

## Chapter 10 → Audit & Auditors

Section  $\Rightarrow$  Sec 139 to 148

## Form Series $\Rightarrow$ ADT

Rules  $\Rightarrow$  Companies (Audit & Auditor) Rules 2014.

## Sec 141: Eligibility & Qualifications of Auditor

141(1) & (2) → only a CA  
or  
From (incl. LLP)  
↓  
where Majority Partners are  
CA → practicing in India

Can be Auditor

⇒ If Firm/LLP appointed as an Auditor then only partners who are CA are authorized to act & sign on behalf of firm.

### 141(3) Disqualifications of Auditor.

(a) A Body corporate other than LLP.  
[LLP can be auditor]

eg. Mr. Ramu → CA in practice [PCA]

↳ incorporated → Ramu Kaka Pvt. Ltd.

Can this Co. be appointed as Auditor? Ans. No

(b)

→ Director, Manager etc.  
officer / Employee of Company.

Mr. Karan → Director in KK Ltd.  
[CA]

Can Karan be auditor of KK Ltd.?

Ans: No, as he is officer in Co.

(c)

Partner / Employee of officer / Employee of Co.

(Partner of officer of Co.) PD

(Partner of Employee of Co.) PE

(Employee of officer of Co.) EO

(Employee of Employee of Co.) EE

eg. Mr. Gogi [PCA] → Director in KK Ltd.

↳ also partner in ABK & associates

[Partners → Mr. Gogi CA  
Mr. KK CA  
Mr. AK CA]

Q Mr. KK Can be auditor in KK Ltd.?

Ans: No, KK is partner of officer of Co.

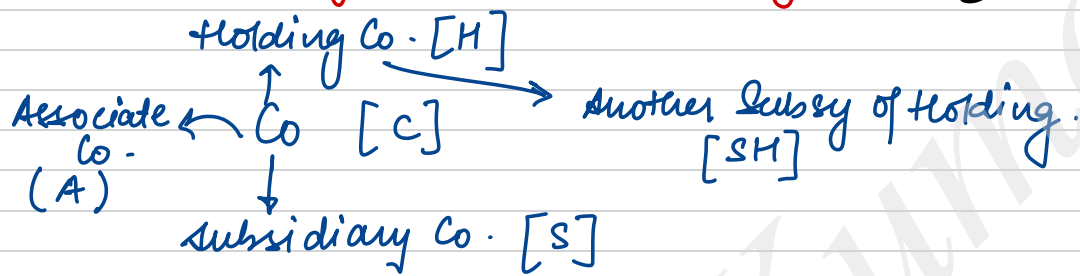
Q Mr. Ratan is employee of Mr. Gogi

Can he be appointed as auditor?

Ans: No, he is employee of officer of Company.

d) A person, who himself or his Relative or Partner

i) holding any Security or having any interest in Company, its subssy, its holding Co, its associate, subssy of such holding Co. [CASH-SH]



# Rule 10  $\Rightarrow$  However Relative may hold Securities of Face Value upto ₹ 1 Lakh in Company

$\Rightarrow$  If holding of Relative exceeds ₹ 1,00,000 Auditor  $\rightarrow$  Corrective Action within 60 Days.

OR

ii) Indebted to CASH-SH  
(Pese Dene hai) in excess of ₹ 5,00,000/-

OR

iii) Has Given Guarantee to CASH-SH  
in excess of ₹ 1,00,000

Eg-1 CA Hariya indebted to Co  $\Rightarrow$  ₹ 5,50,000  
on 10/04/2025

He repaid the loan on 10/7/2025

On 17<sup>th</sup> Sep 2025 can he be appointed  
as an Auditor?

Ans: Yes. [As on Date of appointment.  
Indebtedness  $<$  5L

Eg-2 Shyam (PCA)  $\rightarrow$  auditor  $\rightarrow$  KK Ltd.  
appoint on 17 Sep 2025

Reeta (wife of Shyam)  $\rightarrow$  Securities purchase  
of KK Ltd. on  
10 Sep 2025

FV  $\Rightarrow$  70000, MV  $\Rightarrow$  110000

Ramu (son of Shyam)  $\rightarrow$  Securities Purchase  
of KK Ltd. on  
10 Oct 2025

FV  $\Rightarrow$  80000 MV  $\Rightarrow$  160000

# Discuss the implications of appointment?

Ans: On 17<sup>th</sup> Sep 2025  $\Rightarrow$  Shyam is eligible for appointment  
as holding of Relative  $<$  1L

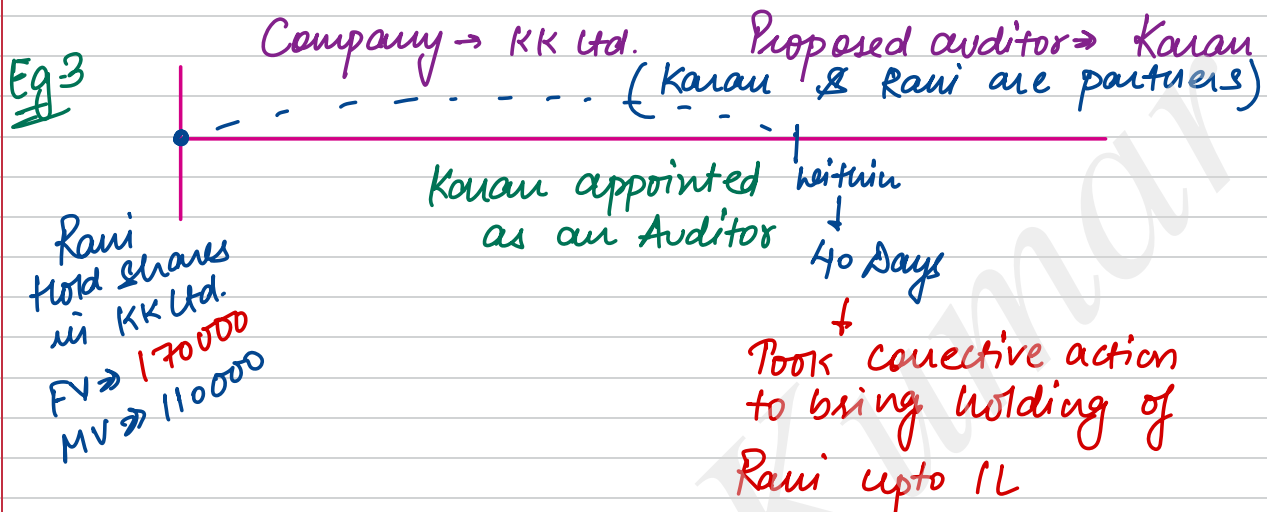
On 10 Oct 2025  $\Rightarrow$  Relatives holding  $>$  1L

Now Shyam  $\rightarrow$  Corrective action within 60 Days.

i.e Bring the holding of Relative upto FV 1L



If he fails to do so, he will be disqualified and he has to vacate.



Q: Whether Karan can continue?

Ans: Invalid Appointment

Suppose in above eg: Rani was relative instead of Partner?

Ans: Now, Valid Appointment & Karan will not be disqualified.

(e) A person / Firm  $\left\{ \begin{array}{l} \text{Directly} \\ \text{Indirectly} \end{array} \right\}$  Business Relation [BR] with

C A S H - S H A

Business Relation

Any Transaction entered into for a Commercial Purpose Except -

a) Commercial Transactions in ordinary course of Business at Arm Length Price

(ALP)

b) Commercial Transaction in nature of Professional Service

eg. Airtel Ltd → Internet Services provided to KK & associates.

→ Whether KK & associates can be appointed as an auditor?

a) If services availed at discount?

No

NO

[As BR exist]

b) If services availed at ALP?

Yes

Yes

[As BR does not exist]

①

Person whose Relative is a Director of Co.  
OR

Person whose Relative is in Employment of Company as Director or KMP

eg: Pushan [Brother of Karan] [Practicing CA]  
↳ Director in KK Ltd.  
or  
KMP

Can Karan be auditor in KK Ltd.? ⇒ No.

9) A Person who is in Full time employment elsewhere

or

Person who is auditor > 20 Companies

[KK's Note: EK auditor max. 20 Companies ki audit kar sakta hai]

OPC, Small Co, Dormant Co, Pvt Co  $\rightarrow$  PUC < 100cr

NOT Counted in limit of 20

$\rightarrow$  In case of Firm, limit of 20 shall be taken for every CA partner.

eg: KK & associates  $\Rightarrow$  3 partners.

CA CA CA  
 $\rightarrow$  AK, KK, SK

How many audits can be taken?

Ans:  $20 \times 3 \Rightarrow 60$  Audits.

eg: 2 CA AK is also partner in XYZ associates.

In XYZ associates he has 5 audits

How many audits KK & associates can take in name of CA AK?

Ans: 15 Audits.

eg. KK & associates CA firm  
 Partners  $\Rightarrow$  Mr. KK, Mr. SK, Mr. AK (Au 3 are CA)  
 doing statutory audit of foll. Companies.

- 1) Small Companies - 20
- 2) Pvt Companies  $PUC < 100 \text{ cr} \Rightarrow 15$
- 3) Pvt Co.,  $PUC \geq 100 \text{ cr} \Rightarrow 18$
- 4) Public Co  $\rightarrow 7$

Signing by

Mr. KK  $\rightarrow$  10 Small Co, 5 Pvt Co  $PUC \geq 100 \text{ cr}$   
 2 Public

Mr. SK  $\rightarrow$  5 Small Co, 10 Pvt Co  $PUC < 100 \text{ cr} \checkmark$   
 8 Pvt Co,  $PUC \geq 100 \text{ cr}$   
 1 Pub. Co

Mr. AK  $\rightarrow$  5 Small Co., 5 Pvt Co.  $PUC < 100 \text{ cr}$   
 5 Pvt Co.  $PUC \geq 100 \text{ cr}$   
 4 Public Co.

$\Rightarrow$  What is the max. No. of audits, firm can accept?

$\Rightarrow$  3 partner  $\times$  20  $\Rightarrow$  60 Audits  $\left[ \begin{array}{l} \text{excl. OPC} \\ \text{SC} \\ \text{Pvt } PUC < 100 \text{ cr} \\ \text{Dormant Co.} \end{array} \right.$   
 $\Rightarrow$  Currently doing  $\Rightarrow$  18 + 7  $\Rightarrow$  25  $\left( \begin{array}{l} \text{Pvt } PUC \geq 100 \text{ cr} \\ \text{Public} \end{array} \right)$   
 So, allowed  $\Rightarrow$  60 - 25  $\Rightarrow$  35 more audits of  $\left( \begin{array}{l} \text{Pub Co} \\ \text{Pvt } PUC \geq 100 \text{ cr} \end{array} \right)$

$\Rightarrow$  What is the max no. of audit for each individual Partner?

Mr. KK  $\rightarrow$  Small Co  $\rightarrow$  10  $\rightarrow$  Exempt  
 5  $\rightarrow$  Pvt Co, PUC  $>$  100 Cr } 7 Audits Done  
 2 Pub. Co  
 Allowed  $\Rightarrow$  20 - 7  $\Rightarrow$  13 Audit Allowed

Mr. SK  $\rightarrow$  5 Small Co  $\rightarrow$  Exempt  
 10 Pvt Co, PUC  $<$  100 Cr  $\rightarrow$  Exempt  
 8 Pvt Co, PUC  $>$  100 Cr }  $\rightarrow$  9 Audit Done  
 1 Pub Co<sup>+</sup>  
 So, 20 - 9  $\Rightarrow$  11 Audits Allowed.

Mr. AK  $\rightarrow$  5 Small Co  $\rightarrow$  Exempt  
 5 Pvt Co, PUC  $>$  100 Cr } 9 Audit Done  
 4 Pub. Co<sup>+</sup>  
 20 - 9  $\Rightarrow$  11 Audits Allowed

(h) Person  $\rightarrow$  Convicted by Court for any offence involving Fraud and 10 Yrs has not been lapsed since its Conviction.

(i) Person Directly, Indirectly Services to  
 up to 144 Co.  
 or its subsidiary or its holding

Sec 141(4) when person appointed as an Auditor, attracts any disqualification as per Sec 141(3) such Person shall vacate the office such vacancy shall be treated as Casual Vacancy

## # Sec 144.

### Certain Services NOT to be Rendered by an Auditor.

→ Auditor so appointed → Services approved by BOD.

→ Auditor appointed under this Act cannot

render below mentioned Services

Co. S H  
Directly  
or  
Indirectly

- Accounting & Book Keeping
- Internal Audit
- Design & Implementation of Financial Info System
- Actuarial Services
- Investment Advisory Services
- Investment Banking Services
- Rendering of outsourced Financial Services.
- Management Services
- Any other Service as may be prescribed.

For the purpose of Sec 144, Directly, Indirectly includes :-

If Auditor is Individual

- Himself
- Through Relative
- Through Connected Person
- Through an Entity

in which indiv.  
have Significant or  
Influence

whose Brand, Name,  
Trade mark  
is used by  
such Individual

If Auditor is a Firm

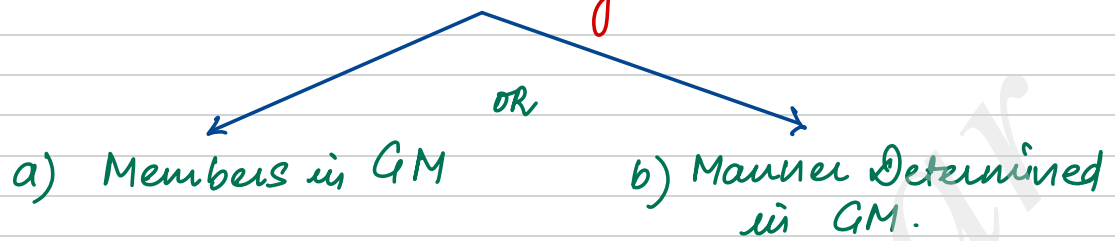
- Itself
- Through Any Partner
- Through Parent, Subsy, Associate Entity.
- Through an Entity

in which Firm / Partners  
have Significant  
Influence

whose Brand, Name,  
Trade mark  
is used by  
Firm / Partners.

## Sec 142: Remuneration of Auditor

→ Remuneration Fixed by



→ Remuneration of First Auditor → Fixed by BOD

→ Remuneration includes → Fees payable to Auditor  
→ Expenses incurred by Auditor in connection to Audit  
→ Any facility extended to him.

But Remuneration does not include

any Remuneration paid for providing any other Service to Company at the Request of Company. → [should not be prohibited u/s 144]

## # Sec 145: Auditor to sign the Audit Report

→ Auditor shall sign the Audit Report

→ Qualification, Observations } Adverse Effect → shall be Read before the Co in GM.  
Comments

→ Audit Report → open for inspection → Members.

### # Sec 146: Auditor's Right to attend GM.

→ All Notices of GM → sent to Auditor

→ Auditor himself  
or  
Authorized Representative  
(who must be Qualified to be an Auditor)

} must attend the General Meeting.

→ Right to be heard at the Meeting.

### Sec 147: Punishment.

147(1) Non Compliance → Sec 139 - 146

Company → Fine

- Min 25000
- Max 25L

officer in Default → Fine

- Min 10,000
- Max 1L

147(2)

Auditor → Non Compliance Sec 139, 143, 144, 145

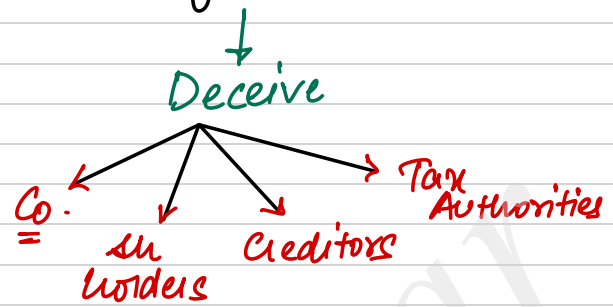
Min Fine → ₹ 25000

Max Fine → 4 times of Remuneration  
OR  
₹ 5L

} Less



If it is proved  $\rightarrow$  Auditor  $\rightarrow$  Wilful Intention



Auditor shall be punishable with:-

Min Fine  $\Rightarrow$  ₹ 50000

Max Fine  $\Rightarrow$  ₹ 2500000

OR

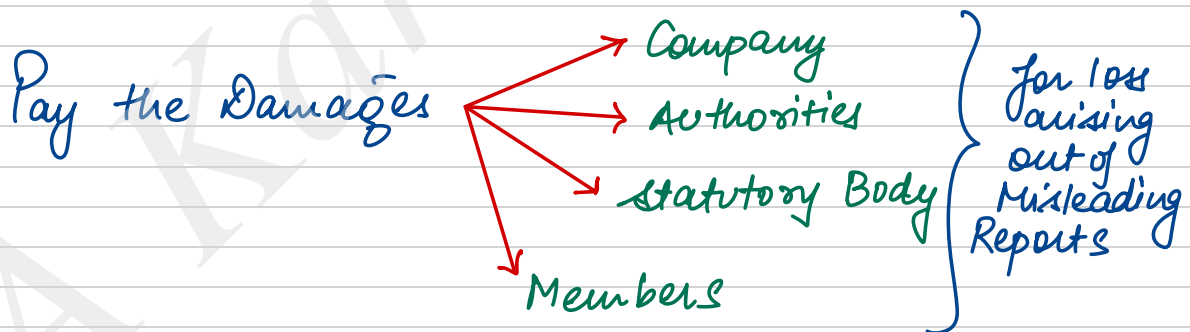
8 times of Rem.

} Less

AND

Imprisonment upto 1 Year

147(3) Auditor convicted u/s 147(2)



$\Rightarrow$  Refund the Remuneration to Company.

147(4) CG specify  $\rightarrow$  Authority / officer / Statutory Body  
for ensuring Prompt Payment of Damages

Such officer / Authority / SB  $\Rightarrow$  Report to CG.

147(5) If Audit is Done by Firm.

and

It is proved that Partner or Partners  
acted in a Fraudulent Manner

Civil Liab  $\Rightarrow$  Partner / Partners Concerned  
and

Firm

Jointly & Severally Liab.

Criminal Liab  $\Rightarrow$  Partner / Partners Concerned  
shall be liable

and also liable up to 447

## # Sec 139: Appointment of Auditor

### ⇒ Appointment of First Auditor

→ Govt. Company.

→ Govt owned / Controlled Co.

↓  
Sec 139(7)

CAG → 1<sup>st</sup> Auditor  
within 60 Days  
of Incorporation.

If CAG fails

BOD ⇒ Next 30 Days

If BOD fails ⇒ then  
BOD Inform

↓  
Members

then Members appoint  
within 60 Days  
in EGM

Non Govt. Co.

↓  
Sec 139(6)

↓  
BOD → 1<sup>st</sup> Auditor  
within 30 Days  
of Incorporation.

If BOD fails

BOD inform to Members

then Member  
appoint within  
90 Days.

Auditor so appointed  
shall hold office  
till Conclusion of  
1<sup>st</sup> AGM.

## # Appointment of Subsequent Auditor

→ Govt. Company.

→ Govt owned / Controlled Co.

↓  
Sec 139(5)

↓  
Auditor shall be appointed within 180 Days of Commencement of FY.

Non Govt. Co.

↓  
Sec 139(1)

↓  
Appointed at 1<sup>st</sup> AGM and holds office from Conclusion of 1<sup>st</sup> AGM till Conclusion of 6<sup>th</sup> AGM.

# Auditor shall hold office till Conclusion of AGM.

## # Sec 177: Concept of Audit Committee

Foll. Companies shall constitute Audit Committee

1) Listed Companies.

2) Public unlisted Co ⇒ PUC ≥ 10 cr

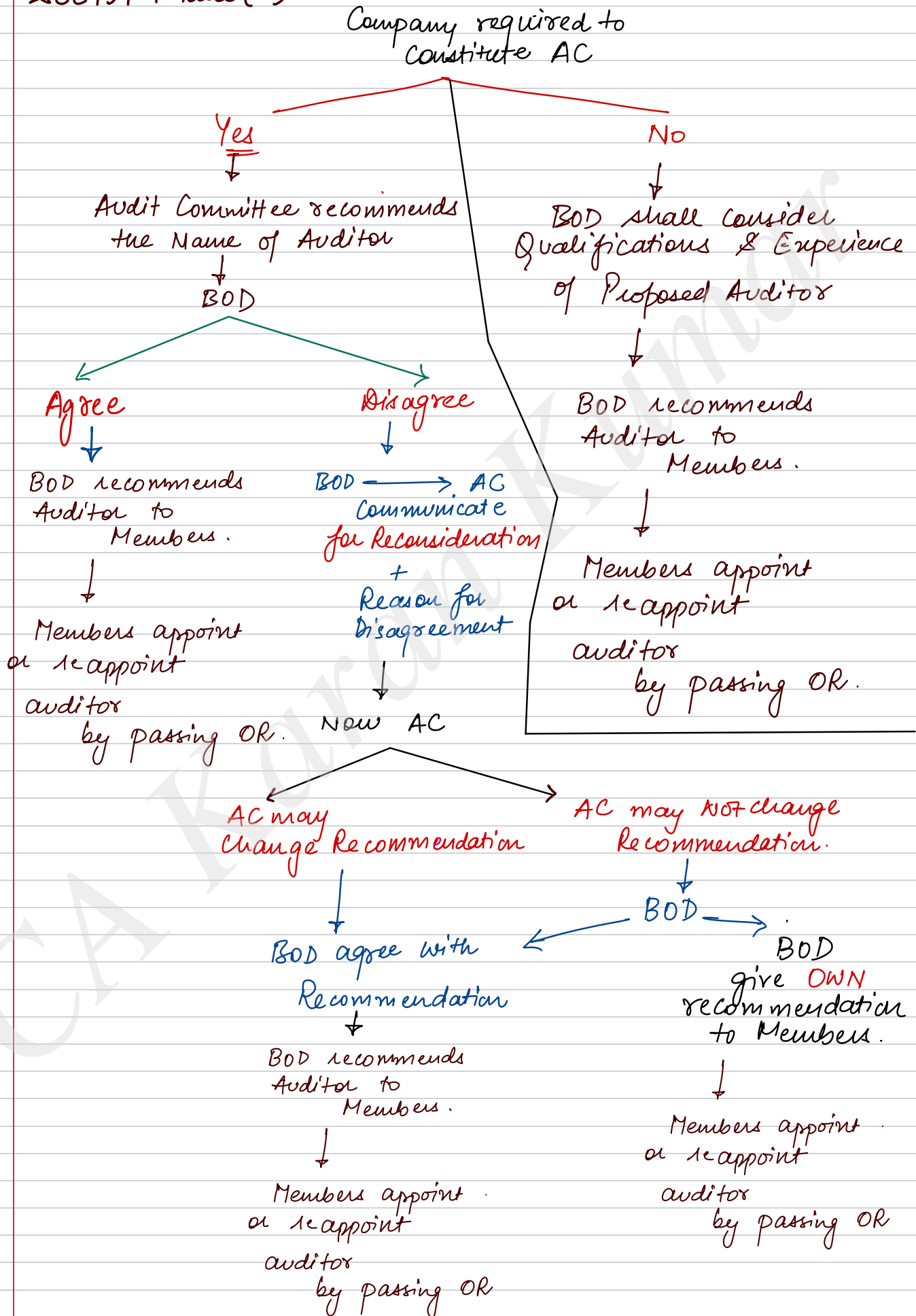
OR  
T/O ≥ 100 cr  
OR

Agg. Loan, Ban., Deb ≥ 50 cr  
Deposits

If Company do not fulfill above criteria for 3 consecutive years ⇒ No Need of Audit Comm.

Then constitute AC when criteria is met again.

## Sec 139 + Rule (3)



# Rule 4: Auditor appointed as per Rule 3 shall give a certificate

4(1) a) Individual / Firm → Eligible for appointment  
& NOT disqualified → Co Act 2013  
CA Act 1949  
Rules

b) Proposed appointment is as per Terms

c) Proposed appointment is within Limit  
u/s 141(3)(g)

d) List of Proceedings → against Auditor  
against Firm  
against Partner  
in relation to prof. matters  
Disclosed in Certif.  
↓  
True & Correct

4(2) Auditor appoint ⇒ Info ⇒ ROC in ADT-1

Remaining Prov.

139(1) Before appointment ⇒ Obtain <sup>Written</sup> Consent  
Obtain Certificate

& within 15 Days of appointment  
inform to ROC in ADT-1

In case of other BC appointing Auditor  
NFRA 1 to NFRA

v. imp\*  
Sec 139(2)

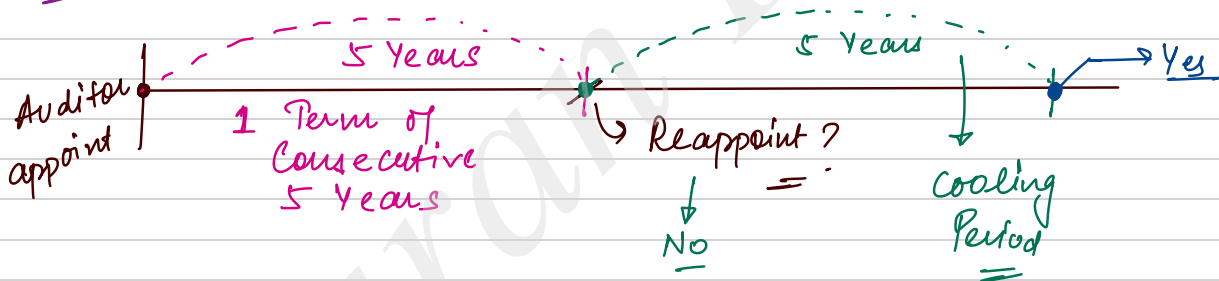
## Rotation of Auditor

Rule 5 Companies on which rotation is applicable

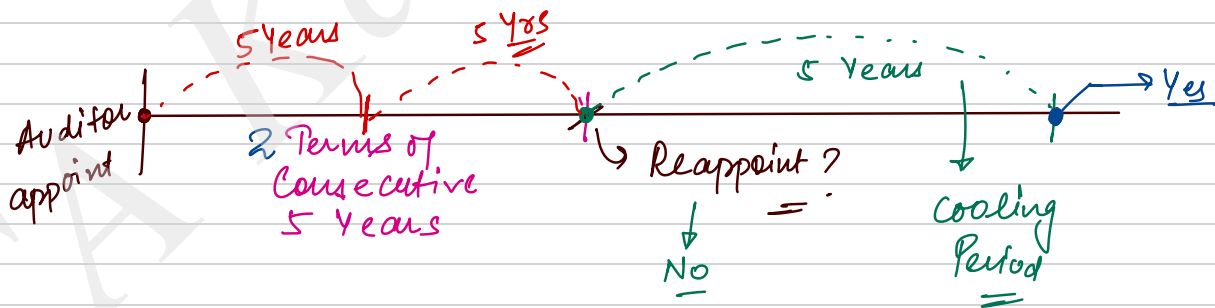
- Listed Companies
- Unlisted Public Co  $\Rightarrow$  PUSC  $\geq$  10 cr
- All Private Co  $\Rightarrow$  PUSC  $\geq$  50 cr
- All Companies  $\Rightarrow$  below threshold stated above  
(Pvt + Public)

Borrowings from Bank, PF2, Deposits  $\geq$  50 cr

139(2) If Auditor is Individual. (PCA)



If auditor is Firm.



eg.1

Pumina

Auditor appointed

$\rightarrow$  For 1 Term of 5 Yr.

5 YRS

3 YRS

Resign

After 2 months  
 $\downarrow$   
Came Back

du: No

Cooling Period:

After Completing 5 Yrs / 10 Yrs as the case may be → Auditor NOT eligible for Reappointment for 5 Yrs in Same Co.

Imp

# As on the Date of appointment, Auditor firm having common partner with the Audit firm whose Tenure has expired.

then such Other Firm shall also be Ineligible for 5 Yrs to be appointed as an Auditor. in Same Co.

eg: ASK & associates → Partner A, S, K  
done the audit of Reliance Ltd. (2 Terms)

AXY & associates → Partners A, X, Y  
proposed as auditor of Reliance Ltd.

Q1 Whether AXY & associates can become auditor of Reliance?

Ans No, because Common Partner [Mr. A]

Q2 Whether BKC & associates [Partner B, Z, C]  
can become auditor of Reliance?

Ans. Yes.



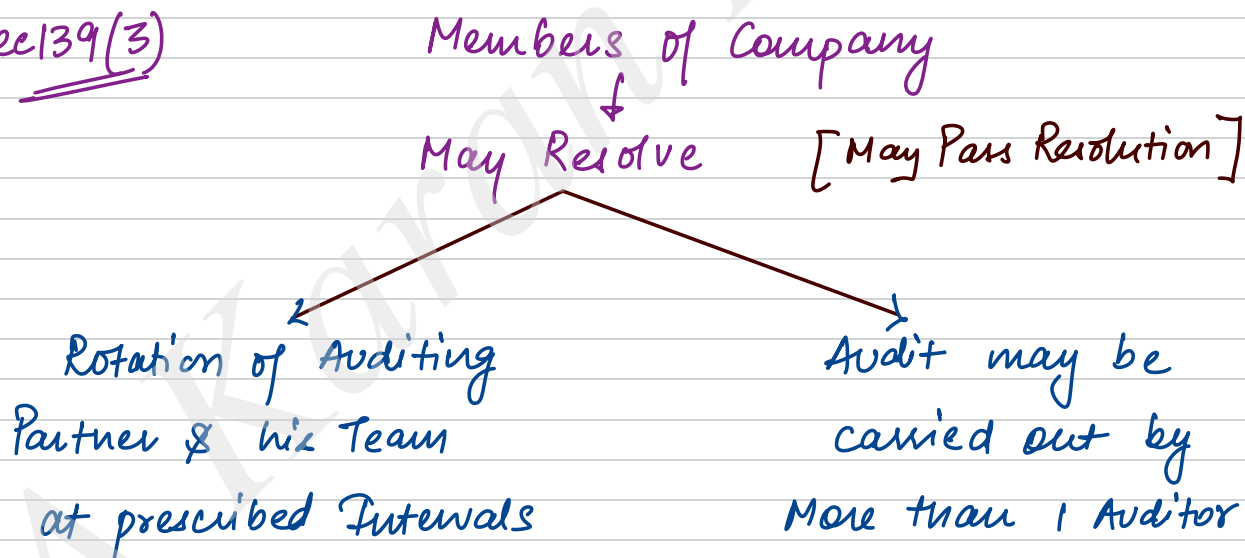
Q3 BKC & associates appointed as an auditor of Reliance, after appointment A became partner of BKC & associates.

whether BKC & assoc. need to vacate?

Ans: ~~Yes~~ No.

Sec 139(2) shall NOT Prejudice the right of Company → To remove auditor before Tenure  
Auditor → To resign from the Co.

Sec 139(3)



139(4) CG may prescribe ⇒ Manner for Rotation.

# Rule 6: Manner for Rotation.

If AC exist → then AC } Name Recommended ⇒ who will Replace earlier Auditor  
If NOT → then BOD }

then Recommendation → Member  
(AC wali, BOD wali).

Member appoint auditor in AGM by OR

# For Rotation, Foll. provisions shall apply:-

① → For calculating period  $< \begin{matrix} 5 \text{ yrs} \\ 10 \text{ yrs} \end{matrix}$ . Period served prior to commencement of this Act, shall also be considered.

eg:

Individual

→ (At least 3 yrs → Transition)

(Doing audit)

8 yrs  
15 yrs  
6 yrs  
4 yrs  
3 yrs  
2 yrs  
1 yr

2014

3 yrs  
3 yrs  
3 yrs  
3 yrs  
3 yrs  
3 yrs  
4 yrs

Total Period

11 yrs  
18 yrs  
9 yrs  
7 yrs  
6 yrs  
5 yrs  
5 yrs

Firm.

2014

10 yrs  
12 yrs  
8 yrs  
7 yrs  
6 yrs  
5 yrs  
2 yrs

3 yrs  
3 yrs  
3 yrs  
3 yrs  
4 yrs  
5 yrs  
8 yrs

13 yrs  
15 yrs  
11 yrs  
10 yrs  
10 yrs  
10 yrs  
10 yrs

② Individual Auditor / Audit Firm → NOT Eligible to be appointed as Auditor for 5 yrs if it belongs to SAME NETWORK to which the retiring firm belongs to

# Same Network ⇒ Firms operating under

→ Same Brand Name

OR

→ Same Trade Name

OR

→ Common Control

eg: ASK & associates → Partner A, S, K  
done the audit of Reliance Ltd. (2 Terms)

BKC & associates → Partners B, Z, C belongs to same network, proposed as auditor of Reliance Ltd.

Q1 Whether BKC & associates can become auditor of Reliance?

Ans: No, because BKC & assoc. belongs to same network.

Q2 ASK & assoc. belongs to Network ZZZ  
BKC & assoc. belongs to Network BBB

Can now BKC & assoc. be appointed?

Ans: Yes, as they are not under same Network.

Q3 BKC & assoc. appointed as an auditor & after appointment, BKC & assoc. left network BBB & Join Network ZZZ

Whether BKC & associates need to vacate?

Ans: ~~No~~ Yes  
Casual Vacancy arises!

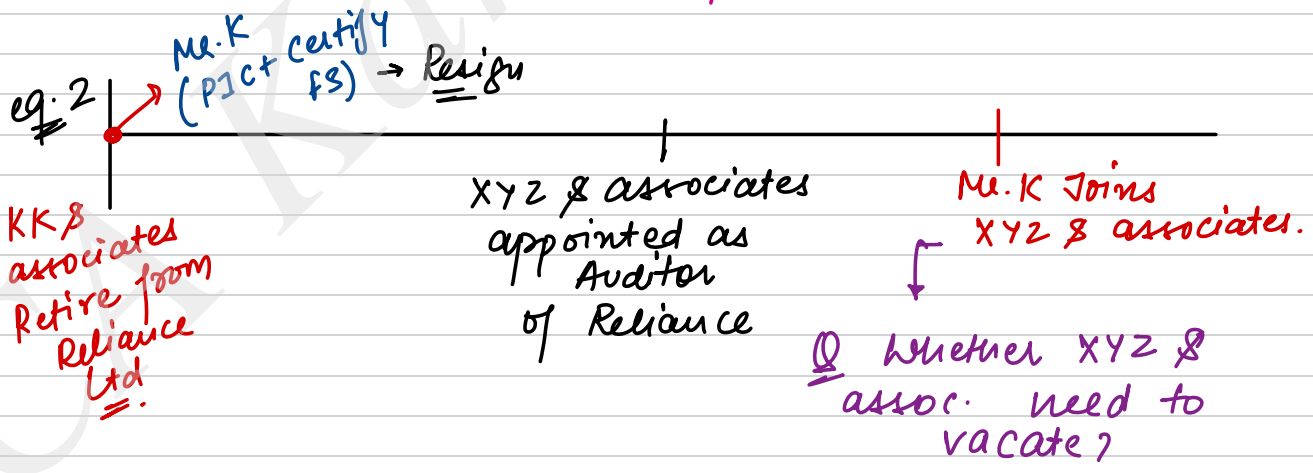
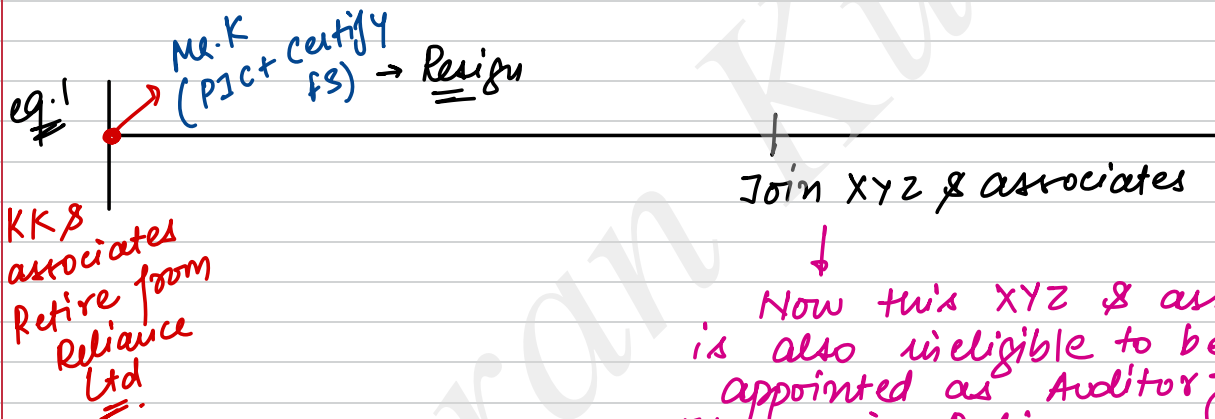
Same Network will point sirf as on Date of appointment ni dekha, pure 5 yrs dekha h

③ Break should be for Continuous 5 yrs.

④ Audit Firm → Partner → In charge who certifies the FS of the Company.

→ He Resign from Retiring firm & Joins Other Firm.

Then such other Firm shall also be **Ineligible** to be appointed as an Auditor for 5 Yrs.

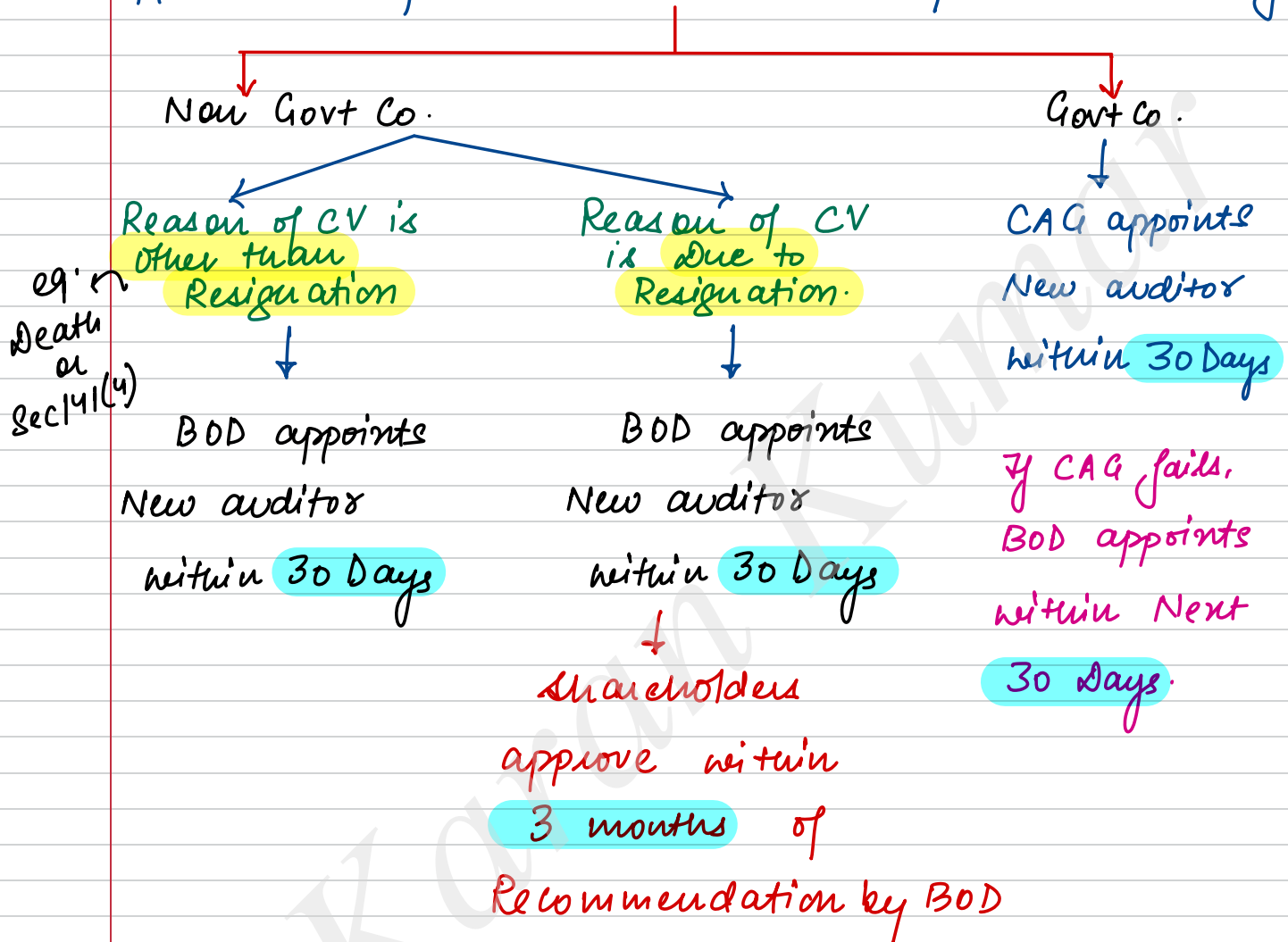


Ans: Yes

Casual Vacancy arises.

## # 139(8) Casual Vacancy. [CV]

### Appointment of New auditor in Case of Casual Vacancy



**Holds office Till Conclusion of Next AGM!**

### 139(a) Re appointment of Retiring Auditor & Exception:-

Retiring auditor MAY be reappointed in AGM if

→ He is NOT disqualified.

and

→ Has not shown his unwillingness

to be Reappointed

→ SR has not been passed

For Not Reappointing him OR For appointing other Auditor

139(10) If at an AGM → No auditor is appointed or Reappointed  
Existing auditor shall Continue.

139(11) If Co. is required to constitute AC u/s 177 then All appointments including CV shall be done after Recommendations of AC

# Sec 140 Removal, Resignation of Auditor & Giving of special Notice  
→ 140(1) → 140(2)  
↳ Sec 140(4)

140(1) Removal of Auditor

Auditor may be removed before expiry of Term

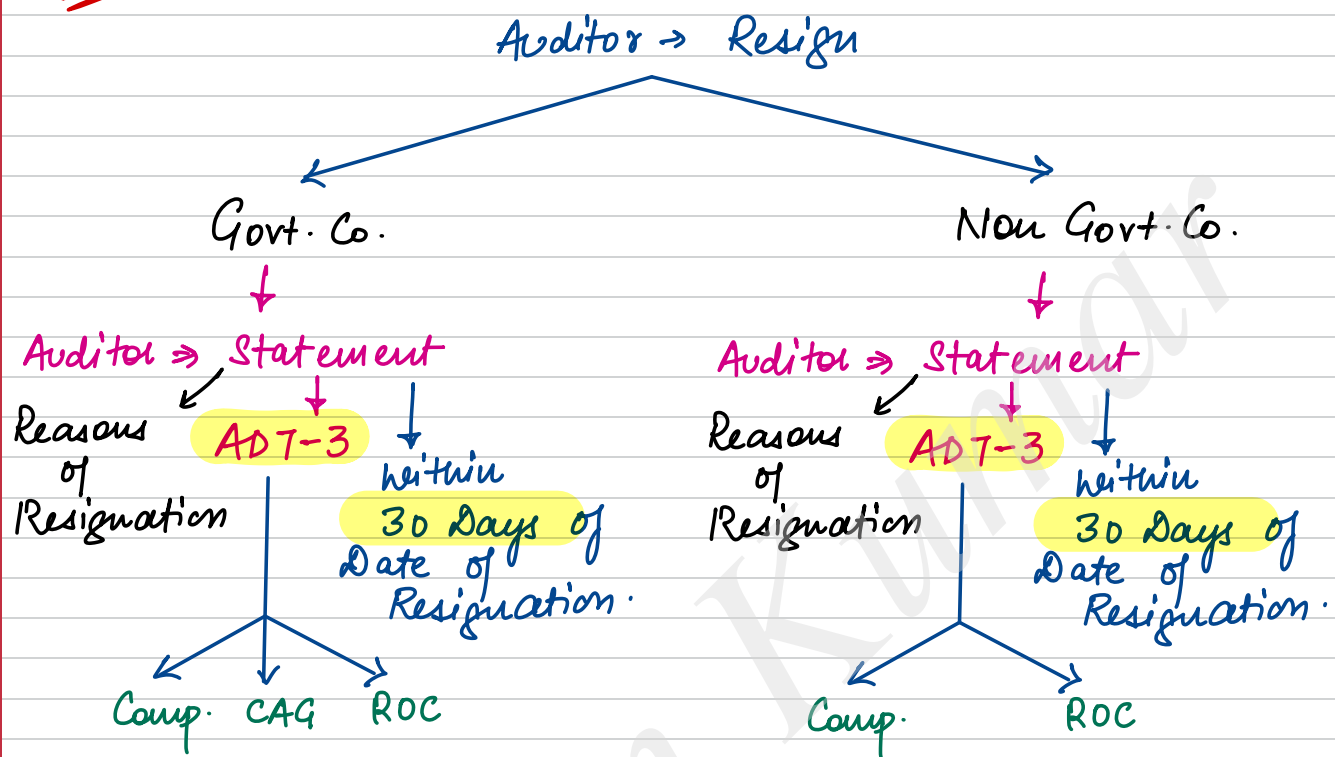
⇒ BR pass for Removal

⇒ within 30 days → Apply to CG (RD)  
in Form ADT-2

⇒ obtain CG (RD) approval

⇒ within 60 days ⇒ Pass SR. for Removal.

## 140(2) Resignation of Auditor



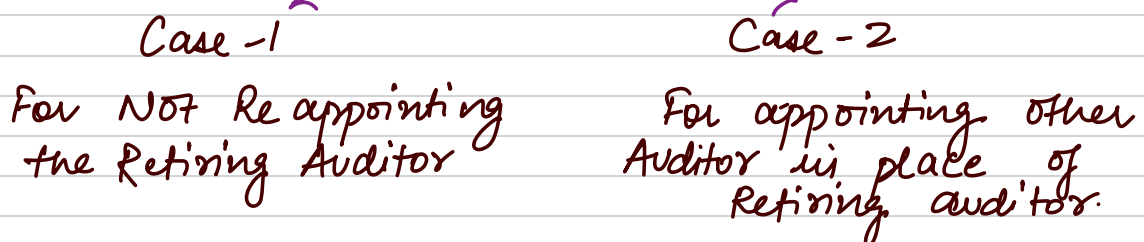
## 140(3) If Auditor violates 140(2)

He/It → Liable for Penalty

₹50000 or Amt equal to Remuneration  
whichever is less.

with Further Penalty ⇒ ₹500 per Day till Default  
continues ⇒ Max 200000/-

## 140(4) Special Notice required to pass SR.



⇒ Special Notice ⇒ At least 14 clear Days  
before AGM.

↓  
⇒ Company Forwards it to Auditor for  
Representations.

↓  
⇒ Auditor has the Right of Representation

↓  
⇒ Representation of Auditor  
+ Special Notice ⇒ Copy } ⇒ Forward to  
all Members.

⇒ If Representations recd. too late  
then Auditor may request to read it out  
in AGM.

Copy of Repres. → Filed to ROC

⇒ If Auditor abused his Position  
Company ——— Form NCLT-1 → NCLT  
apply

If Tribunal Satisfied, then pass order

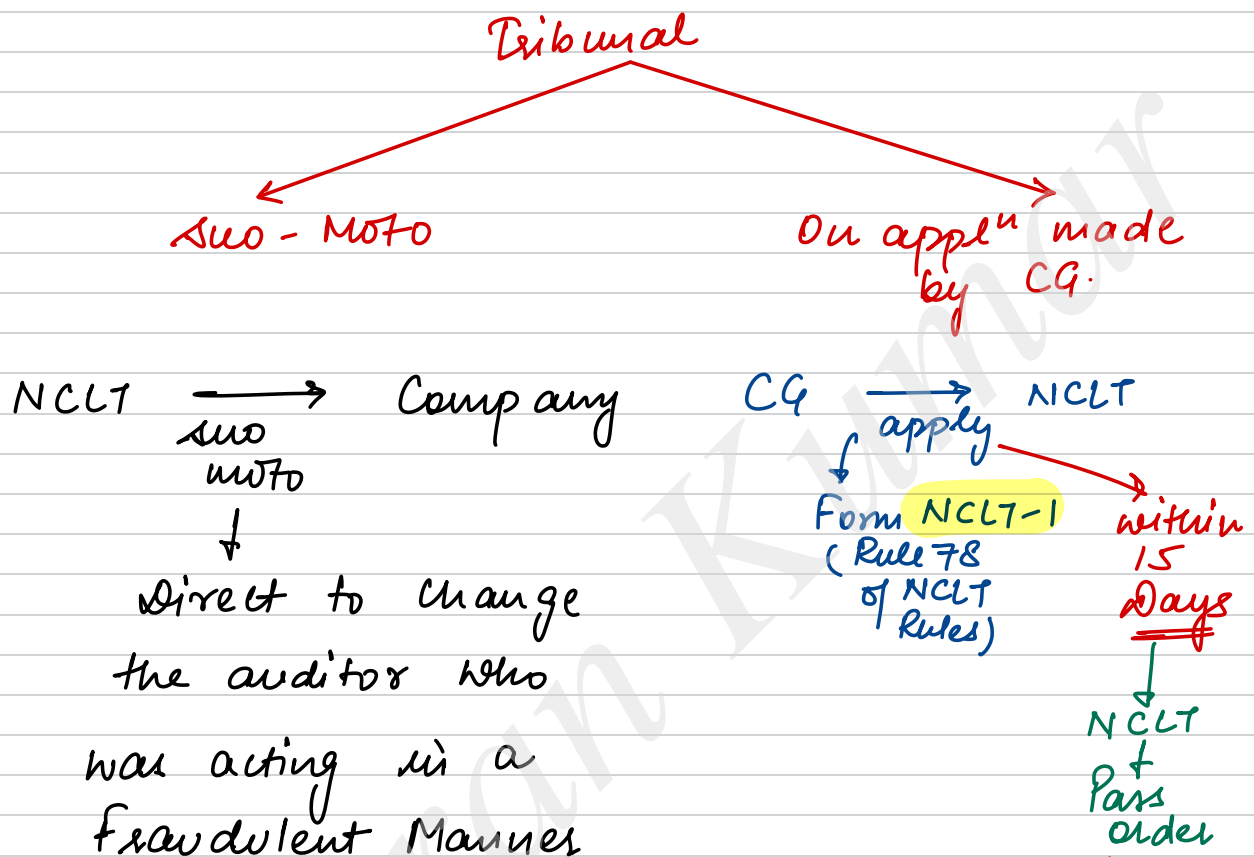
→ Representations should NOT be sent

AND

→ Representations should NOT be Read  
at AGM.



## 140(5) Power of Tribunal $\Rightarrow$ Removal of Auditor (NCLT)



$\rightarrow$  Existing Auditor will NOT function anymore  
 $\rightarrow$  New Auditor may be appointed by CG

{ Before giving order, NCLT satisfy itself that Auditor was acting in a fraudulent Manner }

Auditor (Ind/Firm) against whom order has been passed by NCLT  $\rightarrow$  will be **Disqualified** to be appointed as Auditor of ANY Company for a period of 5 Yrs. and liable u/s 447.

In case of Firm :- Liab  $\Rightarrow$  Firm + Every Partner who acted in fraudulent Manner.

## # Sec 143 : Powers & Duties of Auditors.

### 143(1) Powers of Auditor.

① Auditor shall have access at all Times

B                      A  
└───┬───┘  
      ↓  
Books of A/c

V                      C  
└───┬───┘  
      ↓  
Vouchers of Co.

whether kept at 

② Right to Get any Info / Explanation from officer of Company to perform his Duties.

③ Auditor of Holding Co. → Access → Records of Subsy / Assoc. Co.  
[so far it relates to Consolidation]

## # Duties of Auditor. { a, b, c, d, e, f }

Auditor must inquire into the foll. matters:-

a) Loans & Advances → Properly Secured → Term & Cond → Prejudicial or NOT to Interest of Co. or Members.

b) whether Transactions are merely <sup>only</sup> represented by Book Entries.

c) shares are sold less than price (cost) at which they were acquired.

d) loans & Advances made by Co  $\Rightarrow$  shown as Deposits.

e) Personal Expenses charged to Revenue A/c

f) Any shares allotted FOR Cash  $\rightarrow$  whether cash has been actually recd.

AND if NOT recd.  $\rightarrow$  then BOA

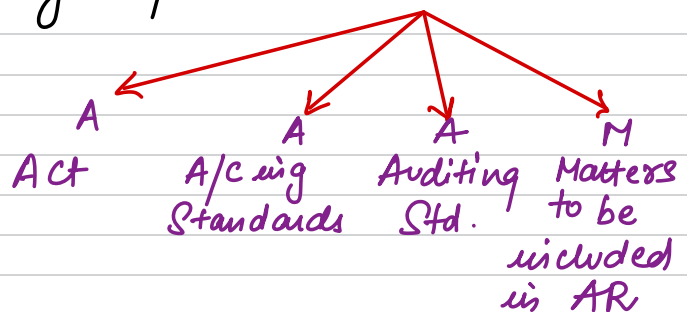
$\downarrow$   
Position show

$\rightarrow$  is correct?  
 $\rightarrow$  Misleading or not

143(2) Auditor shall Report  $\rightarrow$  To Members of the Co.  
on accounts examined by him.  
and

FS which are laid before Co in G.M.

$\Rightarrow$  Auditor while preparing Report  $\Rightarrow$  Consider



Auditor shall Express his opinion on FS examined by him. that to best of his knowledge & Info. FS gives True & Fair View of affairs of Company.

143(3) Auditor report shall state

a) Auditor recd  $\Rightarrow$  All Info & Expl<sup>n</sup> so sought & if NOT Recd.

Mention the Details & Impact on FS.

b) Books of A/C  $\rightarrow$  Kept by Co.

↳ as per Law

[sec 128]

and

Proper Returns must be received by auditor from Branches NOT visited by him.

c) Report on Branch which are audited by other Auditor has been recd.

AND

Manner in which Branch Auditor's Report is Dealt by Company's Auditor

d) B/s & P/L agree with Books of A/c

e) Whether in the opinion of Auditor  
FS → Comply with Accounting std.

f) Observations, Comments of Auditor on  
Financial Transaction / Matters which  
have adverse effect on Functioning of Co.

g) If Director → Disqualified up 164(2).

h) Qualifications, Adverse Remarks → Maintenance of A/c

i) Company has adequate Internal Financial  
Controls & its operating effectiveness.

j) Other matters as may be prescribed.  
[Rule 11]

\*\*  
# Proviso Reporting on Internal Financial Controls  
up 143(3)(i) shall NOT apply.

To a prt Co → OPC

[92 + 137] → Small Co.

NOT Default → Pvt Co whose T/O < 50 cr  
and

Aggregate Ben. from  
Bank/PFI < 25 cr

# Rule 11: Other Matters to be included in AR.

Auditor Report must include Views & Comments on foll. Matters :-

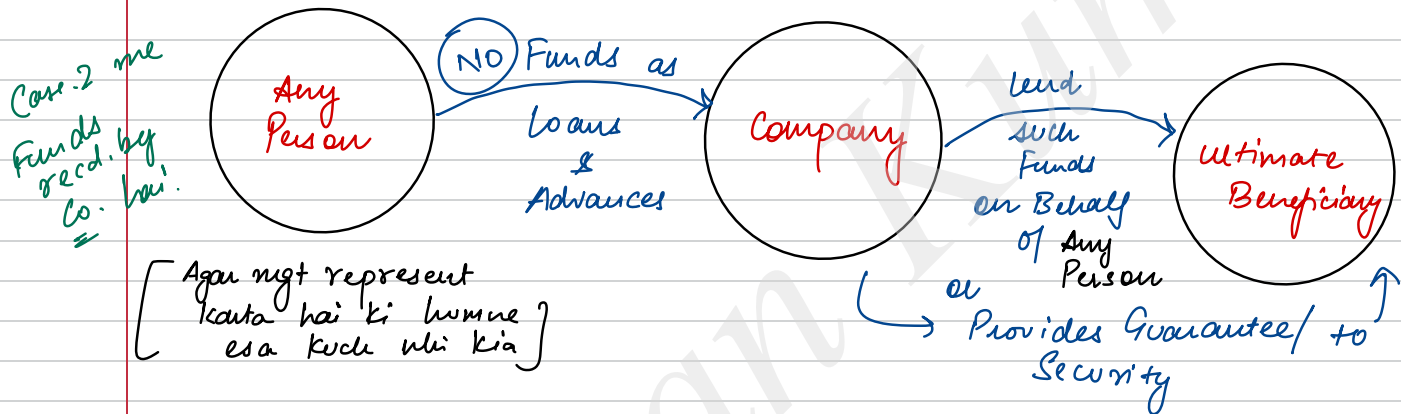
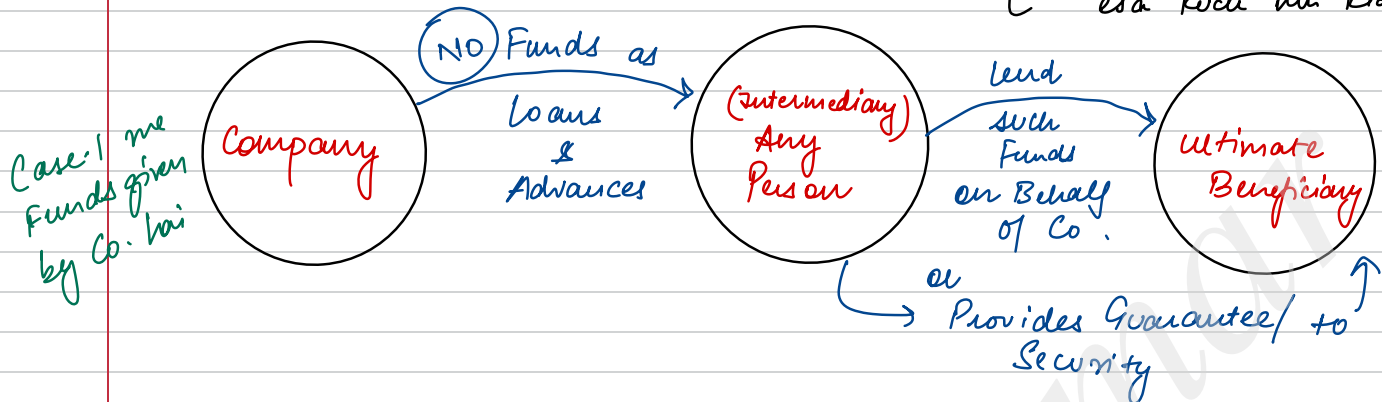
- ① Whether Co → Disclosed → Impact of Pending Litigations on FS
- ② Whether Co → Made provisions for Foreseeable losses on any Long Term Contracts including Derivative Contracts
- ③ Whether there is any Delay in Transferring the amt to TEPF.
- ④ Dividend paid or Declared ⇒ Compliance of Sec 123.

→ eg: 17 Sep: 10 am: Entry Passed  
17 Sep: 12 pm → Entry Modified.

- ⑤ For FY Commencing on or after 01/04/2022  
Whether Company has used Accounting Software  
→ which has a Feature of Audit Trail Facility  
→ Audit Trail must be operated throughout the year for all Transactions.  
→ Audit Trail Feature has NOT been Tempered  
→ Audit Trail must be preserved as per statutory Requirements.

⑥ If Mgt. has Represented that,

[Agar ngt represent karta hai ki humne esa kuch nhi kia]



Nothing came to notice of Auditor that caused him to believe that above representation contains any Material Misstatement

143(4) If Auditor → Matter → Negative Remarks

If Auditor → Gives → Qualifications.

then State the Reasons.

143(5) Govt Co., Govt. Controlled Companies.

→ CAG appoint auditor u/s 139(5)/(7)

and CAG Direct → Manner in which audit is to be done

Auditor  $\xrightarrow{\text{Submit Report which includes}}$  CAG

- a) Directions issued by CAG
- b) Action taken
- c) Impact of it on FS & A/c

143(6) CAG shall have a right to conduct Supplementary Audit of FS within 60 Days of Receipt of Audit Report by a person authorized by CAG.

⇒ For conducting Supplementary Audit, such Authorized Person may require any Info.

⇒ CAG have right to comment upon supplementary Audit Report.

143(7) If CAG, considers Necessary,  
→ Pass order for Test Audit of Accounts.

KK's Note: Just for knowledge

Comparison b/w Supplementary Audit & Test Audit

- |                        |                                   |
|------------------------|-----------------------------------|
| → Audit of FS          | → Audit of A/c's.                 |
| → within 60 Days of AR | → whenever CAG consider Necessary |



Sec 143(8) + Rule 12

Branch office  $\Rightarrow$  means any establishment described as such by the Company.

$\Rightarrow$  Who can do the Branch Audit?

Branch -  $\leftarrow$  in India  
Company's Auditor

or

Person Qualified to be  
appointed as Auditor  
w/s 139.

Branch -  $\rightarrow$  outside India  
Company's Auditor

or

Accountant  
or  
Person  $\Rightarrow$  Auditor  
as per law of  
that Country.

# Duties of Branch Auditor.

1) Branch auditor prepares report & send it to Company's Auditor.

2) Powers & Duties of Company's Auditor w.r.t Branch Audit & Branch Auditor.  $\Rightarrow$  shall be contained in Sec 143(1) to 143(4)

3) Provisions regarding Reporting of Fraud by Auditor also extends to Branch Auditor to the extent Fraud relates to Branch.

143(9) Auditor must comply with Auditing Standards.

143(10) CG may prescribe Auditing Standards as recommended by ICAI in consultation with § after considering recommendations of NFRA.

143(11) CG may order specified class of Co. requiring their Auditor to report on matters specified in that order.

[For this → CARO 2020 Applicable]

↓  
Companies (Audit Report) Order 2020

## Sec 143(12) <sup>vv jump</sup> Reporting of Fraud.

→ If Auditor → Reasons to Believe that offence involving Fraud is being committed or has been committed

by officer or Employee of Company against the Company then Auditor shall report about such Fraud to CG.\*

\* NOTE → If fraud is of an amt below stipulated limit → Auditor shall report the Fraud to BOD / Audit Committee

# Manner of Reporting of Fraud → Rule 13. [Next Page].

143(13) If Reporting is done in Good Faith → It shall be deemed that auditor has NOT contravened any of his Duty by reporting to CG.

143(14) Reporting of Fraud also apply mutatis mutandis to

- i) Company Secretary (CS) → Secretarial Audit (Sec 204)
- ii) Cost Accountant (CMA) → Cost Audit (Sec 148)

143(15) If Sec 143(12) is violated,

Penalty → Listed Co → ₹ 5L  
"Auditor, Cost auditor, Secretarial Auditor" Other Co → ₹ 1L

## Rule 13 → Manner of Reporting.

Auditor → Reason to believe → Fraud on Company → By officer/employee

### Fraud

Amount of Fraud < 1 crore

Report the Fraud  $\swarrow$  AC  
or  
BOD  
within 2 Days.

Along with

- Nature of Fraud
- Approx Amt
- Parties Involved.

Board shall include in the Board Report

- Nature of Fraud
- Approx Amt
- Remedial Action taken
- Parties Involved.  
(if Remedial Action not taken)

Amount of Fraud  $\geq$  1 crore

Auditor shall report the Fraud to AC/BOD as the case maybe within 2 Days of his knowledge

seeking the Reply within 45 Days

Reply Received

within 15 Days of Reply.

Submit Report in Form ADT-04 along with

- Original Report
- Reply of AC/BOD
- Auditor's comments on Reply.

To CG  
(Secretary, MCA)

Through Regd Post/  
Speed Post

in a sealed Envelope

Followed by an Email for confirmation on letter head with Contact Details

Reply NOT received

on expiry of 45 Days

Forward a Report in ADT-04

along with

- Original Report
- Statement that Reply NOT received.

To CG  
(Secretary, MCA)

Through Regd Post/  
Speed Post

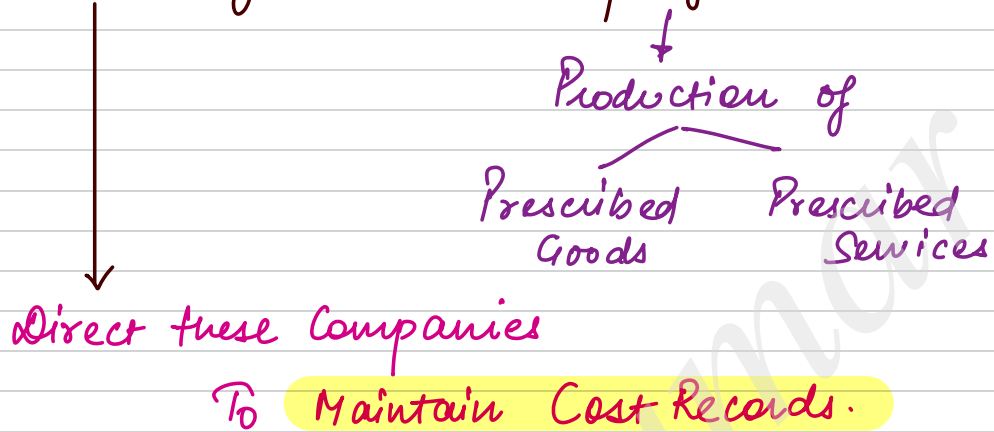
in a sealed Envelope

Followed by an Email for confirmation on letter head with Contact Details

## Sec 148: Cost Audit

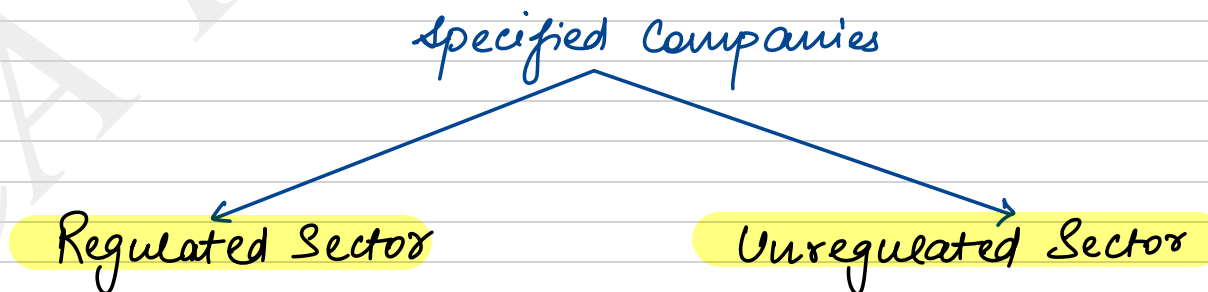
148(1)

Cg → By order → specified Co.



\* Rule 3 Co. including Foreign Co. engaged in Prod. of Goods/ Providing Services as prescribed **Shall** include Cost Records in their BOA.

If **Overall T/O** from all Products or Services  $\geq$  35 crores during Preceding FY



Telecom, Electricity,  
Sugar, Drugs & Pharma,  
Petroleum etc.

Iron, Steel,  
Rubber, Cement  
etc.

eg. Company  $\rightarrow$  Haiya Ltd.

T/o of Regulated Sector  $\rightarrow$  ₹ 20 cr

T/o of Unregulated Sector  $\rightarrow$  ₹ 10 cr

Other T/o  $\rightarrow$  ₹ 10 cr

Whether Haiya Ltd. is required to maintain Cost Records?

Ans Yes, overall T/o  $>$  35 cr.

Cost Records are to be maintained for Regulated & Non Regulated Sector.

Imp  
Company  $\begin{cases} \rightarrow \text{Micro Enterprise} \\ \rightarrow \text{Small Enterprise} \end{cases}$  } Exempted from Cost Records as per MSME Act

\* Once provisions are applicable to Co. then Maintain Cost Records Forever.

148(2) Cost Audit

Cg may by order direct that Cost records of co. having prescribed Net Worth or T/o must be audited in a prescribed manner.

# Cost Auditor  $\Rightarrow$  Cost Accountant  $\leftarrow$  Ind. Firm.

# Stat. Auditor as per Sec 139 cannot be a Cost Auditor.

# Cost Accountant  $\rightarrow$  Comply Cost Auditing standards issued by Institute of Cost Acc. of India with approval of CG.

148(4) Cost Audit is in addition to Audit u/s 143.

148(5) Qualifications, Disqualifications, Rights, Duties, obligations applicable to Auditors are also applicable to Cost Auditor.

# Audit Report

Cost Auditor  $\xrightarrow[\text{of Closure of FY}]{\text{within 180 Days}}$  Board of Director

$\Rightarrow$  within 30 Days of Receipt of Audit Report

Company  $\xrightarrow[\text{in CRA-4, XBRL Format}]{\text{Info / Explanation on the Negative Remarks}}$  CG

→ If CG calls for Additional Info, Co. should Furnish the Same to CG within time specified by CG.

148(8) Non Compliance

Company & officer in Default

Punishment → Sec 147(1)

Cost Auditor

Punishment → Sec 147(2) to (5)