

5. COMPANY AUDIT**QUESTION - WISE ANALYSIS OF PREVIOUS EXAMINATIONS**

Question No.	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)
1.	-	-	-	-	-	-	-	-	-	-	-	2
2.	-	-	-	-	-	-	-	-	-	7	-	-
3.	-	-	-	-	-	6	-	6	-	-	-	5
4.	-	-	-	-	-	-	-	-	4	-	-	-
5.	-	-	-	-	-	-	-	-	-	-	-	2
6.	-	-	-	-	-	-	-	-	-	2	5	-
7.	-	-	-	-	-	-	-	-	-	7	-	-
9.	-	-	6	-	-	-	9	-	-	-	-	-
14.	-	-	-	-	-	-	-	-	-	-	-	2
15.	-	-	-	-	-	-	-	-	-	5	-	-
16.	-	-	-	6	-	-	2	4	-	-	-	-
17.	-	-	-	-	-	-	-	-	-	2	-	-
18.	-	-	-	-	4	-	-	-	-	2	5	-
20.	-	-	-	-	-	-	-	4	-	-	4	5

Q.No.1. What are the Qualifications to become company auditor? (B)

(NEW SM)

QUALIFICATIONS OF COMPANY AUDITOR [Sec 141(1)]:

1. A person shall be **eligible for appointment** as an auditor only if he is a chartered accountant holding certificate of practice.
2. A firm where **majority of partners are chartered accountants and practicing in India** can be appointed as auditor on the **firm name**.
3. If a firm is appointed as an auditor then **the partner who is in practice** shall **sign** the audit report on behalf of the firm. [Sec. 141(2)].

SIMILAR QUESTIONS:

1. Any partner of an LLP who is appointed as an auditor of a company can sign the audit report	N18(N) - 2M
A. True - The partner in practice can sign the auditor's report.	

Ref: Practical Q No. 1

Q.No.2. Write about the Disqualifications of a Company's Auditor? Or Cases where a person cannot be appointed as an auditor of a company? (A)

(NEW SM)

A. DISQUALIFICATIONS OF COMPANY AUDITOR [Sec 141(3)]:

The following persons are **not eligible** for appointment as an auditor of a company even though they possess chartered accountancy qualification:

- a) a **body corporate other than** a limited liability partnership
- b) an **officer or employee** of the company;
- c) a person who is **a partner**, or who is **in the employment** of an **officer or employee** of the company;

- d) a person who, or his relative or partner -
- i) Is holding any security or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company (Group companies);
 - ii) Is indebted to the company or the group companies in excess of Rs 5,00,000; or
 - iii) Has given a guarantee or provided any security on behalf of any third person to the Company or the group companies in excess of Rs 1,00,000.

NOTE:

- i) The relative of the auditor may hold security or interest in the company for an amount Not exceeding a face value of Rs 1,00,000.
 - ii) Also it is to be observed that if the auditor is holding securities in HIS name this exception does not apply.
 - iii) If an auditor purchases goods on credit from the company of a value exceeding Rs. 5,00,000, he shall be indebted to the company, and consequently he shall vacate the office of auditor held by him. It is immaterial that the credit period allowed to the auditor is same as allowed to other customers in the ordinary course of business.
 - iv) If an auditor recovers fees from the company on a progressive basis, even though the audit has not been completed, he cannot be said to be indebted to the company, and therefore, he need not vacate the office of auditor held by him.
- e) A person or a firm (including LLP) who or which has business relationship with the Company, or its group companies, whether directly or indirectly
- Exceptions:** The term "Business relationship" includes any transaction entered for commercial purpose **except** the following commercial transactions:
- i) Professional services permitted to be rendered by an auditor or audit firm under the Companies Act, 2013 and the Chartered Accountants Act, 1949.
 - ii) Transactions which are in the ordinary course of business of the company at arm's length price - like sale of products or services to the auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.
- f) A person whose relative is a Director or is in the employment of the Company as a director or key Managerial Personnel. (KMP also known as officer)
- g) A person who is in full time employment elsewhere.
- h) A person or partner of a firm holding appointment of more than 20 company audits as on the date of proposed appointment¹.
- i) A person who has been convicted by a Court of an offence involving fraud and a period of 10 years has not elapsed from the date of such conviction.
- Note:** If such conviction is held by tribunal then prohibition is only for 5 years. (Sec.140 (5))
- j) Any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in providing services as specified in **section 144**.

B. SUBSEQUENT DISQUALIFICATION AFTER APPOINTMENT: [SEC. 141(4)]

Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned above after his appointment, he shall vacate immediately (Note) his office as auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

Note: However If the relative of auditor is holding securities exceeding Face value Rs. 1,00,000 after being appointed as an auditor then corrective action shall be taken within 60 days of such acquisition. In this case immediate vacation does not apply as 60 days' time limit is provided.

¹ Refer Q.No 4 for detailed discussion

Note: Definition of "RELATIVE": [sec 2(77)]: 'Relative' with reference to any person, means anyone who is related to another, if

1. They are members of a Hindu Undivided Family;
2. They are husband and wife;
3. One person is related to the other in the manner as given below:
 - a) Father (including step- father),
 - b) Mother (including step-mother),
 - c) Brother (including step- brother),
 - d) Sister (including step- sister),
 - e) Son (including step- son),
 - f) Son's wife,
 - g) Daughter,
 - h) Daughter's husband.

Ref: Practical Q No's 2 to 15

SIMILAR QUESTIONS:

<p>1. An Auditor is considered to lack independence if the partner of the audit firm deals with shares and securities of the audited entity.</p> <p>A. True - As it comes under Self Interest threat and Also disqualified as per Sec. 141(3) of companies act.</p>	M18(N)-2M
<p>2. Under sub-section(3) of section 141 of companies Act, 2013 along with rule 10 of the companies rules 2014, state the persons who shall not be eligible for appointment as an auditor of a company.</p> <p>A. Write entire Point A</p>	OLD PM, RTP M19(N)
<p>3. Mr A, a chartered accountant, has been appointed as an auditor of Laxman Ltd. in the annual general meeting of the company held in September, 2016 which assignment he accepted. Subsequently in January 2017 he joined Mr B, another chartered accountant, who is the manager finance of Laxman Ltd., as partner. Analyse and explain.</p> <p>A. Write corresponding provision, analysis and conclusion.</p>	RTP M19(N)
<p>4. RGS & Co. a firm of Chartered Accountants has three partners, namely, R, G & S. The firm is allotted the audit of BY Ltd. R, partner in the firm subsequently holds 100 shares in BY Ltd. Comment.</p> <p>A. Write corresponding provision, analysis and conclusion.</p>	MTP N18 (N&O)
<p>5. M/s RM & Co. is an audit firm having partners CA. R and CA. M. The firm has been offered the appointment as an auditor of Enn Ltd. for the Financial Year 2016-17. Mr. Bee, the relative of CA. R, is holding 5,000 shares (face value of Rs. 10 each) in Enn Ltd. having market value of Rs. 1,50,000. One of the shareholder's, complains that the appointment of RM & Co. as an auditor is invalid because it incurred disqualification u/s 141 of the Companies Act, 2013. Analyse and advise.</p> <p>A. Write corresponding provision, analysis and conclusion.</p>	MTP M18(N)
<p>6. M/s. ABC & Co. is an Audit firm, having partners CA. A, CA. B and CA. C. The firm has been offered the appointment as an Auditor of XYZ Ltd. for the Financial Year 2017-18. Mr. D, the relative of CA. A, is holding 25,000 shares (face value of Rs. 10 each) in XYZ Ltd. having market value of Rs. 90,000. Are M/s. ABC & Co. qualified to be appointed as Auditors of XYZ Ltd.?</p> <p>A. Write corresponding provision, analysis and conclusion.</p>	M18(N)-5M
<p>7. M/s BC & Co. is an Audit Firm having partners Mr. B and Mr. C, and Mr. A the relative of Mr. C, is holding securities of MWF Ltd. having face value of Rs. 1,01,000. Whether M/s BC & Co. is qualified from being appointed as an auditor of MWF Ltd.?</p> <p>A. Write corresponding provision, analysis and conclusion.</p>	MTP M18(N)

Q.No.3. State the services which an auditor of a company is prohibited to render to the client being audited as per Sec 144 of the Companies Act 2013? (A) (NEW SM, N16 - 6M)

Section 144 of the Companies Act, 2013 Prohibited services by auditors of the company to the company, holding company or subsidiary company:

- i) Accounting and book keeping services;
- ii) Internal audit;
- iii) Design and implementation of any financial information system;
- iv) Actuarial services;
- v) Investment advisory services;
- vi) Investment banking services;
- vii) Outsourced financial services;
- viii) Management services
- ix) Any other kind of services as may be prescribed

Therefore any person engaged in providing any of the above services then he cannot be appointed as auditor of the same company or group companies.

If at all the proposed auditor withdraws from rendering the above services then he can be appointed as an auditor after such withdrawal.

SIMILAR QUESTIONS:

1. CA. NM who is rendering management consultancy services to LA Ltd wants to accept offer letter for appointment as an auditor of LA Ltd for the next financial year Discuss with reference to the provisions of the Companies Act, 2013. A. Provision - Relevant point, Analysis and Conclusion - Only as auditor in next year.	N18(N)-5M
2. CA. Poshin is providing the services of investment banking to C Ltd. Later on, he was also offered to be appointed as an auditor of the company for the current financial year. Advice. A. Cannot accept the appointment as disqualified u/s 141(3) read with 144	RTP M18 (N)
3. A person shall not be eligible for appointment as an auditor of a company where subsidiary or associate company or any other form of entity is engaged as on the date of appointment in consulting and specialized services as provided in Sec.144. Explain. A. Write above answer.	N17-6M

Q.No.4. Write about ceiling on number of Audits that can be accepted by an auditor. (B) (NEW SM, OLD PM)

1. A Chartered Accountant in practice cannot hold appointments as auditor for more than 20 companies at any time.
2. In case of partner of firm the limit of 20 shall be counted per partner in practice.
3. If a person acting as partner in multiple firms then the limit will be counted only for one partnership and in the name of such partner only.
4. In other words the limit of 20 shall be counted per person holding COP. Whether he is a sole proprietor or partner in one or multiple firms.

5. **COMPANIES EXCLUDED FROM CEILING LIMIT:** For the purpose of computation of ceiling limits following companies are excluded:
- One person companies,
 - Dormant companies,
 - Small companies, and
 - Private limited companies having a paid capital less than Rs.100 crores.

Ref: Practical Q No's 27 & 28

SIMILAR QUESTIONS:

1. What are the provisions prescribed under Companies Act, 2013 in respect of ceiling on number of audits in a company to be accepted by an auditor? A. Write above answer.	M18(O) - 4M
2. Ceiling on number of audits in a company to be accepted by an auditor. A. Write above answer.	RTP M17

Q.No.5. Explain the provisions relating to Audit Committee and selection process of auditor? (A) (NEW SM)

A. APPLICABILITY:

The Following classes of companies shall constitute an Audit Committee -

- Listed companies
- All public companies
 - with a paid up capital of 10 crore or more;
 - With turnover of 100 crore or more.
 - With aggregate outstanding loans or borrowings or debentures or deposits, 50 crore or more.

Explanation: The above limits shall be taken as on **preceding audited balance sheet date**.

B. MANNER AND PROCEDURE OF SELECTION AND APPOINTMENT OF AUDITORS

Following is the manner and procedure of selection & appointment of auditors-

- If the audit committee is constituted then they shall select the auditor (Including a case of casual vacancy) on appropriate basis and recommend to the BOD. If No audit committee is constituted then BOD shall select the auditor on an appropriate basis.
- The BOD may agree with the proposed auditor recommended by audit committee and shall recommend the same to members at AGM.
- If BOD disagrees with the recommendation made by audit committee then it shall refer back to audit committee for the further revision.
- If the audit committee after considering the revision appeal made by BOD, decided not to change their recommendation then they can inform the same to the BOD.
- Nevertheless the BOD can finally recommend to the members the proposed auditor selected by them and fact that they disagree with the audit committee's selection and reasons thereof.
- Finally the members may take an appropriate action regarding the appointment of auditor.

SIMILAR QUESTIONS:

1. Write about applicability of Audit committee? A. Write Point A.	
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2. BOD must take into consideration the recommendations of audit committee regarding appointment of auditor's. Comment. A. Write Point B (1 and 2)	
3. BOD's are not bound by the recommendation made by audit committee w.r.t auditor appointment. Comment. A. Write Point B (1,2 and 5)	
4. The board of directors of ABC Ltd., a listed company at Bombay stock exchange is required to fill the casual vacancy of an auditor only after taking into account the recommendations of the audit committee. A. True, Every appointment shall be made after taking audit committee advice.	N18(N) - 2M

Q.No.6. Explain the provisions related to Appointment of Auditor of a company? (A) (NEW SM)

Section 139 of the Companies Act, 2013 contains provisions regarding Appointment of Auditors. The section divides the appointment into two parts:

- I. Appointment of First Auditors.
- II. Appointment of Subsequent Auditors.

Further the appointment procedure is different for Government Company and Non-Government Company.

A. APPOINTMENT OF FIRST AUDITOR:

1. In case of Non-Government Company: [Sec. 139(6)]

- a) The first auditor of Non-government Company shall be appointed by the Board of Directors within 30 days from the date of registration of the company.
- b) If the Board fails to appoint the auditor, it shall inform the members of the company and the members of the company shall appoint the auditor within 90 days at an extraordinary general meeting.
- c) Appointed auditor shall hold office till the conclusion of the first annual general meeting.

2. In case of a Government Company: [Sec. 139(7)]

- a) The first auditor shall be appointed by the Comptroller and Auditor-General of India (CAG) within 60 days from the date of registration of the company.
- b) If CAG fails to appoint the auditor then the Board of directors shall appoint within next 30 days.
- c) If BOD also fails then they shall inform the members of the company who shall appoint such auditor within 60 days at an extraordinary general meeting.
- d) The Auditors appointed as above shall hold office till the conclusion of the first annual general meeting.

B. APPOINTMENT OF SUBSEQUENT AUDITORS:

1. In case of Non-Government Companies: [Sec. 139(1)]

- a) Every company shall at the Annual General Meeting appoint an individual or a firm as an auditor and the appointed auditor shall hold office from the conclusion of that AGM till the conclusion of its sixth AGM and thereafter till the conclusion of every sixth meeting.
- b) The following points need to be noted in this regard-.
 - i) Before such appointment is made, the written consent of the auditor to such appointment.
 - ii) A certificate indicating that he is eligible and not disqualified shall be obtained.
 - iii) The company shall inform the auditor concerned about his or its appointment.
 - iv) Also file a notice of such appointment with the Registrar within 15 days of the meeting in which the auditor is appointed.

2. In case of Government Companies: [Sec. 139(5)]

- a) The Comptroller and Auditor-General of India (CAG) shall appoint a chartered accountant in practice within a period of 180 days from the commencement of the financial year.
- b) The auditor appointed as above shall hold office till the conclusion of the next annual general meeting.

Note: Where at any AGM, No auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company. Practically this case is not possible as appointment and reappointment are ordinary businesses in an AGM.

C. DEFINITION OF GOVERNMENT COMPANY:

A "Government company" is a company in which not less than 51% of the paid-up share capital is held by the Central or any State Government or Governments or partly by the Central and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

Ref: Practical Q No's 16 to 20

SIMILAR QUESTIONS:

1. K Ltd., a non-government company, was incorporated on 01-10-2017. Mr. B, Managing Director of K Ltd., himself appointed the first auditor of the company on 31-12-2017. A. Write Point A(2)	M18(N) - 2M
2. The first auditor of Bhartiya petrol Ltd. a government company was appointed by the board of directors. Analyse and explain. A. The auditors of Government Company shall be appointed by CAG and not by BOD. This rule applies whether it is first auditors or subsequent auditors.	MTP M18(N), RTP M19(N), MTP N17
3. Discuss the provisions relating to appointment of subsequent Auditors of Suruchi Yarns Pvt Ltd. A. Write Point B(1)	MTP M18 (O) MTP N18 (O), RTP M19 (O)
4. Explain the following: a) Appointment of First Auditor of a Non-Government Company. b) Appointment of First Auditor of a Government Company. c) Appointment of Subsequent Auditor of a Non-Government Company. d) Appointment of Subsequent Auditor of a Government Company. A. Write above answer.	RTP N18(O), N18(O) - 5M
5. "Section 139(1) of the Companies Act, 2013 provides that every company shall, at the first annual general meeting appoint an auditor who shall hold office till the conclusion of its sixth annual general meeting". A. Refer Point - B(1).	RTP M18(N)
6. Managing Director of Pigeon Ltd. himself wants to appoint CA. Champ, a practicing Chartered Accountant, as first auditor of the company. Advise A. Refer Point - A(1).	MTP M18(N)

Q.No.7. Explain the provisions to fill the Casual vacancy arises in the office of an auditor? (A) (NEW SM)

As per **Section 139(8)**, any casual vacancy in the office of an auditor shall-

A. NON-GOVERNMENT COMPANY:

1. **Other than Resignation:** Shall be filled by the Board of Directors, on recommendation of audit committee, within 30 days.
2. **Resignation:** The appointment shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board.

B. GOVERNMENT COMPANY:

It shall be filled by the CAG within 30 days. In case if the CAG does not fill the vacancy within 30 days then the Board of Directors shall fill the vacancy within next 30 days.

PERIOD OF APPOINTMENT:

The Auditor appointed under casual vacancy shall hold the office until conclusion of Next AGM.

Ref: Practical Q No's 21 to 24

SIMILAR QUESTIONS:

1. PQR & Co., Chartered Accountants, resigned from the audit of a Government Company and filed the resignation with the company and the registrar within 30 days. Comment, whether PQR & Co. has complied with the provisions of the Companies Act, 2013. A. Refer Point - B.	M18(N) - 2M
2. At the AGM of HDB Pvt. Ltd., Mr. R was appointed as the statutory auditor. He, however, resigned after 3 months since he wanted to pursue his career in banking sector. The Board of Director has appointed Mr. L as the statutory auditor in board meeting within 30 days. Comment on the matter with reference to the provisions of Companies Act, 2013. A. Refer Point - A(2).	M18(N) - 5M
3. Filling of a casual vacancy of auditor in respect of a company audit. A. Refer above answer	RTP M18(N), RTP M17
4. Mr. A was appointed auditor of AAS Ltd. by Board to fill the casual vacancy that arose due to death of the auditor originally appointed in AGM. Subsequently, Mr. A also resigned on health grounds during the tenure of appointment. The Board filled this vacancy by appointing you through duly passed Board resolution. Comment. A. Refer Point - A(2).	MTP N18 (O)
5. A vacancy arose in the office of an auditor of XYZ Ltd due to death of the Auditor Mr. Z and the Managing Director of the company filled that vacancy. Comment citing the provisions of the Companies Act, 2013. A. Refer Point - A(1).	MTP-M18(O)

Q.No.8. Explain the Duties of an auditor in case of resignation? (B)

(NEW SM)

- As per **section 140(2)**, the auditor who has resigned from the company shall file a form with the company and the Registrar in ADT-3 within a period of 30 days from the date of resignation.
- Further in case of Government Company, He shall also inform the same to CAG.
- The statement shall indicate the reasons and other facts as may be relevant with regard to his resignation.

SIMILAR QUESTION:

1. CA. Donald was appointed as the auditor of PS Ltd. at the remuneration of Rs.30,000/-. However, after 4 months of continuing his services, he could not continue to hold his office of the auditor as his wife got a government job at a distant place and he needs to shift along with her to the new place. Thus, he resigned from the company and did not perform his responsibilities relating to filing of statement to the company and the registrar indicating the reasons and other facts as may be relevant with regard to his resignation. How much fine may he be punishable with under section 140(3) for non-compliance of section 140(2) of the Companies Act, 2013?	RTP M19(N)
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A. Provisions and Explanation: For non-compliance of sub-section (2) of section 140 of the Companies Act, 2013, the auditor shall be punishable with fine, which shall not be less than Rs. 50,000/- or the remuneration of the auditor, whichever is less but which may extend to Rs. 5,00,000/-, under section 140(3) of the said Act.
Conclusion: Thus, the fine under section 140(3) of the Companies Act, 2013 shall not be less than Rs. 30,000/- but which may extend to Rs. 5,00,000/-.

Q.No.9. Explain the provisions relating to Rotation of an Auditor? (A) (NEW SM, M15 - 6M)

A. APPLICABILITY OF ROTATION OF AUDITORS: [Sec. 139(2)]

1. All Listed Companies.
2. All Unlisted Public Limited Companies:
 - a) With paid up share capital of rupees 10 crore or more.
 - b) With borrowings from PFI's or Banks or Public Deposits of 50 crore or more.
3. All Private Limited Companies:
 - a) With paid up share capital of rupees 50 crore or more.
 - b) With borrowings from PFI's or Banks or Public Deposits of 50 crore or more.

Note: This provision shall not apply to One Person Company and Small Companies.

B. MANNER OF ROTATION:

1. Every company to which the concept of rotation is applicable, shall not appoint or re-appoint-
 - a) An **Individual** as auditor for more than ONE term of five consecutive years; and
 - b) A **Firm of auditors** for more than TWO terms of five consecutive years.
2. An individual auditor or an audit firm, who or which has completed their respective term namely 5 years or 10 years (AKA retiring auditors) as the case may be, shall not be eligible for re-appointment as auditor in the same company for a period of five years from the completion of their respective term (AKA Break in service or Cooling period).
3. For the sake of convenience Retiring auditor is referred as outgoing auditor. New auditor is referred as Incoming auditor.
4. If there is a common partner(s) in incoming and outgoing auditor's firm, then such incoming auditor is not eligible for appointment under rotation.
5. Also if the incoming auditor and outgoing auditor belong to "Same Network", then also such incoming auditor shall not be eligible for appointment.
6. The term "same network" includes the firms operating or functioning under the same brand name, trade name or common control.
7. If a partner who is in charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of chartered accountants, such other firm shall also be ineligible to be appointed for a period of five years.

Note: Subject to the provisions of this Act, members of the company may resolve that-

- a) In the audit firm appointed by it, the auditing partner and his team shall be rotated at such intervals as may be resolved by members; or
- b) The audit shall be conducted by more than one auditor (Joint Audit).

Note: For computing number of years for the purpose of rotation, the period of appointment before commencement of this act shall also be considered i.e., auditor's period under companies act, 1956 shall also be computed for calculating 1 term of 5 years OR 2 terms of 5 years.

Ref: Practical Q No's 25

SIMILAR QUESTIONS:

1. Rano Pvt. Ltd. is a private limited Company, having paid up share capital of Rs. 45 crore but having public borrowing from nationalized banks and financial institutions of Rs. 40 crore. Advise the company on the applicability of rotation of auditors. A. Write Point - A.	RTP M18(N)
2. State the manner of rotation of auditors on expiry of their term. A. Write Point - B.	MTP N18(O), M17 - 5M
3. Provisions regarding rotation of auditors affect only specific class of companies". Discuss. A. Write Point - A.	RTP M18(N), MTP N18(O), MTP M18(O)
4. Specify the class of companies to whom rotation of auditor applies, under the provisions of Companies Act, 2013. A. Write Point - A.	M17 - 4M

Q.No.10. Briefly Explain the provisions relating to Removal of auditor of a company before expiry of his term? (B) (NEW SM)

PROCEDURE FOR REMOVAL OF AUDITOR BEFORE EXPIRY OF TERM:

1. A BOD resolution shall be passed to remove the auditor before expiry of term.
2. An application to the Central Government for removal of auditor shall be made in Form ADT-2 within 30 days of board resolution.
3. The company shall hold the general meeting within 60 days upon receipt of approval from the Central Government for passing the special resolution.
4. Convene the General Meeting and pass the special resolution removing the auditor.

Note: An opportunity of being heard shall be given to the auditor before removing him.

SIMILAR QUESTIONS:

1. The auditor CA.Z appointed under section 139 was removed from his office before the expiry of his term by an ordinary resolution of the company. Comment explaining clearly the procedure of removal of auditor before expiry of term. A. Write above answer.	RTP M19(O); MTP N18 (N&O)
2. Why Central Government permission is required, when the auditors are to be removed before expiry of their term, but the same is not needed when the auditors are changed after expiry of their term? A. Write above answer.	RTP N18 (N&O)
3. Removal of auditor before expiry of term. A. Write above answer.	MTP N18(O)

Q.No.11. Explain the procedure for removal of auditor by Tribunal u/s 140(5)? (B) (NEW SM, RTP M17)

A. APPLICATION BY WHOM:

1. The Tribunal on its own
2. The Central Government
3. Any person concerned

Application to Whom: The tribunal

B. PROCEDURE FOR REMOVAL:

1. If the tribunal is satisfied that the auditor of a company has acted in a fraudulent manner or colluded in any fraud with directors or officers of the company then it may direct the company to change its auditors.
2. If the **application is made by the Central Government** and the Tribunal is satisfied that any change of the auditor is required, it shall make an order that he shall not function as an auditor within 15 days of receipt of such application and the Central Government may appoint another auditor in his place.

C. PROHIBITION ON FURTHER APPOINTMENTS: An auditor, whether individual or firm, against whom final order has been passed by the Tribunal under this section shall not be eligible to be appointment as an auditor of any company for a period of **5 years** from the date of passing of the order.

Note: If the conviction is by court then the prohibition shall be 10 years.

SIMILAR QUESTIONS:

1. National Company Law Tribunal can remove the auditor. Comment. A. Write above answer.	
2. Write about removal of auditor by Central Government. A. CG cannot directly remove the auditor. But it can apply to tribunal and then remove the auditor through tribunal as per above question.	

Q.No.12. Explain the procedure for appointment of auditor other than retiring auditor? (A)

Section 140(4) lays down procedure to appoint an auditor other than retiring auditor -

1. Special notice shall be required for a resolution at an annual general meeting appointing a person as auditor other than a retiring auditor or providing expressly that a retiring auditor shall not be re-appointed.
2. On receipt of such notice, the company shall immediately send a copy thereof to the retiring auditor for getting the representation of retiring auditor.
3. The retiring auditor can make a representation (not exceeding a reasonable length) in writing to the company with respect to special notice and requests it to circulate the members.
4. The company shall send a copy of the representation to every member to whom notice of the meeting is sent (Circulation).
5. If a copy of the representation is not sent as aforesaid because it was received too late or because of the company's default, the auditor may require that the representation shall be read out at the meeting.
6. Further if a copy of representation is not sent as aforesaid, a copy thereof shall be filed with the Registrar.

PROHIBITION ON RIGHT TO REPRESENTATION:

If the Tribunal is satisfied that the right of representation being abused by the auditor then it may direct not to send or read out the representation at AGM. The application can be made either by the company or any other aggrieved person

Note: This provision need not be applied where the retiring auditor has completed a consecutive tenure of **five years or ten years** and are liable for rotation u/s 139(2).

SIMILAR QUESTION:

1. Explain the procedure for not re-appointing of Retiring Auditor. A. Refer above answer	
2. Under what circumstances the retiring Auditor cannot be reappointed? A. Refer above answer	MTP N17

Q.No.13. What are the powers of an auditor as per Sec. 143(1)? (A)

(NEW SM)

The auditor has the following powers/rights while conducting an audit:

A. RIGHT OF ACCESS TO BOOKS:

1. The auditor of a company shall have a right of access to the books of account and vouchers of the company at all times, whether kept at the registered office of the company or at any other place including branches.
2. Further this right can be exercised during working days and business hours.
3. Right to access to books of accounts of subsidiary company and associate companies in so far as they related to consolidated financial statements.
4. Right to access to other records namely minutes of board meeting, MIS reports and any other books as may required by the auditor.

Note: Books of accounts definition includes cost records.

B. RIGHT TO OBTAIN INFORMATION AND EXPLANATION:

1. The auditor has right to obtain from the officers of the company such information and explanations as he may think necessary for the performance of his duties as auditor.
2. The information and explanation can be obtained from either officers or employees of the company.
3. The auditor can also obtain any additional information if needed. The Management of the company has duty to explain the auditor.

C. RIGHT TO RECEIVE NOTICES AND DUTY TO ATTEND GENERAL MEETING (Sec. 146):

1. The auditors of a company are entitled to attend any general meeting of the company (the right is not restricted to those at which the accounts audited by them are to be discussed); also to receive all the notices to the general meetings, which members are entitled to receive.
2. Further it is the duty of the auditor to attend the general meeting as per sec. 146.
3. So it can be concluded that it is both right and duty to attend the general meetings.

Note: However he can with the prior approval of BOD can skip general meetings except AGM.

Ref: Practical Q No's 29 to 34

SIMILAR QUESTIONS:

1. "Auditor of a company shall have a right of access to the books of account and vouchers of the company" Explain.	RTP M18(O)
A. Write Point - A	

Q.No.14. What are the duties of the auditor? (B)

(NEW SM, OLD PM)

A. DUTY TO REPORT: 143(2)

1. The auditor shall make a report to the members on
 - a) The Accounts examined by him; and
 - b) Financial Statements which are required to be laid before the company in general meeting.
2. The auditor shall state in his report as to whether the accounts examined by him and financial statements give a true and fair view of -
 - a) The statement of the company's affairs as at the end of its financial year;
 - b) The Profit/Loss for the year; and
 - c) Cash Flow Statement for the year.
3. The auditor shall prepare his report after taking into account the provisions of this Act and the Accounting and Auditing Standards.

- B. DUTY TO SIGN THE AUDIT REPORT:** As per **section 145** of the Companies Act, 2013, the person appointed as an auditor of the company shall sign the auditor's report or sign or certify any other document of the company, in accordance with the provisions of **section 141(2)**.
- C. DUTY TO COMPLY WITH AUDITING STANDARDS:** As per **section 143(9)** of the Companies Act, 2013, every auditor shall comply with the auditing standards.
- D. DUTY TO ATTEND GENERAL MEETINGS: Sec.146**
1. All notices of general meeting must be sent to the Auditor of the company whether the financial statements are discussed or not in that General Meeting.
 2. The auditor shall attend the GM either by himself or through his authorized representative, who shall also be qualified to be an auditor (unless otherwise exempted by the company).
 3. The right is only in respect of General Meetings only and not in respect of any Board Meetings.

Ref: Practical Q No's 35 & 36

SIMILAR QUESTIONS:

1. State the matters to be specified in the auditor's report in terms of provisions of sec. 143(2) of the Companies Act 2013. A. Refer Point - A.	MTP N18(N)
2. Management is solely responsible for compliance with auditing standards while preparing financial statements. A. Refer Point - C.	N18 (N) -2M

**Q.No.15. Reporting on Fraud Identified by the auditor in accordance with Sec. 143(12)? (A)
(NEW SM, RTP M17)**

According to section 143(12) and Rule 13 of the Companies (Audit and Auditors) Rules, 2014, the following are the duties of auditor in relation to any fraud identified during the course of his audit.

A. IF THE AMOUNT OF FRAUD IS RS. 1 CRORE OR MORE

- a) **Reporting to the Central Government:** If the auditor has reason to believe that an offence of fraud involving an amount of Rs. 1 crore or above, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the CG in the following manner.
 - b) **The manner of reporting the matter to the Central Government is as follows: [Rule 13]**
 - i) First, the auditor shall report the matter to the Board or the Audit Committee, as the case may be, within 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days.
 - ii) 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 to the CG within 15 days from the date of receipt of such reply or observations.
 - iii) In case the auditor fails to get any reply or observations within the stipulated period of 45 days, he shall forward his report to the CG along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations;
 - iv) The report shall be on the letter-head of the auditor containing postal address, e-mail address and contact telephone number or mobile number and be signed by the auditor with his seal and shall indicate his Membership Number; and
 - v) The report shall be in the form of a statement as specified in Form ADT-4.

B. IF THE AMOUNT OF FRAUD IS LESS THAN RS. 1 CRORE:

- a) **Reporting to the Audit Committee or Board:** If the auditor has reason to believe that an offence of fraud involving an amount of less than Rs.1 Crore, is being or has been committed in the company by its officers or employees, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board within 2 days of knowledge of fraud, specifying the following:
- Nature of Fraud with description;
 - Approximate amount involved; and
 - Parties involved.
- b) **Disclosure in the Board's Report:** The following details of each of the fraud reported to the Audit committee or the Board shall be disclosed in board's report:
- Nature of Fraud with description;
 - Approximate Amount involved;
 - Parties involved, and
 - Remedial actions taken.

SIMILAR QUESTIONS:

<p>1. Mr. A is appointed as Statutory auditor of a company for the financial year ended 31st March 2018. During the course of Audit it was found that few doubtful transactions had been committed by Finance manager who retired in March 2018. The Fraud was going on since last 2-3 years and the total amount misappropriated exceeding Rs 100 lakhs. As a statutory auditor. What would be reporting responsibilities of Mr. A?</p> <p>A. Write Point - A.</p>	M18(N)-5M
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Q.No.16. Write about Duties and Responsibilities of a Joint auditor as per SA-299? (B)
(NEW SM)

- A. **MEANING:** The process of appointing two or more individuals or firms or combination of individuals and firms is known as joint audit.
- B. **VARIOUS ADVANTAGE OF JOINT AUDIT:**
- Sharing of expertise.
 - Mutual consultation.
 - Lower workload.
 - Better quality of performance.
 - Improved service to the client.
 - A sense of healthy competition towards a better performance.
- C. **THE GENERAL DISADVANTAGES MAY BE THE FOLLOWING:**
- The fees being shared.
 - Psychological problem where firms of different standing are associated in the joint audit.
 - General superiority complexes of some auditors.
 - Problems of co-ordination of the work.
 - Areas of work of common concern being neglected.
 - Uncertainty about the liability for the work done.

D. RESPONSIBILITY OF JOINT AUDITOR:

1. **Individual / Separate Responsibilities:** Where work is divided among the joint auditors on a suitable basis then each joint auditor is responsible only for the work performed by them. Generally the work will be divided based on the following basis.
 - a) Items of Assets or liabilities
 - b) Income or Expenditure
 - c) Geographical areas
 - d) Identified units
 - e) Period of Financial statements
2. **Joint / Combined Responsibility:** In the following areas all the joint auditors will have indivisible or combined responsibility.
 - a) In respect of audit work not divided among themselves
 - b) In respect of decisions taken by all the joint auditors
 - c) In respect of matters brought to the notice of all joint auditors
 - d) For verifying disclosure requirements of financial statements; and
 - e) For ensuring that the audit report complies with relevant statute.

E. AUDIT REPORTING IN CASE OF JOINT AUDIT:

- a) Generally all the joint auditors arrives common conclusions and express common opinion through a single audit report.
- b) However any joint auditor is not bound by majority's opinion.
- c) If there is a difference of opinion among joint auditors then such disagreeing auditor can express his own opinion by a separate report.

Note: Each joint auditor is entitled to rely on the work performed by another joint auditor and need not review the work performed by others.

SIMILAR QUESTIONS:

1. A Joint auditor is not bound by the views of the majority of the joint auditors regarding matters to be covered in the auditor's report. A. Write Point - E	M17 - 2M
2. Write short note on responsibility of joint auditors. A. Refer Point - D.	N17 - 4M, N15 - 6M
3. Discuss the advantages and disadvantages of joint audit. A. Refer Point - B and C.	

Q.No.17. Write about Audit of Branch Office Accounts? (A)

1. **WHO CAN BE APPOINTED AS A BRANCH AUDITOR:** Where a company has a branch office, the accounts of that office shall be audited either by
 - a) The auditor appointed for the company (i.e., Principal auditor) or
 - b) Any chartered accountant holding certificate of practice, or
 - c) Where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country.

2. WHO CAN APPOINT BRANCH AUDITORS:

- a) Usually the branch auditors are also appointed by the members.
- b) However the shareholders can delegate such power to BOD to appoint branch auditor.

3. REPORTING REQUIREMENTS OF BRANCH AUDITORS:

- a) The branch auditor shall prepare a report on the accounts of the branch examined by him.
- b) The branch auditor shall submit his report to the company's auditor.
- c) The reporting requirements u/s 143(1), (3), (11) and (12) are equally applicable to branch auditors.

4. SA 600 - USING THE WORK OF ANOTHER AUDITOR: Refer Chapter-2 (Audit Reporting)

Ref: Practical Q No's 38

SIMILAR QUESTIONS:

1. Mr. A is a statutory auditor of ABC Ltd. The branch of ABC Ltd. is audited by Mr. B, another Chartered Accountant. Mr. A requests for the photocopies of the audit documentation of Mr. B pertaining to the branch audit. A. Refer above answer	M18(N) - 2M
2. When the accounts of the branch are audited by a person other than the company's auditor, there is need for a clear understanding of the role of such auditor and the company's auditor in relation to the audit of the accounts of the branch and the audit of the company as a whole. Explain. A. Refer above answer	RTP N18(N)

Q.No.18. Describe the Applicability provisions relating to appointment of Internal auditor of a company. (A) (NEW SM, M16 - 4M)

1. **MEANING:** Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.
2. **APPLICABILITY OF INTERNAL AUDIT:** As per section 138 of the Companies Act, 2013 the following class of companies (prescribed in Rule 13 of Companies (Accounts) Rules, 2014). Shall be required to appoint an internal auditor or a firm of internal auditors, namely:
 - a) Every listed company.
 - b) Every unlisted Public Company having
 - i) Paid up share capital of Rs. 50 crores or more as on preceding balance sheet date or
 - ii) Turnover of Rs. 200 crores or more or
 - iii) Outstanding loans or borrowings from banks or public financial institutions Rs. 100 crores or more at any point of time during preceding financial year or
 - iv) Outstanding deposits of Rs. 25 crores or more at any point of time during preceding financial year.
 - c) Every Private Company having-
 - i) Turnover of Rs. 200 crores or more as per preceding F/S or
 - ii) Outstanding loans or borrowings from banks or public financial institutions exceeding Rs. 100 crores or more at any point of time during preceding financial year
3. **ELIGIBILITY TO ACT AS INTERNAL AUDITOR:**
 - a) As per section 138, the following persons can be appointed as internal auditor which may be either an individual or a partnership firm or a body corporate:
 - i) A Chartered Accountant whether engaged in practice or not.
 - ii) A Cost Accountant whether engaged in practice or not.
 - iii) Such other professional as may be decided by the Board
 - b) Internal auditor may or may not be an employee of the company.

4. **OBJECTIVE AND SCOPE OF INTERNAL AUDITOR:** The functioning, periodicity and methodology for conducting the internal audit i.e. objective and scope are determined by the Audit Committee or the Board after consultation with the Internal Auditor.
5. **INDEPENDENCE OF INTERNAL AUDITOR:**
- To be efficient and effective, the internal auditor must have adequate independence.
 - Internal auditor may or may not be an employee of the company. An outsider, like a firm of chartered accountants, if acting as internal auditor, is likely to be more independent than an employee of the organization.
 - 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.
 - As mentioned above, the internal auditor may be part of the management, but he evaluates the functioning of the management at different levels.
 - To ensure his independence he is made responsible directly to the Board of Directors through audit committee.
 - If internal auditor is made subordinate to lower level, his independence will be effected which will affect his functioning and effectiveness.
6. **SA 610 - USING THE WORK OF INTERNAL AUDITOR** - Refer Chapter-2 (Audit Reporting)

SIMILAR QUESTIONS:

1. Few members of the board of directors oppose the appointment of Mr. an employee of the company, as an internal auditor, stating that Mr. M is not a chartered accountant and further he is an employee of the company. A. Incorrect - As per Sec.138, internal auditor shall be either CA or CMA or any other professional as decided by the board	M18(N) - 2M
2. As per Section 138 of the Companies Act, 2013 only listed companies are required to appoint an internal auditor. A. Refer Point 2	N18(O) - 5M

QUESTIONS FOR ACADEMIC INTEREST - FOR STUDENT'S SELF STUDY

Q.No.19. Explain the Provisions relating to Auditor's Remuneration U/s 142 of Companies Act, 2013. (C) **(NEW SM)**

As per section 142 of the Act, the remuneration of the auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein.

Board may fix remuneration of the first auditor appointed by it.

The remuneration, in addition to the fee payable to an auditor, include the expenses, if any, incurred by the auditor in connection with the audit of the company and any facility extended to him.

The remuneration does not include any remuneration paid to him for any other service rendered by him at the request of the company.

Therefore, it has been clarified that the remuneration to Auditor shall also include any facility provided to him.

Q.No.20. Explain provisions relating to maintenance of cost records and cost audit u/s 148 of companies act 2013? (C)

MAINTENANCE OF COST RECORDS:

1. **CLASSIFICATION OF COMPANIES FOR THE PURPOSE OF APPLICABILITY OF THE RULES:** The said rule has divided the list of companies into regulated sectors and non-regulated sectors. Some of the companies/ industry/ sector/ product/ service prescribed under the said rule are given below:

a) Regulated Sectors:

- i) Telecommunication services regulated by the telecom Regulatory Authority of India (TRAI)
- ii) Generation, transmission, distribution and supply of electricity regulated by the relevant regulatory body or authority under the Electricity Act, 2003, other than for captive generation.
- iii) Petroleum products regulated by the Petroleum and Natural Gas Regulatory Board.
- iv) Drugs and Pharmaceutical.
- v) Sugar and industrial alcohol.
- vi) Fertilizers.

b) Non - Regulated Sectors:

- i) Turbo jets and turbo propellers.
- ii) Tyres and Tubes.
- iii) Steel; Cement.

2. **APPLICABILITY:** Rule 3 of the Companies (Cost Records and Audit) Rules, 2014 provides that the following conditions for companies (including foreign companies) which are required to maintain cost records,

- a) Company must be engaged in the production of goods or providing services, and
- b) It must be having an overall turnover from all its products and services of Rs.35 crore or more during the immediately preceding financial year.

Exceptions: Companies classified as a Micro enterprise or a Small enterprise under Micro, Small and Medium Enterprises Development Act, 2006 are not required to maintain cost records even it satisfies the above limits.

3. **PRESCRIBED FORM FOR MAINTENANCE OF COST RECORDS:** As per Rule 5 of the companies (Cost Records and Audit) Rules, cost records shall be maintained in Form CRA - 1.

4. **REQUIREMENT AS PER CARO, 2016:** As per clause (vi) to Paragraph of the CARO, 2016, where maintenance of cost records has been specified by the Government under section 148(1) of the Companies Act, 2013, the auditor has to report whether such accounts and records have been made and maintained.

COST AUDIT u/s 148:

1. **APPLICABILITY OF COST AUDIT:** Rule 4 of the companies (Cost Records and Audit) Rules, 2014 states the provisions related to the applicability of the cost audit.

The applicability of Cost Audit to a company depends upon certain Turnover criteria as follows

a) For Companies specified under “Regulated Sectors”:

- i) The overall annual turnover of the company from all its products and services during the immediately preceding financial year is Rs.50 crore or more and
- ii) The aggregate turnover of the individual product(s) or service(s) covered in the sector is Rs.25 crore or more.

b) For Companies specified under “Non-Regulated Sectors”:

- i) The overall annual turnover of the company from all its products and services during the immediately preceding financial year is Rs.100 crore or more and
- ii) The aggregate turnover of the individual product(s) or service(s) covered in the sector is Rs.35 crore or more.

2. **NOT - APPLICABILITY OF COST AUDIT:** Sub - rule (3) of Rule 4 provides that the requirement for cost audit under these rules shall not be applicable to a company which is covered under Rule 3.

- a) Whose revenue from exports, in foreign exchange, exceeds 75% of its total revenue (or)
- b) Which is operating from a special economic zone. (or)
- c) A company which is engaged in generation of electricity for captive consumption.

A. APPOINTMENT OF COST AUDITOR: SEC 148

1. **Qualification, disqualification, rights, duties and obligations of Cost Auditor:** Similar to the company auditor appointed under section 139.
2. **Who can be appointed as a cost auditor:** The Cost audit shall be conducted by a Cost Accountant in Practice. Provided that person appointed under section 139 as an auditor of the company shall not be appointed as its cost auditor.
3. **Who can appoint Cost Auditor:** Board of directors.
However, if there is Audit committee in the company, then the appointment can be made after considering the recommendation of audit committee.
4. **Time limit for appointment:** within 180 days of the commencement of every financial year.
5. **Communication with CG:** Every referred company shall file a notice of such appointment with the central Government within a period of 30 days of the Board meeting in which such appointment is made or within a period of 180 days of the commencement of the financial year, Whichever is earlier, through electronic mode, in Form CRA-2.
6. **Tenure of Cost Auditor:** The cost auditor appointed as such shall continue in such capacity till the expiry of 180 days from the closure of the financial year, or till he submits the cost audit report, for the financial year for which he has been appointed
7. **Casual vacancy in the office of Cost Auditor:** Any casual vacancy in the office of a cost Auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within 30 days of occurrence of such vacancy and the company shall inform the CG in Form CRA-2 within 30days of such appointment of cost auditor.

- B. REMOVAL OF COST AUDITOR:** The cost Auditor may be removed from his office before the expiry of his term, through a board resolution after giving a reasonable opportunity of being heard to the cost auditor and recording the reasons for such removal in writing.

PROCEDURE FOR SUBMISSION OF COST AUDIT REPORT:

1. **COST AUDITOR TO BOD:** The cost Auditor shall submit the cost audit report along with his his reservations or qualifications, if any, in Form CRA-3 to the BOD within a period of 180 days from the closure of the financial year.
2. **BOD to CG:**
 - a) The company shall within 30 days from the dated of receipt of a copy of the cost audit report prepared furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein in Form CRA-4.
 - b) If after considering the cost audit report and the information and explanation furnished by the company as above, the central Government may call for any further information or explanation as is necessary.
3. **DUTY TO REPORT ON FRAUD:** The provisions of section 143(12) of the Companies Act, 2013 and the relevant rules on duty to report on fraud shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules.

SIMILAR QUESTIONS:

1. Mr. A is offered by ABC Ltd for appointment as cost auditor and asked to certify certain requirements before such appointment Discuss those requirements with reference to the provisions of the companies act, 2013. A. Write corresponding provision, analysis and conclusion.	N18(N) - 5M
2. Casual vacancy of a 'Cost Auditor of a Company is filled by shareholders in general meeting within one month. A. Write corresponding provision, analysis and conclusion.	N17 - 4M
3. Applicability of Cost Audit. A. Refer Point 1 in Cost Audit	N18(O) - 4M

Q.No.21. The provisions in the matter of books of account which a company is required to maintain are contained in section 128 of the Companies Act, 2013. In the above context, explain clearly the meaning of Books of Account as contained in the Companies Act, 2013. (C) (RTP M19(O))

BOOKS OF ACCOUNT: The provisions in the matter of books of account which a company is required to maintain are contained in section 128 of the Companies Act, 2013.

The term “**Book and paper**” and “**Book or paper**” has been defined under section 2(12) of the Act, which includes books of account, deeds, vouchers, writings, documents, minutes and registers maintained on paper or in electronic form.

Further, “**Books of account**”, as defined under section 2(13) of the Act, includes records maintained in respect of-

- a) All sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- b) All sales and purchases of goods and services by the company;
- c) The assets and liabilities of the company; and
- d) The items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section.

Q.No.22. Discuss the rules contained in the Companies Act, 2013 regarding the books of account and other relevant books and papers maintained in electronic mode. (C) (RTP M18(O))

ELECTRONIC FORM OF BOOKS OF ACCOUNTS: Second proviso to section 128(1) read with the Companies (Accounts) Rules, 2014 allows a company to keep its books of account or other relevant papers in electronic mode.

The books of account and other relevant books and papers maintained in electronic mode shall comply with the following conditions:

- a) The books of account and other relevant books and papers shall remain accessible in India so as to be usable for subsequent reference.
- b) The books of account and other relevant books and papers shall be retained
 - i) Completely in the format in which they were originally generated, sent or received, or
 - ii) In a format which shall present accurately the information generated, sent or received
- c) The information received from branch offices shall not be altered and shall be kept in a manner where it shall depict what was originally received from the branches.
- d) The information in the electronic record of the document shall be capable of being displayed in a legible form.
- e) There shall be a proper system for storage, retrieval, display or printout of the electronic records as the audit committee, if any, or the board may deem appropriate and such records shall not be disposed of or rendered unusable, unless permitted by law.
- f) The back-up of the books of account and other books and papers of the company maintained in electronic mode, including at a place outside India, if any, shall be kept in servers physically located in India on a periodic basis.

The company is required to intimate to the Registrar on an annual basis at the time of filing of financial statement, the following-

- a) The name of the service provider.
- b) The internet protocol address of service provider.

- c) The location of the service provider (wherever applicable).
- d) Where the books of account and other books and papers are maintained on cloud, such address as provided by the service provider.

Q.No.23. Who shall authenticate the financial statements of the company? (C)

(NEW SM, RTP M19(O))

Authentication of Financial Statements: Section 134(1) provides that the financial statements, including consolidated financial statement shall be approved by the board of directors before they are signed on behalf of the board at least by the following:

- a) The chairperson of the company as authorised by the Board; or
- b) By two directors out of which one shall be managing director and
- c) The Chief Executive Officer, if he is a director in the company,
- d) The Chief Financial Officer, wherever he is appointed; and
- e) The company secretary of the company, wherever he is appointed.

For One Person Company:

The financial statement shall be signed by only one director, for submission to the auditor for his report thereon.

Publication of Financial statements:

As per section 134(2), the auditors' report shall be attached to every financial statement. According to section 134(7), a signed copy of every financial statement, including consolidated financial statement, if any, shall be issued, circulated or published along with a copy each of-

- a) Notes to Accounts;
- b) The auditor's report; and
- c) The Board's report.

Q.No.24. Under what circumstances the retiring Auditor cannot be reappointed? (C)

(OLD PM, RTP N14, N13 - 6M)

1. IN THE FOLLOWING CIRCUMSTANCES, THE RETIRING AUDITOR CANNOT BE REAPPOINTED [Sec. 139(9)]:

- a) The auditor proposed to be reappointed does not possess the qualification prescribed under section 141 of the Companies Act, 2013.
- b) The proposed auditor suffers from the disqualifications under section 141(3), 141(4) and 144 of the Companies Act, 2013.
- c) He has given to the company notice in writing of his unwillingness to be reappointed.
- d) A written certificate has not been send to the effect that the appointment or reappointment, if made, will be in accordance within the limits specified under section 141(3) (g) of the Companies Act, 2013.
- e) A resolution has been passed in AGM appointing somebody else or providing expressly that the retiring auditor shall not be reappointed.

2. WHERE AT ANY AGM, NO AUDITOR IS APPOINTED OR RE-APPOINTED: [Sec. 139(10)] the existing auditor shall continue to be the auditor of the company.

PRACTICAL QUESTIONS

Q.No.1. Devi, a member of the ICAI, does not hold a certificate of practice. Is her appointment as an auditor is valid?

Provision: As per section 141(1) of Companies Act, 2013, A person shall be qualified for appointment as an auditor of a company, only if one is a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949. Under the Chartered Accountants Act, 1949, only a Chartered Accountant holding the certificate of practice can engage in public practice.

Analysis: Devi does not hold a certificate of practice

Conclusion: Hence Devi cannot be appointed as an auditor of a company.

Q.No.2. Can a director of the company be appointed as an auditor?

Provision: There is no express prohibition that a director cannot be appointed as an auditor. But the below given two provisions of the companies Act prohibits a director to be appointed as an auditor:

- Sec.141 enumerates that an officer of the company cannot be appointed as an auditor.
- Sec.2 (59) of Companies Act, which defines the officer to include the director.

Conclusion: Hence, director cannot be appointed as an auditor.

Q.No.3. A, a Chartered Accountant has been appointed as auditor of Laxman Ltd. In the Annual General Meeting of the company held in September, 2015, which assignment he accepted. Subsequently in January, 2016 he joined B, another chartered accountant, who is the manager finance of Laxman Ltd as partner. **(OLD PM, RTP M16)**

Provision: As per section 141(3) (c) of the Companies Act, 2013 prescribes that any person who is a partner or in employment of an officer or employee of the company will be disqualified to act as an auditor of a company. Section 141(4) provides that an auditor who becomes subject, after his appointment, to any of the disqualifications specified in Section 141(3), he shall be deemed to have vacated his office as an auditor.

Analysis: In the present case, A, an auditor of M/s Laxman Ltd., joined as partner with B, who is Manager Finance of M/s Laxman Limited, has attracted section 141(3)(c)

Conclusion: Therefore, he shall be deemed to have vacated office of the auditor of M/s Laxman Ltd.

Q.No.4. "Mr. V", a practicing Chartered Accountant, is holding securities of "XYZ Ltd." Having face value of Rs.900/-. Whether Mr. V is qualified for appointment as an auditor of "XYZ Ltd."?

Provision: As per section 141 (3)(d) (i) an auditor is disqualified to be appointed as an auditor if he, or his relative or partner holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.

Further as per proviso to this Section, the relative of the auditor may hold the securities or interest in the company of face value not exceeding of Rs 1,00,000.

Analysis: In the present case, Mr. V. is holding security of Rs 900 in the XYZ Ltd,

Conclusion: Therefore he is not eligible for appointment as an Auditor of "XYZ Ltd".

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Q.No.5. "Mr. S" is a practicing chartered accountant and "Mrs S", is holding securities of "ABC Ltd." Having face value of Rs. 90,000/-. Whether "Mr. S" is qualified from being appointed as an auditor of "ABC Ltd."?

Provision: Same as Practical Question no.4

Analysis: In the present case, Mrs S. (relative of Mr. S, an auditor), is having securities of Rs 90,000 face Value in the ABC Ltd., which is as per requirement of proviso to section 141(3)(d)(i),

Conclusion: Therefore, Mr. S will not be disqualified to be appointed as an auditor of ABC Ltd.

Q.No.6. "BC & CO." is an audit firm having partners "MR. B" AND "MR. C", and "MR.A" the relative of "MR. C", is holding securities of "MWF LTD." having face value of Rs 1,01,000/-. Whether "BC & CO." is qualified from being appointed as an auditor of "MWF LTD."?

Provision: same as Practical Question no.2

Analysis: The relative of Mr. C i.e. partner of BC & Co., is holding the securities in MWF Ltd which is exceeding the limit mentioned in proviso to section 141(3)(d)(i).

Conclusion: In the instant case BC & Co, will be disqualified for appointment as an auditor of MWF Ltd.

Q.No.7. Ram and Hanuman Associates, Chartered Accountants in practice have been appointed as statutory auditor of Krishna ltd. For the accounting year 2015 - 2016, Mr. Hanuman holds 100 equity shares of Shiva ltd., a Subsidiary company of Krishna Ltd. Comment. (OLD PM)

Provision: Same as Practical Question no.2

Also Section 141(4) of the Companies Act, 2013, where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in sec 141(3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor

Analysis: In the present case, Mr. Hanuman, Chartered Accountant, a partner of M/s Ram and Hanuman Associates, holds 100 equity Shares of Shiva Ltd. which is a subsidiary of Krishna Ltd.

Conclusion: Therefore, the firm, M/s Ram and Hanuman Associates would be disqualified to be appointed as statutory auditor of Krishna Ltd., which is the holding company of Shiva Ltd., because one of the partners Mr. Hanuman is holding equity shares of its subsidiary.

Q.No.8. M/s RST & co., A firm of chartered accountants, has three partners, namely, Mr. R, Mr. S & Mr. T. The firm is allotted the audit of Ashiana ltd. Mr. T subsequently holds 200 shares in Ashiana ltd. Comment.

Provisions of Law: same as Practical Question no.2

Analysis: Here one of the partners acquires securities in the company after appointment.

Conclusion: Therefore M/s RST & co should vacate office and it shall be deemed to be a casual vacancy.

Q.No.9. An auditor purchased goods worth Rs 5,00,001 on credit from a company being audited by him. The company allowed him one month's credit, which it normally allowed to all known customers. (OLD PM, M15 - 4M, RTP M16)

Provision: As per Section 141(3)(d)(ii) of the Companies Act, 2013, a person who, or his relative or partner is indebted to the company, or its subsidiary, or its holding or associate company, or a subsidiary of its holding company, for an amount exceeding Rs. 5,00,000, then he is not qualified for appointment as an auditor of a company.

Where an auditor purchases goods or services from a company audited by him on credit, he is definitely indebted to the company and if the amount outstanding exceeds Rs. five lakh, he is disqualified for appointment as an auditor of the company.

Analysis: It will not make any difference if the company allows him the same period of credit as it allows to other customers on the normal terms and conditions of the business.

Conclusion: The auditor cannot argue that he is enjoying only the normal credit period allowed to other customers. In fact, in such a case he has become indebted to the company and consequently he has deemed to have vacated his office.

Q.No.10. Sri & company, a firm of Chartered accountants was appointed as statutory auditors of Aaradhana Company Ltd. Aaradhana Company Ltd. holds 51% shares in Sarang Company Ltd. Mr. Sri, one of the partners of Sri & company, owed Rs. 1,500 as on the date of appointment to Sarang Company Ltd for goods purchased in normal course of business. Comment.

(OLD PM, N15, RTP N16)

Provision: Same as Practical Question.No.2

Analysis: In the given case, Sri & Company, a firm of Chartered Accountants was appointed as statutory auditors of Aaradhana Company Ltd. where the company holds 51% shares in Sarang Company Ltd. Mr. Sri, one of the partners of Sri & Company owed Rs. 1,500 as on the date of appointment to Sarang Company Ltd. for goods purchased.

Conclusion: Accordingly, the partner Mr Sri is not disqualified to be appointed as auditor of the company as he is indebted to the company for an amount not exceeding Rs. 5,00,000.

Due to this, Sri & Company, is not disqualified to be appointed as an auditor of Aaradhana Company Ltd.

Q.No.11. 'B' owes Rs 5,01,000 to 'C' Ltd., of which he is an auditor. Is his appointment valid? Will it make any difference, if the advance is taken for meeting-out travelling expenses? (OLD PM)

Provision: Same as Practical Question no.2

Analysis: Even if the advance was taken for meeting out travelling expenses particularly before commencement of audit work, his appointment is not valid because in such a case also the auditor shall be indebted to the company.

Conclusion: The auditor is entitled to recover fees on a progressive basis only.

Q.No.12. Mr. Y was appointed as an auditor of PQR Ltd. For the year ended 31.3.2016 at the annual general meeting held on 16.08.2015. Mr. Y has been indebted to the company for sum of Rs 5,10,000 as on 01.04.2015, the opening date of accounting year which has been subject to his audit. However, Mr. Y having come to know that he might be appointed as auditor, he repaid the amount on 10.8.2015. One of the shareholders complains that the appointment of Mr. Y as an auditor was invalid because he incurred disqualification u/s 141 of the companies act, 2013. Comment. (OLD PM)

Provision: same as Practical Question no.2

Analysis: However, where the person has liquidated his debt before the appointment date, there is no disqualification to be construed for such appointment.

In the given case, Mr. Y was appointment as an auditor of PQR Ltd. for the year ended 31.03.2016 at the Annual General Meeting held on 16.08.2015. He repaid the loan amount fully to the company on 10.8.2015 i.e. before the date of his appointment.

Conclusion: Hence, the appointment of Mr. Y as an auditor is valid and the shareholder's complaint is not acceptable.

Q.No.13. B is appointed as an auditor of PQR Ltd., at a total remuneration of Rs.10,00,000, classified as under: (i) for unit X of the company Rs.6,00,000; (ii) for unit Y of the company Rs.2,00,000 and (iii) for Head office Rs. 2,00,000. As per terms of appointment, B can collect his fees on progressive basis, on completion of audits of unit X and /or Y. B completed the audit of unit Y and recovered Rs.6,00,000 on account of the audit fees though the entire audit is not completed. Explain whether B is indebted to the company for an amount exceeding Rs.5,00,000 and therefore disqualified. (or) Will an auditor who received the audit fees from the Co on progressive basis, is called Indebted.

Provision: Auditor cannot be said to be indebted to the Company at any stage if he recovers his fees on a progressive basis. As and when a part of the work is done, he can recover his fees in accordance with the terms of his engagement with the client, without waiting for the completion of the whole job.

Analysis: In the given case, Mr.B a Chartered Accountant taking his remuneration in accordance with terms of engagement and there is no indebtedness attracted to him.

Conclusion: Hence, B is not indebted to the Company and is qualified to act as its Statutory Auditor.

Q.No.14. Mr. Amar, a Chartered Accountant, bought a car financed at Rs. 7,00,000 by Chandra finance Ltd., which is a holding company of Charan Ltd. and Das Ltd. He has been the statutory auditor of Das Ltd. And continues to be to even after taking the loan. **(OLD PM)**

Provision: Same as Practical Question no.2

Analysis: In the given case Mr. Amar is disqualified to act as an auditor under section141 (3)(d) (ii) as he is indebted to M/s Chandra Finance Ltd. for more than Rs 5,00,000 Also according to Section141 (3)(d) (ii) he cannot act as an auditor of any subsidiary of Chandra Finance Ltd. i.e. he is also disqualified to work in Charan Ltd. & Das Ltd.

Conclusion: He has to vacate his office in Das Ltd. Even though it is a subsidiary of Chandra Finance Ltd.

Hence audit work performed by Mr. Amar as an auditor is invalid, he should vacate his office immediately and Das Ltd must have to appoint any other CA as an auditor of the company.

Q.No.15. Whether the following persons can be appointed as the auditor of a company?

- Prasad, a person who is a chartered accountant of the Canadian Institute of Chartered Accountants but is not a member of the Institute of Chartered Accountants of India.
- Mrs. P is a member of the Institute of chartered accountants of India. The directors of a limited company say that she being a lady cannot be appointed as an auditor of the company.
- Mr. Krishna owes Rs.10,00,000 to a ltd. To which he is an auditor.
- Mr.Ramu, a member of the ICAI, does not hold a Certificate of Practice.
- Mr. Nani, who was a member of the ICAI, is of unsound mind.
- Mr. Hrithik, who was a member of the ICAI, is of insolvent/bankrupt.
- ABI Consultants ltd is a registered company with A, B and I as its directors. All the three directors are chartered accountants. Can the Company be appointed as auditor of another company?
- A, a partner in the firm of M/s Balaji & co., Chartered accountants, is the secretary of C ltd. Can A or Balaji & co., be appointed as the company auditor?
- B, chartered accountant, is the partner of N, who is a director in P ltd. Can B be appointed as statutory auditor?

a) He cannot be appointed an auditor of a limited company in India. He must be a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949.

b) Mrs. P can be appointed as an auditor of the company. There is no bar on a lady.

c) Mr. Krishna is disqualified. He will be disqualified if he owes an amount in excess of Rs.5,00,000

d) Ramu does not hold a COP and hence cannot be appointed as an auditor of a company.

- e) Mr. Nani, being of unsound mind, cannot continue himself to be a member of this Institute. Therefore, he cannot be appointed as the auditor of any company.
- f) Mr. Hrithik, being insolvent, cannot continue himself to be a member of this Institute. Therefore, he cannot be appointed as the auditor of any company.
- g) A Body Corporate cannot be appointed as Statutory Auditor of a Company. In the above case, the Company cannot be appointed as Statutory Auditor of another Company.
- h) A, being an Officer of the Company is disqualified. Also, M/s Balaji & Co., is not qualified to be appointed as auditor as one of its partners is an employee of the Company.
- i) B is not qualified to be appointed as auditor, as u/s 141, a person who is a partner of an officer of a Company cannot be appointed as its auditor.

Q.No.16. Managing director of PQR Ltd. himself wants to appoint Shri Ganpati, a Practicing Chartered Accountant, as first auditor of the company. Comment on the proposed action of the Managing Director. (OLD PM)

Provision: Refer Q.No.6 in Class room discussion questions.

Analysis: In the instant case, the appointment of Shri Ganpati, a practicing Chartered Accountant as first auditors by the Managing Director of PQR Ltd by himself is in violation of Section 139(6) of the Companies Act, 2013, which authorizes the Board of Directors to appoint the first auditor of the company.

Conclusion: In view of the above, the Managing Director of PQR Ltd should be advised not to appoint the first auditor of the company.

Q.No.17. The first auditor of M/s Healthy Wealthy Ltd., a Government company, was appointed by the Board of directors. (OLD PM)

Provision: Refer Q.No.6 in Class room discussion questions.

Analysis: Hence in the case of M/s Healthy Wealthy Ltd., being a government company, the first auditors shall be appointed by the Comptroller and Auditor General of India.

Conclusion: Thus, the appointment of first auditors made by the Board of Directors of M/s Healthy Wealthy Ltd is null and void.

Q.No.18. White Star Ltd. was incorporated on 01.08.2015 and Mr. T, who is a relative to the chairman & Managing Director (CMD) of the company, appointed as auditor by the Board of directors in their meeting on 04.09.2015. Comment. (OLD PM)

Provision: There are two issues arising out of this situation, viz.,

- A. Appointment of first auditor by the Board of Directors; and
- B. Relation of such an auditor with the Chairman of the company.

Regarding the first issue relating to appointment of auditor, particularly, in this case relating to appointment of first auditors, it may be noted as per the provisions of Section 139(6) of the Companies Act, 2013, the first auditor of a company shall be appointed by the BOD within 30 days from the date of registration of the company.

If the Board fails to appoint the first auditor, it shall inform the members of the company, who shall within 90 days at an extraordinary general meeting has to make the appointment.

Analysis: As per the facts given in the case, the Board has failed to appoint the first auditor within 30 days from the registration of company because the date of incorporation of White Star Ltd. is 01-08-2015 and the date of appointment of auditors by the Board of Directors is 04-09-2015.

Accordingly if the Board fails to appoint the first auditor, it shall inform the members of the company, who shall within 90 days at an extraordinary general meeting has to make the appointment.

Conclusion: Thus the appointment of Mr. T is not valid. Under the circumstances, the second issue relating to relationship of auditor with the Chairman & Managing Director (CMD) becomes redundant.

Q.No.19. Chairman and Managing director (CMD) of BHEL, a Government company, appointed its auditors on the authority of board of directors given to him. Comment.

Provisions of Law: Refer Q.No.6 in Class room discussion questions

Analysis: In the given case, the Chairman and Managing Director (CMD) of BHEL, a Government Company, has appointed the auditor for the company on an authority given to him by the Board of Directors.

Conclusion: Keeping in view the above provisions, appointment made by the CMD is invalid even if he has the authority of Board of Directors.

Q.No.20. Nickson Ltd. is a Subsidiary of Ajanta Ltd., whose 20% shares have been held by Central Government, 25% by Uttar Pradesh Government and 10% by Madhya Pradesh Government. Nickson Ltd appointed Mr. P as statutory auditor for the year. (OLD PM)

Provision: Refer Q.No.6 in Class room discussion questions

Analysis: In the given case Ajanta Ltd is a Government Company as its 20% shares have been held by CG, 25% by Uttar Pradesh SG and 10% by Madhya Pradesh SG. Total 55% shares have been held by CG and SG. Therefore, it is a Government company.

Nickson Ltd. is a subsidiary company of Ajanta Ltd. Hence Nickson Ltd. covers in the definition of a Government Company. Hence the Auditor of Nicksons Ltd. can be appointed only by C & AG.

Conclusion: Therefore, appointment of 'P' is invalid and 'P' should not give acceptance to the Directors of Nickson's Ltd.

Q.No.21. Mr. A was appointed auditor of AAS Ltd. by board to fill the casual vacancy that arose due to death of the auditor originally appointed in AGM. Subsequently, Mr. A also resigned on health grounds during the tenure of appointment. The board filled this vacancy by appointing you through duly passed board resolution. Comment. (OLD PM)

Provision: Refer Q.No.7 (point: 1, 2, 3) in Class room discussion questions

Analysis and conclusion:

In the present case, the auditor Mr. A resigned and the vacancy had been filled in by Board. But, the vacancy caused by resignation cannot be filled by Board itself, such appointment shall also be approved by the company at general meeting.

The fact that the Mr. A was appointed by Board originally is a matter irrelevant in this situation. If the cause of vacancy is resignation, then the power of appointment shall vest with the general meeting only. As such, the appointment made by Board is invalid.

Q.No.22. M/s Young & co., a Chartered accountant firm, and Statutory auditors of OLD Ltd, is dissolved on 1.4.2014 due to differences of opinion among the partners. The board of directors of OLD ltd. In its meeting on 6.4.2014 appointed another firm M/s Sharp & co. as their new auditors for one year. (OLD PM)

Provision: Refer Q.No.7 in Class room discussion questions

Analysis: The expression "casual vacancy" has not been defined in that Act. Talking its natural meaning it may arise due to a variety of reasons which include death, resignation, disqualification, dissolution of the firm etc. Furthermore Section 139(8) stipulates that any auditor appointed in a casual vacancy shall hold office until the conclusion of the next AGM.

Conclusion: In the instant case the action of the board of directors in appointing M/s Sharp & Co. to fill up the casual vacancy due to dissolution of M/s Young & Co., is correct. However, the board of directors are not correct in giving them appointment for one year. M/s Sharp & Co. can hold office until the conclusion of next AGM only.

Q.No.23. A vacancy arose in the office of an auditor of XYZ Ltd due to death of the Auditor Mr Z and the managing director of the company filled that vacancy. Comment. (RTP M15, RTP N16)

Provision: Refer Q.No.7 in Class room discussion questions

Conclusion: Appointment made by the Managing Director of the Company is not valid.

Q.No.24. Comment on the following:

Due to the resignation of the existing auditor(s), the Board of directors of X Ltd appointed Mr. Hari as the auditor. Is the appointment of Hari as auditor valid? (OLD PM, RTP M16)

Provision: Refer Q.No.7 in Class room discussion questions

Analysis: In the given case, the Board of directors of X Ltd. has appointed Mr. Hari as the auditor due to resignation of the existing auditor(s). The appointment made by the Board is correct, however, such appointment should be approved by the company at a general meeting convened within 3 months of the recommendation of the Board and newly appointed auditor shall hold office till the conclusion of the next annual general meeting.

Conclusion: Appointment is valid if then board have obtained the approval of members as said in the section 139(8).

Q.No.25. The balance sheet of XYZ Ltd., an Unlisted Public Company, shows paid up share capital of Rs.5 crore and Public deposits of Rs.100 crore. The company appointed CA Ananya as the statutory auditor in its annual general meeting held at the end of September, 2015 for 6 years. Comment upon the facts of the case with respect to applicability of provisions related to rotation of auditors and cooling off period as per the section 139(2) of the companies act, 2013.

Provision: Refer Q.No.9 in Class room discussion questions

Analysis: In the given case, XYZ Ltd. is an unlisted public company having paid up share capital of Rs.5 crore and public deposits of Rs. 100 crore. The company appointed CA. Ananya as the statutory auditor in its AGM held at the end of September, 2015 for 6 years.

The provisions relating to rotation of auditor will be applicable as the public deposits exceeds Rs. 50 crore. Therefore, XYZ Ltd. can appoint CA. Ananya as an auditor of the company for not more than one term of five consecutive years and CA. Ananya will hold office of auditor from the conclusion of this meeting upto conclusion of sixth AGM i.e. AGM to be held in the year 2020. As a result, the appointment of CA. Ananya made by XYZ Ltd. for 6 years is void.

Cooling-Off Period: As per the proviso to section 139(2) of the Companies Act, 2013 an individual auditor who has completed his respective term shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term.

Conclusion: Therefore, CA. Ananya shall not be re-appointed as auditor in XYZ Ltd. for further term of five years i.e. she cannot be appointed as auditor upto year 2025.

Q.No.26. No Annual General Meeting (AGM) was held for the year ended 31st march, 2016, in XYZ ltd., NINU is the auditor for the previous 3 years, whether she is continuing to hold office for current year or not. (OLD PM)

Analysis: In case the annual general meeting is not held within the period prescribed, the auditor will continue in office till the annual general meeting is actually held and concluded.

Conclusion: Therefore, Ninu shall continue to hold office till the conclusion of the annual general meeting.

Q.No.27. "ABC & Co." is an audit firm having partners "Mr. A", "Mr. B" and "Mr. C", chartered accountants. "Mr. A", "Mr. B" and "Mr. C" are holding appointment as an auditor in 4, 6 and 10 companies respectively.

a) Provide the maximum number of audits remaining in the name of "ABC & Co."

b) Provide the maximum number of audits remaining in the name of individual partner i.e. Mr. A, Mr. B and Mr. C.

Provision: Refer Q.No.4 in Class room discussion questions

Conclusion: Therefore, ABC & Co. can hold appointment as an auditor of 40 more companies:

Mr. A can hold: $20-4 = 16$ more audits

Mr. B can hold $20-6 = 14$ more audits and

Mr. C can hold $20-10 = 10$ more audits.

Q.No.28. KBC & Co. a firm of chartered accountants has three partners, K, B & C; K is also in whole time employment elsewhere and Mr. B & Mr. C do not hold any audit in their personal capacity or as a partners of other firms. The firm is offered the audit of ABC Ltd. and is already holding audit of 40 companies. (OLD PM)

Provision: Refer Q.No.4 in Class room discussion questions

Analysis: In the firm of KBC & Co., K is in whole-time employment elsewhere, therefore, he will be excluded in determining the number of company audits that the firm can hold. If B and C do not hold any audits in their personal capacity or as partners of other firms, the total number of company audits that can be accepted by KBC & Co., is forty, and in the given case company is already holding forty audits,

Conclusion: Therefore, KBC & Co. can't accept the offer for audit of ABC Ltd.

Q.No.29. While conducting the audit of a limited company for the year ended 31st march, 2016, the auditor wanted to refer to the minute books. The board of directors refused to show the minute books to the auditor. (OLD PM)

Provision: Refer Q.No.13 in Class room discussion questions "Right of access to books, documents, vouchers etc."

Analysis: It is, therefore, essential for the auditor to refer to the Minute Books. In the absence of the Minute Books, the auditor may not be able to vouch/verify certain transactions of the company.

Conclusion: In case the directors have refused to produce the Minute Books, the auditor may consider extending the audit procedure as also consider qualifying his report in any appropriate manner.

Q.No.30. A is appointed as the auditor of X Ltd. On 26th July, 2014. He informs the company that he will visit its head office on August 15, 2014 (a holiday for the company) and examine the cash book. The accountant argues that he should come after March 31, 2015 when the accounts are closed. Moreover, he should not come on Sunday as the office is closed on that day. Is the position taken by the accountant legally correct?

Provision: Refer Q.No.13 in Class room discussion questions "Right of access to books, documents, vouchers etc."

Analysis: This implies that he can examine them at any time after assuming his office as the auditor and he need not to wait for the closing of the accounts i.e. March 31st, 2015.

However, the expression "at all times" refers to only the normal business hours on any working day.

Conclusion: A cannot examine the books on a holiday.

Q.No.31. The Company had also appointed a cost auditor and therefore, the management had requested you not to review the cost records. Comment. (OLD PM)

Provision: Refer Q.No.13 in Class room discussion questions “**Right of access to books, documents, Vouchers etc.**”

Conclusion: Accordingly, the auditors cannot be requested not to review the cost records as a cost auditor has been appointed by the company. The statutory auditor’s duties cannot be limited in any way either by the Articles or by the Directors or members. *This is confirmed by the judgement given in Newton vs. Birmingham small arms co. case.*

Q.No.32. M/s Seeman & Co. had been the company auditor for Amudhan Company limited for the year 2015-16. The company had three branches located at Chennai, Delhi and Mumbai. The audits of branches-Chennai, Delhi were looked after by the company auditors themselves. The audit of Mumbai branch had been done by another auditor M/s Vasani & co., a local auditor situated at Mumbai. The branch auditor had completed the audit and had given his report too. After this, but before finalization, the company auditor wanted to visit the Mumbai branch and have access to the inventory records maintained at the branch. The management objects to this on the grounds of the company auditor is transgressing the scope of audit areas agreed. Comment. (OLD PM)

Provision: The audit of the branch of a company is dealt with in Section 143(8) of the Companies Act, 2013. According to this section, the audits of the branches can be done by the company auditor himself or by another auditor. Even where, the branch accounts are audited, the company auditor has right to visit the branch if he deems it necessary to do so for the performance of his duties as auditor.

He has also right of access at all times to the books and accounts and vouchers of the company maintained at the branch office. He can appropriately deal with the report of the branch auditor in framing his main report. He will disclose how he had dealt with the branch audit report.

Analysis: In this case, the audits of two branches were done by the company auditor and one branch was done by a separate branch auditor.

Applying the above provisions, to the instant case, management’s objection that the company auditor is transgressing the scope of audit areas agreed, is absolutely, wrong. The right of company auditor in visiting and accessing the records of branch cannot be forfeited.

Conclusion: Even where the branch accounts are audited by another local auditor, the company auditor has right to visit the branch and can have access to the books and vouchers of the company maintained at the branch office.

Q.No.33. Mr. B, Statutory auditors of Secret Ltd. was not permitted by the Board of directors to give notice of attend general meeting of the company on the ground that his right to receive notice of general meetings is restricted only to those meetings at which the accounts audited by him are to be presented and discussed. (OLD PM)

Provision: Section 146 - Refer Q.No.13 in Class room discussion questions “**Right to receive notices of general meetings**”.

Analysis: In the instant case, the board of directors of Secret Ltd., have no right to restrict Mr. B from attending the general meeting and Mr. B has every right to attend such meeting as conferred by Section 146.

Conclusion: Thus, the action of the board of directors is contrary to the provisions of law and curtails the right of the auditor.

Q.No.34. The Board of directors of a company have filed a complaint with the Institute of chartered accountants of India against their statutory auditors for their failing to attend the annual general meeting of the shareholders in which audited accounts were considered. (OLD PM)

Provision: Refer Q.No.13 in Class room discussion questions “**Right to receive notices of general meetings**”.

Analysis: As per above provision it is the duty of the statutory Auditors to attend general meeting.

Conclusion: Statutory auditor failing to attend general meeting so, he is guilty of misconduct.

Q.No.35. Mr. Rajendra, a fellow member of the Institute of Chartered Accountants of India, working as Manager of Shrivastav and Co., a Chartered accountant firm, signed the audit report of OM ltd on behalf of Shrivastav & co. (OLD PM)

Provision: Refer Q.No.14 in Class room discussion “Duty to sign the audit report”.

Analysis: Therefore, Mr. Rajendra, a fellow member of the Institute and a manager of M/s Shrivastav & Co., Chartered Accountants, cannot sign on behalf of the firm in view of the specific requirements of the Companies Act, 2013.

Conclusion: The act of Rajendra is not valid.

Q.No.36. M/s XYZ & Co, Auditors of Goodwill Education foundation, a Recognized Non-Profit Organisation feels that the Standards on Auditing need not to be applied as Goodwill education foundation is a non-profit making concern. (OLD PM)

Provision: Refer Q.No.14 in Class room discussion “Duty to comply with standards on auditing”.

Further, the Preface to Standards on Auditing gives the scope of the Standards on Auditing. As per the Preface, the SAs will apply whenever an independent audit is carried out; that is, in the independent examination of financial statements/information of any entity; whether profit oriented or not and irrespective of its size, or legal form (unless specified otherwise) when such an examination is conducted with a view to expressing an opinion thereon.

Also while discharging their attest function; it is the duty of the Chartered Accountant to ensure that SAs are followed in the audit of financial information covered by their audit reports.

Conclusion: In the given case, even though the client is a non-profit oriented entity the SAs shall apply and the auditor shall be guilty of professional misconduct for failing to discharge his duty in case of non-compliance with SAs.

Q.No.37. During the year 2015-16, it was decided for the first time that the accounts of the branch office of AAS limited be audited by qualified chartered accountants other than the company auditor. Accordingly, the board had appointed branch auditors for the ensuing year. One of the shareholders complained to the central government that the appointments was not valid as the board of directors do not have power to appoint auditors, be they company auditor or branch auditors? (OLD PM)

Provision: Refer Q.No.17 in Class room discussion

Analysis: The shareholders in general meeting, instead of appointing branch auditor, may authorize the board of directors to appoint branch auditors.

In the present case, the board has appointed branch auditors without obtaining authorization from the shareholders in general meeting. The board had appointed the auditor where it did not have authority to do so.

Conclusion: As such, the appointment is invalid. The shareholder’s complaint is right. The branch auditor should ascertain before accepting the audit whether his appointment is valid.

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THE END