount of 1 lakh for each partner</td>
</tr>
<tr>
<td>Company</td>
<td>Aggregate amount shall not be more than 10 times net owned funds</td>
</tr>
</tbody>
</table>

Net owned funds means the aggregate of paid-up capital and free reserves as disclosed in the last audited balance-sheet of the company as reduced by the amount of accumulated balance of loss, deferred revenue, expenditure.

The audit shall cover the verification of the aggregate amount of chits and their adequacy as per the provisions of the above section.

**Section 14**: This section prescribes the way of utilization of funds collected under chit fund business

a. Carrying on chit business
b. Giving loans to non- prized subscribers
c. Investing in trustee securities within the meaning of the Section 20 of The Indian Trusts Act, 1882
d. Making deposits in the approved banks

The audit shall cover the verification of the utilization of funds and check whether the utilization is carried out as per the provisions of the above section.

4. **Section 20:** This section prescribes the security to be given by foreman to initiate chit fund business

The audit shall cover the adequacy of the security furnished by the foreman as per the provisions of the above section

5. **Section 22:** This section prescribes that, the foreman shall deposit the prize amount if it is not drawn until the date of next succeeding instalment.

The audit shall cover proper implementation of this section. It is observed that many companies fail to maintain the amount in secondary account.

Regards

**SIDDHARTH**

Registrar of Chits

Commissioner and

of Registration and

A.P.,

JAIN

and

Inspector General

Stamps,

Vijayawada.

Signature valid

Digitally signed by Siddharth Jain Fozdar
Date: 2020.08.12 11:08:18 IST
Reason: Approve

**Note:** The last date for submit proposals is 31-August-2020