

Attempt All MCQs (1 marks each X 4 MCQs = 4 Marks)

Q1: Which of the following is a prohibited service to be rendered by the auditor of the Company?

- (a) Design and implementation of any financial information system
- (b) Making report to the members of the company on the accounts examined by him
- (c) Compliance with the auditing standards
- (d) Reporting of fraud against the company by officers or employees to the Central Government

Q2: GP & Co LLP is a firm of Chartered Accountants having 35 partners. The firm has 9 branches across India. The firm was appointed as statutory auditor of PQR Ltd for the year ended 31 March 2018. The firm designated Mr. NG Goel as the signing and engagement partner for the statutory audit of PQR Ltd. During the course of audit, NG Goel was fully involved, however, the finalization of financial statements took long and the time when they got finalized, NG Goel had to travel for some urgent work for a month outside India. As regards the signing of the financial statements, please suggest which of the following options is correct?

- (a) PQR Ltd should wait till the time NG Goel returns and if required, NG Goel can sign the financial statements back dated.
- (b) PQR Ltd should wait till the time NG Goel returns and only after that financial statements will be signed.
- (c) In the absence of NG Goel, any other partner of the firm, being a CA, can sign the financial statements of PQR Ltd.
- (d) In the absence of NG Goel, any other partner of the firm, being a CA, can sign the financial statements of PQR Ltd, but the firm should intimate about the same to the ROC and Income Tax authority

Q3: SHRD Private Ltd is engaged in the business of software and consultancy. The company has an annual turnover of INR 2,000 crores but its profit margins are not very good as compared to the industry standards. For the financial year ended 31 March 2019, the company proposed appointment of its statutory auditors at its Board meeting, however, the remuneration was not finalized. The statutory auditors completed the engagement formalities including the engagement letter between the company and the auditors and it was decided that the engagement letter be signed without fee i.e. with the clause that the fee to be mutually decided. Please provide your views on this.

- (a) Such engagement letter is not valid.
- (b) Engagement letter with such arrangement is valid.
- (c) Engagement letter should specify the fee of last year, if applicable, if the fee for the current year is not yet finalized at the time of signing of the engagement letter.
- (d) Engagement letter should specify 10% increase in the fee as compared to last year as per the norms of the ICAI, in case the fee is not finalized at the time of signing of the engagement letter.

Q4: Advise whether the auditor appointed by a private limited company with paid up capital of Rs.60.00 Crore, in the following cases are valid for the financial year 2017-18

- (a) Amanpreet (an Individual auditor) who has been the auditor since the Financial Year 2011-12
- (b) Firm MGA & associates, was appointed as auditor in the Financial Year 2011-12.
- (c) Firm MGA & associates, who completed 10 years continuously as auditor in company. Now company wants to appoint VGA & associates wherein Mr. V is a partner who is also partner in MGA & Associates.
- (d) The provisions of rotation of auditor are not applicable on private companies

Questions 1 is compulsory

Attempt any 2 out of remaining 3

1. Abhiyogic Ltd. having 1,000 members with paid-up capital of ₹ 1 crore, decided to hold its Annual General Meeting (AGM) on 21st August, 2022, and it received a notice on 2nd July, 2022, from its 60 members holding paid-up capital of ₹ 7 lakhs, in aggregate, for a resolution to be passed at the AGM for appointing Vedya & Co., as its auditor from F.Y. 2022-23 onwards, instead of its existing auditor, Chepal & Co. which was originally appointed for 5 years term and had completed its 4 years term.

Such a notice for resolution was forthwith send by the company to Chepal & Co. which gave its representation in writing to the company along with a request for its notification to the members of the company, but it was received too late (3 days before the meeting) by the company

In the context of aforesaid facts, please answer to the following question(s):-

- a. Whether the said notice was given by adequate number of members within the prescribed time limit to Abhiyogic Ltd.?
- b. Whether the company was bound to send to its members such representation made by Chepal & Co. and if it could not have been send, then in such case, what was the responsibility(ies) of the company?

(6 marks)

2. Stallworth Ltd., a listed company having a paid up share capital of ₹ 11 crore with a turnover of ₹ 100 crore had appointed an Audit Committee which recommended M/s ANC & Associates, a firm of Chartered Accountants having such qualifications and experience as is required for appointment as the auditor of the company. The next Annual General Meeting (the AGM) was due on 30.09.2023. The Board disagreed with the said recommendation of the committee and refer back to it for reconsideration. The Audit Committee was adamant on appointing the above firm of the chartered accountants. Discuss in the light of the Companies Act, 2013:

- (i) The course of action for Board of Directors to resolve the above deadlock. What would be your answer, if above situation was that of filling the casual vacancy of auditors?
- (ii) The steps to be taken by the Board of Directors for appointment of auditors in case there was no requirement of Audit Committee in the company?

(5 marks)

3. (a) FLP Ltd, engaged in the business of real estate and energy, defaulted on its borrowings which amounted to thousands of crores. During the year ended 31 March 2019, a fraud was uncovered in respect of various transactions of the company and it was observed by the Central Govt that the auditors of the company were involved in such fraud. Please suggest what can be the course of action in this case.

(2 marks)

- (b) ABC & Associates, a firm of Chartered Accountants was re-appointed as auditors at the Annual General Meeting of X Ltd. held on 30-09-2022. However, the Board of Directors recommended to remove them before expiry of their term by passing a resolution in the Board Meeting held on 31-03-2023. Subsequently, having given consideration to the Board recommendation, ABC & Associates were removed at the general meeting held on 25-05-2023 by passing a special resolution subject to approval of the Central Government. Explaining the provisions for removal of second and subsequent auditors, examine the validity of removal of ABC & Associates by X Ltd. under the provisions of the Companies Act, 2013.

(3 marks)

4. Examine the following situations in the light of the Companies Act, 2013
- i. Mr. Ayush, a Chartered accountant has been appointed as an auditor of X Ltd. in the Annual General Meeting of the company held in September, 2018, in which he accepted the assignment. Subsequently, in January, 2019 he joined B, as a partner for the consultancy firm of Mr. B. Mr. B is working also working as a Finance Executive of X Ltd.

- ii. Mrs. Sita, wife of CA. 'Arjun' the statutory auditor of Stellar Builders Limited, acquired shares in the company for a face value of ₹ 75,000/- on 15th March, 2018. CA. 'Arjun', issued his audit report on 25th April, 2018. Examine the validity of this transaction under the Companies Act, 2013. Would your answer be different if face value of the shares have been ₹ 1,50,000/- (market value ₹ 95,000/-)?

(5 marks)



CA Intermediate (Batch Aug 2024)

SOLUTION – Test of Chapter 10

Part 1- MCQ questions

Q1.	(a)	Q2.	(c)	Q3.	(b)	Q4.	(b)
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Part II – Descriptive questions

1. **Special Notice** - As per **section 140(4)** of the Companies Act, 2013, resolution for appointment of an auditor other than retiring auditor at an Annual General Meeting requires special notice.

As per **section 115** of the Companies Act, 2013, read with rule 23 of Companies (Management and Administration) Rules, 2014

Where, by any provision contained in this Act or in the Articles of Association of a company, special notice is required for passing any resolution, then the notice of the intention to move such resolution shall be given to the company by such number of members holding not less than 1% of the total voting power, or holding shares on which such aggregate sum not exceeding INR 5 lakh, as may be prescribed, has been paid-up.

Rule 23 provides, a special notice required to be given to the company shall be signed, either individually or collectively by such number of members holding not less than 1% of total voting power or holding shares on which an aggregate sum of not less than INR 5,00,000 has been paid up on the date of the notice.

The afore-mentioned notice shall be sent by members to the company not earlier than 3 months but at least 14 days before the date of meeting at which the resolution is to be moved, exclusive of the day on which the notice is given and the day of the meeting.

Here, L Ltd. is having 2,000 members with paid-up capital of ₹1 crore, and it received a notice from its 50 members holding paid-up capital of ₹ 6 lakh, in aggregate, on 2nd July, 2022 for a resolution to be passed at the AGM to be held on 21st August, 2022.

As the members who gave the notice hold more than ₹ 5 lakh in the paid-up capital of the company, they were eligible to give such notice.

Further, the notice should have been given not earlier than 3 months but at least 14 days before the date of meeting - 21st August, 2022, and the notice was given on 2nd July, 2022 i.e., within the prescribed time limit.

Thus, it can be said that the said notice was made by adequate number of members within the prescribed time limit to L Ltd.

2. According to **section 177** of the Companies Act, 2013 read with the Companies (Meetings of Board and its Powers) Rules, 2014, in every listed public company- an Audit Committee shall be constituted by Board of directors.

Rule 6 of Companies (Meetings of Board and its Powers) Rules, 2014, provides that in case of a company that is required to constitute an Audit Committee under section 177, the committee, and, in cases where such a committee is not required to be constituted, the Board, shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and whether such qualifications and experience are commensurate with the size and requirements of the company.

The audit committee shall recommend the name of an individual or a firm as auditor to the Board for consideration; the Board shall consider and recommend an individual or a firm as auditor to the members in the Annual General Meeting (AGM) for appointment.

If the Board disagrees with the recommendation of the Audit Committee- It shall refer back the recommendation to the committee for reconsideration citing reasons for such disagreement.

- (i) In the given question, the **Board shall record reasons for its disagreement with the committee and send its own recommendation for consideration of the members** in the AGM.

Section 139(8) provides that the Board may fill any casual vacancy in the office of an auditor within 30 days.

Section 139(11) prescribes that where a company is required to constitute an Audit Committee under section 177, all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.

Hence, the position will remain same even in case of casual vacancy.

- (ii) In case there was no requirement of appointment of an audit committee then the BOD shall recommend to the members in the AGM, the name of an individual or a firm which can be appointed as auditor after considering qualifications and experience of such individual or firm and other matter as laid therein.

3.

- a. As per the provisions of Section 140(5), the Central Government may apply to the Tribunal in respect of such matter highlighting that the auditors miserably failed to fulfil their duties as auditors of the company.

If the Tribunal is satisfied that the auditors were involved in the fraud with the company, the Tribunal may change the auditors and the new auditor shall be appointed by Central Government. Further, the erstwhile auditor, involved in fraud, shall not be eligible to be appointed as auditor of any company for 5 years and also liable for action under section 447 of the Companies Act 2013.

- b. **Section 140** of the Companies Act, 2013 prescribes procedure for removal of auditors. Under section 140 the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf in the prescribed manner.

From this sub section it is clear that the approval of the Central Government shall be taken first and thereafter the special resolution of the company should be passed.

Provided that before taking any action under this sub-section, the auditor concerned shall be given a reasonable opportunity of being heard.

Hence, in the instant case, the decision of X Ltd. to remove ABC & Associates, auditors of the company at the general meeting held on 25-5-2023, is not valid. The approval of the Central Government shall be taken before passing the special resolution in the general meeting.

4.

- i. Provisions and Explanation: 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. Sub-section (4) of Section 141 provides that an auditor who becomes subject, after his appointment, to any of the disqualifications specified in sub-sections (3) of Section 141, he shall be deemed to have vacated his office as an auditor.

Conclusion - In the present case, Ayush, an auditor of X Ltd., joined as partner with B, who is Finance executive of X Ltd., has attracted clause (3) (c) of Section 141 and, therefore, he shall be deemed to have vacated office of the auditor of X Limited.




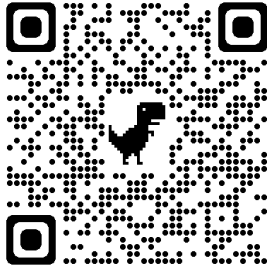
- ii. As per Section 141(3)(d)(i) of the Companies Act, 2013, a person who, or his relative or partner is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company, shall not be appointed as an auditor of the company.

However, Rule 10 of the Companies (Audit and Auditors) Rules, 2014, states that a relative of an auditor may hold securities in the company of face value not exceeding rupees one lakh.

In the given case Mrs. Sita, wife of CA. Arjun acquired shares in Stellar Builders Limited, in which he was a statutory auditor on 15th March, 2018. Since, the securities held by Mrs. Sita is within the prescribed limit of ₹ 1 lakh, such a transaction is valid. Yes, the answer will be different in case where the face value of acquired shares is ₹ 1,50,000. Then in that case -

1. Corrective action to maintain the limit specified (i.e., 1 lac) shall be taken by the auditor within 60 days of such acquisition, or
2. Auditor has to vacate his office.

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