1.4 · Accounts and Audit

P13 · Module 1 · Companies Act, 2013 · s.128–148 + CARO 2020

SM pp. 51–81 (31 pages). **The second-highest topic in P13:** 64 marks in 7 papers, asked in 6 of them, with two halves in Jun'26.

Paper	What was asked	Marks
Jun'23	MCQ: who may inspect the books (any director) · Q8(a) **auditor case**: (i) can he be removed, and how? (ii) what if he resigns? (iii) a qualified report	2 + 10
Dec'23	MCQ: copies of FS at shorter notice (95%) · Q1 (xii)–(xv) **4-MCQ case** on authenticating the FS and the Board's report	2 + 8
Dec'24	Q2(b) books of account in **electronic form** (s.128)	7
Jun'25	MCQ: internal auditor criteria for a private company	2
Dec'25	Q1 (i)–(iv) **4-MCQ auditor case** (resignation without ADT-3, debt ₹2 lakh, charged with fraud, fees) · Q5(a) **fraud reporting**, s.143(12)	8 + 7
Jun'26	MCQs: statutory auditor = practising CA; Board's report signed by · Q3(b) **first and subsequent auditors, tenure, rotation, disqualifications** · Q5(a) **Board's report: contents, authentication, filing**	4 + 7 + 7

HOW IT IS EXAMINED

- **The auditor is the favourite:** appointment, rotation, removal or resignation, eligibility. It was asked 8 times, and ICMAI's MQP repeated the Dec'25 auditor MCQ case.
- **Board's report and authentication** (s.134): 6 times. **Books of account** (s.128) and **fraud reporting** (s.143(12)): once each as a 7-marker.
- **Never asked yet:** CARO 2020 and s.144 prohibited services. The ICMAI postal paper had "independence of the auditor" as an 8-marker.

DEC'26: OUR PREDICTION (A PREDICTION, NOT A PROMISE)

Tier **A**. Expected **9–16 marks**: a 7-mark theory or case question plus 2–4 MCQs, often a 4-MCQ case set. Likely questions:

1. Auditor wants to resign / company wants to remove him: procedure and filings (s.140, ADT-3)
2. Services an auditor cannot render (s.144) and his independence
3. Fraud reporting (s.143(12)), now only by e-form ADT-4 (Jun'26 supplementary)
4. Books of account (s.128) and internal audit (s.138)

MAP OF THIS PACK (★ = exam weight)

1. Books of account s.128 ★★
2. Financial statements s.129, 133 ★
3. Authentication + Board's report s.134 ★★★
4. Copies to members s.136, filing s.137 ★★
5. Internal audit s.138 ★
6. Appointing the auditor s.139 ★★★
7. Removal, resignation s.140 ★★★
8. Eligibility s.141, fees s.142 ★★
9. Powers, duties, fraud reporting s.143 ★★
10. s.144–148: services, signing, penalties, cost audit ★
11. CARO 2020 ★ · CSR pointer
12. Model answers · MCQ case set · numbers · SM MCQs

1 Books of account (s.128) · Dec'24 Q2(b)

WHAT IT IS Every company keeps **books of account**: records of money received and spent, sales and purchases, assets and liabilities, and cost items where s.148 applies. They are kept on an **accrual basis** and by **double entry**, and must give a **true and fair view**, branches included. [SM 51]

WHERE · WHO · HOW LONG

- At the **registered office**. The Board may choose another place **in India**, with a notice to the ROC giving the full address within **7 days** of the Board's decision. [SM 51]
- **Branch** (in India or abroad): the branch may keep its own books, but sends **summarised returns** periodically to the registered office. [SM 52]
- **Inspection:** by **any director**, during business hours. For records kept abroad, summarised returns come to the RO **quarterly**; other information is given within **15 days** of the director's written request, and he must ask **himself**, not through an agent. A subsidiary's books are inspected only by a person authorised by Board resolution. [SM 52–53]
- **Preserve:** for at least **8 financial years** before the current year, with vouchers (all years if the company is younger). Longer if the CG so directs during an investigation. [SM 53]
- **Responsible:** the MD, the WTD in charge of finance, the CFO, or another person charged by the Board. Fine **₹50,000 to ₹5 lakh**. [SM 53]

ELECTRONIC FORM (Rule 3): THE 7-MARK ANSWER

1. remain **accessible in India** for later reference
2. kept in the **original format** (or one that shows it accurately), **complete and unaltered**
3. information from branches is **not altered** and shows what the branch sent
4. can be **displayed in legible form**
5. a proper system for **storage, retrieval, display or printout**, as the Audit Committee or Board decides; not disposed of unless the law permits
6. **back-up kept on servers physically in India**, periodically, even if the books are kept abroad
7. every year, with the financial statements, the company tells the ROC the **service provider's name, IP address, location**, and the **cloud address** if kept on cloud

[SM 52]

Financial year: the year ending **31 March**. A company incorporated on or after **1 January** ends its first year on 31 March of the next year. The CG may allow a different year for a company with a foreign holding company or subsidiary. [SM 51]

2 Financial statements (s.129, 129A, 133)

WHAT AND HOW

- **"Financial statement"** (s.2(40)): balance sheet · P&L (or income and expenditure account) · **cash flow statement** · statement of changes in equity · notes. An **OPC, small company or dormant company** may leave out the cash flow statement. [SM 53]
- They must give a **true and fair view**, follow the **accounting standards** (s.133), and use the **Schedule III** format. Insurance, banking and electricity companies use their own Acts' formats. [SM 54]
- The Board **lays them before every AGM**. [SM 54]
- **Deviation from AS:** disclose (a) the deviation, (b) the reasons, (c) the financial effect. [SM 55]
- **Contravention:** the MD, WTD (finance), CFO or person charged (else all directors): up to **1 year** in jail, or a fine of **₹50,000 to ₹5 lakh**, or both. [SM 55–56]

CONSOLIDATED FS · s.129A · s.133

- A company with subsidiaries also prepares **consolidated FS** (an **associate counts** as a subsidiary here), lays them at the AGM, and attaches the subsidiaries' salient features in **AOC-1**. [SM 54]
- **Exempt from consolidating:** a wholly owned subsidiary (or a partly owned one whose other members, told in writing, do not object) that is **unlisted** and whose holding company files consolidated FS with the ROC. [SM 55]
- **s.129A** (2020): the CG may require periodic financial results, with Board approval and audit or limited review, filed within **30 days** of the period's close. [SM 56]
- **s.133:** the **CG prescribes the accounting standards** recommended by **ICAI**, after **NFRA** examines them. *SM MCQ 90: Central Govt.* [SM 56]

3 Authentication and the Board's report (s.134) · Jun'26 Q5(a), Dec'23 MCQ case

AUTHENTICATION s.134(1), (2), (7)

- The FS (consolidated too) are **approved by the Board** and then signed on its behalf by: the **chairperson**, if the Board authorises him, **or** two directors, one being the **MD**; the **CEO** if he is a director; the **CFO** wherever appointed; and the **CS** wherever appointed. [SM 56]
- **OPC:** signed by **one director**, for the auditor's report. [SM 56]
- The **auditor's report is attached** to every FS. A signed copy is issued with the **notes, the auditor's report and the Board's report**. [SM 56]

Dec'23 case: PQR has directors A–D, MD E and CS F; only directors B and C signed. That is **not valid**: with no authorised chairperson, the signatories must include the **MD (E)**, and the **CS (F)** must sign as he is appointed.

SIGNING THE BOARD'S REPORT s.134(6) · SM MCQ 31 · Jun'26 MCQ

Signed by the **chairperson if authorised by the Board**. Otherwise by at least **two directors, one of them the MD**, or by the director where there is only one. [SM 59]

OPC: the Board's report need only contain the Board's explanations on the auditor's qualifications. [SM 59]

Contravention of s.134: company **₹3 lakh**, each officer in default **₹50,000**. [SM 59]

What the Board's report contains, s.134(3) + Rule 8 [SM 57–59]

a. **web address** of the annual return (s.92(3))
b. **number of Board meetings**
c. **Directors' Responsibility Statement**
d. **frauds reported by the auditor** under s.143(12), other than those reported to the CG
e. the **IDs' declaration** of independence (s.149(6))
f. **NRC policy** on directors' appointment and remuneration (not for Government companies)
g. Board's **explanation of every qualification** or adverse remark by the **auditor** and the **secretarial auditor**
h. loans, guarantees, investments under **s.186**
i. **RPTs** under s.188(1) in **AOC-2**
j. the **state of affairs**; amounts to **reserves**; recommended **dividend**
k. **material changes** between the year-end and the date of the report
l. **energy conservation, technology absorption, foreign exchange earnings and outgo**
m. **risk management policy** statement
n. **CSR policy** and initiatives, with the web address
o. **annual evaluation** of the Board, its committees and directors: listed companies, and public companies with paid-up capital ≥ **₹25 crore**
p. prepared on the **standalone FS**, with highlights of subsidiaries, associates and JVs

JUN'26 SUPPLEMENTARY: COMPANIES (ACCOUNTS) SECOND AMENDMENT RULES, 2025 · EFFECTIVE 14 JULY 2025

- The Board's report must also disclose the number of **sexual harassment (POSH) complaints** received, disposed of, and pending for more than **90 days**, plus a declaration of compliance with the **Maternity Benefit Act, 1961**. [Supp Jun'26 p.2]
- Filing moves fully to **MCA V3**: e-AOC-1, e-AOC-2 and a revised **AOC-4**. Signed FS, Board's report extracts and auditors' reports go in PDF/XBRL on the V3 portal only. [Supp Jun'26 p.2]

DIRECTORS' RESPONSIBILITY STATEMENT, s.134(5) (SM MCQ 28: part of the Board's report)

a. the applicable **accounting standards** were followed, with material departures explained
b. accounting policies were applied **consistently**, with reasonable and prudent judgments, for a **true and fair view**
c. proper care was taken to keep **adequate accounting records**, safeguard assets, and prevent and detect **fraud**
d. the accounts were prepared on a **going concern** basis
e. (listed companies) **internal financial controls** were laid down, adequate and operating effectively
f. **systems to ensure compliance with all laws** are adequate and operating effectively

[SM 59]

4 Copies to members (s.136) and filing with the Registrar (s.137)

s.136: COPIES OF THE FINANCIAL STATEMENTS

- Sent to every **member**, every **debenture trustee** and every other person entitled, at least **21 days** before the meeting, with the consolidated FS, auditor's report and annexures. [SM 60–61]
- **Shorter period** is valid if agreed by members who are a **majority in number** and hold at least **95%** of the voting paid-up capital (no share capital: 95% of voting power). *Dec'23 MCQ.* [SM 61]
- **Listed company:** complies by keeping the documents open for inspection at the RO for **21 days** and sending a statement of salient features (**AOC-3**). **Section 8 company:** 14 days instead of 21. [SM 61]
- Members inspect at the RO during business hours. **Electronic sending** is allowed for listed companies and public companies with net worth above **₹1 crore** and turnover above **₹10 crore**. A listed company puts its FS on its website, plus separate accounts of each subsidiary. [SM 61–62]
- **Penalty:** company **₹25,000**; each officer **₹5,000**. [SM 62]

s.137: FILING WITH THE ROC (SM MCQ 33: 30 days of AGM)

- **Adopted at the AGM:** file within **30 days** of the AGM. [SM 62]
- **Not adopted:** file the unadopted FS within **30 days** of the AGM; the ROC treats them as **provisional**. Once adopted at the adjourned AGM, file within **30 days** of it (late filing with additional fees is allowed up to **270 days** under s.403). [SM 62]
- **OPC:** within **180 days** of the year-end. [SM 63]
- Attach the accounts of **foreign subsidiaries** without a place of business in India. [SM 63]
- **AGM not held:** file the signed FS with a statement of reasons within **30 days** of the last date the AGM should have been held. [SM 63]
- **Penalty:** company **₹10,000** + **₹100 a day**, up to **₹2 lakh**. MD and CFO (else the director charged, else all directors): **₹10,000** + ₹100 a day, up to **₹50,000**. [SM 63]

5 Internal audit (s.138) · Jun'25 MCQ

Company	Must appoint an internal auditor if, in the preceding financial year ...
Listed	always [SM 63]
Unlisted public	paid-up capital ≥ **₹50 crore** · OR turnover ≥ **₹200 crore** · OR bank/PFI loans above **₹100 crore** at any time · OR deposits ≥ **₹25 crore** at any time [SM 64]
Private	turnover ≥ **₹200 crore** · OR bank/PFI loans above **₹100 crore** at any time *(Jun'25 answer: "2 and 3")* [SM 64]

Who: a **chartered accountant or cost accountant**, **in practice or not**, or another professional the Board decides. He may be an **employee**. It may be an individual, a firm or a body corporate. **Scope, periodicity and method** are set by the Audit Committee or Board in consultation with him. Existing companies complied within **6 months**. [SM 63–64]

6 Appointing the statutory auditor (s.139) · Jun'26 Q3(b)

FIRST AUDITOR (non-Govt) the **Board** appoints within **30 days** of registration; till the first AGM [SM 67] → **BOARD FAILS** it tells the members; they appoint at an **EGM within 90 days**; till the first AGM [SM 67] → **AT THE FIRST AGM** members appoint an individual or firm from the end of the 1st AGM **till the end of the 6th AGM**, and so on [SM 64] → **CONSENT + CERTIFICATE** written consent, and a certificate that he is eligible, within limits, and with pending proceedings listed (s.141) [SM 65] → **ADT-1** the company tells the auditor and files ADT-1 with the ROC within **15 days** of the meeting [SM 65]

Selection (Rule 3): the **Audit Committee** (or the Board if there is none) weighs qualifications, experience and pending proceedings, and recommends. If the Board agrees, it recommends to members. If not, it refers back with reasons; if the AC holds firm, the Board records its reasons and sends **its own recommendation** to the AGM. Appointment includes re-appointment. [SM 64–65]

TERM LIMITS + ROTATION s.139(2)–(4)

- **Who is covered:** listed companies; unlisted public companies with paid-up capital ≥ **₹10 crore**; private companies ≥ **₹20 crore**; any company with borrowings or public deposits ≥ **₹50 crore**. **Not** OPCs or small companies. [SM 65–66]
- An **individual**: at most **one term of 5 consecutive years**. An **audit firm**: at most **two terms of 5 consecutive years**. [SM 65]
- **Cooling-off: 5 years** before re-appointment in the same company. A firm with a **common partner** with the outgoing firm is barred for 5 years. A firm in the **same network** (brand, trade name, common control) is not eligible. If the signing partner retires and joins another firm, that firm is barred for **5 years**. A **break of 5 years** counts as rotation. [SM 66]
- Members may resolve to rotate the **audit partner and team**, or to have **joint auditors**. Removal and resignation rights are not affected. [SM 66]

CASUAL VACANCY · RE-APPOINTMENT

- **Casual vacancy:** the Board fills it within **30 days**. If it arose from **resignation**, a **general meeting** within **3 months** of the Board's recommendation must approve. He holds office **till the next AGM** (MCQ bank 263). [SM 67]
- **A retiring auditor is re-appointed** unless he is disqualified, has refused in writing, or a **special resolution** appoints someone else or says he shall not be re-appointed. If no auditor is appointed, the existing one continues. [SM 68]
- Where an Audit Committee is required, all appointments, including casual vacancies, take its **recommendation** into account. [SM 68]

GOVERNMENT COMPANIES: THE CAG APPOINTS (s.139(5), (7), (8)) · MQP MCQ

- For a Government company, or any company owned or controlled by the CG or State Government(s), the **CAG** appoints the auditor within **180 days** of the start of the financial year, till the AGM. [SM 67]
- **First auditor:** the CAG within **60 days** of registration → else the Board within the next **30 days** → else members at an EGM within **60 days**. [SM 67]
- **Casual vacancy:** the CAG within **30 days** (MCQ bank 264) → else the Board within the next **30 days**. [SM 67]
- **Deemed Government company:** at least **51%** of paid-up capital held by Governments, Government companies or Government corporations, in any combination. [SM 68]

7 Removal and resignation of the auditor (s.140) · Jun'23 Q8(a), Dec'25 and MQP MCQ cases

1 · BOARD RESOLUTION to remove him before his term ends → **2 · CG APPROVAL** application in **ADT-2** within **30 days** of the Board resolution [SM 68] → **3 · HEARING** the auditor gets a **reasonable opportunity of being heard** [SM 68] → **4 · SPECIAL RESOLUTION** at a general meeting within **60 days** of the CG's approval; filed in MGT-14 [SM 68]

RESIGNATION s.140(2), (3)

- He files **ADT-3** with the **company and the ROC** within **30 days** of resigning, with the facts and reasons. For Government companies, also with the **CAG**. [SM 68–69]
- **Penalty for not filing: ₹50,000** or his remuneration, **whichever is lower**, plus **₹500 a day**, up to **₹2 lakh**. [SM 69]
- The resulting casual vacancy: the Board fills it in 30 days, approved by a general meeting within 3 months (part 6). [SM 67]

NOT RE-APPOINTING A RETIRING AUDITOR: SPECIAL NOTICE s.140(4)

- If he has not completed **5 years** (or **10**), a resolution to appoint someone else or not to re-appoint him needs **special notice**; a copy is sent to him. [SM 69]
- His **written representation** is mentioned in the notice and sent to members. If it arrived too late, it is **read out at the meeting**, and he may also be heard. If not circulated, it is **filed with the ROC**. [SM 69]

8 Who can be an auditor (s.141) and his fees (s.142)

Qualified: only a **chartered accountant** (*SM MCQ 30 = Jun'26 MCQ: a practising CA*), or a **firm (or LLP)** whose **majority of partners practising in India** are CAs. Only the CA partners act and sign for the firm. [SM 69]

#	Disqualified, s.141(3)
a	a **body corporate**, except an LLP [SM 69]
b–c	an **officer or employee** of the company, or a **partner or employee** of one [SM 69–70]
d	he, his partner or a relative: **holds securities** of the company or its group (a **relative may hold up to ₹1 lakh** face value; any excess is corrected within **60 days**) · is **indebted above ₹5 lakh** to it · has given a **guarantee above ₹1 lakh** for a third party's debt to it [SM 70]
e	has a **business relationship** with the company or its group. Allowed: professional services the law permits, and arm's-length ordinary-course dealings such as **telecom, airlines, hospitals, hotels** [SM 70]
f	a **relative is a director or KMP** of the company [SM 70]
g	is in **full-time employment elsewhere**, or already holds **more than 20 company audits** (not counting OPCs, dormant companies, and private companies with paid-up capital below **₹100 crore**) [SM 70]
h	was **convicted of fraud** and **10 years** have not passed [SM 70]
i	renders any **s.144 prohibited service** to the company, its holding or its subsidiary [SM 70]

Vacation: an auditor who becomes disqualified is deemed to have **vacated**, which creates a casual vacancy. [SM 71] · **Fees (s.142):** fixed in general meeting or as it decides; the **Board** fixes the first auditor's. They include expenses and facilities, **not** fees for other services. [SM 71]

9 Powers and duties of the auditor; fraud reporting (s.143)

POWERS s.143(1)

- **Access at all times** to the books and vouchers, wherever kept. [SM 71]
- Right to **information and explanations** from officers. [SM 71]
- **Must inquire:** (1) are loans on security properly secured and on fair terms? (2) do mere book entries harm the company? (3) were shares and securities sold below cost (non-investment, non-banking companies)? (4) are loans shown as deposits? (5) are personal expenses charged to revenue? (6) was cash really received for shares "allotted for cash"? [SM 71]
- The holding company's auditor may **access the subsidiaries' records** for consolidation. [SM 71]

DUTIES s.143(2)–(4), (9)

- Reports **to the members** (*SM MCQ 35: shareholders*) whether the FS give a **true and fair view**. [SM 72]
- The report also states: whether all information was obtained; whether **proper books** were kept and branch returns received; whether the FS **agree with the books**; whether they comply with AS; adverse observations; any director **disqualified under s.164(2)**; qualifications; **internal financial controls**. Rule 11 adds: **pending litigation**, foreseeable losses on long-term contracts and derivatives, and delays in transfers to the **IEPF**. [SM 72–73]
- Any "no" or qualified answer must **give the reason**. He follows the **auditing standards** (CG on ICAI's recommendation, after NFRA). [SM 73]

Fraud reporting by the auditor, s.143(12) + Rule 13 · Dec'25 Q5(a) [SM 73–74]

1 · REASON TO BELIEVE
a fraud by officers or employees, of the prescribed amount, in the course of his duties [SM 73]

→

2 · TO BOARD / AC
report **immediately**, asking for their reply within **45 days** [SM 73]

→

3 · TO THE CENTRAL GOVT
his report + their reply + his comments within **15 days** of the reply (if no reply: his report + a note). Overall **within 60 days** of knowing [SM 73]

→

4 · FORM
a statement in **ADT-4**, now filed **electronically only** (Jun'26 supplementary) [SM 73] [Supp Jun'26 p.3]

- **Good faith:** reporting does not breach any duty (s.143(13)). [SM 73]
- It applies equally to the **cost accountant** (cost audit) and the **CS in practice** (secretarial audit) (s.143(14)), and to **branch auditors** for their branch. [SM 74–75]
- **Not reporting:** fine **₹1 lakh** (unlisted company) or **₹5 lakh** (listed). [SM 74]
- Frauds **not reportable** to the CG are disclosed in the **Board's report** (part 3, item d). [SM 57]

⚠ OLD SM TEXT, AND A THRESHOLD THE SM LEAVES OUT

The SM still describes a **sealed cover by registered post / speed post on the auditor's letterhead**. The **Jun'26 supplementary** removed that: ADT-4 is now filed electronically and postal submission is discontinued. Write the e-form version. [Supp Jun'26 p.3]

The SM says only "amount as may be prescribed". Rule 13 sets it: a fraud of **₹1 crore or more** is reported to the CG; a smaller one goes to the Audit Committee or Board and is disclosed in the Board's report.

GOVERNMENT COMPANIES s.143(5)–(7)

The CAG appoints the auditor and **directs how** to audit. The report covers the CAG's directions, action taken and the impact. Within **60 days** of the report the CAG may conduct a **supplementary audit** and comment; the comments go to members and the AGM. The CAG may also order a **test audit**. [SM 74]

BRANCH AUDIT s.143(8)

Indian branch: the company's auditor or another qualified person. **Foreign branch:** the company's auditor, an accountant, or a person qualified under that country's law. The branch auditor reports to the company's auditor, who deals with it in his report. [SM 74–75]

10 Prohibited services, signing, attending, penalties, cost audit (s.144–148)

s.144: THE AUDITOR SHALL NOT RENDER (directly or indirectly, to the company, its holding or subsidiary)

1. **accounting and book-keeping**
2. **internal audit**
3. design and implementation of a **financial information system**
4. **actuarial** services
5. **investment advisory**
6. **investment banking**
7. **outsourced financial services**
8. **management services**
9. any other prescribed service

Other services need **Board or Audit Committee approval**. "Indirectly" covers services through a relative, connected person, partner, or a parent, subsidiary or associate entity, or any entity using his name, brand or trade mark. *SM MCQ 38: none of internal audit, book-keeping or investment advice. SM MCQ 79: he may be the tax auditor.* [SM 75]

s.145–147

- **s.145:** he **signs** the report (only CA partners sign for a firm). Qualifications or adverse comments are **read at the general meeting** and are **open to inspection** by members. [SM 76]
- **s.146:** he receives all **notices of general meetings**; he **attends** (or a qualified representative does) unless exempted, and has the **right to be heard**. [SM 76]
- **s.147 company: ₹25,000 to ₹5 lakh**; **officers** ₹10,000 to ₹1 lakh. [SM 76]
- **Auditor** (breach of s.139, 144, 145): **₹25,000 to ₹5 lakh** or **4×** his fee, whichever is lower. **Wilfully, to deceive:** up to **1 year** in jail and a fine of **₹50,000 to ₹25 lakh** or **8×** his fee, whichever is lower. If convicted, he **refunds his fee** and pays damages. [SM 76]
- **Audit firm:** if a partner acted fraudulently, the partner and the firm are **jointly and severally liable**. Non-monetary criminal punishment falls only on the guilty partners. [SM 77]

s.148 Cost audit: the CG may order specified companies (by product or service, net worth or turnover) to keep **cost records** (Form **CRA-1**) and to have them audited. The audit is by a **practising cost accountant**, appointed by the **Board** on the Audit Committee's recommendation, with the fee **ratified by shareholders**. It is in addition to the s.143 audit. [SM 77]

11 CARO 2020 (never asked yet) · and a CSR pointer

WHAT IT IS · WHO IS OUT

- The Companies (Auditor's Report) Order, 2020: **extra matters the statutory auditor reports**. Issued on 25 Feb 2020 with NFRA, replacing CARO 2016, and deferred by a year, so it applies from **FY 2020-21**. It covers foreign companies too. [SM 77]
- **Outside CARO:** banking, insurance and **section 8** companies, **OPCs**, **small companies**, and private companies (not holding or subsidiary of a public company) with capital + reserves ≤ **₹1 crore**, bank borrowings ≤ **₹1 crore** and revenue ≤ **₹10 crore**. [SM 78]

⚠ TWO UPDATES

Small company: the SM gives ₹4 cr capital / ₹40 cr turnover (up to a ceiling of ₹10 cr / ₹100 cr). The **Dec'26 supplementary** sets it at capital ≤ **₹10 crore** and turnover ≤ **₹100 crore** from 1 Dec 2025. [Supp Dec'26 p.2]
SM MCQ 36 "CARO 2020 is effective from": the MCQ bank key says 1.4.2021, but the SM text says it applies to **FY 2020-21**, which starts **1.4.2020**. Trust the SM text. [SM 77–78]

CLAUSE 3: WHAT THE AUDITOR REPORTS ON

i. **PPE**: records, physical verification, title deeds, revaluation (10%+ change), **benami** proceedings
ii. **Inventory**: verification (10%+ discrepancy); working capital limits above **₹5 crore**
iii. **loans and guarantees given**: terms, repayment, overdue above **90 days**
iv. compliance with **s.185 and s.186**
v. **deposits**: s.73–76 and RBI directions
vi. **cost records** maintained
vii. **statutory dues**: arrears above **6 months**; disputed dues and forum
viii. income **surrendered in tax assessments** but not in the books
ix. **defaults** on loans
x. use of **IPO/FPO money and term loans**
xi. **fraud** noticed or reported under s.143(12)
xii. **Nidhi** company: NOF to deposits **1:20**, **10%** unencumbered deposits
xiii. **RPTs** under s.188
xiv. **internal audit** system
xv. **non-cash transactions** with directors (s.192)
xvi. **RBI registration** (s.45-IA)
xvii. **cash losses** this year and last
xviii. **auditor's resignation**: were the outgoing auditor's concerns considered?
xix. **material uncertainty**: can it meet liabilities due within **1 year**?
xx. **unspent CSR** transferred (fund / special account)
xxi. CARO **qualifications in group companies** (consolidated FS)

[SM 78–81]

CSR (s.135) ALSO SITS ON SM 60: FULL NOTES WITH TOPIC 3.4

Applies with net worth ≥ **₹500 crore**, turnover ≥ **₹1,000 crore**, or net profit ≥ **₹5 crore** in the preceding year. A CSR committee of **3** or more directors, at least one an ID. Spend at least **2%** of the average net profit of the last **3 years** (s.198), preferring local areas. Unspent, not ongoing: transfer to a Schedule VII fund within **6 months**. Ongoing project: transfer to a special account within **30 days**, to use within **3 years**. [SM 60]

12 Model answers and the auditor MCQ case set

MODEL ANSWER 1 · REMOVAL / RESIGNATION / QUALIFIED REPORT (JUN'23 Q8(a), 10 MARKS · OUR TOP 1.4 PREDICTION)

Facts: the MD of ABC Ltd wants to remove the auditor, who is unhappy with management's explanations and threatens to resign. Advise on (i) removal, (ii) resignation, (iii) a qualified report.

(i) Removal (s.140(1)). The auditor can be removed before his term ends only by a **special resolution** after the **prior approval of the Central Government**. **Procedure:** (1) Board resolution; (2) application to the CG in **ADT-2** with fees within **30 days** of the Board resolution; (3) the auditor is given a **reasonable opportunity of being heard**; (4) general meeting within **60 days** of the CG's approval to pass the special resolution, filed in MGT-14. Note: disagreement over explanations is no ground in itself; the CG must be satisfied. [SM 68]

(ii) If he resigns (s.140(2), (3)). He files **ADT-3** with the company and the ROC within **30 days**, stating the facts and reasons (with the CAG too for a Government company). Default: ₹50,000 or his fee, whichever is lower, + ₹500 a day up to ₹2 lakh. The Board fills the casual vacancy within **30 days**, and a general meeting must approve within **3 months**. His reasons become public, so resignation does not make the issues disappear. [SM 67–69]

(iii) Qualified report. He states the **reasons** for every qualification (s.143(4)). The Board must give its **explanations or comments on every qualification** in the Board's report (s.134(3)). The qualifications are **read at the general meeting** and are **open to inspection** by members (s.145). [SM 57–76]

Advice to the MD: removal is slow and needs Government approval and a hearing. The proper course is to answer the auditor's points. If the qualifications stand, the Board must explain them to the members.

MODEL ANSWER 2 · FRAUD REPORTING BY AUDITORS (DEC'25 Q5(a), 7 MARKS · NOW WITH THE JUN'26 AMENDMENT)

1. **Provision:** under s.143(12), if the auditor, in the course of his duties, has **reason to believe** that a fraud of the prescribed amount is being or has been committed in the company **by its officers or employees**, he reports it to the **Central Government** within **60 days** of knowing. [SM 73]
2. **Step 1:** he sends his report to the **Board or Audit Committee immediately**, seeking their reply or observations within **45 days**. [SM 73]
3. **Step 2:** within **15 days** of their reply, he forwards his report, their reply and his comments to the CG. If no reply comes in 45 days, he sends his report with a note saying so. [SM 73]
4. **Form:** a statement in **ADT-4**, filed **electronically** on the MCA portal (the postal mode was discontinued by the 2025 amendment, Jun'26 supplementary). [Supp Jun'26 p.3]
5. **Protection and extension:** a report made in **good faith** breaches no duty. The same applies to **cost auditors, secretarial auditors and branch auditors**. [SM 73–75]
6. **Penalty for not reporting:** ₹1 lakh (unlisted) or ₹5 lakh (listed). Frauds below the CG threshold are disclosed in the **Board's report**. [SM 57–74]

THE AUDITOR MCQ CASE SET (DEC'25 Q1 (i)–(iv); ICMAI MQP REPEATED IT): HIGHWAY LTD

Facts: three State Governments hold **15% each (45%)**. Mr Parimal, CA, was appointed auditor by ordinary resolution; members objected that the CAG's approval and a special resolution were needed. He resigned mid-term; the Board appointed another auditor 10 days later.

Question	Answer and reason
Is it a Government company, so that the CAG appoints?	**No**: Governments hold 45%, below the **51%** needed. Members appoint at the AGM by ordinary resolution; the objection fails. [SM 68]
He resigned without ADT-3: penalty?	₹50,000 or his fee (₹2 lakh), **whichever is lower = ₹50,000**, + ₹500 a day up to ₹2 lakh. [SM 69]
The new auditor owes the company ₹2 lakh (MQP: ₹1.5 lakh): eligible?	**Yes**: the debt limit is **₹5 lakh** (Dec'25 option A). [SM 70]
Charged with a ₹1.5 crore fraud, not convicted: can he continue?	**Yes, unless convicted**: the bar is a conviction for fraud within **10 years** (option B). [SM 70]
Board appointed the new auditor after a resignation	valid if done within **30 days**, but a **general meeting must approve within 3 months**. [SM 67]

⚠ Q(iv) on fees for incomplete work turns on the terms of appointment; the SM has no rule. Our reading: option D, reasonable fees for work done, subject to the terms. Check against ICMAI's suggested answer.

SM exercise and MCQ-bank questions on 1.4, with answers (SM 162–172)

27 practising CA as auditor: term	**5 years**	34 private co internal auditor if turnover	**₹200 cr or more**
28 Directors' Responsibility Statement is part of	**Board's report**	35 auditor's report is addressed to	**shareholders**
29 NFRA	**National Financial Reporting Authority**	36 CARO 2020 effective from	**FY 2020-21 (1.4.2020)** ⚠
30 statutory auditor shall be ★	**practising CA**	37 first auditor appointed by	**Board of Directors**
31 Board's report signed by ★	**chairman with Board's authority**	38 extra service the auditor may render	**none of internal audit, book-keeping, investment advice**
32 CAG	**Comptroller and Auditor General**	79 statutory auditor can also be	**tax auditor**
33 FS filed with ROC within	**30 days of AGM**	89 books inspected by ★	**any director**
90 accounting standards prescribed by	**Central Government**	bank 231: OPC files FS within	**180 days (6 months)**
bank 259: notice of auditor's appointment	**ADT-1**	bank 263: casual-vacancy auditor holds till	**next AGM**
bank 264: CAG fills casual vacancy within	**30 days**	bank 265: resigning auditor files	**ADT-3 in 30 days**
bank 304: DRS is in section	**134(3)(c)**	bank 303: non-compliance with AS: disclose	**deviation, reasons, effect**

R Revision: every number in 1.4

Rule	Number
books elsewhere in India: notice to ROC	7 days
foreign records: returns to RO / director's request	quarterly / 15 days
preserve books for	8 FYs
s.128 fine	₹50,000–₹5 lakh
first FY if incorporated on/after	1 January
s.129 contravention: jail / fine	1 yr / ₹50,000–₹5 lakh
s.129A results filed within	30 days
Board evaluation statement: public paid-up	₹25 crore
s.134 penalty: company / officer	₹3 lakh / ₹50,000
POSH complaints pending more than	90 days
FS copies before meeting / s.8 company	21 / 14 days
shorter notice consent	95%
e-mode: net worth / turnover above	₹1 cr / ₹10 cr
s.136 penalty: company / officer	₹25,000 / ₹5,000
s.137 filing after AGM / OPC	30 days / 180 days
late filing with fees up to	270 days
s.137 penalty company: base / day / max	₹10,000 / ₹100 / ₹2 lakh
s.137 officers: maximum	₹50,000
internal audit (unlisted public): capital / turnover	₹50 cr / ₹200 cr
internal audit: bank loans / deposits	> ₹100 cr / ₹25 cr
internal audit (private): turnover / loans	₹200 cr / > ₹100 cr
CSR: net worth / turnover / profit	₹500 / ₹1,000 / ₹5 cr
CSR spend / unspent fund / special a/c	2% / 6 months / 30 days

Rule	Number
first auditor: Board / EGM	30 / 90 days
auditor term: 1st AGM till	6th AGM
ADT-1 filed within	15 days
rotation: individual / firm	1 × 5 yrs / 2 × 5 yrs
rotation covers: unlisted public / private / borrowings	₹10 cr / ₹20 cr / ₹50 cr
cooling-off / break counts as rotation	5 yrs / 5 yrs
casual vacancy: Board / GM if resignation	30 days / 3 months
CAG: appoint / first auditor / casual	180 / 60 / 30 days
deemed Government company	51%
removal: ADT-2 within / GM within	30 / 60 days
resignation ADT-3 within	30 days
no ADT-3: penalty / day / max	₹50,000 or fee / ₹500 / ₹2 lakh
special notice if term not completed	5 or 10 yrs
relative's holding / correct within	₹1 lakh / 60 days
auditor's debt / guarantee limit	₹5 lakh / ₹1 lakh
audit ceiling / private-co exclusion	20 / < ₹100 cr
fraud conviction bar	10 years
fraud: Board reply / to CG / overall	45 / 15 / 60 days
fraud non-reporting: unlisted / listed	₹1 lakh / ₹5 lakh
CAG supplementary audit within	60 days
s.147 company / officers	₹25,000–₹5 lakh / ₹10,000–₹1 lakh
auditor: fine or × fee / wilful	₹5 lakh or 4× / ₹25 lakh or 8×
CARO private-co exclusion: capital / loans / revenue	₹1 cr / ₹1 cr / ₹10 cr
CARO: discrepancy / WC limit / overdue	10% / ₹5 cr / 90 days
CARO: dues arrears / Nidhi ratio	6 months / 1:20
small company (Dec'26 supp.)	₹10 cr / ₹100 cr