

Amendments for Nov. 2019 Exams (Part II)

Company Audit

1.1 – Removal, Resignation of Auditor and Giving of Special Notice (Sec. 140)

Filing of Statement in case of resignation - Sec. 140(2)	<ul style="list-style-type: none"> 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 Form ADT-3 with the company and the Registrar. In case of Govt. companies or Govt. owned/controlled companies, the auditor shall also file such statement with the CAG, indicating the reasons and other facts as may be relevant with regard to his resignation.
Consequences of non-compliance - Sec. 140(3)	<p><i>If the auditor does not comply with the provisions of Sec. 140(2), he or it shall be liable to a penalty of ₹50,000 or an amount equal to the remuneration of the auditor, whichever is less, and in case of continuing failure, with further penalty of ₹500 for each day after the first during which such failure continues, subject to a maximum of ₹ 5 lakh*.</i></p> <p><i>*as amended by Companies (Amendment) Second Ordinance, 2019 w.e.f. 02.11.2018.</i></p>

1.2 – Companies (Cost Records and Audit) Rules, 2014

Cost Audit - Rule 6	Submission of Cost Audit Report	<ul style="list-style-type: none"> ⇒ Every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in Form CRA-3. ⇒ Every cost auditor shall forward his duly signed report to the Board of Directors of the company within a period of 180 days from the closure of the financial year to which the report relates and the Board of Directors shall consider and examine such report, particularly any reservation or qualification contained therein. ⇒ Every company covered under these rules shall, within a period of 30 days from the date of receipt of a copy of the cost audit report, furnish the Central Government with such report along with full information and explanation on every reservation or qualification contained therein, in Form CRA-4 in XBRL format in the specified manner along with specified fees. ⇒ <i>Provided that the Companies which have got extension of time of holding AGM u/s 96(1) of the Companies Act, 2013, may file form CRA-4 within resultant extended period of filing financial statements u/s 137 of the Companies Act, 2013*.</i> <p><i>*as inserted by MCA notification dated 03.12.2018.</i></p>
----------------------------	--	--

1.3 - National Financial Reporting Authority – Sec. 132

Constitution of NFRA by C.G. - Sec. 132(1)	<p>The Central Government may, by notification, constitute a National Financial Reporting Authority to provide for matters relating to accounting and auditing standards under this Act.</p>
---	--

Functions of NFRA – Sec. 132(2)	Notwithstanding anything contained in any other law for the time being in force, the NFRA shall: <ul style="list-style-type: none"> (a) make recommendations to the C.G. on the formulation and laying down of accounting and auditing policies and standards for adoption by companies or class of companies or their auditors, as the case may be; (b) monitor and enforce the compliance with accounting standards and auditing standards in such manner as may be prescribed; (c) oversee the quality of service of the professions associated with ensuring compliance with such standards, and suggest measures required for improvement in quality of service and such other related matters as may be prescribed; and (d) perform such other functions relating to clauses (a), (b) and (c) as may be prescribed. 								
Powers of NFRA – Sec. 132(4) (Not in Syllabus)	Notwithstanding anything contained in any other law for the time being in force, the NFRA shall have below mentioned power: <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; padding: 5px;"> Power to Investigate into matters of Professional or other misconduct </td> <td style="padding: 5px;"> <ul style="list-style-type: none"> ⇒ NFRA shall have the power to investigate, either suo moto or on a reference made to it by the C.G. ⇒ for such class of bodies corporate or persons, ⇒ in such manner as may be prescribed ⇒ into the matters of professional or other misconduct committed by any member or firm of chartered accountants, registered under the Chartered Accountants Act, 1949. </td> </tr> <tr> <td colspan="2" style="text-align: center; background-color: #e0e0e0; padding: 5px;"> Point to remember No other institute or body shall initiate or continue any proceedings in such matters of misconduct where the NFRA has initiated an investigation u/s 132. </td> </tr> <tr> <td style="padding: 5px;"> Powers of Civil Court </td> <td style="padding: 5px;"> NFRA shall have the same powers as are vested in a civil court under the Code of Civil Procedure, 1908 in respect of certain matters. </td> </tr> <tr> <td style="padding: 5px;"> Power to impose Penalty </td> <td style="padding: 5px;"> Where professional or other misconduct is proved, NFRA shall have the power to make order for— <ul style="list-style-type: none"> (A) imposing penalty of: <ul style="list-style-type: none"> (I) not less than ₹1 lakh, but which may extend to 5 times of the fees received, in case of individuals; and (II) not less than ₹5 lakh, but which may extend to 10 times of the fees received, in case of firms; (B) debarring the member or the firm from: <ul style="list-style-type: none"> I. being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate; or II. performing any valuation as provided under section 247, for a minimum period of 6 months or such higher period not exceeding 10 years as may be determined by the NFRA. </td> </tr> </table>	Power to Investigate into matters of Professional or other misconduct	<ul style="list-style-type: none"> ⇒ NFRA shall have the power to investigate, either suo moto or on a reference made to it by the C.G. ⇒ for such class of bodies corporate or persons, ⇒ in such manner as may be prescribed ⇒ into the matters of professional or other misconduct committed by any member or firm of chartered accountants, registered under the Chartered Accountants Act, 1949. 	Point to remember No other institute or body shall initiate or continue any proceedings in such matters of misconduct where the NFRA has initiated an investigation u/s 132.		Powers of Civil Court	NFRA shall have the same powers as are vested in a civil court under the Code of Civil Procedure, 1908 in respect of certain matters.	Power to impose Penalty	Where professional or other misconduct is proved, NFRA shall have the power to make order for— <ul style="list-style-type: none"> (A) imposing penalty of: <ul style="list-style-type: none"> (I) not less than ₹1 lakh, but which may extend to 5 times of the fees received, in case of individuals; and (II) not less than ₹5 lakh, but which may extend to 10 times of the fees received, in case of firms; (B) debarring the member or the firm from: <ul style="list-style-type: none"> I. being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate; or II. performing any valuation as provided under section 247, for a minimum period of 6 months or such higher period not exceeding 10 years as may be determined by the NFRA.
Power to Investigate into matters of Professional or other misconduct	<ul style="list-style-type: none"> ⇒ NFRA shall have the power to investigate, either suo moto or on a reference made to it by the C.G. ⇒ for such class of bodies corporate or persons, ⇒ in such manner as may be prescribed ⇒ into the matters of professional or other misconduct committed by any member or firm of chartered accountants, registered under the Chartered Accountants Act, 1949. 								
Point to remember No other institute or body shall initiate or continue any proceedings in such matters of misconduct where the NFRA has initiated an investigation u/s 132.									
Powers of Civil Court	NFRA shall have the same powers as are vested in a civil court under the Code of Civil Procedure, 1908 in respect of certain matters.								
Power to impose Penalty	Where professional or other misconduct is proved, NFRA shall have the power to make order for— <ul style="list-style-type: none"> (A) imposing penalty of: <ul style="list-style-type: none"> (I) not less than ₹1 lakh, but which may extend to 5 times of the fees received, in case of individuals; and (II) not less than ₹5 lakh, but which may extend to 10 times of the fees received, in case of firms; (B) debarring the member or the firm from: <ul style="list-style-type: none"> I. being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate; or II. performing any valuation as provided under section 247, for a minimum period of 6 months or such higher period not exceeding 10 years as may be determined by the NFRA. 								
Point to remember For the purposes of Sec. 132(4), the expression "professional or other misconduct" shall have the same meaning assigned to it under section 22 of the Chartered Accountants Act, 1949.									

NFRA Rules, 2018	In exercise of the powers conferred under sub-sections (2) and (4) of section 132 of the Companies Act, 2013, the Central Government made the National Financial Reporting Authority Rules, 2018 (NFRA Rules). Salient provisions of these rules are:						
	<table border="1"> <tr> <td data-bbox="360 282 512 1854">Rule 3</td> <td data-bbox="512 282 1493 1854"> <p>Classes of companies and bodies corporate governed by the Authority</p> <p>(1) The Authority shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service u/s 132(2) or undertake investigation u/s 132(4) of the auditors of the following class of companies and bodies corporate, namely:</p> <p>(a) companies whose securities are listed on any stock exchange in India or outside India;</p> <p>(b) unlisted public companies</p> <p style="padding-left: 20px;">⇒ having paid-up capital of not less than ₹500 crores or</p> <p style="padding-left: 20px;">⇒ having annual turnover of not less than ₹1,000 crores or</p> <p style="padding-left: 20px;">⇒ having, in aggregate, outstanding loans, debentures and deposits of not less than ₹500 crores as on the 31st March of immediately preceding financial year;</p> <p>(c) insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act for the time being in force or bodies corporate incorporated by an Act in accordance with clauses (b), (c), (d), (e) and (f) of sub-section (4) of section 1 of the Act;</p> <p>(d) any body corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the Authority by the Central Government in public interest; and</p> <p>(e) a body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d), if the income or net worth of such subsidiary or associate company exceeds 20% of the consolidated income or consolidated net worth of such company or the body corporate, as the case may be, referred to in clauses (a) to (d).</p> <p>(2) Every existing body corporate other than a company governed by these rules, shall inform the Authority within 30 days of the commencement of these rules, in Form NFRA-1, the particulars of the auditor as on the date of commencement of these rules.</p> <p>(3) Every body corporate, other than a company as defined in clause (20) of section 2, formed in India and governed under this rule shall, within 15 days of appointment of an auditor u/s 139(1), inform the Authority in Form NFRA-1, the particulars of the auditor appointed by such body corporate:</p> <p>(4) A company or a body corporate other than a company governed under this rule shall continue to be governed by the Authority for a period of 3 years after it ceases to be listed or its paid-up capital or turnover or aggregate of loans, debentures and deposits falls below the limit stated therein.</p> </td> </tr> <tr> <td data-bbox="360 1854 512 1910">Rule 4</td> <td data-bbox="512 1854 1493 1910">Functions and duties of the Authority - Not in syllabus</td> </tr> <tr> <td data-bbox="360 1910 512 2051">Rule 5</td> <td data-bbox="512 1910 1493 2051"> <p>Annual return</p> <p>Every auditor referred to in rule 3 shall file a return with the Authority on or before 30th April every year in such form as may be specified by the Central Government.</p> </td> </tr> </table>	Rule 3	<p>Classes of companies and bodies corporate governed by the Authority</p> <p>(1) The Authority shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service u/s 132(2) or undertake investigation u/s 132(4) of the auditors of the following class of companies and bodies corporate, namely:</p> <p>(a) companies whose securities are listed on any stock exchange in India or outside India;</p> <p>(b) unlisted public companies</p> <p style="padding-left: 20px;">⇒ having paid-up capital of not less than ₹500 crores or</p> <p style="padding-left: 20px;">⇒ having annual turnover of not less than ₹1,000 crores or</p> <p style="padding-left: 20px;">⇒ having, in aggregate, outstanding loans, debentures and deposits of not less than ₹500 crores as on the 31st March of immediately preceding financial year;</p> <p>(c) insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act for the time being in force or bodies corporate incorporated by an Act in accordance with clauses (b), (c), (d), (e) and (f) of sub-section (4) of section 1 of the Act;</p> <p>(d) any body corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the Authority by the Central Government in public interest; and</p> <p>(e) a body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d), if the income or net worth of such subsidiary or associate company exceeds 20% of the consolidated income or consolidated net worth of such company or the body corporate, as the case may be, referred to in clauses (a) to (d).</p> <p>(2) Every existing body corporate other than a company governed by these rules, shall inform the Authority within 30 days of the commencement of these rules, in Form NFRA-1, the particulars of the auditor as on the date of commencement of these rules.</p> <p>(3) Every body corporate, other than a company as defined in clause (20) of section 2, formed in India and governed under this rule shall, within 15 days of appointment of an auditor u/s 139(1), inform the Authority in Form NFRA-1, the particulars of the auditor appointed by such body corporate:</p> <p>(4) A company or a body corporate other than a company governed under this rule shall continue to be governed by the Authority for a period of 3 years after it ceases to be listed or its paid-up capital or turnover or aggregate of loans, debentures and deposits falls below the limit stated therein.</p>	Rule 4	Functions and duties of the Authority - Not in syllabus	Rule 5	<p>Annual return</p> <p>Every auditor referred to in rule 3 shall file a return with the Authority on or before 30th April every year in such form as may be specified by the Central Government.</p>
Rule 3	<p>Classes of companies and bodies corporate governed by the Authority</p> <p>(1) The Authority shall have power to monitor and enforce compliance with accounting standards and auditing standards, oversee the quality of service u/s 132(2) or undertake investigation u/s 132(4) of the auditors of the following class of companies and bodies corporate, namely:</p> <p>(a) companies whose securities are listed on any stock exchange in India or outside India;</p> <p>(b) unlisted public companies</p> <p style="padding-left: 20px;">⇒ having paid-up capital of not less than ₹500 crores or</p> <p style="padding-left: 20px;">⇒ having annual turnover of not less than ₹1,000 crores or</p> <p style="padding-left: 20px;">⇒ having, in aggregate, outstanding loans, debentures and deposits of not less than ₹500 crores as on the 31st March of immediately preceding financial year;</p> <p>(c) insurance companies, banking companies, companies engaged in the generation or supply of electricity, companies governed by any special Act for the time being in force or bodies corporate incorporated by an Act in accordance with clauses (b), (c), (d), (e) and (f) of sub-section (4) of section 1 of the Act;</p> <p>(d) any body corporate or company or person, or any class of bodies corporate or companies or persons, on a reference made to the Authority by the Central Government in public interest; and</p> <p>(e) a body corporate incorporated or registered outside India, which is a subsidiary or associate company of any company or body corporate incorporated or registered in India as referred to in clauses (a) to (d), if the income or net worth of such subsidiary or associate company exceeds 20% of the consolidated income or consolidated net worth of such company or the body corporate, as the case may be, referred to in clauses (a) to (d).</p> <p>(2) Every existing body corporate other than a company governed by these rules, shall inform the Authority within 30 days of the commencement of these rules, in Form NFRA-1, the particulars of the auditor as on the date of commencement of these rules.</p> <p>(3) Every body corporate, other than a company as defined in clause (20) of section 2, formed in India and governed under this rule shall, within 15 days of appointment of an auditor u/s 139(1), inform the Authority in Form NFRA-1, the particulars of the auditor appointed by such body corporate:</p> <p>(4) A company or a body corporate other than a company governed under this rule shall continue to be governed by the Authority for a period of 3 years after it ceases to be listed or its paid-up capital or turnover or aggregate of loans, debentures and deposits falls below the limit stated therein.</p>						
Rule 4	Functions and duties of the Authority - Not in syllabus						
Rule 5	<p>Annual return</p> <p>Every auditor referred to in rule 3 shall file a return with the Authority on or before 30th April every year in such form as may be specified by the Central Government.</p>						

	Rule 6	<p>Recommending accounting standards and auditing standards</p> <p>(1) For the purpose of recommending accounting standards or auditing standards for approval by the C.G., the NFRA:</p> <p>(a) shall receive recommendations from the ICAI on proposals for new accounting standards or auditing standards or for amendments to existing accounting standards or auditing standards;</p> <p>(b) may seek additional information from the ICAI on the recommendations received under clause (a), if required.</p> <p>(2) The Authority shall consider the recommendations and additional information in such manner as it deems fit before making recommendations to the C.G.</p>
	Rule 7	<p>Monitoring and enforcing compliance with accounting standards – Not in Syllabus</p>
	Rule 8	<p>Monitoring and enforcing compliance with auditing standards</p> <p>(1) For the purpose of monitoring and enforcing compliance with auditing standards under the Act by a company or a body corporate governed under rule 3, the NFRA may:</p> <p>(a) review working papers (including audit plan and other audit documents) and communications related to the audit;</p> <p>(b) evaluate the sufficiency of the quality control system of the auditor and the manner of documentation of the system by the auditor; and</p> <p>(c) perform such other testing of the audit, supervisory, and quality control procedures of the auditor as may be considered necessary or appropriate.</p> <p>(2) The NFRA may require an auditor to report on its governance practices and internal processes designed to promote audit quality, protect its reputation and reduce risks including risk of failure of the auditor and may take such action on the report as may be necessary.</p> <p>(3) The NFRA may seek additional information or may require the personal presence of the auditor for seeking additional information or explanation in connection with the conduct of an audit.</p> <p>(4) The NFRA shall perform its monitoring and enforcement activities through its officers or experts with sufficient experience in audit of the relevant industry.</p> <p>(5) The NFRA shall publish its findings relating to non-compliances on its website and in such other manner as it considers fit, unless it has reasons not to do so in the public interest and it records the reasons in writing.</p> <p>(6) The NFRA shall not publish proprietary or confidential information, unless it has reasons to do so in the public interest and it records the reasons in writing.</p> <p>(7) The NFRA may send a separate report containing proprietary or confidential information to the Central Government for its information.</p> <p>(8) Where the NFRA finds or has reason to believe that any law or professional or other standard has or may have been violated by an auditor, it may decide on the further course of investigation or enforcement action through its concerned Division.</p>

Rule 9	<p>Overseeing the quality of service and suggesting measures for improvement</p> <p>(1) On the basis of its review, the NFRA may direct an auditor to take measures for improvement of audit quality including changes in their audit processes, quality control, and audit reports and specify a detailed plan with time-limits.</p> <p>(2) It shall be the duty of the auditor to make the required improvements and send a report to the NFRA explaining how it has complied with the directions made by the NFRA.</p> <p>(3) The NFRA shall monitor the improvements made by the auditor and take such action as it deems fit depending on the progress made by the auditor.</p> <p>(4) The NFRA may refer cases with regard to overseeing the quality of service of auditors of companies or bodies corporate referred to in rule 3 to the Quality Review Board constituted under the Chartered Accountants Act, 1949 or call for any report or information in respect of such auditors or companies or bodies corporate from such Board as it may deem appropriate.</p> <p>(5) The NFRA may take the assistance of experts for its oversight and monitoring activities.</p>
Rule 10	<p>Power to investigate – Not in syllabus</p> <p>(1) Where the Authority has:</p> <p>(a) received any reference from the C.G. for investigation into any matter of professional or other misconduct u/s 132(4) of the Act;</p> <p>(b) decided to undertake investigation into any matter on the basis of its compliance or oversight activities; or</p> <p>(c) decided to undertake suo motu investigation into any matter of professional or other misconduct, after recording reasons in writing for this purpose,</p> <p>it shall forward the matter to its Division dealing with enforcement for carrying out investigation and other action.</p> <p>(2) If, during the investigation, the NFRA has evidence to believe that any company or body corporate has not complied with the requirements under the Act or rules which involves or may involve fraud amounting to ₹ 1 crore or more, it shall report its findings to the C.G.</p> <p>(3) On the commencement of these rules-</p> <p>(a) the action in respect of cases of professional or other misconduct against auditors of companies referred to in rule 3 shall be initiated by NFRA and no other institute or body shall initiate any such proceedings against such auditors:</p> <p>Provided that no other institute or body shall initiate or continue any proceedings in such matters of misconduct where the NFRA has initiated an investigation under this rule;</p> <p>(b) the action in respect of cases of professional or other misconduct against auditors of companies or bodies corporate other than those referred to in Rule 3 shall continue to be proceeded with by the ICAI as per provisions of the Chartered Accountants Act, 1949 and the regulations made thereunder.</p>
Rule 11	Disciplinary proceedings – Not in syllabus
Rule 12	Manner of enforcement of orders passed in disciplinary proceedings – Not in syllabus

Rule 13	Punishment in case of non-compliance
	<p>If</p> <ul style="list-style-type: none"> ⇒ a company or ⇒ any officer of a company or ⇒ an auditor or ⇒ any other person <p>contravenes any of the provisions of these rules, the company and every officer of the company who is in default or the auditor or such other person shall be punishable as per the provisions of Sec. 450 of the Act.</p>
	<p style="text-align: center;">Points to remember</p> <p>If a company or any officer of a company or any other person contravenes any of the provisions of this Act or the rules made thereunder, or any condition, limitation or restriction subject to which any approval, sanction, consent, confirmation, recognition, direction or exemption in relation to any matter has been accorded, given or granted, and for which no penalty or punishment is provided elsewhere in this Act, the company and every officer of the company who is in default or such other person shall be punishable with fine which may extend to ₹10,000, and where the contravention is continuing one, with a further fine which may extend to ₹1,000 for every day after the first during which the contravention continues.</p>
Rule 14	Role of chairperson and full-time members – Not in syllabus
Rule 15	Advisory committees, study groups and task forces – Not in syllabus
Rule 16	Financial reporting advocacy and education
	The Authority shall take suitable measures for the promotion of awareness and significance of accounting standards, auditing standards, auditors' responsibilities, audit quality and such other matters through education, training, seminars, workshops, conferences and publicity.
Rule 17	Confidentiality and security of information – Not in syllabus
Rule 18	Avoidance of conflict of interest – Not in syllabus
Rule 19	International associations and international assistance – Not in syllabus

**Download notes & other contents from Knowledge Portal of
www.altclasses.in**