

CHAPTER 10 - COMPANY AUDIT

| Q | Reference | Question | Answer |
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| 1 | ICAI Module | Mr. A, a practicing Chartered Accountant, is holding securities of XYZ Ltd. having face value of ` 900. Whether Mr. A is qualified for appointment as an auditor of XYZ Ltd.? | Mr. A is Disqualified under section 141(3)(d)(i) of Companies Act, 2013. Person/Partner not allowed to hold securities in the company and its subsidiary company, holding company, associate company, subsidiary of such holding company. Relative can hold upto Rs. 1 lakh face value in the company |
| 2 | ICAI Module | Mr. P is a practicing Chartered Accountant and Mr. Q, the relative of Mr. P, is holding securities of ABC Ltd. having face value of ` 90,000. Whether Mr. P is qualified from being appointed as an auditor of ABC Ltd.? | Mr. P is not Disqualified under section 141(3)(d)(i) of Companies Act, 2013. Person/Partner not allowed to hold securities in the company and its subsidiary company, holding company, associate company, subsidiary of such holding company. Relative can hold upto Rs. 1 lakh face value in the company |
| 3 | ICAI Module | 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 `1,01,000. Whether M/s BC & Co. is qualified from being appointed as an auditor of MWF Ltd.? | M/s BC & Co. is Disqualified under section 141(3)(d)(i) of Companies Act, 2013. Person/Partner not allowed to hold securities in the company and its subsidiary company, holding company, associate company, subsidiary of such holding company. Relative can hold upto Rs. 1 lakh face value in the company |
| 4 | ICAI Module | 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 201617. Mr. Bee, the relative of CA. R, is holding 5,000 shares (face value of ` 10 each) in Enn Ltd. having market value of ` 1,50,000. Whether M/s RM & Co. is disqualified to be appointed as auditors of Enn Ltd.? | M/s RM & Co. is not Disqualified under section 141(3)(d)(i) of Companies Act, 2013. Person/Partner not allowed to hold securities in the company and its subsidiary company, holding company, associate company, subsidiary of such holding company. Relative can hold upto Rs. 1 lakh face value in the company. |
| 5 | ICAI Module | CA. Poshin is providing the services of investment banking to C Ltd. Later on, he was also offered to be | CA Poshin cannot be appointed as auditor when he is also simultaneously engaged in providing investment banking service because: |

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| | | appointed as an auditor of the company for the current financial year. Advise. | According to Sec 141(3)(i) of Companies act, 2013 person cannot be appointed as auditor if he is providing consultancy services prescribed in Sec 144 of Companies Act, 2013 either directly or indirectly to the Company, its holding Company & Subsidiary Company. Investment Banking is a service which is prescribed under Section 144. |
| 6 | ICAI Module | Managing Director of Pigeon Ltd. himself wants to appoint CA. Champ, a practicing Chartered Accountant, as first auditor of the company | As per Sec 139(6) of Companies Act, 2013 Board of Directors appoint first auditor in case of non-government Company within 30 days of date of registration . Hence, Managing Director itself cannot appoint first auditor. |
| 7 | ICAI Module | Rano Pvt. Ltd. is a private limited Company, having paid up share capital of `18 crore but having public borrowing from nationalized banks and financial institutions of ` 72 crore. Is rotation of auditor applicable | Manner of rotation of auditor will be applicable under Section 139(2) of Companies Act, 2013. Applicability of Rotation Private limited companies having Paid up Share Capital of Rs.50 Crore or More OR Borrowings from banks and financial institution of Rs. 50 Crore or More as per immediately preceding financial year |
| 8 | ICAI Module | Jolly Ltd., a listed company, appointed M/s Polly & Co., a Chartered Accountant firm, as the statutory auditor in its AGM held at the end of September, 2016 for 11 years. | Here, the appointment of M/s Polly & Co. is not valid as the appointment can be made only for one term of five consecutive years and then another one more term of five consecutive years. It can't be appointed for two terms in one AGM only. Further, a cooling period of five years from the completion of term is required i.e. the firm can't be re-appointed for further 5 years after completion of two terms of five consecutive years. |
| 9 | ICAI Module | XYZ Ltd., a public company having paid up capital of ` 9 crore but having turnover of ` 150 crore, will be required to constitute an Audit Committee under section 177 because the requirement for constitution of Audit Committee arises if the company falls into any of the prescribed category. Examine. | Audit Committee is required to be constituted. Listed Company- Mandatory Unlisted public Company having Paid up Share Capital of Rs. 10 crore or More Turnover Rs. 100 crore or More Borrowings Rs. 50 crore or More as per latest audited financial statements |

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| 10 | ICAI Module | <p>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. (i) Provide the maximum number of Audits remaining in the name of “ABC & Co.” (ii) Provide the maximum number of Audits remaining in the name of individual partner i.e. Mr. A, Mr. B and Mr. C. (iii) Can ABC & Co. accept the appointment as an auditor in 60 private companies having paid-up share capital less than ` 100 crore, 2 small companies and 1 dormant company? (iv) Would your answer be different, if out of those 60 private companies, 45 companies are having paid-up share capital of ` 110 crore each?</p> | <p>As per Section 141(3)(g) of Companies Act, 2013 an individual cannot hold appointment as an auditor, at any point of time, of more than 20 companies excluding companies other than public companies and private limited companies with paid up share capital of Rs. 100 crore or More as on date of appointment. Firm is already holding audit of 20 companies. It can hold audit of maximum 60 companies (3 CA partners * 20 Companies each= 60 Companies). Case 1: ABC & Co. can accept the appointment as an auditor in 60 private companies having paid-up share capital less than ` 100 crore, 2 small companies and 1 dormant company. Case 2: If out of those 60 private companies, 45 companies are having paid-up share capital of ` 110 crore each then maximum 40 companies can be accepted</p> |
| 11 | ICAI Module | <p>The head accountant of a company entered fake invoices of credit purchases in the books of account aggregate of ` 50 lakh and cleared all the payments to such bogus creditor. What is your duty as an auditor</p> | <p>Here, the auditor of the company is required to report the fraudulent activity to the Board or Audit Committee (as the case may be) within 2 days of his knowledge of fraud. Further, the company is also required to disclose the same in Board’s Report. It may be noted that the auditor need not to report the central government as the amount of fraud involved is less than ` 1 crore, however, reporting under CARO, 2016 is required.</p> |
| 12 | ICAI Module | <p>Ashu Pvt. Ltd. has fully paid capital and reserves of `50 lakh. During the year, the company had borrowed `70 lakh each from a bank and a financial institution independently. It has the turnover of `900 lakh. Comment whether CARO 2016 is applicable?</p> | <p>In the given case of Ashu Pvt. Ltd., it has paid capital and reserves of `50 lakh i.e. less than `1 crore, turnover of `9 crore i.e. less than `10 crore. However, it has maximum outstanding borrowings of `1.40 crore (`70 lakh + `70 lakh) collectively from bank and financial institution. Therefore, it fails to fulfill the condition relating to borrowings. Thus, CARO, 2016 shall be applicable to Ashu Pvt. Ltd. accordingly.</p> |

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| 13 | ICAI Module | The company has dispensed with the practice of taking inventory of their inventories at the year-end as in their opinion the exercise is redundant, time consuming and intrusion to normal functioning of the operations. Explain reporting requirement under CARO, 2016 | Clause (ii) of Para 3 of CARO, 2016, requires the auditor to report whether physical verification of inventory has been conducted at reasonable intervals by the management and whether any material discrepancies were noticed and if so, whether they have been properly dealt with in the books of account. The physical verification of inventory is the responsibility of the management of the company which should verify all material items at least once in a year and more often in appropriate cases. In the given case, the above requirement of physical verification of inventory by the management has not been taken place and therefore the auditor should point out the same under CARO, 2016. He may consider the impact on financial statement and report accordingly |
| 14 | ICAI Module | An auditor purchased goods worth ` 501,500 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. Comment. | Disqualified under Sec 141(3)(d)(ii) of Companies Act, 2013. Even though it is at arms length price but indebtedness cannot exceed Rs. 5 Lakh. |
| 15 | ICAI Module | 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. Discuss | Ram and Hanuman Associates is Disqualified under section 141(3)(d)(i) of Companies Act, 2013. Person/Partner not allowed to hold securities in the company and its subsidiary company, holding company, associate company, subsidiary of such holding company. Relative can hold upto Rs. 1 lakh face value in the company |
| 16 | ICAI Module | Under what circumstances the retiring Auditor cannot be reappointed | As per Sec 139(9) of Companies Act, 2013 retiring auditor cannot be reappointed if a) his term has expired under section 139(2) of Companies Act, 2013. b) he is disqualified under section 141(3) of Companies Act, 2013 c) a specific resolution has been passed in general meeting stating expressly that retiring auditor cannot be reappointed d) he is not willing to be reappointed. |