

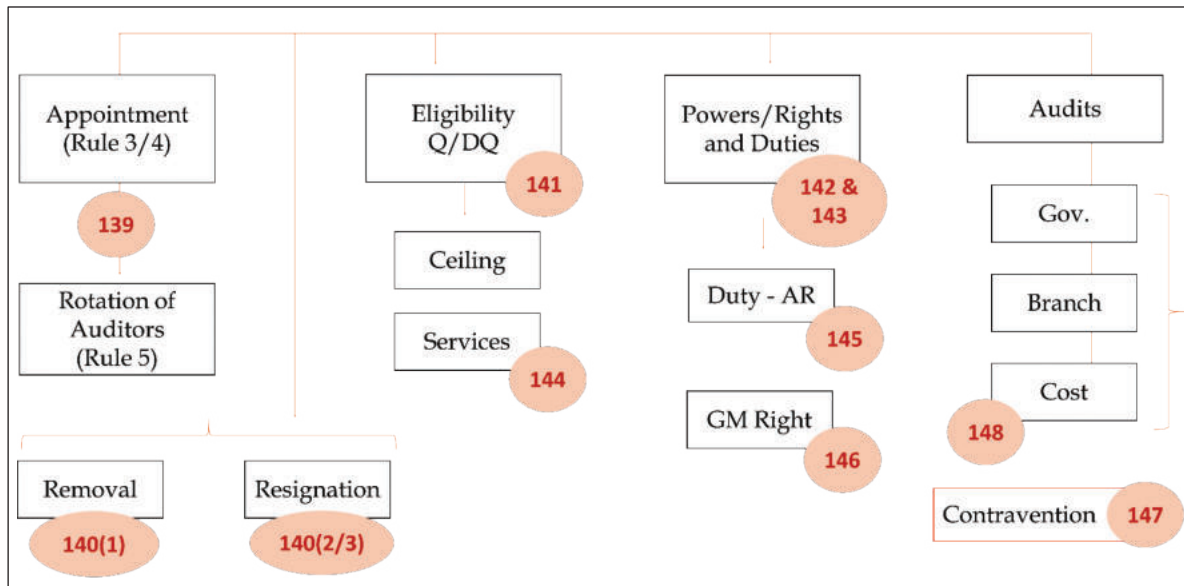
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CHAPTER

Audit and Auditors

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OVERVIEW OF THE CHAPTER



Weightage - 6 to 8 Marks

Chapter X of
TCA, 2013

Consists of Sections 139 to 148 and supplemented by
(Audit and Auditors) Rules, 2014.

ELIGIBILITY, QUALIFICATION & DISQUALIFICATION OF AUDITORS - SECTION 141

<p>Qualifications 141(1) & (2)</p>	<ol style="list-style-type: none"> 1. A person shall be eligible for appointment as an auditor of a company only if he is a Practicing Chartered Accountant. 2. It may be noted that a firm whereof majority of partners practicing in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company. 3. 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 authorized to act & sign on behalf of the firm. 				
<p>Disqualifications 141(3)</p>	<p>The following persons shall not be eligible for appointment as an auditor of a company, namely:</p> <table border="1"> <tr> <td style="vertical-align: top;">(a)</td> <td>A body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;</td> </tr> <tr> <td style="vertical-align: top;">(b)</td> <td>an officer or employee of the company; According to Section 2(59) of the Companies Act, 2013, the term 'Officer' includes: (i) Director</td> </tr> </table>	(a)	A body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;	(b)	an officer or employee of the company; According to Section 2(59) of the Companies Act, 2013, the term 'Officer' includes: (i) Director
(a)	A body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;				
(b)	an officer or employee of the company; According to Section 2(59) of the Companies Act, 2013, the term 'Officer' includes: (i) Director				

- (ii) Manager
- (iii) Key Managerial Personnel
- (iv) Shadow Directors

(c) a person who is a partner, or who is in the employment, of an officer or employee of the company;

(a) & (b) : BC - LLP and
(b) O/E

(c) : P.ee --of-- O/E

- Body Corporate – **Except LLP**
- Officer/Employee
- P.ee. (Partner/employee) of Off/Ee

Of that
Company

Illustration: Mr. Anil, 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 2023 in which he accepted the assignment. Subsequently, in January 2024, he offered Bharat, another Chartered Accountant, who is the Manager Finance of Laxman Ltd., to join the firm of Anil as a partner.

Answer: 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.

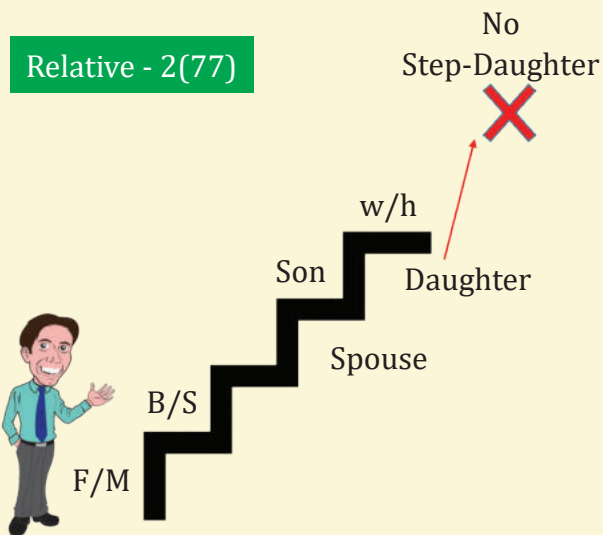
In the present case, Anil is auditor of M/s Laxman Limited and any employee of Laxman Limited cannot become the Partner of the firm where Anil is a Partner. In case that happens, he/the firm shall be deemed to have vacated office of the auditor of M/s Laxman Limited.

(d) A person who, or his relative or partner:

Is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company (fellow subsidiary).

- It may be noted that the relative may hold security or interest in the company of face value not exceeding 1 lakh.
- It may be noted that in the event of acquiring any security or interest by a relative, above the threshold prescribed, the corrective action to maintain the limits as specified above shall be taken by the auditor within 60 days of such acquisition or interest.
- The value of shares of 1,00,000 that can be held by relative is the face value not the market value.

- ❑ The limit of 1,00,000 would be applicable where the securities are held by the relative of an auditor & not where the securities are held by an auditor himself or his partner. In case of an auditor or his partner, securities of even small value shall be a disqualification.
- ❑ The term “relative”, as defined under the Companies Act, 2013, means anyone who is related to another as member of a Hindu Undivided Family; husband & wife; Father (including step- father), Mother (including step-mother), Son (including step- son), Son’s wife, Daughter, Daughter’s husband, Brother (including step- brother), Sister (including step-sister).



Members of HUF are considered as Relative

Illustration: Mr. Ashish, a practicing Chartered Accountant, is holding securities of XYZ Ltd. having face value of ₹900/-. Whether Mr. Ashish 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. 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.

	<p>Illustration: “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 ₹1,10,000. Whether “BC & Co.” is qualified for appointment as auditor of “MWF Ltd.”?</p> <p>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).</p>
	<p>(f) Is indebted to the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company, in excess of Rs 5 lakh; or</p>
	<p>(g) Has given a guarantee or provided any security in connection with the indebtedness of any third person to the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company, in excess of ₹1 lakh.</p>
	<p>(h) a person or a firm who, whether directly or indirectly has business relationship with the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company or associate company, of such nature as may be prescribed;</p> <p>The term “business relationship” shall be construed as any transaction entered into for a commercial purpose, except:</p> <p>(i) Commercial transactions which are in the nature of professional services permitted to be rendered by an auditor or audit firm under the Act & the CA Act, 1949 & the rules or the regulations made under those Acts;</p> <p>(ii) 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, in the ordinary course of business, by companies engaged in the business of telecommunications. airlines, hospitals, hotels & such other similar businesses.</p>
	<p>(i) Person who’s relative is a:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Director (Non-Executive Director) or <input type="checkbox"/> Is in the employment of the company as a Director (Executive Director) or Key Managerial Personnel [KMP].

(j)	Person who is in full time employment elsewhere or
(k)	<p>❑ 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 20 companies;</p> <p>❑ Other than (shall be excluded) one person companies, dormant companies, small companies & private companies having paid-up share capital less than ₹100 crores;</p> <p>Illustration: “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 auditors in 4, 6 and 10 companies respectively.</p> <p>(i) Provide the maximum number of audits remaining in the name of “ABC & Co.”</p> <p>(ii) Provide the maximum number of audits remaining in the name of individual partner i.e. Mr. A, Mr. B and Mr. C.</p> <p>Answer: 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.</p> <p>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.</p> <p>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 $3 \times 20 = 60$ companies’ audit. 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.</p> <p>Therefore, ABC & Co. can hold appointment as an auditor of 40 more companies:</p> <p>Total Number of audits for which firm would be eligible = $20 \times 3 = 60$</p> <p>Number of audits already taken by all the partners</p> <p>In their individual capacity = $4 + 6 + 10 = 20$</p> <p>Remaining number of audits available to the firm = 40</p> <p>With reference to above provisions, an auditor can hold more appointment as auditor (i.e. ceiling limit as per section 141(3)(g) - already holding appointments as an auditor). Hence</p>

	<p>(i) Mr. A can hold: $20 - 4 = 16$ more audits.</p> <p>(ii) Mr. B can hold $20 - 6 = 14$ more audits and</p> <p>(iii) Mr. C can hold $20 - 10 = 10$ more audits.</p>
	<p>Note:</p> <ol style="list-style-type: none"> The Limit is only for “Company” client. There is no Limit for audit of other forms of business enterprises like Trust, Society, Co-operative Society, HUF, LLP, Partnership, Proprietorship, etc. The Limit is only for “Statutory audit of FS”. There is no Limit for other types of services rendered by CA like Internal audit, Taxation, Advisory Services, etc. Limit on Tax Audits = 60 Assesseees. Branch Audit <ul style="list-style-type: none"> ➤ Branch Audit (whether 1 branch or many branches) of a Company even though not doing audit of main company is counted as 1 Audit in the ceiling limit of 20. ➤ Principal Audit (including branch audit) of a Company is counted only as 1 Audit in the limit of 20.
	<p>(l) A person who has been convicted by a Court of an offence involving fraud & a period of 10 years has not elapsed from the date of such conviction;</p>
	<p>(m) 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.</p>
141(4)	Where a person appointed as an auditor of a company incurs any of the above disqualifications after his appointment, he shall vacate his office as such auditor & such vacation shall be deemed to be a casual vacancy in the office of the auditor

MULTIPLE CHOICE QUESTIONS (MCQ)

- Which of the following is qualified to be appointed as auditor of the company?
 - A person who’s relative is holding security of the company of face value exceeding 1 Lac
 - A person who’s relative is holding security of the company of market value exceeding 1 Lac
 - A person who’s relative is holding security of the company of face value not exceeding 1 Lac**
 - A person who’s relative is holding security of the company of market value not exceeding 1 Lac
- A person is disqualified to be appointed as auditor of the company if he himself or his relative or partner is indebted to the company for an amount exceeding
 - One Lac
 - Two Lacs
 - Five Lacs**
 - Ten Lacs

3. A person is disqualified to be appointed as auditor of the company if he himself or his relative or partner has given any guarantee in connection with the indebtedness of any third person to the company for an amount exceeding

- (a) **One Lac** (b) Two Lacs
(c) Five Lacs (d) Ten Lacs

4. A person is disqualified to be appointed as auditor of a company if he has been convicted by a court of an offence involving fraud and

a period of ____ years has not elapsed from the date of such conviction

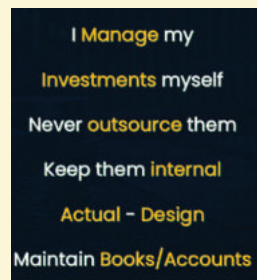
- (a) 2 Years (b) 5 Years
(c) 7 Years (d) **10 Years**

5. A person is disqualified to be appointed as auditor of a company if such person as at date of such appointment holding appointment of more than ____ companies.

- (a) 10 (b) 15
(c) **20** (d) 30

■ AUDITOR NOT TO RENDER CERTAIN SERVICES [SECTION 144]

Auditor Not to Render Certain Services [Sec 144]



Section 144 of the Companies Act, 2013 prescribes certain services not to be rendered by the auditor. 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 which 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:

1. Accounting & book keeping services;
2. Carrying out of outsourced financial services
3. Actuarial services*;
4. Design & implementation of any financial information system;
5. Engaged in Investment advisory services or Investment banking services
6. Internal audit;
7. **Management** services; &
8. **Any other kind of services as may be prescribed.**

MULTIPLE CHOICE QUESTIONS (MCQ)

6. Which of the following is a prohibited service to be rendered by the auditor to 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

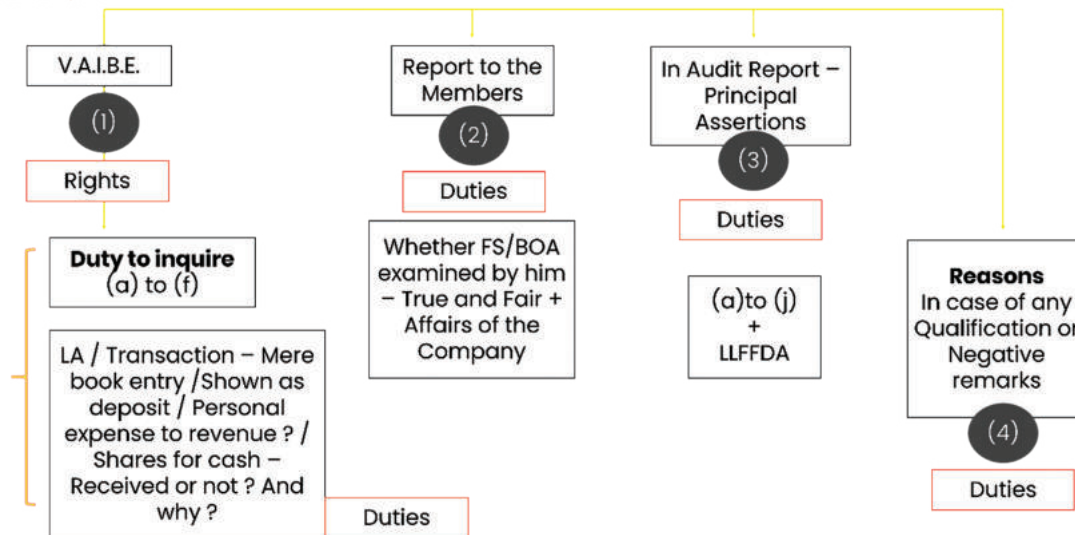
7. MNO Ltd is a medium-sized company engaged in the business of pharmaceuticals. For the year ended 31 March 2018, the company is looking for appointment of GST auditor. The company wants to appoint somebody for this work who is familiar with the business of the company i.e. who would have worked with 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.

■ **POWER & RIGHTS OF AUDITORS - SECTION 143[1]**

143 SUMMARY - RIGHTS AND DUTIES



V.A.I.B.E. Record (S.A.B)	Vouchers, Accounts, Information, Books and Explanation
Right of Access to Books of Account, etc.	<ul style="list-style-type: none"> <input type="checkbox"/> The auditor of a company, at all times, shall have a right of access to the books of account & vouchers of the company, whether kept at the registered office of the company or at any other place. <input type="checkbox"/> The auditor of a holding company shall also have the right of access to the records of all its subsidiaries & associate companies in so far as it relates to the consolidation of its FS.
Right to obtain Information Explanation from Officers	<input type="checkbox"/> This right of the auditor allows him to obtain from the officers of the company such information & explanations as he may think necessary for the performance of his duties as auditor is a wide & important power.
Access to record of all its subsidiaries	<input type="checkbox"/> The auditor of the holding company will have access to all the records of its all subsidiary and associate companies as far as it relates to the consolidation of its financial statements.

■ DUTIES OF AUDITORS - SEC 143 [1]

Duty of Auditor to Inquire on Certain Matters Amongst other matters inquire into the following matters, namely:	
Security	(a) Whether loans & advances made by the company on the basis of security have been properly secured & whether the terms on which they have been made are prejudicial to the interests of the company or its members;
Book Entries	(b) Whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
Sale of Securities below cost	(c) 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 & other securities have been sold at a price less than that at which they were purchased by the company;
Deposits	(d) Whether loans & advances made by the company have been shown as deposits;
Personal Expenses	(e) Whether personal expenses have been charged to revenue account;
Shares Allotted for Cash & Balance Sheet Position	(f) Where it is stated in the books & documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, & if no cash has actually been so received, whether the position as stated in the account books & the balance sheet is correct, regular & not misleading.

■ REPORT TO MEMBERS - SECTION 143[2]

The Auditor Shall Make a Report to the Members of The Company on Following

- On accounts examined by him and
- On every Financial Statement required to be laid as per the Act

What?

- Whether FS/BOA give True and Fair view +
- About Affairs of the Company
- Take into consideration whether Accounting and Auditing standards are followed or not**

■ DUTY TO REPORT MATTERS IN THE REPORT - SECTION 143[2]

For section 143(1) it could be said that the auditor should make a report to the members in case he finds answer to any of these matters in adverse.

To report on FACTS basis		To report on OPINION basis	
(a)	All info and explanation obtained?	(b)	Proper BOA maintained?
(d)	FS in agree with BOA?	(e)	FS as per AS ?
(c)	Branch AR ?	(f)	Observation and comment of auditor which have any adverse effect on company
(g)	Any director DQ u/s 164 (2)?	(h)	Any qualification, reservation or any adverse remark (R.A.Q.)
(j)	Other matters prescribed	(i)	Adequate IFC related to FS and effective?

The auditor's report shall also state —

Information & Explanations	(a) Whether he has sought & obtained all the information & explanations which to the best of his knowledge & belief were necessary for the purpose of his audit & if not, the details thereof & the effect of such information on the FS;
Proper Books of Account	(b) 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 & proper returns adequate for the purposes of his audit have been received from branches not visited by him;
Branch Auditor's Report	(c) Whether the report on the accounts of any branch office of the company audited u/s 143(8) by a person other than the company's auditor has been sent to him under the proviso to that sub-section & the manner in which he has dealt with it in preparing his report;
Agreement with Books of Account	(d) Whether the company's balance sheet & profit & loss account dealt with in the report are in agreement with the books of account & returns;
Accounting Standards	(e) Whether, in his opinion, the FS comply with the accounting standards;
Adverse effect	(f) The observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company ;
Director's Disqualification	(g) Whether any director is disqualified from being appointed as a director u/s 164(2);

Maintenance of accounts	(h) Any qualification, reservation or adverse remark relating to the maintenance of accounts & other matters connected therewith;
Internal Financial Controls	(i) Whether the company has adequate internal financial controls with reference to FS in place & the operating effectiveness of such controls;
	<p>Section 143(3)(i), shall not apply to a private company:- which is a</p> <p>(a) one person company or a small company; or</p> <p>(b) which has turnover less than Rs 50 crores as per latest audited FS & which has aggregate borrowings from banks or financial institutions or anybody corporate at any point of time during the F.Y less than ₹25 crores.”</p> <p>The above exemption shall be applicable to a private company which has not committed a default in filing its FS or annual return with the Registrar.</p>
Managerial Remuneration	<p>The auditor of the company shall, in his report u/s 143, make a statement as to whether the remuneration paid by the company to its directors is in accordance with the provisions of this section, whether remuneration paid to any director is in excess of the limit laid down under this section & give such other details as may be prescribed” (as per section 197(16) of the Companies Act, 2013)</p> <p>The aforesaid reporting requirement for auditors of public companies needs to be covered in auditor’s report under the Section “Report on Other Legal & Regulatory Requirements”.</p>
Other Matter to Be Reported (L.L.F.F.D.A)	
(i) Pending Litigations	Whether the company has disclosed the impact of pending litigations on its financial position in the financial statements.
(ii) Provision for Losses	Whether provisions have been made for material foreseeable losses on long-term contracts, including derivative contracts, as required under laws or accounting standards.
(iii) Investor Education and Protection Fund	Whether there has been any delay in transferring amounts to the Investor Education and Protection Fund.
(iv) Funds Advanced/ Received	<p>Representations by management about:</p> <ol style="list-style-type: none"> 1. No funds have been advanced, loaned, or invested (directly or indirectly) for the benefit of “Ultimate Beneficiaries.” 2. No funds received from any “Funding Parties” have been used for the benefit of “Ultimate Beneficiaries.” 3. No material misstatement has been identified
(v) Dividend Compliance	Whether the dividend declared or paid complies with Section 123 of the Companies Act, 2013.

(vi)	Audit Trail Software	Whether the company has used accounting software with an audit trail feature (effective from April 1, 2022), ensuring the audit trail has been operated, preserved, and not tampered with as per statutory requirements.
(vii)	Section 143(4)	Reasons for Modification Where any of the matters required to be included in the audit report under this section is answered in the negative or with a qualification, the report shall state the reasons therefor.

■ AUDITOR'S REMUNERATION (SEC 142)

[SEC 142(1)]	<input type="checkbox"/> those who appoint auditor fixes his remuneration except in case of a government company, <input type="checkbox"/> Auditor is appointed by C & AG but remuneration is fixed by shareholders.
	<div style="border: 1px solid black; border-radius: 15px; padding: 10px;"> <p>Sum Includes:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Audit fees <input type="checkbox"/> Reimbursement of expenses incurred by auditor in relation to audit <input type="checkbox"/> Any facilities extended to the auditor but <p>Shall not include:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Any other services rendered by the auditor </div>
[SEC 142(2)]	<p>Items incredible and excluder in “Auditor’s remuneration”</p> <p>Auditor’s remuneration includes “Out of Pocket Expenses” but does NOT include any remuneration paid to him for any other service rendered by him at the request of the company.</p> <p>Example: SHRD Private Ltd is engaged in the business of software and consultancy. The company has an annual turnover of ₹2,000 crore but its profit margins are not very good as compared to the industry standards. For the financial year ended 31st March 2024, 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. In this situation, engagement letter with such arrangement is valid.</p>

MULTIPLE CHOICE QUESTIONS (MCQ)

8. The remuneration of first auditor appointed by members of the company shall be fixed by

- (a) Company
- (b) Board of Directors
- (c) Central Government
- (d) CAG

9. Which of the following is correct?

- (a) Remuneration of auditor shall in addition to the fees payable include

expenses, if any incurred by the auditor in connection with the audit of the company

- (b) Remuneration does not include any remuneration paid to auditor for any other service rendered by him at the request of the company

(c) Both of the Above

(d) None of the Above

■ RIGHT TO REPORT TO THE MEMBERS & SIGN AUDIT REPORT (SEC 145)

- The auditor shall make a report to the members of the company on the accounts examined by him & on every FS which are required by or under this Act to be laid before the company in general meeting.
- The person [**Signing Partner**] appointed as an auditor of the company shall sign the auditor's report or sign or certify any other document of the company.
- 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.

■ RIGHT TO RECEIVE NOTICE & ATTEND GENERAL MEETING (SEC 146)

- All notices of, & other communications relating to, any general meeting shall be forwarded to the auditor of the company, & the auditor shall, unless otherwise exempted by the company, **attend either by himself or through his authorized representative**, who shall also be qualified to be an auditor; any general meeting & shall have right to be heard at such meeting on any part of the business which concerns him as the auditor.

Section 143(9) (10)	<p>Duty of Auditor to follow Auditing Standards</p> <p>Every auditor shall comply with the auditing standards.</p> <p>The CG may prescribe the standards of auditing, as recommended by the Institute of Chartered Accountants of India in consultation with and after examination of the recommendations made by the National Financial Reporting Authority.</p> <p>Until any auditing standards are notified, any standard or standards of auditing specified by the Institute of Chartered Accountants of India shall be deemed to be the auditing standards.</p>
Section 143(11)	<p>CARO 2020</p> <p>CARO 2020 is a part of the Audit REPORT Chapter in Audit Subject. It is not a part of LAW Subject.</p>

RIGHT TO LIEN

- ❑ In terms of the general principles of law, any person having the lawful possession of somebody else's property, on which he has worked, may retain the property for nonpayment of his dues on account of the work done on the property.
- ❑ On this premise, auditor can exercise lien on books & documents placed at his possession by the client for nonpayment of fees, for work done on the books & documents.
- ❑ **Following conditions:**
 - Documents retained must belong to the client who owes the money.
 - Documents must have come into possession of the auditor on the authority of the client. They must not have been received through irregular or illegal means. In case of a company client, they must be received on the authority of the Board of Directors.
 - The auditor can retain the documents only if he has done work on the documents assigned to him.

Such of the documents can be retained which are connected with the work on **which** fees have not **been** paid and some work has been done

■ DUTY OF THE AUDITOR TO REPORT FRAUD TO CG - SEC 143(12)

Section 143(12) and rules

Reporting of frauds by auditor and other matters:

1. If an auditor of a company, in the course of the performance of his duties as statutory auditor, has reason to believe that an offence of fraud, which involves or is expected to involve individually an Amount of 1 crore or more, is being or has been committed against the company by its officers or employees, the auditor shall report the matter to the CG.

Note: If Auditor himself discovers the fraud, then he has a duty to report to CG. If the management informs the Auditor about the fraud, then there is no duty to report to CG.

2. The auditor shall report the matter to the CG as under:
 - (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 CG within 15 days from the date of receipt of such reply or observations;

	<p>(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 CG along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he has not received any reply or observations;</p> <p>(d) The report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed Post followed by an e-mail in confirmation of the same;</p> <p>(e) The report shall be in the form of a statement as specified in Form ADT-4.</p> <p>3. The following details of each of the fraud reported to the Audit Committee or the Board above during the year shall be disclosed in the Board's Report:</p> <p>(a) Nature of Fraud with description;</p> <p>(b) Approximate Amount involved;</p> <p>(c) Parties involved, if remedial action not taken; and</p> <p>(d) Remedial actions taken.</p> <p>The provision of Section 143(12) shall also apply, mutates mutans, to a Cost Accountant and a Company secretary in Practice during the performance of his duties under section 148 and section 204 respectively.</p>
	<div style="border: 1px solid black; border-radius: 15px; padding: 10px;"> <p><input type="checkbox"/> Section 143 (13) - Safeguards Auditor against reported fraud in good faith.</p> <p><input type="checkbox"/> Applicable to:</p> <ul style="list-style-type: none"> <input type="radio"/> Cost Auditor <input type="radio"/> Secretarial Auditor <input type="radio"/> Branch Auditor <p><input type="checkbox"/> For or against - Already committed and reported Fraud</p> </div>

MULTIPLE CHOICE QUESTIONS (MCQ)

- 10.** Every auditor of a company shall have a right of access at all times to ____ of the company whether kept at the registered office of the company or at any other place
- (a) Books and Account
(b) Books and Papers
(c) Books of Account and Vouchers
(d) Statutory registers

- 11.** Auditor is required to inquire which of the following matters under Section 143(1):
- (a) Sale of Shares and debentures at a price less than purchase amount by a banking company
(b) Sale of Shares and debentures at a price less than purchase amount by an investment company

- (c) Sale of Fixed Assets and Inventory at a price less than purchase amount by a non-banking company
- (d) Sale of Shares and debentures at a price less than purchase amount by a non- banking company**

12. Auditor is required to inquire which of the following matters under Section 143(1):

- (a) Charging of personal expenses to revenue account**
- (b) Charging of capital expenses to revenue account
- (c) Charging of Provisions to revenue account
- (d) Charging of Depreciation to revenue account

13. Which of the following statements is correct?

- (a) Reporting on propriety matters u/s 143(1) is required if the auditor finds answer to any of the matters in positive
- (b) Reporting on propriety matters u/s 143(1) is required if the auditor finds answer to any of the matters in negative**
- (c) Reporting on propriety matters u/s 143(1) is required in every case irrespective of auditor's observations
- (d) Reporting on propriety matters u/s 143(1) is not the duty of auditor, it is the duty of management

14. Under Section 143(2) auditor is required to, make a report to the members of the, company on the following:

- (a) Accounts Examined by him
- (b) Financial statement laid before the company in general Meeting
- (c) Both of the above**
- (d) None of the Above

15. Under Section 143(3), auditor is required to report on following

1. Whether loans and advances made by the company have been shown as deposits

2. Whether transactions represented by book entries are prejudicial
3. Whether any director is disqualified from being appointed as director u/s 164(2)
4. Whether financial statements comply with the accounting Standards

Correct answer is:

- (a) 1 & 2
- (b) 3 & 4
- (c) 1 & 3
- (d) 1, 2, 3 & 4**

16. CAG shall within from the date of receipt of the audit report have a right to conduct a supplementary audit

- (a) 30 days
- (b) 45 days
- (c) 60 days**
- (d) 90 days

17. As per Sec. 143(9) of Companies Act, 2013, every auditor shall comply with_____

- (a) Accounting Standards
- (b) Auditing Standards**
- (c) Engagement Standards
- (d) Accounting and Auditing Standards

18. Under Section 143(12) of Companies Act, 2013, 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 ____ he shall immediately report the matter to the

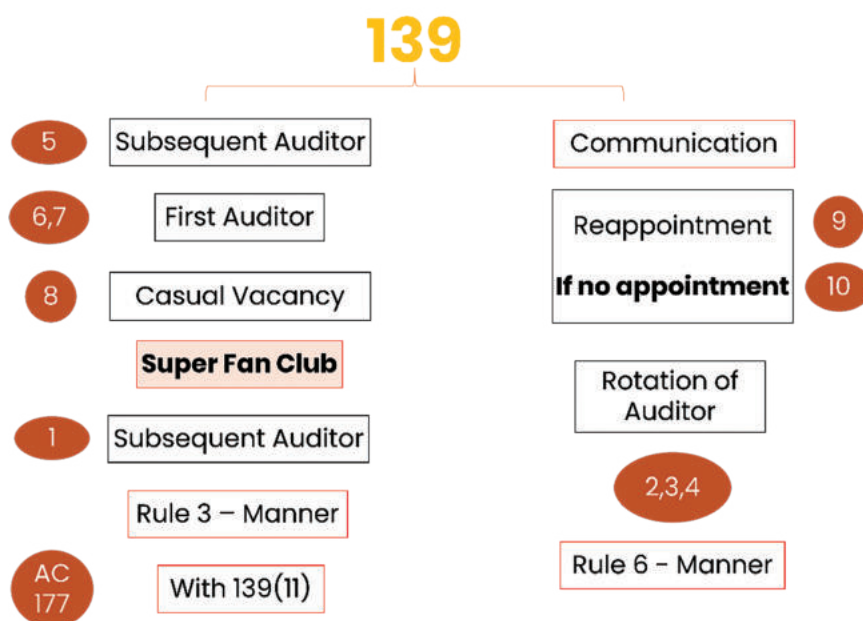
- (a) company by officers or employees of the company; Registrar of Companies
- (b) officers or employees of the company by directors; Central Government
- (c) company by officers or employees of the company; Central Government**
- (d) officers or employees of the company by directors; Registrar of Companies

19. If the auditor does not report u/s 143(2) with respect to fraud, he shall be punishable with fine ranging from:

- (a) 1 Lac to 10 Lacs**
- (b) 1 Lac to 25 Lacs
- (c) 5 Lacs to 10 Lacs
- (d) 5 Lacs to 25 Lacs

- 20. Report u/s 143(12) with respect to fraud shall be sent to**
- (a) Registrar of Companies
 - (b) National Company Law Tribunal
 - (c) Secretary, Ministry of Home affairs
 - (d) None of the above**
- 21. The Audit Committee or the Board of Directors, are required to give their reply over the report of auditor in relation to fraud noticed by the auditor, within**
- (a) 15 days
 - (b) 30 days
 - (c) 45 days**
 - (d) 60 days
- 22. Report u/s 143(12) shall be in the form of a statement as specified in**
- (a) ADT-1
 - (b) ADT-2
 - (c) ADT-3
 - (d) ADT-4**
- 23. An auditor appointed under Companies Act, 2013, shall provide only such other services as are approved by**
- (a) Board of Directors
 - (b) Central Government
 - (c) Board of Directors or the Audit Committee**
 - (d) Registrar of Companies
- 24. Auditor appointed under Companies Act, 2013 cannot render which of the following services:**
- (a) Actuarial Services**
 - (b) Tax Audit
 - (c) Review of Interim Financial Statements
 - (d) Examination of Prospective Financial Statements
- 25. Which of the following statement is correct?**
- (a) Communication relating to General meeting need not be forwarded to the auditor of the company
 - (b) Auditor has discretion to attend the general meeting
 - (c) Auditor shall have a right to be heard at general meeting**
 - (d) None of the above
- 26. The auditor shall attend any general meeting**
- (a) himself
 - (b) through his authorised representative
 - (c) either by himself or through his authorised representative**
 - (d) at his discretion
- 27. Right of Lien refers to**
- (a) Right for lawful possession of somebody's else property**
 - (b) Right of access to records of the company
 - (c) Right to obtain necessary information and explanation
 - (d) Right of access to records of subsidiary companies
- 28. Right to lien can be exercised for**
- (a) Non-payment of statutory dues
 - (b) Non-payment of fees by the client**
 - (c) Both of the above
 - (d) None of the above

■ APPOINTMENT OF AUDITOR (SEC 139)



Type of Appointment	Gov Co?	1st Stage	2nd Stage	3rd Stage	Tenure
(1) Subsequent Auditor	×	NORMAL CASE <i>Appointed in the first AGM till the conclusion of the 6th AGM</i>			
(5) Subsequent Auditor	✓	Within 180 Days from the commencement of the FY - By CAG	—	—	Till the conclusion of Next AGM (2nd) So on
(6) First Auditor	×	Within 30 Days of Incorporation by BOD in BM	Within 90 Days of Intimation by BOD by Members @ EGM	—	Till the First AGM
(7) First Auditor	✓	Within 60 Days of incorporation by C & AG	In NEXT 30 Days by BOD	WITHIN 60 Days Members @ EGM	

Appointment Of Subsequent Auditors in Case of Non-Government Companies Sec 139 (1)

Step 1: After considering the following parameters, Audit Committee/Board of Directors shall recommend the name of the proposed Auditor before the shareholders for appointment in AGM by passing Ordinary Resolution:

1. Qualification
2. Experience
3. Disciplinary proceedings, if any, pending against the auditor.

Step 2: Obtaining a certificate from proposed auditor before appointment.

The auditor appointed shall submit a certificate before his appointment that -

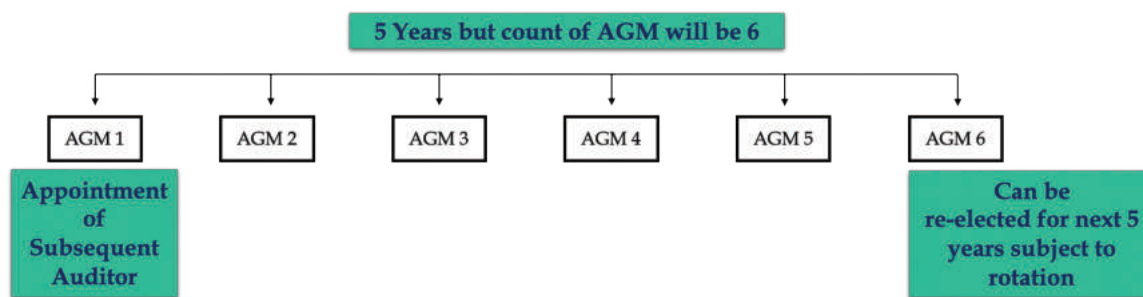
- The individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Chartered Accountants Act, 1949 and the rules or regulations made thereunder;
- The proposed appointment is as per the terms provided under the Act;
- The proposed appointment is within the limits laid down by or under the authority of the Act {20 Companies u/s 141(3)(g)};
- 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.

Step 3: The auditor appointed in the annual general meeting shall hold office from the conclusion of that meeting till the conclusion of the 6th AGM, with the meeting wherein such appointment has been made being counted as the 1st meeting.

Step 4: Intimation to Auditor and ROC in Form ADT-1

The company shall inform the auditor of its appointment, and also file a notice of such appointment with the Registrar in Form ADT-1 within 15 days of the meeting in which the auditor is appointed.

- At 1st AGM
- Tenure: Till the conclusion of 6th AGM
- AGM in which he is appointed will be counted as his 1st AGM
- Resolution : OR



Appointment Of Subsequent Auditors In Case Of Government Companies Sec 139 (5)

In the case of a Government company the C &AG shall, in respect of a F.Y., appoint an auditor duly qualified to be appointed as an auditor of companies under this Act, within a period of 180 days from the commencement of the F.Y., who shall hold office till the conclusion of the AGM.

<p>Appointment Of First Auditors In The Case Of A Company, Other Than A Government Company Sec 139 (6)</p>	<ul style="list-style-type: none"> <input type="checkbox"/> As per Section 139(6), the first auditor of a company, other than a Government company, shall be appointed by the Board of Directors within 30 days from the date of registration of the company. In the case of failure of the Board to appoint the auditor, it shall inform the members of the company. <input type="checkbox"/> The members of the company shall within 90 days at an extraordinary general meeting appoint the auditor. <input type="checkbox"/> Appointed auditor shall hold office till the conclusion of the first AGM.
<p>Appointment Of First Auditors In The Case Of Government Company Sec 139 (7)</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Section 139(7) provides that in the case of a Government company; the first auditor shall be appointed by the CAG of India within 60 days from the date of registration of the company. <input type="checkbox"/> In case the C&AG does not appoint such auditor within the above said period, the Board of Directors of the company shall appoint such auditor within the next 30 days. <input type="checkbox"/> Further, in the case of failure of the Board to appoint such auditor within next 30 days, it shall inform the members of the company who shall appoint such auditor within 60 days at an EGM. <input type="checkbox"/> Auditors shall hold office till the conclusion of the first AGM.

■ APPOINTMENT OF AUDITOR IN CASE OF CASUAL VACANCY SECTION 139(8)

Type of Appointment	Gov Co?	1st Stage	2nd Stage	Tenure
(8) Casual Vacancy	✓	Within 30 Days By C&AG	In NEXT 30 Days By BOD	Till the conclusion of Next AGM
(8) Casual Vacancy - Resignation Case	✗	Within 30 days by BOD Recommendation of Board	- Within 3 Months Ratification by Members @ EGM	

Example: Prakash Carriers Limited appointed Mr. Raman as its auditor in the Annual General Meeting held on 30th September, 2023. Initially, he accepted the appointment. But he resigned from his office on 31st October, 2023 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.

APPOINTMENT OF FIRST AUDITORS IN THE CASE OF A COMPANY, OTHER THAN A GOVERNMENT COMPANY	<p>Case 1: Casual Vacancy caused due to Death, Dissolution, Incapacity or any reason other than Resignation.</p> <p>Any casual vacancy in the office of an auditor shall be filled by the BOD within 30 days.</p> <p>Case 2: Casual Vacancy caused due to Resignation.</p> <p>Any casual vacancy in the office of an auditor shall be filled by the BOD within 30 days. Tenure of the Auditor so appointed to fill Casual vacancy either in Case 1 or 2: He shall hold the office till the conclusion of the next annual general meeting.</p> <p>Such appointment shall also be approved by the company at a general meeting convened within 3 months of the recommendation of the Board.</p>
FOR GOVERNMENT COMPANY	<p>In the case of a company whose accounts are subject to audit by an auditor appointed by the C & A G, be filled by the C & A G within 30 days.</p> <p>It may be noted that in case the C & A G does not fill the vacancy within the said period the Board of Directors shall fill the vacancy within next 30 days.</p>

■ REAPPOINTMENT OF RETIRING AUDITOR - SEC 139(9)

☐ A retiring auditor may be re-appointed at an AGM, if [D.U.SR.@A]

- (a) He is not **disqualified** for re-appointment;
- (b) He has not given the company a notice in writing of his **unwillingness** to be reappointed; &
- (c) A **special resolution** has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re- appointed.

■ OTHER RELATED PROVISION - SEC 139(10) & (11)

Where at any AGM, no auditor is appointed and re-appointed and retiring auditor can be reappointed [not disqualified u/s 139(9)] the existing auditor shall continue to be the auditor of the company.

[10]

Automatic Re-appointment - If no one is appointed or reappointed at AGM then existing auditor shall continue to be the auditor (if eligible)

[11]

Where a company is required to constitute AC u/s 177 then - All appointments including casual vacancy shall be made after taking recommendation from AC

■ ROTATION OF AUDITOR [SEC 139(2)(3)(4)]

Applicability	Type of Company	Threshold
	Listed Company	No limit.
	All unlisted Public Companies having	PUSC ≥10 crores
	All Private Limited Companies having	PUSC ≥50 crores
	All companies having PUSC below 10/50 but having public borrowings from financial institutions, banks or public deposits	Borrowings from H, Banks or Public Deposits ≥ 50 crores

Rules	<p>(a) An individual as auditor for more than one term of 5 consecutive years; & (b) An audit firm as auditor for more than two terms of 5 consecutive years.</p> <p>Cooling Period: Such individual auditor or an audit firm which has completed its term, shall not be eligible for re-appointment as auditor in the same company for 5 years from the completion of such term.</p>
Who cannot be appointed as Auditor in cooling period	<p>Common Partner 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 5 years:</p> <p>Same Network of Firms 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.</p> <p>For the purposes of these rules the term “same network” includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.</p> <p>Signing Partner Resigns & Joins another Firm 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 5 years.</p>
	<p>Note: Joint Audit 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.</p>
Section 139(3)	<p>Rotation of Audit Partner, Audit Team Members of a company MAY resolve to provide that in the audit firm appointed by it, the Auditing Partner and his Team shall be rotated at such intervals as may be resolved by members; or</p>

MULTIPLE CHOICE QUESTIONS (MCQ)

- 29.** Auditor appointed at AGM shall hold the office from the conclusion of that AGM till the conclusion of
- (a) Sixth AGM (b) Next AGM
(c) Fifth AGM (d) Tenth AGM
- 30.** An Individual auditor of a Listed company who has completed his term shall not be eligible for re-appointment as auditor in the same company for ____ years from the conclusion of his term
- (a) 2 (b) 3
(c) 5 (d) 10
- 31.** Which of the following company shall not appoint an audit firm as auditor for more than two terms of five consecutive years:
- (a) Unlisted Public company having Turnover of ₹10 Cr. or more

- (b) Unlisted Public company having Turnover of ₹20 Cr. or more
- (c) Unlisted Public company having Paid up share capital of ₹10 Cr. or more**
- (d) Unlisted Public company having Paid up share Capital of ₹20 Cr. or more

32. Subsequent auditor in case of Government Company shall be appointed within _____ from the commencement of the financial year

- (a) 30 days (b) 90 days
(c) 120 days **(d) 180 days**

33. First auditor shall hold office till conclusion of

- (a) First AGM** (b) Sixth AGM
(c) Next AGM (d) Second AGM

34. Casual vacancy in the office of an auditor, shall be filled by the Board of Directors within

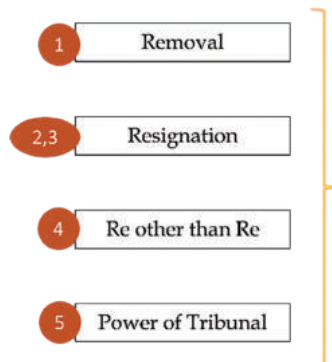
- (a) 30 days** (b) 60 days
(c) 90 days (d) 120 days

35. Which of the following statement is correct?

- (a) Casual Vacancy in case of resignation of auditor shall be filled by Board of Directors within 90 days
- (b) Casual Vacancy in case of Government company shall be filled by Central Govt. within 90 days
- (c) Casual Vacancy means a vacancy arises after completion of the tenure
- (d) None of the Above**

■ REMOVAL OF AUDITOR [SEC 140]

140



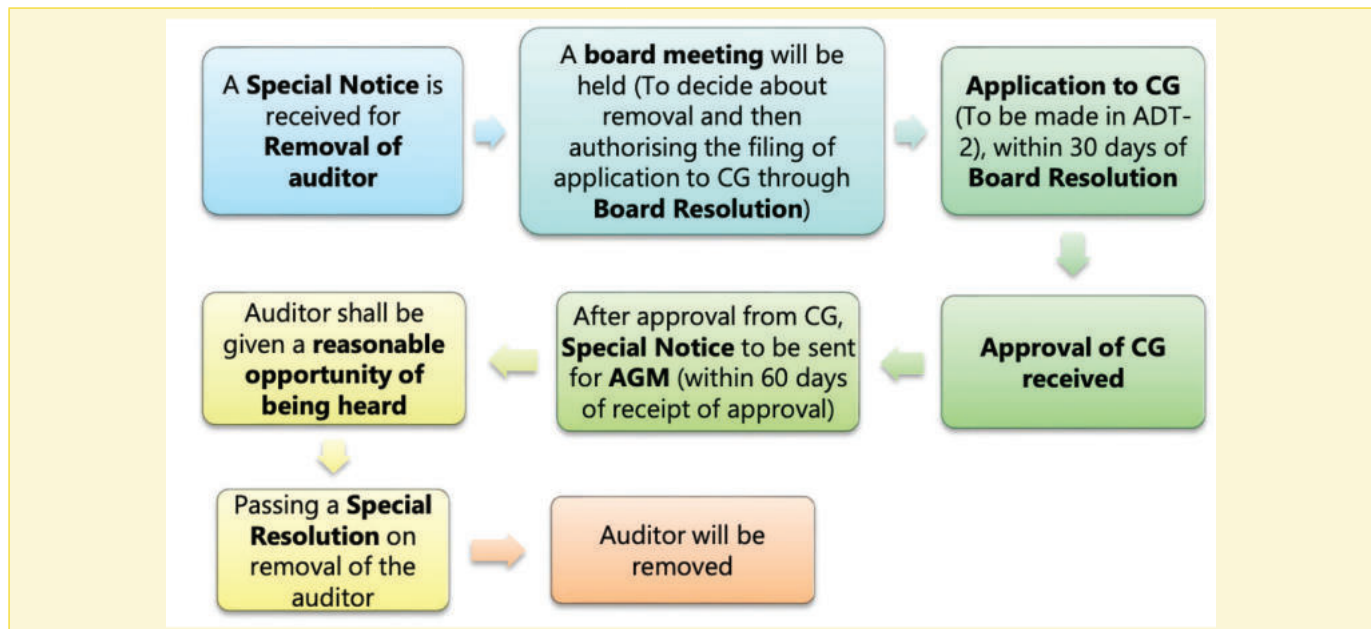
REMOVAL OF AUDITOR BEFORE EXPIRY OF HIS TERM [SEC 140(1)]

□ The auditor appointed u/s 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 CG in that behalf as per Rule 7 of Companies (Audit & Auditors) Rule, 2014:

1. The application to the CG for removal of auditor shall be made in Form ADT-2 &
2. The application shall be made to the CG within 30 days of the resolution passed by the Board
3. The company shall hold the general meeting within 60 days of receipt of approval of the CG for passing the special resolution.

Note: The CG shall give the auditor a reasonable opportunity of being heard before taking any action as above.

<p>Resignation By Auditor [Sec 140 (2) & (3)].</p>		<ul style="list-style-type: none"> <input type="checkbox"/> As per section 140(2) of the Act, the auditor who has resigned from the company shall file within a period of 30 days from the date of resignation, a statement in the prescribed Form ADT-3 (as per Rule 8 of CAAR) with the company & the Registrar. <input type="checkbox"/> In case of the companies referred to in section 139(5) i.e. Government company, the auditor shall also file such statement with the CAG along with the company & the Registrar. <input type="checkbox"/> In case of failure, the auditor shall be liable to a penalty of ₹50,000 or the remuneration of the auditor, whichever is less, & in case of continuing failure, with further penalty ₹500 for each of day after the first during which such failure continues, subject to a maximum of ₹200,000 as per section 140(3).
<p>Appointment of Auditor Other than Retiring Auditor [SEC 140(4)]</p>	<p>Special Notice</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Special notice shall be required for a resolution at an AGM appointing as auditor a person other than a retiring auditor, or providing expressly that a retiring auditor shall not be re-appointed, except where the retiring auditor has completed a consecutive tenure of 5 years or, as the case may be, 10 years.
	<p>Copy of Special Notice</p>	<ul style="list-style-type: none"> <input type="checkbox"/> On receipt of notice of such a resolution, the company shall forthwith send a copy thereof to the retiring auditor.
	<p>Representation</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Retiring Auditor has power to represent <input type="checkbox"/> Company shall send copy of representation to all members and in case of failure to do so, auditor can ask it to read out in GM. <input type="checkbox"/> Provided that if a copy of representation is not sent as aforesaid, a copy thereof shall be filed with the Registrar. <input type="checkbox"/> Provided further that 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 & the representation need not be read out at the meeting.
	<p>In AGM</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Pass OR to appoint new Auditor <input type="checkbox"/> Pass OR to remove retiring Auditor

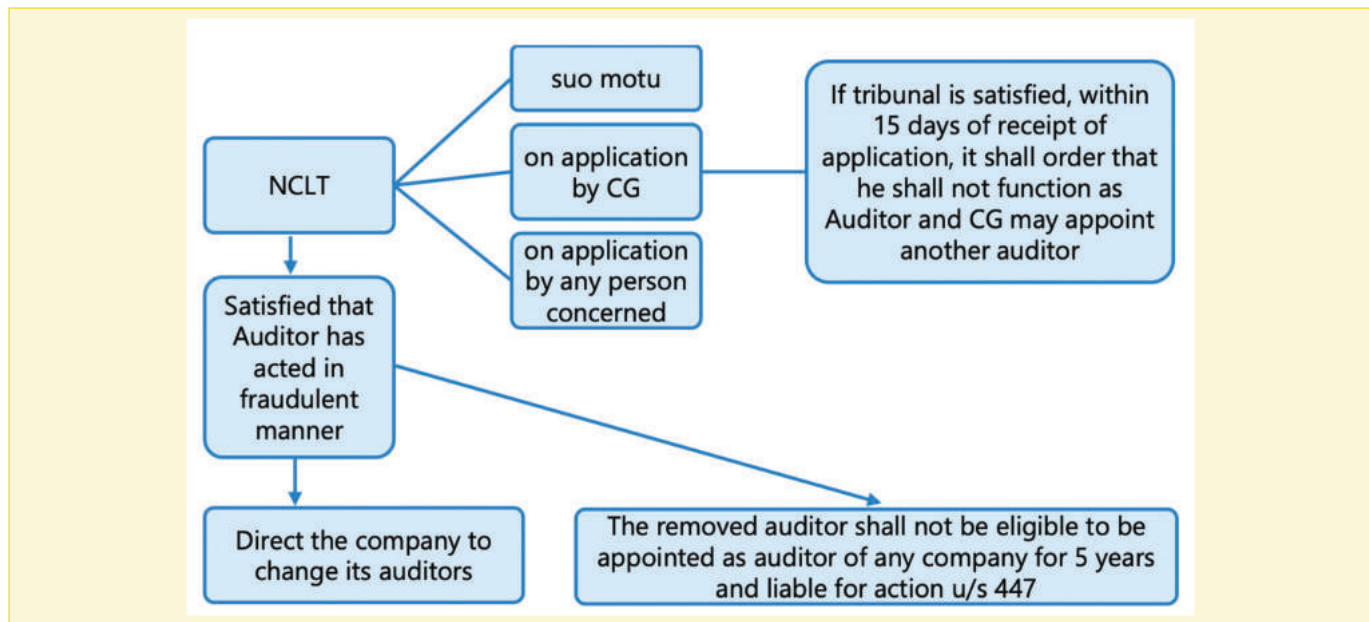


REMOVAL OF AUDITOR BY TRIBUNAL & CG [SEC 140(5)]

In NCLT – 9

- ❑ Tribunal either suo moto or on an application made to it by the CG 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, it may, by order, direct the company to change its auditors.**
- ❑ It shall within 15 days of receipt of such application, make an order that he shall not function as an auditor & the CG may appoint another auditor in his place.
- ❑ 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 5 years from the date of passing of the order & the auditor shall also be liable for action u/s 447.

Auditor in default is disqualified for 5 years and liable to penalty u/s 447



MULTIPLE CHOICE QUESTIONS (MCQ)

36. For the removal of an auditor before the expiry of his term, which of the following sequence of events is correct? (Nov 23)

- (a) Board meeting - General meeting for passing a special resolution Application to Central Government - Grant of approval by Central Government
- (b) Application to Central Government - Grant of approval by Central Government - Board meeting - General meeting for passing a special resolution
- (c) General meeting for passing a special resolution - Board meeting Application to Central Government - Grant of approval by Central Government
- (d) Board meeting - Application to Central Government - Grant of approval by Central Government - General meeting for passing a special resolution**

37. Which of the following statement is correct?

- (a) Where at any AGM, no auditor is appointed or re-appointed, it amounts to casual vacancy and will be filled by Board of Directors
- (b) Where at any AGM, no auditor is appointed or re-appointed, it amounts

to casual vacancy and will be filled by Central Government

- (c) Where at any AGM, no auditor is appointed or re-appointed, it amounts to casual vacancy and will be filled by members in EGM
- (d) None of the above**

38. The Auditor appointed under section 139 of Companies Act, 2013 may be removed from his office before the expiry of his term by

- (a) Ordinary Resolution
- (b) Special Resolution**
- (c) Board Resolution
- (d) None of the Above

39. The application for removal of auditor before expiry of his term shall be made to Central Govt. within 30 days of

- (a) Ordinary Resolution
- (b) Special Resolution
- (c) Board Resolution**
- (d) None of the Above

40. In case of removal of auditor before expiry of his term, the company shall hold the within 60 days of receipt of approval of the Central Government for passing the

- (a) General Meeting, Ordinary Resolution
- (b) Board Meeting, Special Resolution
- (c) General Meeting, Special Resolution**
- (d) Board Meeting, Board Resolution

- 41. The auditor who has resigned from the company shall file within a period of from the date of resignation, a statement in the Form**
- (a) 30 days, ADT-1
 - (b) 30 Days, ADT-3**
 - (c) 60 days, ADT-1
 - (d) 60 days, ADT-3

- 42. To appoint as auditor, a person other than a retiring auditor, who is eligible for reappointment _____ is required.**

- (a) Approval of Central Government
- (b) Special Notice**
- (c) Approval of CAG
- (d) Ordinary Resolution

■ PUNISHMENT FOR NON-COMPLIANCE [SEC 147]

Section 147 of the Companies Act, 2013 prescribes following punishments for contravention:	
Contravention By Company	<ul style="list-style-type: none"> <input type="checkbox"/> If any of the provisions of sec 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 lakhs & every officer of the company who is in default shall be punishable with fine which shall not be less than ₹10,000 but which may extend to 1 lakh.
Contravention By Auditor	<ul style="list-style-type: none"> <input type="checkbox"/> If an auditor of a company contravenes any of the provisions of sec 139, sec 144 or sec 145, the auditor shall be punishable with fine which shall not be less than ₹25,000 but which may extend to 5 lakhs [or 4 times the remuneration of the auditor, whichever is less] <input type="checkbox"/> Provided that if an auditor has contravened such provisions knowingly or will-fully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to 1 year & [with fine which shall not be less than ₹50,000 but which may extend to ₹25 lakhs or 8 times the remuneration of the auditor, whichever is less] <input type="checkbox"/> Where an auditor has been convicted under sub-section (2), he shall be liable to: <ul style="list-style-type: none"> (i) refund the remuneration received by him to the company; & (ii) 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. <div style="display: flex; justify-content: space-around; margin-top: 10px;"> <div style="border: 1px solid black; border-radius: 10px; padding: 5px; background-color: #fff9c4;"> <p>(5)- Liability of Audit firm and the partners is jointly and severally. Also liable u/s 447</p> </div> <div style="border: 1px solid black; border-radius: 10px; padding: 5px; background-color: #fff9c4;"> <p>Section 147 applies to Cost Auditor also who defaults under Section 148</p> </div> </div>

MULTIPLE CHOICE QUESTIONS (MCQ)

- 43.** As per Sec 147 of the Companies Act, 2013, 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 _____ but which may extend to _____
(a) 25,000; 5 Lacs (b) 10,000; 1 Lac
 (c) 50,000; 25 Lacs (d) 25,000; 1 Lac
- 44.** As per Sec. 147 of the Companies Act, 2013, 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 imprisonment for a term which may extend to or with fine which shall not be less than but which may extend to _____ or with both
 (a) 1 year; 25,000; 5 Lacs
 (b) 1 year; 10,000; 1 Lac
 (c) 3 years; 25,000; 5 Lacs
 (d) 3 years; 10,000; 1 Lac
- 45.** As per Sec. 147 of the Companies Act, 2013, if an auditor of a company contravenes any of the provisions of Sec. 139, Sec. 143, Sec. 144 or Sec. 145, the auditor shall be punishable with fine which shall not be less than _____ but which may extend to _____.
 (a) 25,000; 5 Lacs or five times the remuneration of auditor whichever is less
 (b) 25,000; 5 Lacs or five times the remuneration of auditor whichever is more
(c) 25,000; 5 Lacs or four times the remuneration of auditor whichever is less
 (d) 25,000; 5 Lacs or four times the remuneration of auditor whichever is more
- 46.** If with the intention to knowingly deceive the shareholder, the auditor has given a false audit report, he may be subject to a fine which may exceed up to
 (a) INR 5 lakh
 (b) INR 25 lakh
 (c) INR 5 lakh or 4 times the remuneration whichever is less
(d) INR 25 lakh or 8 times the remuneration whichever is less

■ COST AUDIT [SEC 148]

Applicability for Maintenance of Cost Records	<input type="checkbox"/> Rule 3 of the Companies (Cost Records & Audit) Rules, 2014 provides the classes of companies, engaged in the production of goods or providing services, having an overall turnover from all its products & services of ₹35 crore or more during the immediately preceding financial year, required to include cost records in their books of account. <input type="checkbox"/> These companies include Foreign Companies defined in sub-section (42) of section 2 of the Act, but exclude a company classified as a Micro enterprise or a small enterprise including as per the turnover criteria.
Maintenance of Cost Records	<input type="checkbox"/> in Form CRA-1

Applicability of Cost Audit

❑ Rule 4 of the Companies (Cost Records & 'Audit) Rules, 2014 states the provisions related to the applicability of cost audit depending on the turnover of the company as follows-

1. TABLE-A:- Regulated Sector (6 Industries)

- (a) Petroleum
- (b) Pharmaceutical
- (c) Telecom
- (d) Electricity
- (e) Fertilizer
- (f) Sugar & Industrial Alcohol

2. TABLE-B:- Non-Regulated Sector (33 Industries)

- (a) Paper
- (b) Milk & Milk Powder
- (c) Iron & Steel
- (d) Military Tanks, etc.

❑ Classes of companies specified under item (A) "Regulated Sectors" are required to get its cost records audited if the overall annual turnover of the company from all its products & services during the immediately preceding financial year is 50 crore or more & the aggregate during of the individual product(s) or service(s) for which cost records are required to be maintained under rule 3 is 25 crore or more.

❑ Classes of companies specified under item (B) "Non-Regulated Sectors" are required to get its cost records audited if the overall annual turnover of the company from all its products & services during the immediately preceding financial year is 100 crore or more & the aggregate turnover of the individual product(s) or service(s) for which cost records are required to be maintained under rule 3 is 35 crore or more.

❑ Rule 4 - Cost Audit will be applicable - If the company during immediately Preceding FY

❑ For Companies specified in Table A (Regulated Sector)

Overall T/O for all Product/Services ≥ 50 Cr AND

Aggregate T/O of P/S for which cost records are to be maintained as per Rule 3 ≥ 25 Cr

❑ For Companies specified in Table B (Unregulated Sector)

Overall T/O for all Product/Services ≥ 100 Cr AND

Aggregate T/O of P/S for which cost records are to be maintained as per Rule 3 ≥ 35 Cr

<p>EXEMPTION FROM COST AUDIT</p>	<ul style="list-style-type: none"> <input type="checkbox"/> The requirement for cost audit under these rules shall not be applicable to a company which is covered under rule 3, and, <ul style="list-style-type: none"> (i) whose revenue from exports, in foreign exchange, exceeds 75% of its total revenue; or (ii) which is operating from a special economic zone. (iii) which is engaged in generation of electricity for captive consumption through Captive Generating Plant.
<p>WHO CAN BE COST AUDITOR?</p>	<ul style="list-style-type: none"> <input type="checkbox"/> by a Cost Accountant who shall be appointed by the Board of such remuneration as may be determined by the members in such manner as may be prescribed. <input type="checkbox"/> It may also be noted that the auditor conducting the cost audit shall comply with the cost auditing standards.
<p>Dis-QUALIFICATIONS, APPOINTMENT & REMUNERATION OF COST AUDITOR</p>	<p>Rule 6 of the Companies (Cost Records & Audit) Rules, 2014 -</p> <ul style="list-style-type: none"> <input type="checkbox"/> Requires the companies prescribed under the said Rules to appoint an Auditor within 180 days of the commencement of every F.Y. <input type="checkbox"/> It may be noted that the Form CRA-2 to be filed with the Central Government for intimating appointment <input type="checkbox"/> The qualifications, disqualifications, rights, duties and obligations applicable to auditors under this Chapter shall, so far as may be applicable, apply to a cost auditor
<p>REMOVAL OF COST AUDITOR</p>	<ul style="list-style-type: none"> <input type="checkbox"/> The cost auditor may be removed from his office before the expiry of his term, through a board resolution after giving a reasonable opportunity of being heard to the cost auditor & recording the reasons for such removal in writing.
<p>CASUAL VACANCY IN THE OFFICE OF A COST AUDITOR</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Any casual vacancy in the office of a Cost Auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within 30 days of occurrence of such vacancy & the company shall inform the central government in Form CRA-2 within 30 days of such appointment of cost auditor.
<p>SUBMISSION OF COST AUDIT REPORT</p>	<ul style="list-style-type: none"> <input type="checkbox"/> To the-Board of Directors of the Company- The cost auditor shall submit the cost audit report along with his reservations or qualifications or observations or suggestions, if any, in Form CRA-3 within a period of 180 days from the closure of the financial year <input type="checkbox"/> To the Central Government- The company shall within 30 days from the date of receipt of a copy of the cost audit report prepared (in pursuance of a direction issued by Central Government) furnish the Central Government with such report along with full information & explanation on every reservation or qualification contained therein in Form CRA-4 in Extensible Business Reporting Language (XBRL) format

	<input type="checkbox"/> If, after considering the cost audit report & the, information & explanation furnished by the company as above, the Central Government is of the opinion, that any further information or explanation is necessary, it may call for such further information & explanation & the company shall furnish the same within such time as may be specified by that Government.
DUTY TO REPORT ON FRAUD	<input type="checkbox"/> The provisions of section 143(12) of the Companies Act, 2013 & the relevant rules on duty to report on fraud shall apply mutatis mutandis to a cost auditor during performance of his functions u/s 148 of the Act & these rules.

Company auditor (139) cannot be a cost auditor

Other Provisions to apply to cost auditor as well

- Penalty same as 147
- Section 141 /143 mutatis mutandis applicable to 148
- Cost audit is in addition (+) to the statutory audit.

CRA FORMS

- **CRA 1** – The manner in which **cost records** to be maintained
- **CRA 2** – For intimation of **appointment of cost auditor** – Company to CG
- **CRA 3** – **Cost Audit Report**
- **CRA 4** – Filing of the cost audit with the Central Government

MULTIPLE CHOICE QUESTIONS (MCQ)

47. The turnover criteria for applicability of Companies (Cost Records and Audit) Rules, 2014 is
- (a) at the end of immediately preceding financial year
- (b) at the end of the financial year
- (c) average of 3 preceding financial year
- (d) when the company achieves the turnover during the current financial year
48. A cost auditor submits his report to
- (a) Government
- (b) Shareholders
- (c) Statutory Auditor
- (d) **Board of Director**
49. Only companies engaged in production of specified goods having an overall turnover from all the products of at least INR _____ are required to maintain the cost records.
- (a) 10 crores (b) 25 crores
- (c) **35 crores** (d) 50 crores
50. The requirement of cost audit is not applicable to a company whose revenue from exports in foreign exchange is more than of total revenue
- (a) 50% (b) 51%
- (c) **75%** (d) 90%
51. The requirement of cost audit is not applicable to
- (a) Companies operating in SEZ
- (b) Companies whose revenue from exports in for exchange is more than 75% of total revenue

(c) Companies engaged in generation of electricity for captive consumption

(d) All of the above

52. Who can be appointed as a cost-auditor?

(a) Cost accountant in practice

(b) Chartered Accountant in practice

(c) Company secretary in practice

(d) Any of the above

53. The cost auditor shall be appointed

(a) at the AGM

(b) within 30 days of AGM

(c) within 90 days from commencement of the financial year

(d) within 180 days from commencement of the financial year

■ AUDIT OF GOVERNMENT COMPANY - SECTION 143(5)(6)(7)

Powers of CAG	<ol style="list-style-type: none"> 1. Appointment of Auditor: CAG appoints the Auditor 2. Direction to Auditor: CAG directs the manner of audit 3. Audit Report Submission by Auditor includes: <ul style="list-style-type: none"> ➤ Directions issued by CAG. ➤ Actions taken thereon. ➤ Impact on accounts and financial statements.
Comment and Supplementary Audit	<ul style="list-style-type: none"> <input type="checkbox"/> Supplementary Audit: CAG can conduct a supplementary audit within 60 days of receiving the audit report by authorizing persons for additional info <input type="checkbox"/> CAG can Comment or Supplement on report <input type="checkbox"/> Communication: Comments or supplements must be sent: <ul style="list-style-type: none"> ○ To persons entitled to audited financial statements under Section 136(1). ○ Presented in the AGM alongside the audit report.
Test Audit	<ul style="list-style-type: none"> <input type="checkbox"/> CAG's Authority to Test audit of the accounts of the government company. <input type="checkbox"/> Application of Law: Provisions of Section 19A of the CAG Act, 1971

■ BRANCH AUDIT - SECTION 143(8)

Section 143(8)---Rule 12---Section 128---SA600	
Section 143(8)	<p>Branch Audit</p> <p>Where a company has a branch office, the accounts of that office shall be audited by:-</p> <ol style="list-style-type: none"> 1. The auditor appointed for the company (company's auditor) or 2. Any other person qualified for appointment as an auditor of the company and appointed as such under section 139, or 3. Where the branch office is situated in a country outside India, the accounts of the branch office shall be audited by <ul style="list-style-type: none"> (a) The company's auditor or

	<p>(b) An accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country.</p> <p>4. Provided that 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.</p>
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Form No.	Purpose	Time Limit
ADT-1	Intimation of APPOINTMENT of auditor	Within 15 days of AGM
ADT-2	Application to CG for REMOVAL of auditor	Before removal
ADT-3	Notice of RESIGNATION of auditor	Within 30 days of resignation
ADT-4	Application to CG for REMOVAL of auditor due to FRAUD & Misconduct	As prescribed

