

Guidance Note on Section 227 3(e) and (f) of the Companies Act, 1956 (Revised)

The above Guidance Note provides guidance to the members in reporting on clauses (e) and (f) of sub-section 3 of Section 227 of the Companies Act, 1956 which were inserted by the Companies (Amendment) Act, 2000. The institute issued the Guidance Note on the same in the year 2001. The Department of Company Affairs, in the year 2003, notified the Companies (Disqualifications of Directors under Section 274 (1) (g) of the Companies Act, 1956) Rules, 2003. Though the issuance of the said Rules did not per se change the scope of the statutory audit of the companies or the reporting responsibilities under section 227 (3) of the Companies Act, 1956, yet they did have an implication on sections 227 (3) (e) and (f) and 274(1)(g). Thus, to help the members understand the said Rules and their implications and properly fulfill their duties as auditors the Institute has revised the Guidance Note originally issued in the year 2001.

The introductory part of the Guidance Note contains the reporting requirements for the auditors under section 227(3) of the Companies Act, 1956. It also throws light on the guidance in respect of the same provided by the Statement on Qualifications in the Auditor's Report*, issued by the Institute.

The section dealing with clause (e) begins with the requirements of the newly inserted clause. It then goes on to interpret the phrase "adverse effect on the functioning of the company" since the Companies Act is silent on the meaning of the phrase. The Guidance Note then dwells upon the change, if any, in the scope of the audit and the auditor's role pursuant to the insertion of the said clause. It also deals with the treatment of the negative or adverse remarks of the auditor in the report under CARO, 2003 *vis a vis* the requirements of clause (e).

The next part of the Guidance Note deals with the reporting requirements under clause (f) of sub-section (3) of section 227 of the companies Act, 1956. It guides the members as to the harmonious interpretation of clause (f) of section 227(3) with section 274(1)(g) of the

* The Council, at its 269th meeting held from July 18, 2007 to July 20, 2007 at New Delhi, decided to withdraw the statement on Qualifications in Auditing Report except paragraph 2.1 to 2.30 dealing with reporting under section 227 (1A) of the Companies Act, 1956 and to rename the Statement as 'Statement on Reporting Under Section 227 (1A) of the Companies Act, 1956.

Companies Act, 1956. The Revised Guidance Note also contains illustrative auditor's report under various situations as well as the illustrative format of the auditor's certificate envisaged by the Companies (Disqualifications of Directors under Section 274 (1) (g) of the Companies Act, 1956) Rules, 2003.

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