

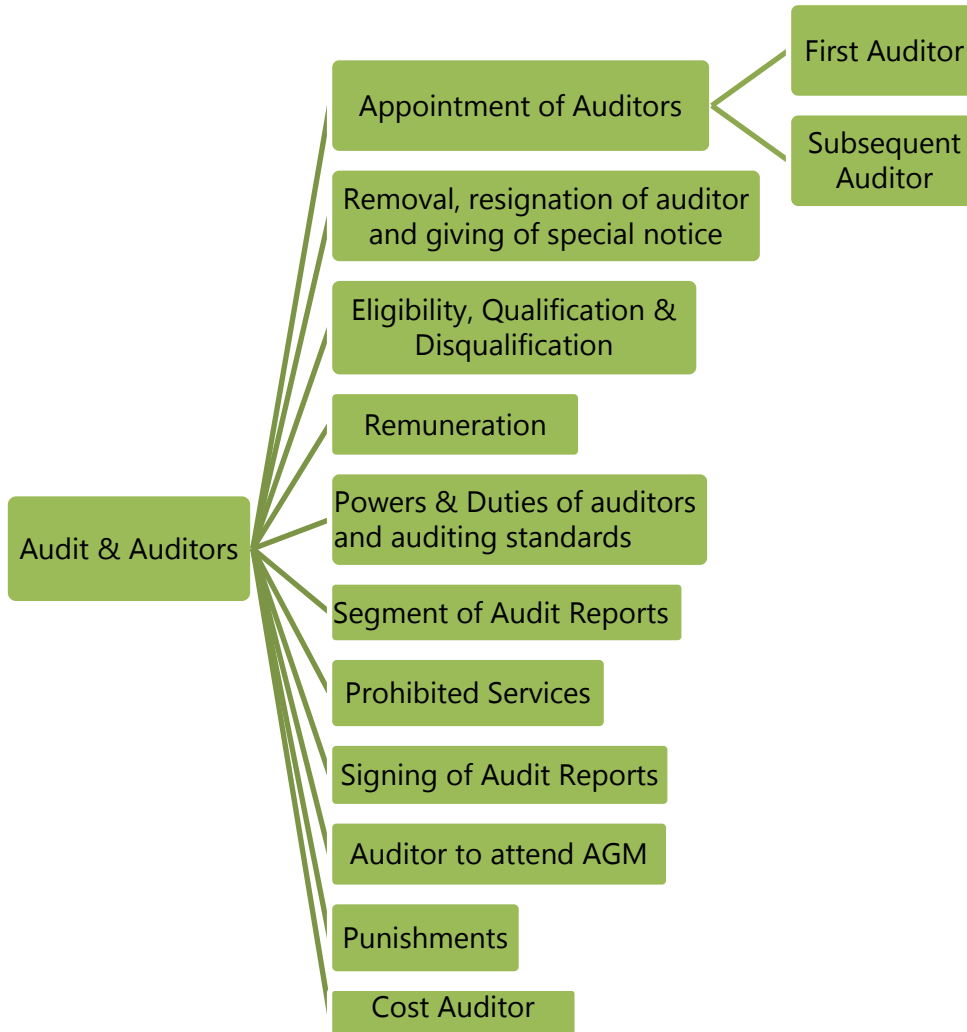
# AUDIT AND AUDITORS



## LEARNING OUTCOMES

**At the end of this chapter, you will be able to:**

- Understand the procedure for appointment of auditors, their removal, resignation, eligibility, qualifications, disqualifications and remuneration
- Know the powers and duties of auditors
- Know about auditing services and certain services which an auditor cannot render

**CHAPTER OVERVIEW**  **1. INTRODUCTION**

Large business corporations are managed by the directors who represent the members who are the real owners of the company. In the absence of any check the directors may mismanage the finances of the organisation. Thus, members appoint auditor to look into the true and fair view of the financial affairs of the company. These auditors are independent from the management of the company and hence can express an unbiased opinion.



## 2. APPOINTMENT OF AUDITORS [SECTION 139]

Section 139 of the Companies Act, 2013 (Act) provides for appointment of auditors. According to this section:

### (i) Appointment of auditor [Section 139(1)]:

- (a) Every company shall, at the first annual general meeting (AGM), appoint an individual or a firm as an auditor of the company.
- (b) The auditor shall hold office from the conclusion of 1<sup>st</sup> AGM till the conclusion of its 6<sup>th</sup> AGM and thereafter till the conclusion of every sixth AGM and the manner and procedure of selection of auditors by the members of the company at AGM has been prescribed under the *Companies (Audit and Auditors) Rules, 2014*. According to the Rules:
- (c) Manner and procedure of selection and appointment of auditors:
  - (1)

Categories of Companies	Competent authority	Responsibility of the competent authority
A company which is required to constitute an Audit Committee under section 177 <sup>1</sup>	Audit Committee	(i) The competent authority 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
A Company which is not required to constitute an Audit	Board of Directors	

### <sup>1</sup> Companies that require to constitute an audit committee

For the purpose of constitution of Audit Committee, section 177 of the Act, read with Companies (Meetings of Board and its Powers) Rules, 2014 provides that:

The Board of directors of every listed companies and the following classes of companies shall constitute an Audit Committee-

- (i) all public companies with a paid up capital of ten crore rupees or more;
- (ii) all public companies having turnover of one hundred crore rupees or more;
- (iii) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more.

**Explanation:** The paid up share capital or turnover or outstanding loans, or borrowings or debentures or deposits, as the case may be, as existing on the date of last audited financial statements shall be taken into account for the purposes of this rule.

Committee under section 177		qualifications and experience are commensurate with the size and requirements of the company.
		(ii) It shall have regard to any order or pending proceeding relating to professional matters of conduct against the proposed auditor before the Institute of Chartered Accountants of India (ICAI) or any competent authority or any Court. (iii) It may call for such other information from the proposed auditor as it may deem fit.

(2)

Categories of Companies	Competent authority	Responsibility of the competent authority
A company which is required to constitute an Audit Committee under section 177	Audit Committee	the committee shall recommend the name of an individual or a firm as auditor to the Board for consideration
A Company which is not required to constitute an Audit Committee under section 177	Board	the Board shall consider and recommend an individual or a firm as auditor to the members in the AGM for appointment

- (3) If the Board agrees with the recommendation of the Audit Committee, it shall further recommend the appointment of an individual or a firm as auditor to the members in the AGM.
  - (4) 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.
  - (5) If the Audit Committee, after considering the reasons given by the Board, decides not to reconsider its original recommendation, the Board shall record reasons for its disagreement with the committee and send its own recommendation for consideration of the members in the AGM; and if the Board agrees with the recommendations of the Audit Committee, it shall place the matter for consideration by members in the AGM.
- (d) Before the appointment is made, the written consent of the auditor to such appointment and a certificate from him or it that the appointment, if made, shall be in accordance with the conditions as may be prescribed, shall be obtained from the auditor.

**Certificate by Auditor:** *The Companies (Audit and Auditors) Rules, 2014* provides the content of the Certificate. According to this, the auditor appointed shall submit a certificate that–

- (A) the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Chartered Accountants Act, 1949 and the rules or regulations made thereunder;
  - (B) the proposed appointment is as per the term provided under the Act;
  - (C) the proposed appointment is within the limits laid down by or under the authority of the Act;
  - (D) the list of proceedings against the auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.
- (e) The certificate shall also indicate whether the auditor satisfies the criteria provided in section 141 [Section 141 provides provisions on

eligibility, qualification and disqualification of Auditor which will be discussed later] of the Companies Act, 2013.

- (f) **Communication to Auditor:** Further, the company shall inform the auditor concerned of his or its appointment, and also file a notice (in the *Form ADT-1*) of such appointment with the Registrar within 15 days of the meeting in which the auditor is appointed.

Here, "appointment" includes reappointment.

### **National Financial Reporting Authority Rules, 2018 (NFRA Rules)**

As per NFRA Rules, every existing body corporate other than a company governed by NFRA rules, shall inform the National Financial Reporting Authority (NFRA) within 30 days of the commencement of the NFRA rules, in Form NFRA-1, the particulars of the auditor as on the date of commencement of the NFRA rules.

Every body corporate, other than a company as defined in clause (20) of section 2 of the Act, formed in India and governed under NFRA Rules shall, within 15 days of appointment of an auditor under sub-section (1) of section 139, inform the NFRA in Form NFRA-1, the particulars of the auditor appointed by such body corporate. Provided that a body corporate governed under clause (e) of sub-rule (1) of NFRA Rules shall provide details of appointment of its auditor in Form NFRA-1.

#### **(ii) Term of Auditor [Section 139(2)]:**

- (a) Section 139(2) provides that listed companies and other prescribed class or classes of companies (except one person companies and small companies) shall not appoint or re-appoint—
- (1) an individual as auditor for more than one term of five consecutive years; and
  - (2) an audit firm as auditor for more than two terms of five consecutive years.
- (b) Rule 5 of the *Companies (Audit and Auditors) Rules, 2014* has prescribed the following classes of companies for the purposes of section 139(2):
- (1) all unlisted public companies having paid up share capital of rupees 10 crores or more;
  - (2) all private limited companies having paid up share capital of rupees 50 crore or more;

- (3) all companies having paid up share capital of below threshold limit mentioned in (2) and (3) above, but having public borrowings from financial institutions, banks or public deposits of rupees 50 crores or more.
- (c) **Cooling off Period:**
- (1) An individual auditor who has completed his term (i.e. one term of five consecutive years) shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term;
- (2) An audit firm which has completed its term (i.e. two terms of five consecutive years) shall not be eligible for re- appointment as auditor in the same company for five years from the completion of such term.

**Example:** XYZ Ltd. which is a listed company appoints Mr. Raghav as an auditor in its AGM dated 29th September, 2016. Mr. Raghav 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 2021. Now as per sub-section (2), Mr. Raghav shall not be re-appointed as Auditor in XYZ Ltd. for further term of five years i.e. he cannot be appointed as Auditor upto year 2026.

**Example:** XYZ Ltd. which is a listed company appoints M/s Raghav & Associates as an audit firm in its AGM dated 29th September, 2016. M/s Raghav & Associates will hold office from the conclusion of this meeting upto conclusion of sixth AGM to be held in the year 2021. Now as per sub-section (2), M/s Raghav & Associates can be appointed or re-appointed as auditor for one more term of five years i.e. upto year 2026. It shall not be re-appointed as Audit firm in XYZ Ltd. for further term of five years i.e. upto year 2031.

- (d) Further, as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years.

**Example:** M/s Krishna & Associates is an audit firm having 2 partners namely Mr. Krishna and Mr. Shyam. Mr. Shyam is also a partner of another audit firm named M/s Kukreja & Associates. M/s Krishna & Associates was appointed as the auditors in the company Golden Smith

Ltd. for two consecutive periods of 5 years i.e. from year 2016 to year 2026. Now, if Golden Smith Ltd. wants to appoint M/s Kukreja & Associates as its audit firm, it cannot do so because Mr. Shyam was the common partner between both the Audit firms. This prohibition is only for 5 years i.e. upto year 2031. After 5 years, Golden Smith Ltd. may appoint M/s Kukreja & Associates as its auditors.

- (e) **Transitional period:** Every company, existing on or before the commencement of this Act which is required to comply with the provisions as mentioned in above mentioned points (a) to (d) (i.e. provisions of this sub-section), shall comply with those provisions within a period which shall not be later than the date of the first AGM of the company held, within the period specified under sub-section (1) of section 96, after three years from the date of commencement of this Act.”
- (f) It is also provided that nothing contained in above mentioned points (a) to (d) (i.e. this sub-section) shall prejudice the right of the company to remove an auditor or the right of the auditor to resign from such office of the company.

**(iii) Rotation of auditor [section 139(3) and (4)]:**

- (a) Members of a company may resolve to provide that—
  - (1) in the audit firm appointed by them, the auditing partner and his team shall be rotated at such intervals as may be resolved by members; or
  - (2) the audit shall be conducted by more than one auditor.
- (b) The Central Government may, by rules, prescribe the manner in which the companies shall rotate their auditors.
- (c) Manner of rotation of auditors by the companies on expiry of their term as provided under the *Companies (Audit and Auditors) Rules, 2014*:
  - (1) The Audit Committee shall recommend to the Board, the name of an individual auditor or of an audit firm who may replace the incumbent auditor on expiry of the term of such incumbent.
  - (2) Where a company is required to constitute an Audit Committee, the Board shall consider the recommendation of such committee, and in other cases, the Board shall itself consider the matter of



rotation of auditors and make its recommendation for appointment of the next auditor by the members in annual general meeting.

- (3) For the purpose of the rotation of auditors:
- (i) in case of an auditor (whether an individual or audit firm), the period for which the individual or the firm has held office as auditor prior to the commencement of the Act shall be taken into account for calculating the period of five consecutive years or ten consecutive years, as the case may be;
  - (ii) the incoming auditor or audit firm shall not be eligible if such auditor or audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

The term "same network" includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

- (iii) For the purpose of rotation of auditors:
  - (A) a break in the term for a continuous period of five years shall be considered as fulfilling the requirement of rotation.
  - (B) 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.

**Illustration explaining rotation in case of individual auditor:**

<b>Number of consecutive years for which an individual auditor has been functioning as auditor in the same company [in the first AGM held after the commencement of provisions of section 139(2)]</b>	<b>Maximum number of consecutive years for which he may be appointed in the same company (including transitional period)</b>	<b>Aggregate period which the auditor would complete in the same company in view of column I and II</b>
<b>I</b>	<b>II</b>	<b>III</b>
5 years (or more than 5 years)	3 years	8 years or more
4 years	3 years	7 years
3 years	3 years	6 years

2 years	3 years	5 years
1 year	4 years	5 years

Here,

- (a) Individual auditor shall include other individuals or firms whose name or trade mark or brand is used by such individual, if any.
- (b) Consecutive years shall mean all the preceding financial years for which the individual auditor has been the auditor until there has been a break by five years or more.

#### Illustration explaining rotation in case of audit firm

<b>Number of consecutive years for which an audit firm has been functioning as auditor in the same company [in the first AGM held after the commencement of provisions of section 139(2)]</b>	<b>Maximum number of consecutive years for which the firm may be appointed in the same company (including transitional period)</b>	<b>Aggregate period which the firm would complete in the same company in view of column I and II</b>
<b>I</b>	<b>II</b>	<b>III</b>
10 years (or more than 10 years)	3 years	13 years or more
9 years	3 years	12 years
8 years	3 years	11 years
7 years	3 years	10 years
6 years	4 years	10 years
5 years	5 years	10 years
4 years	6 years	10 years
3 years	7 years	10 years
2 years	8 years	10 years
1 year	9 years	10 years

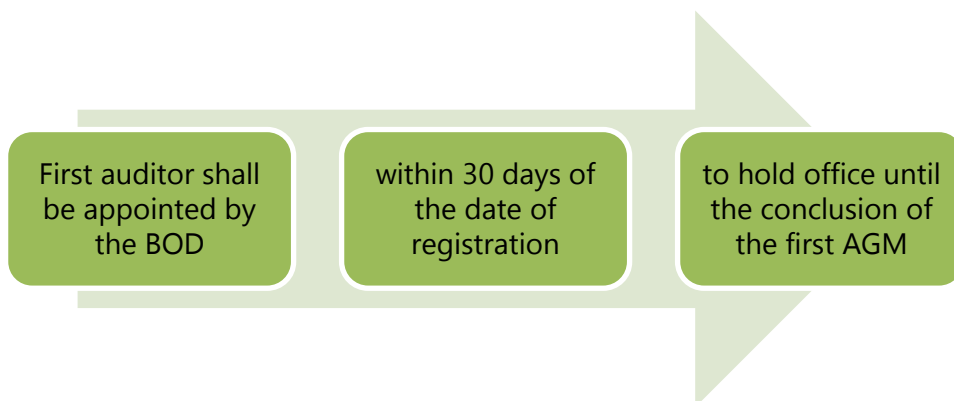
Here,

- (a) Audit Firm shall include other firms whose name or trade mark or brand is used by the firm or any of its partners.
- (b) Consecutive years shall mean all the preceding financial years for which the firm has been the auditor until there has been a break by five years or more.

- (4) Where a company has appointed two or more individuals or firms or a combination thereof as joint auditors, the company may follow the rotation of auditors in such a manner that both or all of the joint auditors, as the case may be, do not complete their term in the same year.
- (d) Here, the word "firm" shall include a limited liability partnership incorporated under the Limited Liability Partnership Act, 2008.

**(iv) First auditors [Section 139(6)]:**

- (a) Notwithstanding anything contained in sub-section (1) of Section 139 i.e. point 2(i) mentioned above, the first auditor of a company, other than a Government Company, shall be appointed by the Board of directors within 30 days of the date of registration of the company and the auditor so appointed shall hold office until the conclusion of the first AGM.



- (b) If the Board fails to exercise its powers i.e. appointment of first auditor, it shall inform the members of the company and the company may appoint the first auditor within 90 days at an extra ordinary general meeting (EGM) and such auditor shall hold office till the conclusion of the first AGM.

**Example:** 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.

**Answer: Provisions and Explanation:** Section 139(6) of the Companies Act, 2013 lays down that "the first auditor or auditors of a company shall be appointed by the Board of directors within 30 days from the date of registration of the company". In the instant case, the

appointment of Shri Ganapati, 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 requires the Board of Directors to appoint the first auditor of the company.

**Conclusion:** In view of the above, the Managing Director of PQR Ltd cannot appoint the first auditor of the company himself.

**(v) Filling up casual vacancy [Section 139(8)]:**

- (a) The Board may fill any casual vacancy in the office of an auditor within 30 days but where such vacancy is caused by the resignation of an auditor, such appointment shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board.
- (b) Any auditor appointed in a casual vacancy shall hold office until the conclusion of the next annual general meeting.

## Casual vacancy of Auditor

Filling the casual vacancy by Board within 30 days

If vacancy is caused by Resignation- appointment by Board shall also be approved by company at GM convened within 3 months of recommendation of Board

the Auditor so appointed shall hold office until the conclusion of next AGM.

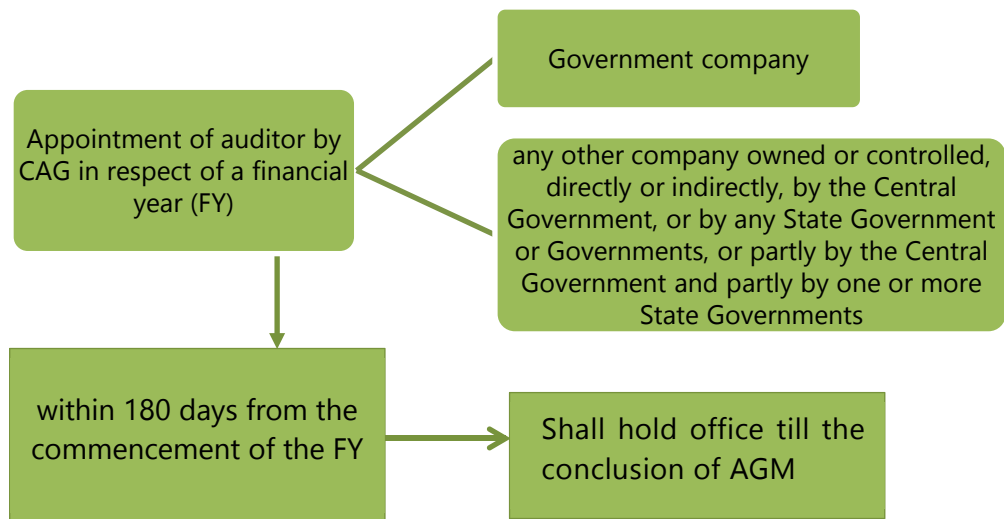
**Example:** Prakash Carriers Limited appointed Mr. Raman as its auditor in the Annual General Meeting held on 30th September, 2016. Initially, he accepted the appointment. But he resigned from his office on 31st October, 2016 for personal reasons. The Board of directors seeks advice for filling up the vacancy by appointment of Mr. Albert as auditor.

In the present case, as the auditor has resigned, the casual vacancy so created can be filled up by the Board appointing Mr. Albert. However, the appointment of Mr. Albert must be approved by the company by passing of an ordinary resolution at a general meeting of the company which must be convened by the Board within 3 months of the recommendation of the Board.

Mr. Albert will be entitled to hold office till the conclusion of the next Annual General Meeting.

**(vi) Appointment of auditors in case of Government Company or any other company controlled by the State Government or the Central Government [Section 139(5), 139(7) and 139(8)]**

- (a) As per section 139(5), the Comptroller and Auditor-General of India (CAG) shall, in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of companies under this Act in the case of:
  - (1) a Government company; or
  - (2) any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments.
- (b) The auditor shall be appointed within a period of 180 days from the commencement of the financial year. The auditor appointed shall hold office till the conclusion of the annual general meeting.



- (c) First auditor [section 139(7)]:
  - (1) in the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government, or Governments, or partly by the Central Government and partly by one or more State

Governments, the first auditor shall be appointed by the CAG within 60 days from the date of registration of the company.

- (2) In case the CAG does not appoint first auditor within the said period, the Board of Directors of the company shall appoint such auditor within the next 30 days.
- (3) Further, in the case of failure of the Board to appoint such auditor within the next 30 days, it shall inform the members of the company who shall appoint such auditor within the 60 days at an EGM, who shall hold office till the conclusion of the first annual general meeting.

(d) **Casual vacancy [section 139(8)]:**

- (1) In the case of a company whose accounts are subject to audit by an auditor appointed by the CAG, casual vacancy of an auditor shall be filled by the CAG within 30 days.
- (2) In case the CAG does not fill the vacancy within the said period, the Board of Directors shall fill the vacancy within next 30 days.

**(vii) Re-appointment of retiring auditor [section 139(9), (10) and (11)]:**

- (a) A retiring auditor may be re-appointed at an AGM if—
  - (1) he is not disqualified for re-appointment;
  - (2) he has not given the company a notice in writing of his unwillingness to be re-appointed; and
  - (3) a special resolution has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed.
- (b) Where at any AGM, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company.

**(viii) Audit committee's recommendation [Section 139(11)]:**

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.

As per NFRA Rules, every auditor referred to in Rule 3 shall file a return with the NFRA on or before 30th April every year in such form as may be specified by the Central Government.

**As per NFRA Rules, following provisions are relevant for the understanding of the students:**

**Monitoring and enforcing compliance with auditing standards -**

- (1) For the purpose of monitoring and enforcing compliance with auditing standards (SA) under the Act by a company or a body corporate governed under rule 3, the NFRA may:
  - (i) review working papers (including audit plan and other audit documents) and communications related to the audit;
  - (ii) evaluate the sufficiency of the quality control system of the auditor and the manner of documentation of the system by the auditor; and
  - (iii) perform such other testing of the audit, supervisory, and quality control procedures of the auditor as may be considered necessary or appropriate.
- (2) The NFRA may require an auditor to report on its governance practices and internal processes designed to promote audit quality, protect its reputation and reduce risks including risk of failure of the auditor and may take such action on the report as may be necessary.
- (3) The NFRA may seek additional information or may require the personal presence of the auditor for seeking additional information or explanation in connection with the conduct of an audit.
- (4) The NFRA shall perform its monitoring and enforcement activities through its officers or experts with sufficient experience in audit of the relevant industry.
- (5) The NFRA shall publish its findings relating to non-compliances on its website and in such other manner as it considers fit, unless it has reasons not to do so in the public interest and it records the reasons in writing.
- (6) The NFRA shall not publish proprietary or confidential information, unless it has reasons to do so in the public interest and it records the reasons in writing.
- (7) The NFRA may send a separate report containing proprietary or confidential information to the Central Government for its information.

- (8) Where the NFRA finds or has reason to believe that any law or professional or other standard has or may have been violated by an auditor, it may decide on the further course of investigation or enforcement action through its concerned Division.

**Overseeing the quality of service and suggesting measures for improvement (As per NFRA Rules)**

- (1) On the basis of its review, the NFRA may direct an auditor to take measures for improvement of audit quality including changes in their audit processes, quality control, and audit reports and specify a detailed plan with time-limits.
- (2) It shall be the duty of the auditor to make the required improvements and send a report to the NFRA explaining how it has complied with the directions made by the NFRA.
- (3) The NFRA shall monitor the improvements made by the auditor and take such action as it deems fit depending on the progress made by the auditor.
- (4) The NFRA may refer cases with regard to overseeing the quality of service of auditors of companies or bodies corporate referred to in rule 3 to the Quality Review Board constituted under the Chartered Accountants Act, 1949 (38 of 1949) or call for any report or information in respect of such auditors or companies or bodies corporate from such Board as it may deem appropriate.
- (5) The NFRA may take the assistance of experts for its oversight and monitoring activities.



### **3. REMOVAL, RESIGNATION OF AUDITOR AND GIVING OF SPECIAL NOTICE [SECTION 140]**

Section 140 of the Companies Act, 2013 provides for removal, resignation of auditor and giving of special notice. According to this section:

**(i) Removal of auditor before the expiry of his term [Section 140(1)]:**

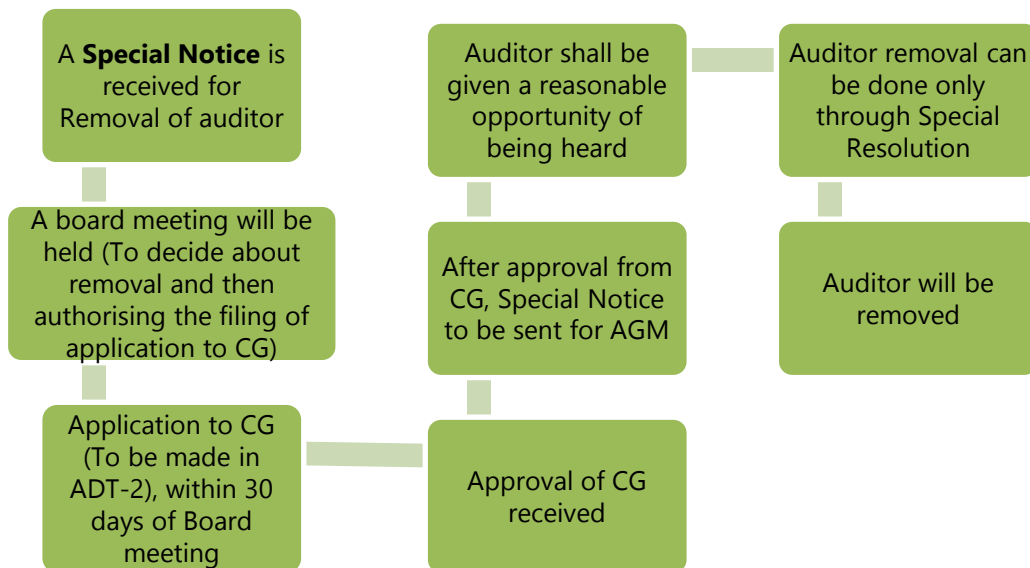
- (a) The auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company and after obtaining the previous approval of the Central



Government<sup>2</sup> by making an application in Form ADT-2 and shall be accompanied with the prescribed fees.

- (b) The application shall be made to the Central Government within 30 days of the resolution passed by the Board.
- (c) The Company shall hold the general meeting within 60 days of receipt of approval of the Central Government for passing the special resolution.
- (d) **Giving opportunity of being heard** (*Audi Alteram Partem*): Before taking any action for removal of auditor before the expiry of his term, the auditor concerned shall be given a reasonable opportunity of being heard.

**STEPS FOR REMOVAL OF AUDITOR**



**Example:** Mr. Suresh, a Chartered Accountant, was appointed by the Board of Directors of AB Limited as the First Auditor. The company in General Meeting removed Mr. Suresh without seeking the approval of the Central

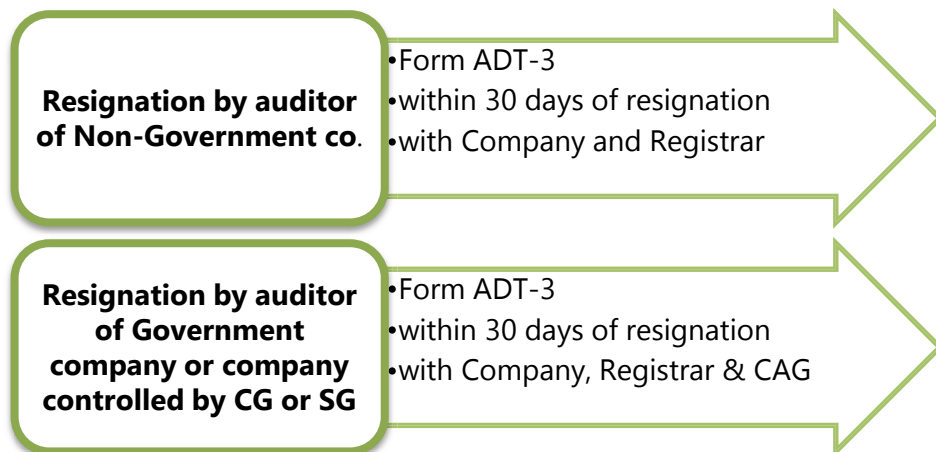
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<sup>2</sup> Powers are delegated to Regional Director

Government and appointed Mr. Gupta as auditor in his place. The first auditor appointed by the Board of Directors can be removed in accordance with the provision of Section 140(1) of the Companies Act, 2013 only and hence the removal of the first auditor in this case is invalid. The company contravened the provision of the Act.

**(ii) Resignation by Auditor [Section 140(2) & (3)]**

- (a) If the Auditor has resigned from the company, he shall file within a period of 30 days from the date of resignation, a statement in the form ADT-3 with the company and the Registrar.
- (b) The auditor shall indicate the reasons and other facts as may be relevant with regard to his resignation, in the statement.
- (c) In case of government companies or companies controlled by Central Government or State Government, the auditor shall file such statement with the CAG along with the company and the Registrar.
- (d) If the auditor does not comply with aforesaid provision, he or it shall be liable to a penalty of ₹ 50,000 or an amount equal to the remuneration of the auditor, whichever is less, and in case of continuing failure, with a further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of ₹ 5 lacs.



**(iii) Appointing Auditor other than the Retiring Auditor [Section 140(4)]**

- (a) If the retiring auditor has not completed a consecutive tenure of 5 years or, as the case may be, 10 years, as provided under sub-section (2) of section 139, special notice shall be required for a resolution at an annual

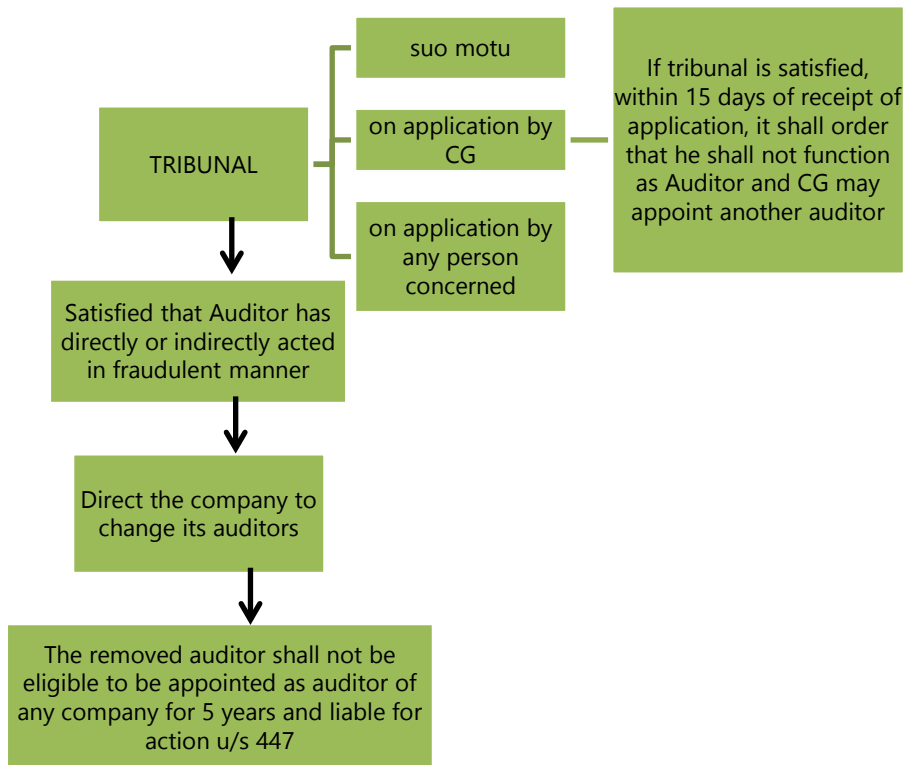
general meeting appointing as auditor a person other than a retiring auditor, or providing expressly that a retiring auditor shall not be re-appointed.

- (b) On receipt of notice of such a resolution, the company shall forthwith send a copy thereof to the retiring auditor.
  - (c) Where notice is given of such a resolution and the retiring auditor makes with respect thereto representation in writing to the company (not exceeding a reasonable length) and requests its notification to members of the company, the company shall, unless the representation is received by it too late for it to do so,—
    - (1) in any notice of the resolution given to members of the company, state the fact of the representation having been made; and
    - (2) send a copy of the representation to every member of the company to whom notice of the meeting is sent, whether before or after the receipt of the representation by the company.
  - (d) 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 (without prejudice to his right to be heard orally) require that the representation shall be read out at the meeting.
  - (e) However, if a copy of representation is not sent as aforesaid, a copy thereof shall be filed with the Registrar.
  - (f) If the Tribunal is satisfied on an application either of the company or of any other aggrieved person that the rights conferred by this sub-section are being abused by the auditor, then the copy of the representation may not be sent and the representation need not be read out at the meeting.
- (iv) Auditor acts in a fraudulent manner or abetted or colluded in any fraud [Section 140(5)]**
- (a) **On satisfaction of Tribunal that the auditor of a company has acted in a fraudulent manner etc.:** Without prejudice to any action under the provisions of this Act or any other law for the time being in force, the Tribunal either—

suo motu; or  
on an application made to it by the Central Government; or  
by any person concerned,

if it is satisfied that the auditor of a company has, whether directly or indirectly, **acted in a fraudulent manner or abetted or colluded in any fraud by**, or in relation to, the company or its directors or officers, may, by order, direct the company to change its auditors.

- (b) **Requirement for change of auditor:** If the application is made by the Central Government and the Tribunal is satisfied that any change of the auditor is required, it shall within fifteen days of receipt of such application, make an order that he shall not function as an auditor and the Central Government may appoint another auditor in his place.
- (c) **Ineligibility of auditor to be appointed:** 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 appointed as an auditor of any company for a period of five years from the date of passing of the order and the auditor shall also be liable for action under section 447 of the Companies Act 2013.
- (d) **Explanation I.**—It is hereby clarified that the case of a firm, the liability shall be of the firm and that of every partner or partners who acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to, the company or its director or officers.
- (e) **Explanation II.**—For the purposes of this Chapter the word “auditor” includes a firm of auditors.

**Example:**

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.

**Solution**

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 direct the company to change its auditors and those auditors 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.



## 4. ELIGIBILITY, QUALIFICATIONS AND DISQUALIFICATIONS OF AUDITORS [SECTION 141]

Section 141 of the Companies Act, 2013 provides for eligibility, qualifications and disqualifications of auditors. This section deals with:

### (i) Qualifications of an auditor [Section 141(1) & (2)]:

- (a) A person shall be eligible to be appointed as auditor of a company only if he is a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949.
- (b) A firm whereof majority of partners practising in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company.
- (c) Where a firm including a Limited Liability Partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.

### (ii) Disqualifications of auditors [Section 141(3)]:

- (a) The following persons shall not be qualified for appointment as auditor of a company—
  - (1) A body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;
  - (2) an officer or employee of the company;
  - (3) a person who is a partner, or who is in the employment, of an officer or employee of the company;

**Example:** Mr. A, a Chartered accountant, is a partner of a firm and has been appointed as an auditor of Laxman Ltd. in the Annual General Meeting of the company held in September 2016, in which he accepted the assignment. Subsequently, in January 2017 he offered B, another Chartered Accountant, who is the Manager Finance of Laxman Ltd., to join the firm of A as a partner.

**Answer: 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, shall be deemed to have vacated his office as an auditor.

**Conclusion:** In the present case, A is auditor of M/s Laxman Ltd and any employee of Laxman Ltd cannot become the Partner of the firm where A is a Partner. In case that happens, he/the firm shall be deemed to have vacated office of the auditor of M/s Laxman Limited.

- (4) a person who, or his relative or partner—
- (A) 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 (i.e. fellow subsidiary):

Provided that the relative may hold security or interest in the company of face value not exceeding ₹ 1,00,000 as prescribed under the *Company (Audit and Auditors) Rules, 2014*.

The *Company (Audit and Auditors) Rules, 2014* provides that a relative of an auditor may hold securities in the company of face value not exceeding ₹ 1 Lac. Further, the above condition shall, wherever relevant, be also applicable in the case of a company not having share capital or other securities. If the relative acquires any security or interest above the prescribed threshold i.e. ₹ 1 Lac, the corrective action to maintain the limits as specified above shall be taken by the auditor within sixty days of such acquisition or interest.

**Example 1:** "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."?

**Answer:** 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:

In the present case, Mr. A. is holding security of ₹ 900 in the XYZ Ltd, therefore he is not eligible for appointment as an Auditor of "XYZ Ltd".

**Example 2:** "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 for being appointed as an auditor of "ABC Ltd."?

**Answer:** 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 ₹ 1,00,000.

In the present case, Mr. Q. (relative of Mr. P, an auditor), is having securities of ₹ 90,000 face value in ABC Ltd., which is as per requirement of proviso to section 141 (3)(d)(i). Therefore, Mr. P will not be disqualified to be appointed as an auditor of ABC Ltd.

**Example 3:** "BC & Co." is an audit firm having partners "Mr. B" and "Mr. C" and "Mr. A", relative of "Mr. C", is holding securities of "MWF Ltd." having face value of ₹ 1,01,000. Whether "BC & Co." is qualified for appointment as auditor of "MWF Ltd."?

**Answer:** 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 ₹ 1,00,000.



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

- (B) is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of ` 5 Lacs; or
  - (C) has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of ` 1 Lac.
- (5) a person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company. According to the *Companies (Audit and Auditors) Rules, 2014*, the term "business relationship" shall be construed as any transaction entered into for a commercial purpose, except–
- (A) commercial transactions which are in the nature of professional services permitted to be rendered by an auditor or audit firm under the Act and the Chartered Accountants Act, 1949 and the rules or the regulations made under those Acts;
  - (B) commercial 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 by the companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.
- (6) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;
- (7) a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than 20

companies other than one person companies, small companies and private companies having paid-up share capital less than one hundred crore rupees.

**Ceiling on numbers of audits:** Before appointment is given to any auditor, the company must obtain a certificate from him to the effect that the appointment, if made, will not result in an excess holding of company audit by the auditor concerned over the limit laid down in section 141 (3)(g) of the Companies Act, 2013 which prescribes that a person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies other than one person companies, dormant companies, small companies and private companies having paid-up share capital less than ₹ 100 crore (*MCA notification dated 5 June 2015*).

**Example:** "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 auditors 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.

**Fact of the Case:** In the instant case, Mr. A is holding appointment in 4 companies, Mr. B is having appointment in 6 companies and Mr. C is having appointment in 10 companies. In aggregate all three partners are having 20 audits.

**Provisions and Explanations:** As per section 141(3)(g) of the Companies Act, 2013, a person shall not be eligible for appointment as an auditor if he is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies other than one person

companies, dormant companies, small companies and private companies having paid-up share capital less than ₹ 100 crore.

As per section 141 (3)(g), this limit of 20 company audits is per person. In the case of an audit firm having 3 partners, the overall ceiling will be  $3 \times 20 = 60$  company audits. Sometimes, a Chartered Accountant may be a partner in a number of auditing firms. In such a case, all the firms in which he is partner or proprietor will be together entitled to 20 company audits only on his account.

**Conclusion:**

- (i) Therefore, ABC & Co. can hold appointment as an auditor of 40 more companies:

Total Number of audits for which the firm would be eligible  
 $= 20 \times 3 = 60$

Number of audits already taken by all the partners

In their individual capacity =  $4+6+10 = 20$

Remaining number of audits available to the firm = 40

- (ii) With reference to above provisions, an auditor can hold more appointment as auditor = ceiling limit as per section 141(3)(g)- already holding appointments as an auditor.  
 Hence

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

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

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

**Note:**

*It has been assumed that the companies given in the question are not one person companies, dormant companies, small companies and private companies having paid-up share capital less than ₹ 100 crore.*

- (8) 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;

- (9) a person who, directly or indirectly, renders any service referred to in section 144 to the company or its holding company or its subsidiary company.

Explanation.—For the purposes of this clause, the term "directly or indirectly" shall have the meaning assigned to it in the Explanation to section 144 (section 144 deals with certain services not to be tendered by auditor).

**(iii) Vacation of office by an auditor [Section 141(4)]:**

If a person appointed as an auditor of a company incurs any of the disqualifications specified in Section 141(3), he shall be deemed to have vacated his office. Such vacation shall be deemed to be a casual vacancy in the office of the auditor.

## 5. REMUNERATION OF AUDITORS [SECTION 142]

Section 142 of the Companies Act, 2013 provides for remuneration of auditors. According to this section:

- (i) The remuneration of the auditors of a company shall be fixed by the company in general meeting or in such manner as the company in general meeting may determine.
- (ii) In the case of first auditor, remuneration may be fixed by the Board.
- (iii) The remuneration mentioned aforesaid shall, 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. But the remuneration does not include any remuneration paid to him for any other service rendered by him at the request of the company.

**MCQ 1:**

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.

**Solution:** Please refer page 49.



## 6. POWERS AND DUTIES OF AUDITORS AND AUDITING STANDARDS [SECTION 143]

### (i) Powers of Auditors [Section 143(1)]:

- (a) **Access to books of accounts and vouchers:** Every auditor of a company shall have a right of access at all times to the books of accounts and vouchers of the company, whether kept at the registered office of the company or at any other place.
- (b) **Entitled to have necessary information and explanation:** He shall be entitled to require from the officers of the company such information and explanations as the auditor may consider necessary for the performance of his duties as auditor.
- (c) **Access to record of all its subsidiaries:** The auditor of a company which is a holding company shall also have the right of access to the records of all its subsidiaries and associate companies in so far as it relates to the consolidation of its financial statements with that of its subsidiaries and associate companies.

### (ii) Duties of Auditors

- (a) **Matters of inquiry:** The auditor shall inquire into the following matters, namely—
  - (1) Whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on

which they have been made are prejudicial to the interests of the company or its members;

- (2) Whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
  - (3) Where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
  - (4) Whether loans and advances made by the company have been shown as deposits;
  - (5) Whether personal expenses have been charged to revenue account;
  - (6) Where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.
- (b) The auditor shall make a report to the members of the company on the following:
- (1) On the accounts examined by him; and
  - (2) On every financial statements which are required by or under this Act to be laid before the company in general meeting; and
- (c) The auditor while making the report shall take into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder or under any order made under section 143(11).
- (d) The auditor shall express his opinion on the accounts and financial statements examined by him. He shall express an opinion, according to him and to the best of his information and knowledge, whether the said accounts/financial statements give a true and fair view of the state of

the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and such other matters as may be prescribed.

- (e) The auditors' report shall also state—
- (1) whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;
  - (2) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
  - (3) whether the report on the accounts of any branch office of the company audited under sub-section (8) by a person other than the company's auditor has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;
  - (4) whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;
  - (5) whether, in his opinion, the financial statements comply with the accounting standards;
  - (6) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;
  - (7) whether any director is disqualified from being appointed as a director under sub section (2) of section 164;
  - (8) any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;
  - (9) whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls;

As per the Rule 10A inserted by the Companies (Audit and Auditors) Amendments Rules, 2014 vide Notification dated 14th October, 2014, for the purposes of clause (i) of sub-section (3) of section 143 (i.e. point 9 mentioned above), for the financial years commencing on or after 1 April 2015, the report of the auditor shall state about existence of internal financial controls with reference to financial statements and its operating effectiveness:

Provided that auditor of a company may voluntarily include the statement referred to in this rule for the financial year commencing on or after 1 April 2014 and ending on or before 31 March 2015.

**Exemption to Private Company:** 'In case of Private Company - Clause (i) of Sub-Section (3) of Section 143 shall not apply to a private company:-

- (i) which is a one person company or a small company; or
- (ii) which has turnover less than rupees fifty crores as per latest audited financial statement and which has aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial year less than rupees 25 crore. - *Notification Dated 13th June, 2017*

The aforesaid exceptions, modifications and adaptations shall be applicable to a Private company which has not committed a default in filing of its financial statements under section 137 or annual return under section 92 of the said Act with the Registrar.'

[Notification No. G.S.R. 583(E) dated 13th June, 2017 stated that requirements of reporting under section 143(3)(i) read with Rule 10A of the Companies (Audit and Auditors) Rules, 2014 of the Companies Act 2013 shall not apply to certain private companies. Through issue of this circular, it was clarified that the exemption shall be applicable for those audit reports in respect of financial statements pertaining to financial year, commencing on or after 1 April 2016, which are made on or after the date of the said notification. (Clarification regarding applicability of exemption given to certain private companies under section 143(3)(i) vide circular no. 08/2017 dated 25<sup>th</sup> July 2017)]



- (10) such other matters as may be prescribed.
- (f) Rule 11 of the *Companies (Audit and Auditors) Rules, 2014* provides that the auditor's report shall also include their views and comments on the following matters, namely:
- (1) whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;
  - (2) whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;
  - (3) whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.
  - (4) whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8 November 2016 to 30 December 2016 and if so, whether these are in accordance with the books of accounts maintained by the company" (this provision is not relevant now, however, till the time this requirement is not removed from the law, it will continue to be reported as not applicable for any financial year post 31 March 2017).
- (g) Where any of the matters is answered in the negative or with a qualification, the auditor's report shall state the reason for the same.

**Example:**

MNO Ltd is a listed company engaged in the business of trading of various products. The company also plans to start manufacturing of certain products which are currently traded.

During the course of its audit, the auditors completed all the procedures related to audit of financial statements. However, the auditor got stuck on one procedure because of which audit has not got concluded.

Auditors are waiting for certain additional information – Directors report and Management Discussion and Analysis (MD&A) for their review. However, the management is not ready with this information and wants the auditors to complete their work without review of this information. Please advise as per the legal requirements.

**Solution:**

In the given case, the requirement of the auditors regarding additional information i.e. Directors report and MD&A without which they have not been able to conclude the audit doesn't look valid. The auditor is required to audit the financial statements and express an opinion on the same. The auditor does not audit these additional information.

Hence the auditor should conclude the work without delaying because of this additional information.

**(h) Compliance with auditing standards [Section 143(9) and 143(10)]:**

- (1) Every auditor shall comply with the auditing standards
- (2) The Central Government may prescribe the standards of auditing or any addendum thereto, as recommended by the ICAI, in consultation with and after examination of the recommendations made by the National Financial Reporting Authority (NFRA).
- (3) It is further provided that until any auditing standards are notified, any standard or standards of auditing specified by the ICAI shall be deemed to be the auditing standards.

**(i) Additional matters to be reported in case of specified companies [Section 143(11)]:** In respect of such class or description of companies, as may be specified in the general or special order by the Central Government, may in consultation with the NFRA direct, the auditor's report shall also include a statement on such matters as may be specified therein.

Accordingly, CARO 2016 [Companies (Auditor's Report) Order 2016] is issued in pursuance of Section 143 (11) of Companies Act 2013 for inclusion of the matters specified therein in auditors' report. CARO 2016 issued by MCA should be complied by the statutory auditor of every company on which it applies.

CARO 2016 is also applicable to a foreign company as defined in clause (42) of Section 2 of the Companies Act 2013.

**(iii) Reporting of frauds by auditors [Section 143(12)]:**

Notwithstanding anything contained in this section, if an auditor of a company, in the course of the performance of his duties as auditor, has reason to believe that an offence involving fraud is being or has been

committed against the company by officers or employees of the company, he shall immediately report the matter to the Central Government within such time and in such manner as may be prescribed.

- (1) The Companies (Audit and Auditors) Amendment Rules, 2015, issued by the MCA, on 14 December 2015, amended Rule 13 of the Companies (Audit and Auditors) Rules, 2014. The amended Rule 13 has introduced the thresholds for the purpose of reporting on frauds and a differential reporting responsibilities of the statutory auditor with respect to the fraud(s) above or below the notified threshold.

As per the amended Rule 13, if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud, which involves or is expected to involve an amount of ₹ one 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 Central Government in following manner:

- (a) the auditor shall report the matter to the Board or the Audit Committee, as the case may be, immediately but not later than 2 days of his knowledge of the fraud, seeking their reply or observations within 45 days;
- (b) 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 of the Board or the Audit Committee) to the Central Government within 15 days from the date of receipt of such reply or observations;
- (c) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of 45 days, he shall forward his report to the Central Government 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;
- (d) the report shall be sent to the Secretary, Ministry of Corporate Affairs (MCA) in a sealed cover by Registered Post with Acknowledgement Due or by Speed Post followed by an e-mail in confirmation of the same;

- (e) 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
  - (f) The report shall be in the form of a statement as specified in Form ADT-4.
- (2) In case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board immediately but not later than two days of his knowledge of fraud and he shall report the matter specifying the following:
- (i) Nature of fraud with description;
  - (ii) Approximate amount involved; and
  - (iii) Parties involved.

The following details of each of the fraud reported to the Audit Committee or the Board under sub-rule (3) of amended Rule 13 during the year shall be disclosed in the Board's Report:

- (i) Nature of fraud with description;
  - (ii) Approximate amount involved;
  - (iii) Parties involved, if remedial action not taken; and
  - (iv) Remedial actions taken.
- (4) The provision of this section shall mutatis mutandis apply to a Cost Auditor and a Secretarial Auditor during the performance of his duties under section 148 and section 204 respectively.
- (5) No duty to which an auditor of a company may be subject to shall be regarded as having been contravened by reason of his reporting the matter referred above if it is done in good faith.
- (6) **Penalty for non compliance of section 143(12):** If any auditor, cost auditor or the Secretarial auditor, as mentioned above, do not comply with the provisions of this section (i.e. section 143(12)), he shall be punishable with fine which shall not be less than ₹ 1 lacs but which may extend to ₹ 25 lacs.

**Example**

NSH Ltd is engaged in the business of retail and is listed on National stock exchange. The company recently acquired a business undertaking to expand its business. During the year, certain transactions amounting to thousands of rupees were carried out by the employees/ Directors of the company which the management found suspicious and appointed a forensic consultant to carry out their review. Pursuant to this review process, certain suspect transactions were identified by the management and the management reported these transactions to the appropriate authorities. During the course of statutory audit, such transactions were also made known to the statutory auditors. How should the auditor dealt with such matter?

**Solution:**

The auditors need to report about this matter appropriately in their CARO report.

As per Section 143(12) of the Companies Act, 2013, the auditor is required to report to the Audit Committee or to the Board of Directors and, where applicable, to the Central Government an offence of fraud in the company by its officers or employees only if he is the first person to identify/note such instance in the course of performance of his duties as an auditor. In this case, the suspicious transactions have been identified by the management first and information about the same has been given by the management to the auditor. Accordingly, the auditor should report about this matter to the Audit Committee/ Board of Directors but the auditor would not be required to report the same to Central Government.

**(iv) Audit of Government Companies [Section 143(5), (6) & (7)]:**

- (a) In the case of a Government company or any other company owned or controlled, directly or indirectly, by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, the CAG shall appoint the auditor under section 139(5) or 139(7) and direct such auditor the manner in which the accounts of the Government company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the CAG.
- (b) The audit report among other things, include the following:
  - (1) the directions, if any, issued by the CAG;

- (2) the action taken thereon; and
  - (3) its impact on the accounts and financial statement of the company.
- (c) The CAG shall within 60 days from the date of receipt of the audit report have a right to—
- (1) conduct a supplementary audit of the financial statement of the company by such person or persons as he may authorise in this behalf; and for the purposes of such audit, require information or additional information to be furnished to any person or persons, so authorised, on such matters, by such person or persons, and in such form, as the CAG may direct; and
  - (2) comment upon or supplement such audit report.
- (d) Any comments given by the CAG upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited financial statements under section 136(1) and also be placed before the AGM of the company at the same time and in the same manner as the audit report.
- (e) **Test Audit:** For Government Company or Company controlled by State Government or Central Government, the CAG may, if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company, without prejudice to the provisions related to Audit and Auditors. The provisions of section 19A of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit.
- (v) **Audit of accounts of branch office of company [Section 143(8)]:**
- (a) **Branch office in India:**
- Where a company has a branch office, the accounts of that office shall be audited either by:
- (A) the company's auditor appointed under section 139, or
  - (B) by any other person qualified for appointment as an auditor of the company under section 139.

(b) **Branch office outside India:**

If the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by:

- (A) the company's auditor or
  - (B) by an accountant or
  - (C) 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.
- (c) The duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be as contained in sub-sections (1) to (4) of section 143.
- (d) The branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the auditor of the company who shall deal with it in his report in such manner as he considers necessary.
- (e) The provisions regarding reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.

**(vi) Application of provisions of section 143 to Cost Accountants and Company Secretary [Section 143(14)]:** The provisions of this section shall mutatis mutandis apply to:

- (a) the cost accountant conducting cost audit under section 148; or
- (b) the company secretary in practice conducting secretarial audit under section 204.

## 7. AUDITOR NOT TO RENDER CERTAIN SERVICES [SECTION 144]

Section 144 of the Companies Act, 2013 provides for Auditor not to render certain services. According to this section:

- (i) An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be. But such services shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company), namely—

- (a) accounting and book keeping services;
- (b) internal audit;
- (c) design and implementation of any financial information system;
- (d) actuarial services;
- (e) investment advisory services;
- (f) investment banking services;
- (g) rendering of outsourced financial services;
- (h) management services; and
- (i) any other kind of services as may be prescribed. [However no other kind of services has been prescribed till date]

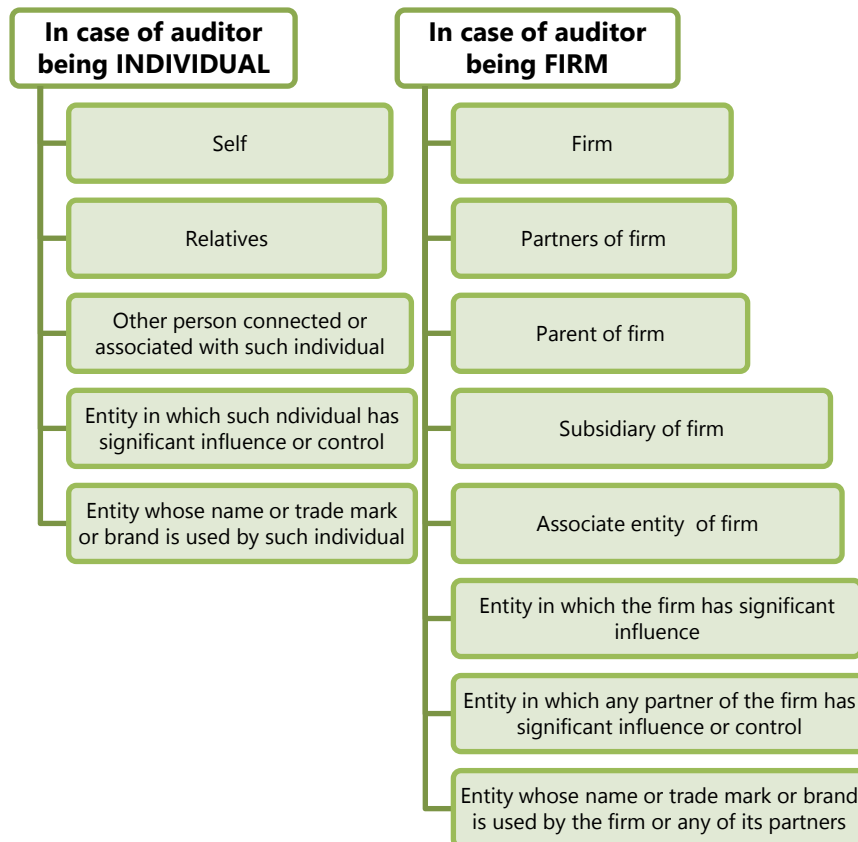




(ii) **Explanation:** The term “directly or indirectly” shall include rendering of services by the auditor,—

- (1) in case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trademark or brand is used by such individual;
- (2) in case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trademark or brand is used by the firm or any of its partners.

**RENDERING OF SERVICES ‘DIRECTLY OR INDIRECTLY’**



**MQC 2:**

MNP Ltd is a medium-sized company engaged in the business of pharmaceuticals. For the year ended 31 March 2018, the company is looking for appointment of GST (Goods and Services Tax) auditor. The company wants to appoint somebody for this work who is familiar with the business of the company i.e. who would have worked with the company in the past so that lesser efforts are required to get the GST audit completed. The company has following options, please suggest which one would be better for the company.

- a. Statutory auditors can be appointed for this work.
- b. Internal auditors can be appointed for this work.
- c. Both statutory and internal auditors can be jointly appointed for this work.
- d. Internal auditors along with the tax consultants of the company can be appointed for this work.

**Solution:** Please refer page 49.



## **8. AUDITORS TO SIGN AUDIT REPORTS, ETC. [SECTION 145]**

Section 145 of the Companies Act, 2013 provides for auditors to sign audit reports, etc. According to this section:

- (i) 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 sub-section (2) of section 141 (i.e. in case of firm including LLP, only Chartered Accountants are authorised to act as statutory auditors and sign).
- (ii) The qualifications, observations or comments on financial transactions or matters, which have any adverse effect on the functioning of the company mentioned in the auditor's report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

**MCQ 3:**

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.

**Solution:** Please refer page 49.

## 9. AUDITORS TO ATTEND GENERAL MEETING [SECTION 146]

Section 146 of the Companies Act, 2013 provides for auditors to attend general meeting. According to this section:

- (i) All notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company.
- (ii) The auditor shall, unless otherwise exempted by the company, attend either by himself or through his authorised representative, who shall also be qualified to be an auditor, any general meeting.
- (iii) The auditor shall have right to be heard at such meeting on any part of the business which concerns him as the auditor.

## 10. PUNISHMENT FOR CONTRAVENTION [SECTION 147]

Section 147 of the Companies Act, 2013 provides for punishment for contravention. According to this section:

- (i) **Penalty on company [Section 147(1)]:**

If any of the provisions of sections 139 to 146 (both inclusive) is contravened, the company shall be punishable with fine which shall not be less than ₹ 25,000 but which may extend to ₹ 5 lacs.

**(ii) Penalty on officers [Section 147(1)]:**

If any of the provisions of sections 139 to 146 (both inclusive) is contravened, every officer of the company who is in default shall be punishable with

- (1) imprisonment for a term which may extend to 1 year or
- (2) with fine which shall not be less than ₹ 10,000 but which may extend to ₹ 1 lac; or
- (3) both with imprisonment and fine.

**(iii) Penalty on auditor [Section 147(2) & (3)]:**

(a) If an auditor of a company contravenes any of the provisions of section 139, section 143, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than ₹ 25,000 but which may extend to ₹ 5 lacs or four times the remuneration of the auditor, whichever is less.

(b) If an auditor has contravened such provisions knowingly or willfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with-

- (1) imprisonment for a term which may extend to 1 year and
- (2) with fine which shall not be less than fifty thousand rupees but which may extend to twenty-five lakh rupees or eight times the remuneration of the auditor, whichever is less.

(c) Further, where an auditor has been convicted as above, he shall be liable to—

- (1) refund the remuneration received by him to the company; and
- (2) pay for damages to the company, statutory bodies or authorities or to members or creditors of the company for loss arising out of incorrect or misleading statements of particulars made in his audit report.

**(iv)** The Central Government shall, by notification, specify any statutory body or authority or an officer for ensuring prompt payment of damages to the company or the persons. Such body, authority or officer shall after payment

of damages to such company or persons file a report with the Central Government in respect of making such damages in such manner as may be specified in the said notification. **[Section 147(4)]**

**(v) Liability of Audit firm [Section 147(5)]:**

Where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil or criminal as provided in the Companies Act, 2013, or in any other law for the time being in force, for such act shall be of the partner or partners concerned of the audit firm and of the firm jointly and severally and shall also be liable under section 447.

Provided that in case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.

## 11. CENTRAL GOVERNMENT TO SPECIFY AUDIT OF ITEMS OF COST IN RESPECT OF CERTAIN COMPANIES [SECTION 148]

Section 148 of the Companies Act, 2013 provides the provisions for Central Government to specify audit of items of cost in respect of certain companies. According to this section:

- (i) Notwithstanding anything contained in the provisions related to audit and auditor (Chapter X), the Central Government may, by order, in respect of such class of companies engaged in the production of such goods or providing such services as may be prescribed, direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept under section 128 by that class of companies.
- (ii) The Central Government shall, before issuing such order in respect of any class of companies regulated under a special Act, consult the regulatory body constituted or established under such special Act.

- (iii) If the Central Government is of the opinion, that it is necessary to do so, it may, by order, direct that the audit of cost records of class of companies, which are covered aforesaid and which have a net worth of such amount as may be prescribed or a turnover of such amount as may be prescribed, shall be conducted in the manner specified in the order.
- (iv) The cost audit shall be conducted by a Cost Accountant who shall be appointed by the Board on such remuneration as may be determined by the members in such manner as may be prescribed.
- (v) Rule 14 of the Companies (Audit and Auditors) Rules, 2014 provides that—
- (1) in the case of companies which are required to constitute an audit committee-
    - (A) the Board shall appoint an individual, who is a cost accountant, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;
    - (B) the remuneration recommended by the Audit Committee under (A) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders.
  - (2) in the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

Companies required to constitute Audit Committee	Companies not required to constitute Audit Committee
(a) The Board shall appoint the cost auditor on the recommendation of the Audit Committee.	(a) The Board shall appoint the cost auditor.
(b) The Audit Committee shall recommend the remuneration for cost auditor.	(b) The remuneration of such cost auditor shall be ratified by shareholders subsequently.
(c) Such remuneration as recommended by the Audit	

Committee shall be considered and approved by the Board of Directors.	
(d) Then this remuneration subsequently to be ratified by the shareholders.	

- (vi) No person appointed under section 139 as an auditor of the company (i.e. company auditor) shall be appointed for conducting the audit of cost records.
- (vii) **Cost auditor to comply with cost auditing standards:** The auditor conducting the cost audit shall comply with the cost auditing standards.

Here, the expression "cost auditing standards" mean such standards as are issued by the Institute of Cost and Works Accountants of India (ICWA), constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government.

- (viii) An audit conducted under section 148 shall be in addition to the audit conducted under section 143.
- (ix) The qualifications, disqualifications, rights, duties and obligations applicable to auditors (i.e. applicable to company auditor) shall, so far as may be applicable, apply to a cost auditor appointed under section 148 and it shall be the duty of the company to give all assistance and facilities to the cost auditor appointed under this section for auditing the cost records of the company.
- (x) The report on the audit of cost records shall be submitted by the cost accountant to the Board of Directors of the company.
- (xi) A company shall within 30 days from the date of receipt of a copy of the cost audit report furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein.

*Vide Notification dated 9<sup>th</sup> September, 2015 under the Rule 4 of the Companies (Filing of Documents and forms in Extensible Business Reporting Language) Rules, 2015, a company which is required to furnish cost audit report and other documents to the Central Government under sub- section 6 of the section 148 of the Act and rules made thereunder, shall file such report and other documents using the XBRL taxonomy given in Annexure III for the*

financial year commencing on or after 1 April 2014 in e-form CRA-4 specified under the Companies (Cost Records and Audit) Rules, 2014.

- (xii) If, after considering the cost audit report and the information and explanation furnished by the company, the Central Government is of the opinion that any further information or explanation is necessary, it may call for such further information and explanation and the company shall furnish the same within such time as may be specified by that Government.
- (xiii) **Contravention:** If any default is made in complying with the provisions of section 148—
- (a) The company and every officer of the company who is in default shall be punishable in the manner as provided in section 147(1);
  - (b) the cost auditor of the company who is in default shall be punishable in the manner as provided in sub-sections (2) to (4) of section 147.
- (xiv) The provisions of section 143 shall mutatis mutandis apply to the cost accountant conducting cost audit under section 148.

### SOLUTIONS OF EXAMPLES GIVEN ABOVE

MCQ 1 – Option b

MCQ 2 - Option a

MCQ 3 - Option c

## SUMMARY

- **First auditor:** The first auditor of a company, other than a Government company, shall be appointed by the Board of Directors within 30 days of the date of registration of the company, and the auditor so appointed shall hold office until the conclusion of the first AGM.

If the Board fails to appoint first auditor, it shall inform the members of the company and the company may appoint the first auditor within 90 days at an extra ordinary general meeting.

- **Appointment of Auditors:**
- Auditors to be appointed at 1<sup>st</sup> AGM for period of 5 years
  - Consent of auditors required



- Auditors to attend AGM (have right to be heard in matters concerning him)
- **Rotation of Auditors:**
  - Individual auditors: one term of 5 years
  - Audit Firm: Two terms of 5 years each
  - No reappointment for 5 years from expiry of term.
- **Removal of Auditors:**
  - Auditor to be given reasonable opportunity to be heard
  - Prior approval of CG required
  - Special resolution in GM
  - Special notice to be given in case retiring auditor is not appointed in AGM.

## TEST YOUR KNOWLEDGE

### Multiple Choice Questions

1. For appointing an auditor other than the retiring auditor,
  - (a) Special notice is required.
  - (b) Ordinary notice is required.
  - (c) Neither ordinary nor special notice is required
  - (d) Approval of Central Government is required.
2. After registration of a company, first auditors shall be appointed within
  - (a) 30 days
  - (b) 90 months
  - (c) 180 days
  - (d) One year
3. The auditor of a Government Company shall be appointed or re-appointed by
  - (a) The Central Government
  - (b) Comptroller and Auditor General of India.

- (c) Central Government on the advise of Comptroller and Auditor General of India.
- (d) None of the above
4. 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

### Answer to MCQs

1. (a)    2. (a)    3. (b)    4. (a)

### Question and Answer

#### Question 1

*State the procedure for the following, explaining the relevant provisions of the Companies Act, 2013:*

- (i) *Appointment of First Auditor, when the Board of directors did not appoint the First Auditor within one month from the date of registration of the company.*
- (ii) *Removal of Statutory Auditor (appointed in last Annual General Meeting) before the expiry of his term.*

#### Answer

- (i) Section 139(6) of the Companies Act, 2013 lays down that the first auditor of a company shall be appointed by the Board of Directors within 30 days of the registration of the company.

Section 139 (6) continues to provide further that if the Board of Directors fails to appoint such auditor, it shall inform the members of the company, who shall within ninety days at an extraordinary general meeting appoint such auditor and such auditor shall hold office till the conclusion of the first annual general meeting.

From the above provisions of law if the Board of Directors fails to appoint the first auditors within the stipulated 30 days, it shall take the following steps:

- a. Inform the members of the Company;
- b. Immediately take steps to convene an extra ordinary general meeting not later than 90 days;
- c. Members shall at that extra ordinary meeting appoint the first auditors of the company;
- d. The first auditors so appointed shall hold office upto the conclusion of the first AGM of the company.

- (ii) Section 140 of the Companies Act, 2013 prescribes certain procedure for removal of auditors. Under section 140 (1) 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.

Therefore, in terms of section 140 (1) of the Companies Act, 2013 read with Rule 7 of the *Companies (Audit & Auditors) Rules, 2014*, the following steps should be taken for the removal of an auditor before the completion of his term:

The application to the Central Government for removal of auditor shall be made in Form ADT-2 and accompanied with fees as provided for this purpose under the *Companies (Registration Offices and Fees) Rules, 2014*.

The application shall be made to the Central Government within thirty days of the resolution passed by the Board.

The company shall hold the general meeting within sixty days of receipt of approval of the Central Government for passing the special resolution.

**Question 2**

*One-fourth of the subscribed capital of AMC Limited was held by the Government of Rajasthan. Mr. Neeraj, a Chartered Accountant, was appointed as an auditor of the Company at the Annual General Meeting held on 30 April 2018 by an ordinary resolution. Mr. Sanjay, a shareholder of the Company, objects to the manner of appointment of Mr. Neeraj on the ground of violation of the Companies Act 2013. Decide whether the objection of Mr. Sanjay is tenable? Also examine the consequences of the above appointment under the said Act.*

**Answer**

As per the section 2(45) of the Companies Act, 2013, the holding of 25% shares of AMC Ltd. by the Government of Rajasthan does not make it a government company. Hence, it will be treated as a non-government company.

Under section 139 of the Companies Act, 2013, the appointment of an auditor by a company vests generally with the members of the company except in the case of the first auditors and in the filling up of the casual vacancy not caused by the resignation of the auditor, in which case, the power to appoint the auditor vests with the Board of Directors. The appointment by the members is by way of an ordinary resolution only and no exceptions have been made in the Act whereby a special resolution is required for the appointment of the auditors.

Therefore, the contention of Mr. Sanjay is not tenable. The appointment is valid under the Companies Act, 2013.

**Question 3**

*EF Limited appointed an individual firm, Naresh & Company, Chartered Accountants, as Auditors of the company at the Annual General Meeting held on 30 September 2018. Mrs. Kamala, wife of Mr. Naresh, invested in the equity shares face value of ₹ 1 lakh of EF Limited on 15 October 2018. But Naresh & Company continues to function as statutory auditors of the company. Advice*

**Answer**

**Disqualification of auditor:** According to section 141(3)(d)(i) of the Companies Act, 2013, a person who, or his relative or partner holds any security of the company or its subsidiary or of its holding or associate company a subsidiary of such holding company, which carries voting rights, such person cannot be appointed as auditor of the company. Provided that the relative of such person may hold security or

interest in the company of face value not exceeding 1 lakh rupees as prescribed under the Companies (Audit and Auditors) Rules, 2014.

In the case Mr. Naresh, Chartered Accountants, did not hold any such security. But Mrs. Kamala, his wife held equity shares of EF Limited of face value ` 1 lakh, which is within the specified limit.

Further Section 141(4) provides that if an auditor becomes subject, after his appointment, to any of the disqualifications specified in sub-section 3 of section 141, he shall be deemed to have vacated his office of auditor. Hence, Naresh & Company can continue to function as auditors of the Company even after 15 October 2018 i.e. after the investment made by his wife in the equity shares of EF Limited.

#### Question 4

*Explain how the auditor will be appointed in the following cases:*

- (i) *A Government company within the meaning of section 394 of the Companies Act 2013.*
- (ii) *A public company whose shareholders include XYZ Bank (a nationalized bank) holding 18% of the subscribed capital of the company.*

#### Answer

- (i) The appointment and re-appointment of auditor of a Government Company or a government controlled company is governed by the provisions of section 139 of the Companies Act, 2013 which are summarized as under:

The first auditor shall be appointed by the Comptroller and Auditor General of India within 60 days from the date of incorporation and in case of failure to do so, the Board shall appoint auditor within next 30 days and on failure to do so by Board of Directors, it shall inform the members, who shall appoint the auditor within 60 days at an extraordinary general meeting (EGM), such auditor shall hold office till conclusion of first Annual General Meeting.

In case of subsequent auditor for existing government companies, the Comptroller & Auditor General of India shall appoint the auditor within a period of 180 days from the commencement of the financial year and the auditor so appointed shall hold his position till the conclusion of the Annual General Meeting.

- (ii) In the given case as the total shareholding of the XYZ Bank is just 18% of the subscribed capital of the company, it is not a government company. Hence

the provisions applicable to non-government companies in relation to the appointment of auditors shall apply.

The auditor shall be appointed as follows:

- (1) The company shall, at the first annual general meeting, appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting.
- (2) Before such appointment of auditor is made, the written consent of the auditor to such appointment, and a certificate from him or firm of auditors that the appointment, if made, shall be obtained from the auditor:

Further, the company shall inform the auditor concerned of his or its appointment, and also file a notice of such appointment with the Registrar within 15 days of the meeting in which the auditor is appointed.

### Question 5

*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 in the consultancy firm of Mr. B. Mr. B is also working as a Finance Executive of X Ltd.*
- (ii) *"Mr. Abhi", a practicing Chartered Accountant, is holding securities of Abhiman Ltd. having face value of ₹ 1000/-. Whether Mr. Abhi is qualified for appointment as an Auditor of Abhiman Ltd.?*

### Answer

- (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 consultancy firm where B is also a partner and B is also the Finance

executive of X Ltd. Hence Ayush 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), an auditor is disqualified to be appointed as an auditor if he, or his relative or partner holds 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.

In the present case, Mr. Abhi. is holding security of ₹ 1000 in the Abhiman Ltd, therefore, he is not eligible for appointment as an auditor of Abhiman Ltd.

