CHAPTER 7 THE COMPANY AUDIT - 1

Comparative Table of 2013 Act with 1956 Act

Sec. under CA 2013	Sec. under CA 1956	Matters dealt with	Form No.
102	173	Appointment of auditors is an ordinary business.	
115[2]	190	Resolution requires special notice for appointment of other than retiring auditors.	
128	209, 214	Requirement to maintain proper books of accounts	
139	224, 224A, 619	Appointment of auditors, Intimation to ROC by Company	ADT-1
140	225	Removal, resignation of auditor and giving of special notice	
140(1)	225	Application to the Central Government for removal of the Auditors	ADT-2
140(2)	225	Filing of the resignation by the Auditors to the Registrar	ADT-3
141	226	Eligibility, qualifications and disqualifications of auditors	
142	224(8)	Remuneration of auditors	
143	227, 228, 263A	Powers and duties of auditors and auditing standards	
143(12)	227, 228, 263A	Reporting of material fraud by the Auditors and Secretarial Auditors to the Central Government	ADT-4
144	-	Services not to be render by auditors	
145	229, 230	Auditor to sign audit reports.	
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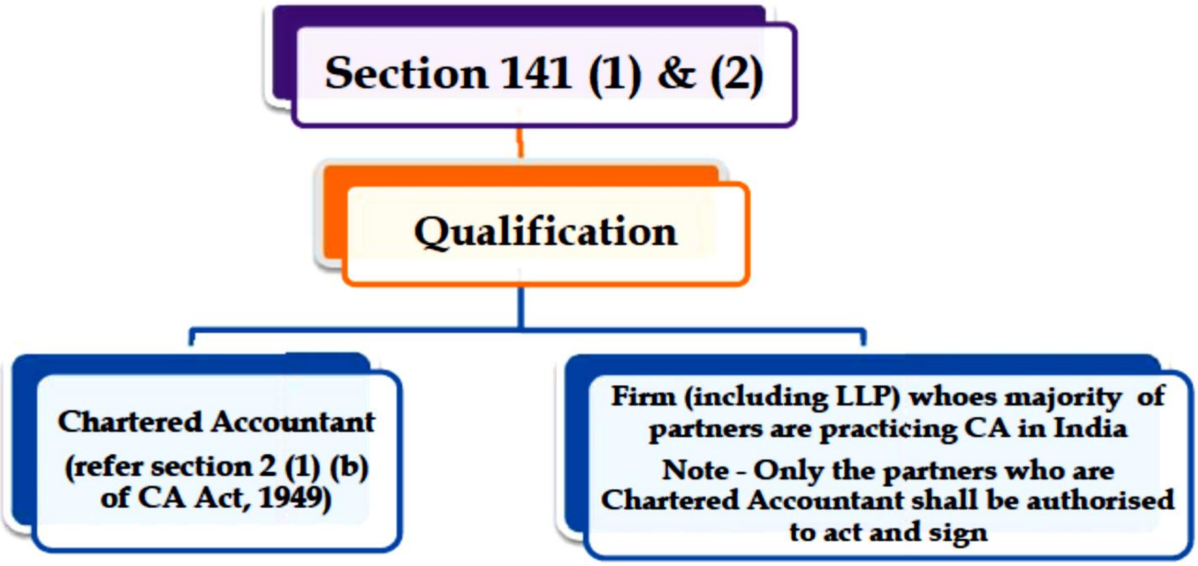
As per section 128 of the Companies Act, 2013 : (1) Every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches and **such books shall be kept on accrual basis and according to the double entry system of accounting**.

1. QUALIFICATIONS OF AN AUDITOR



- ✓ Explanation to section 139(4) of the 2013 Act provides that for the purposes of Chapter X, "firm" shall include Limited Liability Partnership incorporated under the LLP Act, 2008.
- ✓ The expression 'Chartered Accountant' is defined in section 2(17) of the Co's 2013 Act to mean a chartered accountant who –
  - Satisfies the requirements of section 2(1)(b) of the Chartered Accountants Act, 1949; and
  - Holds a valid COP under section 6 of that Act.

2. DISQUALIFICATIONS OF AN AUDITOR [SECTION 141(3)]

a) A body corporate other than LLP registered under the LLP Act, 2008
b) An officer or employee of the company. Officer means Director, Manager, KMP – CEO, MD, CS, Manager, WTD, CFO [Sec. 2 (51) of Co's Act, 2013], Any person in accordance with whose directions or instructions the Board of Directors or any one or more of the directors is or are accustomed to Act.
c) A person who is partner or who in the employment, of an officer or employee of the company.
d) A person who or his relative or partner
   (i) is holding any security/interest in the company or its subsidiary or of its holding or associate company or subsidiary of such holding company. It has been further provided that an relative may hold security or interest in the company of face value not exceeding one lac rupees.
   <u>After the valid appointment of auditor, his relative acquired any security or interest above the prescribed limit, auditor shall take corrective action to maintain the limit within 60 days of such acquisition of security or interest</u>
   (ii) is indebted to the company or its subsidiary, or its holding or associate company or subsidiary of such holding company, in excess of Rs. 5 lacs rupees
   (iii) has given guarantee or provide any security in connection with the indebtness of any third person to the company or its subsidiary, or its holding or associate company or a subsidiary of such holding company for value in excess of Rs. 1 lacs.
e) 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 Of such nature as may be prescribed.

The term business relationship is defined in Rule 10(4) shall be constructed as any transaction entered into for a commercial purpose except –

(i) Commercial transaction 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 and the rules or the regulations made under such Act.

(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 and such other similar businesses.

f) A person whose relative is a director or is in the employment of the company as a director or key managerial personnel.

g) A person
   (i) who is in full time employment elsewhere or
   (ii) a person or a partner holding appointment as its auditor is at the date of such appointment or reappointment holding appointment as auditor for more than 20 companies.

h) A person who has been convicted by a court of an offence involving fraud and a period of ten years has not elapsed from the date of such conviction.

i) A person whose subsidiaries or associate companies or any other form of entity, is engaged at the date of appointment in consulting and specialized as provided in Section 144 is disqualified from appointment as auditor.

   Generally a company auditor shall provide certain other services along with audit assignment to the company as are approved by the Board of Directors or the audit committee (as the case may be);

   However, Such Certain other services shall not include any of the following services which are rendered directly or indirectly by auditor to the company or its holding company or subsidiary company ,namely:—

   (i) Internal audit;
   (ii) Design and implementation of any financial information system;
   (iii) Actuarial services;
   (iv) Investment advisory services;
   (v) Investment banking services;
   (vi) Rendering of outsourced financial services;
   (vii) Management services; and
   (viii) Any other kind of services as may be prescribed

Transitional Period – An auditor or audit firm who or which has been performing any non-audit services on or before the commencement of this section shall comply with this section before the closure of the first financial year after the date of such commencement.

3. DEEMED VACATION OF OFFICE OF AN AUDITOR [SECTION 141(4)]

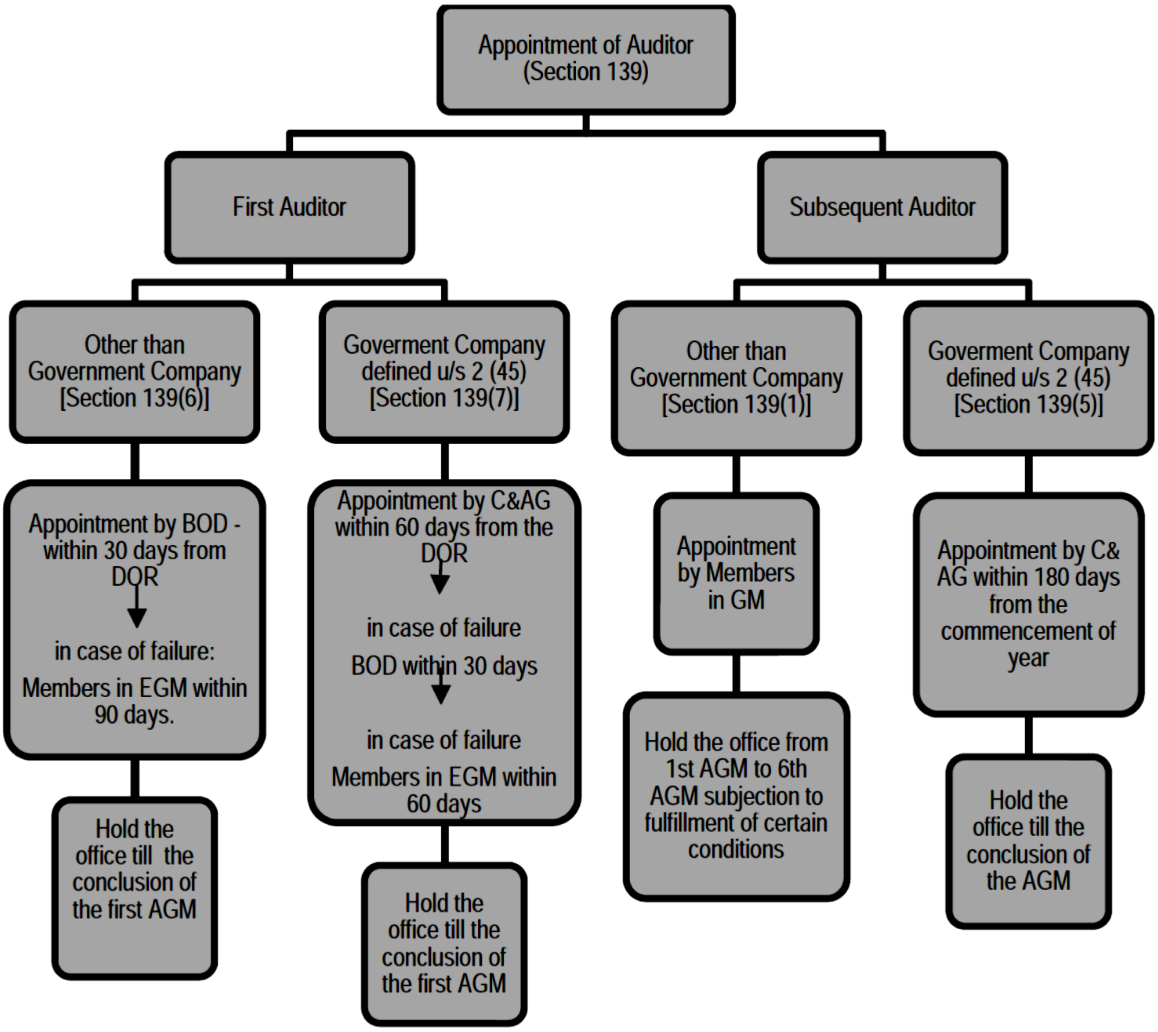
Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned above in section 141(3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

4. APPOINTMENT OF AUDITOR

MEANING OF GOVERNMENT COMPANY [SECTION 2(45)]

"Government Company" means any company in which **fifty one percent or more** of the paid-up share capital is held 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,
- any company which is a subsidiary company of such a Government company;



Appointment of Auditor /s by Non-Government Companies

- ✓ 5 yrs tenure for auditors subject to ratification by members at every AGM
- ✓ Every 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.
- ✓ For the purposes of this rule, it is hereby clarified that, if the appointment is not ratified by the members of the company, the Board of Directors shall appoint another individual or firm as its auditor or auditors after following the procedure laid down in this behalf under the Act.

- ✓ Before such appointment, the written consent of the auditor to such appointment, and a certificate from him or it that the appointment, if made, will be in accordance with the conditions as may be prescribed.
  - 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 Rules or Regulations made therein.
  - The proposed appointment is as per the term provided under the Act.
  - The proposed appointment is within the limits laid down by or under the authority of the Act.
  - 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.
- ✓ Company shall inform the auditor concerned of his appointment, and also file a notice of such appointment with the Registrar within 15 days of the meeting in which the auditor is appointed. The intimation be given in form ADT – 1.

5. *FILLING OF A CASUAL VACANCY*

a) In the case of a company other than a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Board of Directors within thirty days.

If such casual vacancy is as a result of 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 and he shall hold the office till the conclusion of the **next annual general meeting**;

b) In the case of a company whose accounts are subject to audit by an auditor appointed by the Comptroller and Auditor-General of India, be filled by the Comptroller and Auditor-General of India within thirty days:
It may be noted that in case the Comptroller and Auditor-General of India does not fill the vacancy within the said period the Board of Directors shall fill the vacancy within next thirty days.

The auditor who has resigned from the company shall file within a period of thirty days from the date of resignation, a statement in the prescribed form ADT–3 with the company and the Registrar, and in case of the subsequent auditor of Government company, the auditor shall also file such statement with the Comptroller and Auditor-General of India, indicating the reasons and other facts as may be relevant with regard to his resignation. In case of failure the auditor shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees as per section 140 (3).

Other Important Provisions Regarding Appointment of Auditors

1. A retiring auditor may be re-appointed at an annual general meeting, if-
(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; and
(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.

2. Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company.

6. ROTATION OF AUDITOR

No listed company or a company belonging to such class or classes of companies as may be prescribed, Shall not appoint or re-appoint –
(a) Individual as auditor for more than one term of 5 consecutive years; and
(b) An audit firm (including LLP) as auditor for more than two terms of 5 consecutive years.

The following classes of companies for the purposes of section 139(2) -

1) all unlisted public companies having paid up share capital of 10 crore or more;
2) all private limited companies having paid up share capital of 20 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 50 Crores or more.

Cooling Period – [1st Proviso to Section 139 (2)]

- 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 5 years from the completion of his term;
- 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 5 years from the completion of such term.

Government companies and companies owned or controlled directly or indirectly by Government if such companies are listed companies or fall in prescribed class or classes of companies.

The following consideration in this regard-

1) 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.
2) Every company, existing on or before the commencement of this Act which is required to comply with provisions of section 139(2), shall comply with the requirements of this sub-section within 3 years from the date of commencement (1/4/2014) of this provision.
3) Subject to the provisions of this Act, members of a company may resolve to provide that-
   a. 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
   b. the audit shall be conducted by more than one auditor.
4) The Central Government may, by rules, prescribe the manner in which the companies shall rotate their auditors.

For the purpose of the rotation of auditors-

1) 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;

2) 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.
3) The term "same network" includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.
4) Former auditor/audit firm cannot be incoming auditor on rotation of auditors unless there is break in term for a continuous period of 5 years.
5) 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 appointed for a period of 5 years.

*Illustration explaining rotation in case of individual auditor

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)]	Maximum number of consecutive years for which he may be appointed in the same company (including transitional period)	Aggregate period which the auditor would complete in the same company in view of column I and II
I	II	III
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

7. *PROVISIONS RELATING TO AUDIT COMMITTEE*

In **addition to listed companies**, following classes of companies shall constitute an Audit Committee -

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

Appointment procedure where Audit Committee has been appointed

1) The audit committee shall recommend the name of an individual or a firm as auditor to the Board. [Rule 3(3)]
2) (b) If the Board is agreeing with the recommendation of the audit committee, it shall consider and recommend the appointment of an individual or a firm as auditor to the members in the annual general meeting. [Rule 3(4)]
3) (c) If the Board is disagreeing with the recommendation of the audit committee, it may send back the recommendation to the audit committee for reconsideration with their reasons. [Rule 3(5)]

4) (d) If the Audit Committee, after considering the reasons given by the Board, decides not to reconsider its original recommendation, the Board shall record reason for its disagreement with the committee and send its own recommendation for consideration of the members in the annual general meeting; and if the Board agrees with the recommendations of the Audit
5) Committee, it shall place the matter for consideration by members in the annual general meeting. [Rule 3(6)]

8. ***AUDITOR'S REMUNERATION***

As per section 142 of the act the remuneration of the auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein. However, board may fix remuneration of the first auditor appointed by it.

Further, the remuneration, 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 does not include any remuneration paid to him for any other service rendered by him at the request of the company. Therefore, it has been clarified that the remuneration to Auditor shall also include any facility provided to him.

9. ***REMOVAL OF AUDITORS***

Removal Of Auditor Before Expiry Of Term

The auditor appointed under section 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 (Refer point) and Before taking any action (i.e. Removal before expiry of term), the auditor concerned shall be given a reasonable opportunity of being heard.

Procedure for taking approval from C.G.

1) The application to the Central Government for removal of auditor shall be made in Form ADT-2 and shall be accompanied with fees as provided
2) The application shall be made to the Central Government 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 C. G. for passing the special resolution.

Appointment of Auditor other than retiring Auditor

1) Special Notice shall be given by a member for – [Section 140(4)(i)]
   a. Resolution at an annual general meeting for appointment of a person other than a retiring auditor as auditor; or
   b. Resolution at an annual general meeting providing expressly that retiring auditor shall not be re- appointed,
   c. **Except** where the retiring auditor has completed a consecutive tenure of 5 years or, as the case may be, 10 years.
2) On receipt of notice of such a resolution, the company shall forthwith send a copy thereof to the retiring auditor.
3) Where such special notice is given and the retiring auditor makes written representations (not exceeding a reasonable length) to the company and
4) Requests their notification to the members of the company, the company shall, unless the representations received are too late for it to do so—

a. In any notice of the resolution given to the members, state the fact that representations have been made; and
b. Send a copy of the representations to every members of the company to whom notice of meeting is sent, whether before or after the receipt of the representation by the company. If a copy of representation is not sent to members as aforesaid because they are received too late or because of company's default the auditor may require that the representation be read out at the meeting. This right is without prejudice to his right to be heard at the meeting.

If a copy of the representation is not sent as aforesaid, a copy of it shall be filed with the ROC.

10. CEILING ON NUMBER OF AUDITS

Twenty companies

In the case of a firm of auditors, it has been further provided that 'specified number of companies' shall be construed as the number of companies specified for every partner of the firm **who is not in full time employment elsewhere**.

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 × 20 = 60 company audits. In this case all 3 partners shall not be in **full time employment elsewhere.**

In computing the specified number of audit assignments.

- The number of such assignments, which he or any partner of his firm has accepted whether singly or in combination with any other chartered accountant in practice or firm of such chartered accountants, shall be taken into account.
- The number of partners of a firm on the date of acceptance of audit assignment shall be taken into account.
- A chartered accountant in full time employment elsewhere shall not be taken into account.

11. POWERS / RIGHTS OF AUDITORS

1) Right to Access Books of Accounts: An auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, whether kept at the head office of the company or at any other place.
2) Right to Obtain Information and Explanation: An auditor of the company is entitled to require from the officers of the company such information and explanation as he may think necessary for the performance of his duties as an auditor.
3) Right to Access Records of Subsidiary by Auditor of Holding: The auditor of a holding company shall also have the right of access to the records of all its subsidiaries in so far as it relates to the consolidation of its financial statement with that of its subsidiaries.
4) Right to receive notice and attend General Meeting: All notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company, and The auditor shall, unless otherwise exempted by the company –
   a. Attend either by himself or
   b. Through his authorised representative, who shall also be qualified to be an auditor, any general meeting and

   He is entitled to be heard at any general meeting which he attends on any part of the business which concerns' him as an auditor.
5) Right of Lien:
   (i) The books must belong to the company.

(ii) The documents must have come into his Possession of auditor with the authority of the Board.
(iii) The auditor has done work assigned to him on such documents.
(iv) Such of the books can be retained which are connected with the work on which fees has not been paid

12. POWERS / RIGHTS OF COMPTROLLER AND AUDITOR-GENERAL OF INDIA

Apart from appointment of auditors, The Comptroller and Auditor-General of India shall within sixty 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 authorize in this behalf; and
2) comment upon or supplement such audit report:

Provided that any comments given by the Comptroller and Auditor-General of India upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited financial statements under sub-section (1) of section 136 i.e. every member of the company, to every trustee for the debenture-holder of any debentures issued by the company, and to all persons other than such member or trustee, being the person so entitled and also be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.

Test Audit : Further, without prejudice to the provisions relating to audit and auditor, the Comptroller and Auditor- General of India may, in case of any company covered under subsection (5) or sub-section (7) of section 139, if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company and 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.

13. DUTIES OF AUDITORS

1) Duty of Auditor to Inquire on certain matters
   a. 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;
   b. whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
   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 and other securities have been sold at a price less than that at which they were purchased by the company;
   d. whether loans and advances made by the company have been shown as deposits;
   e. whether personal expenses have been charged to revenue account;
   f. 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.

   As per opinion of research committee of ICAI, the auditor should make a report to the members in case he finds answer to any of these matters in adverse.

2) Duty to Sign the Audit Report: the auditor's report or sign or certify any other document of the company and 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
3) Duty to comply with Auditing Standards
4) Duty to audit report : As per sub section 3 of section 143, the auditor's report shall also state –
    a) 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;
    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 and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
    c) 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 auditors 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;
    d) 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;
    e) whether, in his opinion, the financial statements comply with the accounting standards;
    f) the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;
    g) whether any direct is disqualified from being appointed as a director under subsection (2) of the section 164;
    h) any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;
    i) whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;
    j) Such other matters as may be prescribed. Rule 11 of the Companies (Audit and Auditors) Rules, 2014 prescribes the **other matters to be included in auditors report**. The auditor's report shall also include their views and comments on the following matters, namely:-
        a. whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;
        b. 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;
        c. whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.
5) Duty to report on frauds:

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 prescribed.

As per Rule 13, such report shall be made not later than sixty days of his knowledge and after following the procedure indicated herein below:

1. auditor shall forward his report to the Board/Audit Committee, seeking their reply or observations within **forty-five days**;
2. forward his report and the reply or observations of the Board or the Audit Committee along-with his comments to the Central Government within **fifteen days of receipt of such reply or observations**;
3. in case the auditor fails to get any reply or observations within the stipulated period of forty-five 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 failed to receive any reply or observations within the stipulated time.

- ✓ The report shall be sent in ADT-4.
- ✓ The provision of this rule shall also apply, mutatis mutandis, to a cost auditor and a secretarial auditor.
- ✓ Punishable with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees

14. AUDIT OF BRANCH OFFICE ACCOUNTS

Where a company has a branch office, the accounts of that office shall be audited either by the auditor appointed for the company under this Act or by any other person qualified for appointment as an auditor of the company under this Act and appointed as such under section 139, or where the branch office is situated in a country **outside India**, the accounts of the branch office shall be audited **either by the company's auditor** or by 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** and 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 such as may be prescribed:

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.

Further as per rule 12 of the Companies (Audit and Auditors) Rules, 2014, the branch auditor shall submit his report to the company's auditor and reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.

Reference of SA 600, "Using the Work of another Auditor" when some other auditor is appointed as branch auditor.

15. COST AUDIT

- ✓ Cost Audit is covered by Section 148 of the Companies Act, 2013. The audit conducted under this section shall be in addition to the audit conducted under section 143.
- ✓ The audit shall be conducted by a Cost Accountant in Practice who shall be appointed by the Board of such remuneration as may be determined by the members in such manner as may be prescribed:
- ✓ **Provided that no person appointed under section 139 as an auditor of the company shall be appointed for conducting the audit of cost records**:
- ✓ Provided further that the auditor conducting the cost audit shall comply with the cost auditing standards ("cost auditing standards" mean such standards as are issued by the Institute of Cost and Works Accountants of India, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government).
- ✓ Appointment of Cost Auditor:

As per rule 14 of the Companies (Audit and Auditors) Rules, 2014

- in the case of companies which are required to constitute an audit committee-
  - the Board shall appoint an individual, who is a cost accountant in practice, 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;
  - the remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;
- 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 in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

16. PUNISHMENT FOR NON-COMPLIANCE

Section 147 of the Companies Act, 2013 prescribes following punishments for contravention

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 twenty-five thousand** rupees but which may **extend to five lakh rupees and every officer of the company** who is in **default** shall be punishable with **imprisonment** for a term which may **extend** to **one year** or with fine which shall **not be less than ten thousand rupees but which may extend to one lakh rupees, or with both**.
2) 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 twenty-five thousand rupees but which may extend to five lakh rupees:

   Provided that 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 imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to *twenty-five lakh rupees*.
3) Where an auditor has been convicted under sub-section (2), he shall be liable to:-
   (i) refund the remuneration received by him to the company;
   (ii) and pay for damages to the company statutory bodies or authorities or to any other persons for loss arising out of incorrect or misleading statements of particulars made in his audit report.
4) 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 this Act 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.

As per section 128(1) of The Companies Act 2013, every company shall keep at its registered office proper books of accounts. It is permissible, however, for all or any of the books of accounts to be kept at such place in India as the Board of Directors may decide but, when a decision in this regard is taken, the company must file within seven days of such decision with the Registrar of Companies a notice in writing giving full address of the other place.