



Suggested Answers-Accounts and Auditors

Marks-25

Answer-1 (5 marks)

1. Provisions of **section 128** of the Companies Act, 2013, requires every company to prepare and keep the books of account and other relevant books and papers and financial statements **at its registered office.**

It also provides that all or any of the books of account may be kept at such other place in India as the **Board of directors may decide.** Where such a decision is taken by the Board, the company shall **within seven days** thereof file with the registrar a notice in writing as per rule 2A of the Companies (Accounts) Rules, 2014 in form **AOC-5** giving full address of that other place.

Thus, in the given case, the books of accounts of BBQ Ltd. should be prepared and maintained at registered office in Hyderabad. However, the same can be maintained at the respective branches if the Board of directors have decided so and intimated the registrar a notice in writing within 7 days thereof giving full address of that other place (i.e. other than the registered office).

Hence, objection of Mr. Naveen is **valid** as intimation to registrar is not specified in the question.

2. Where a company has a branch office in or outside India, it shall be deemed to have complied with the requisite provisions of section 128(1) if-

a. Proper books of account relating to the transactions effected at the branch office are **kept** at that office, and

b. Proper summarised returns are sent **on periodical basis** by branch office to the company at its registered office or other place.

As per Rule 4(1) of the Companies (Accounts) Rules, 2014, the summarized returns of the books of account of the company kept and maintained outside India shall be sent to the registered office at **quarterly intervals**, which shall be kept and maintained at the registered office of the company and kept **open to directors for inspection.**

Since, London office was sending summarized returns to the registered office in Hyderabad on quarterly basis, which is as per the requirement of law, hence, the objection of Mr. Naveen is **invalid.**

Answer -2 (4 marks)

Section 140 of the Companies Act, 2013 prescribes 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.

Hence, in the instant case, the decision of X Ltd. to remove AB & Associates, auditors of the company at the general meeting held on 25-5-2020 subject to approval of Central Government is **not valid**. The **Approval of the Central Government shall be taken before passing the special resolution in the general meeting**.

Answer- 3 (5 marks)

(i) Class of companies required to appoint Internal Auditor:

Section 138 of the Companies Act, 2013 and the Companies (Accounts) Rules, 2014 prescribes the class of companies required to appoint Internal Auditor.

According to it, following class of companies shall be required to appoint an internal auditor or a firm of internal auditors which may be either an individual or a partnership firm or a body corporate, namely:

1. Every **listed** company;
2. Every unlisted public company having -
 - (a) **Paid up share capital** of 50 crore rupees **or more** during the preceding financial year; or
 - (b) **Turnover** of 200 crore rupees **or more** during the preceding financial year; or
 - (c) **Outstanding loans or borrowings** from banks or public financial institutions **exceeding** 100 crore rupees or more at any point of time during the preceding financial year; or
 - (d) **Outstanding deposits** of 25 crore rupees or more **at any point of time** during the preceding financial year; and
3. Every private company having -
 - (a) **Turnover** of 200 crore rupees **or more** during the preceding financial year; or
 - (b) **Outstanding loans or borrowings** from banks or public financial institutions **exceeding** 100 crore rupees or more at any point of time during the preceding financial year.



As per the facts given in the question, Natraj Limited is an unlisted public company with the paid up share capital of Rs. 80 crores during the preceding financial year with the turnover of Rs. 110 crores. Since, Natraj Limited fulfills one of the criteria with paid up share capital of more than 50 crore rupees during the preceding financial year, it is **mandatory** for the Natraj Limited to appoint an internal auditor for the financial year 2017-18.

Part (ii) Qualifications of Internal Auditor

(a) Internal Auditor shall either be a **chartered accountant** or a **cost accountant** or such **other professional** as may be decided by the Board to conduct internal audit of the functions and activities of the company.

Here, the term "Chartered Accountant" or "Cost Accountant" shall mean a "Chartered Accountant" or a "Cost Accountant", as the case may be, whether engaged in practice or not.

(b) The internal auditor **may or may not be an employee** of the company

Answer - 4 (3 marks)

According to section 141(3)(d)(ii) of the Companies Act, 2013, an auditor is disqualified to be appointed as an auditor if **he or his relative or partner is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of Rs. 5 Lacs.**

In this scenario:

1. Mr. A's partner, Mr. B, has a debt of Rs. 4 Lacs from EFG Ltd., a subsidiary of XYZ Ltd.
2. Mr. A's relative, Ms. C, has a debt of Rs. 2 Lacs from DEF Ltd., an associate company of XYZ Ltd.

The total indebtedness linked to Mr. A's partner and relative is Rs. 6 Lacs (Rs. 4 Lacs + Rs. 2 Lacs), which **exceeds** the Rs. 5 Lacs **threshold** mentioned in the provision. Therefore, Mr. A is **disqualified** from being appointed as the auditor of XYZ Ltd. under section 141(3)(d)(ii) of the Companies Act, 2013, as the combined indebtedness of his partner and relative surpasses the permissible limit.

Answer - 5 (4 marks)

According to first proviso to **section 137(1)** of the Companies Act, 2013, where the financial statements are **not adopted** at annual general meeting or adjourned annual general meeting, such unadopted financial statements along with the required documents shall be filed with the **Registrar within thirty days** of the date of annual general meeting and the Registrar shall take them in his records as **provisional** till the financial statements are filed with him after their adoption in the adjourned annual general meeting for that purpose.

According to second proviso to section 137(1) of the Companies Act, 2013, financial statements **adopted in the adjourned AGM** shall be filed with the **Registrar within thirty days** of the date of such adjourned AGM with such **fees** or such **additional fees** as may be prescribed.

In the instant case, the accounts of Sun Ltd. were adopted at the adjourned AGM held on 15th October, 2018 and filing of financial statements with Registrar was done on 12th November, 2018 i.e. within 30 days of the date of adjourned AGM. However, Sun Ltd. has



not filed its unadopted financial statements within 30 days of the date of the Annual General Meeting held on 31st August, 2023.

Hence, Sun Ltd. has **not complied** with the statutory requirement regarding filing of unadopted accounts with the Registrar, but has certainly complied with the provisions by filing of adopted accounts within the due date with the Registrar.

Answer - 6 (4 marks)

According to **section 144** of the Companies Act, 2013, 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 designing and implementation of any financial information system**.

In the said instance, the Board of directors of A Ltd. requested its Statutory Auditor to accept the assignment of designing and implementation of suitable financial information system **to strengthen the internal control mechanism** of the company. As per the above provision said **service is strictly prohibited**.

In case the Statutory Auditor accepts the assignment, he will attract the **penal provisions** as specified in Section 147 of the Companies Act, 2013.

In the light of the as above provisions, we shall advise the Statutory Auditor not to take up the above stated assignment.

Consequences as regards to Audit firm

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**