

## **PPM Audit Q&A**

### **Q.1: What is the purpose of the audit?**

A: The purpose of the PPM audit is to evaluate and assess compliance with the terms of the PPM by schemes of AIFs and other fund parties such as the Manager, Trustee, LP Advisory Committee (**LPAC**), Investment Committee (**IC**), etc. The auditor is expected to assess whether the obligations under the PPM are being fulfilled.

### **Q.2: How much of your audit should be based on compliance test reports or quarterly activity reports?**

A: Compliance test reports and quarterly activity reports do form part of the documents that can be referred to for the audit; however, both documents are prepared internally by the AIF. To ensure a fair and effective assessment of compliance with the terms of the PPM, the auditor may review and rely on other documents.

### **Q.3: What constitutes a 'deviation' in an audit report?**

A: A deviation refers to any non-compliance with the terms of the PPM. The auditor will report any instances where the actions of the AIF or its Manager are not aligned with the actions prescribed in the PPM. However, the auditor may not necessarily comment on the consistency of the terms with the applicable law.

### **Q.4: Does SEBI prescribe which documents should form part of the audit?**

A: There is no guidance from SEBI on the documents that should be relied upon. The auditor exercises their own judgement to determine the documents that should be reviewed for the purpose of assessing compliance with the PPM.

### **Q.5: What documents should you keep ready for the audit?**

A: While the list of requisitions is case-specific, auditors typically review bank account statements, email communications, minutes/notes from committee meetings, engagement agreements with service providers, drawdown notices, side letters, etc.

### **Q.6: If you fail to complete the submission on time, is there a penalty?**

A: SEBI expects submission of the PPM audit report on time and looks at non-compliance strictly. Recently, in the orders passed against India Asset Growth Fund and India Growth

Asset Fund- II, violations noted by SEBI included delay in filing PPM audit report for which a monetary penalty was imposed on the Manager, KMP and Trustee.

**Q.7: If you are unable to produce documents to showcase compliance with certain terms of the PPM, will this be considered a deviation?**

A: No, not necessarily; it would depend on the section. If the auditor finds that there are sections where no documents have been made available for verification, they may place reliance on a management representation.

**Q.8: Can you give a management representation for overall compliance with the PPM?**

A: The auditor is required to mention the document which has been relied upon for each section. A report where reliance is mostly placed on management representations may invite questions from SEBI for it would not serve the purpose of the PPM audit.

**Q.9: If the scheme has received Capital Commitments but has not issued any drawdown notices, is the report required?**

A: No, the requirement to conduct a PPM audit only applies if funds have been raised on or before March 31. If no funds are raised, the AIF must submit a 'no funds raised' certificate to SEBI.

**Q.10: You have a binding IC approving investment decisions. What documents will you need to present for the audit?**

A: You must ensure that records of the IC approving / rejecting investment and divestment decisions of the Investment Manager, by way of IC notes or otherwise, are made available to the auditor.

**Q.11: If the fund has a sectoral focus and the PPM states that at least 80% of the corpus shall be invested in 'fintech' companies, how should you show compliance with sectoral limits?**

A: You may share the MOA/AOA of investee companies where the main objective and business of the investee company is mentioned to show that investments have been made in the sectors as described in the PPM.

**Q.12: How will the auditor check the date of the first closing?**

A: The auditor may check the resolution passed by the Manager and / or Trustee for holding the first closing against the intimation letter to SEBI, to ensure that the date of the first closing in both documents matches.

**Q.13: What kind of compliance will be checked for the side letters? Will it include compliance with SFA standards?**

A: For the purpose of the audit, all side letters will be examined for compliance with the Side Letter clause in the PPM, which should be aligned with the template PPM. The principles of the template PPM align with those applied by SFA in its standards.

**Q.14: What is the extent of documents that you may be required to show compliance with terms of reference of the LPAC?**

A: The terms of reference for LPAC or any other committee mentioned in the PPM will form part of the audit. The minutes / notes from meetings of such committees may be reviewed to ensure that matters referred to the relevant committee and their decisions comply with the terms of reference.

**Q.15: Should the auditor only report the deviations observed?**

A: No, each section needs to be filled in by the auditor. If a certain clause is not applicable or where there are no deviations observed, the auditor should mention the same in the report.

**Q.16: Which version of PPM should be referred to for the audit?**

A: The version of the PPM as on the last day of the financial year for which audit is being conducted should be considered.

**Q.17: If your scheme has failed to hold the first closing within 12 months, is the 'no funds raised' certificate required?**

A: No, if a scheme has failed to hold an initial close within 12 months of PPM being taken on record, the scheme is considered to have lapsed. No certificate is required in this case. A declaration may be submitted intimating the same to SEBI.

**Q.18: Are all LVFs exempted from audit requirements? Are any documents required to be submitted?**

A: LVFs that have received consent from their investors for waiver of the audit requirement in the prescribed format are exempt from undertaking a PPM audit. You should submit a declaration to state that such consent has been received from investors.

**Q.19: Can the report be submitted physically to SEBI in case an error occurs on the SI Portal?**

A: The PPM audit report has to be submitted online through the SI Portal. To avoid a situation where deadline is missed because of technical errors, we encourage AIFs to make the filing in advance and not wait till the deadline because physical submissions will not be accepted.

**Q.20: Which documents must be submitted on the SI Portal?**

A: The audit report in the standardised format must be submitted along with the cover letter signed by the Manager and a signed letter by the auditor in a single pdf.

