# A Birds eye view on Accounts and Audit under The Companies Act, 2013

## Accounts & Audit under The Companies Act 2013

## Significant provisions related to Accounts under Companies Act 2013:

## Books of Accounts (Section 128)

Every Company Shall Prepare and keep at is registered office, books of accounts and financial

statements on accrual basis for every financial year which give a true and fair view of the state of affairs

of the company

a. Company having a branch office in India/outside India, it shall be deemed to comply with the above

provisions if the transactions are kept at the branch office and proper summarized returns are

periodically sent by the branch to the registered office of the company

b. The Books of accounts along with relevant vouchers shall be kept for a period of atleast 8 years from

immediately preceding the financial year.

## Financial Statements (Section 129):

a. The financial statements of a company shall comply with notified Accounting Standards

b. Financial Statements defined under Sec 2(40) to include -

- Balance Sheet

- P&L Account or I&E Account

- Cash flow statement

- Statement of change in equity if applicable

- Any explanatory note, giving information required and allowed to be given in the form of notes

- Consolidated Financial statements

- The Act now mandates CFS for any company having a subsidiary, associate or a joint venture

- The CFS of the company shall be made in accordance with the provisions of Schedule III and AS.

**Re opening of books of Accounts (Section 130)**

a. A Company Shall not reopen/recast its Books of Account unless the central government, the income

Tax Authority, the securities exchange board, any other statutory regulatory body or authority or any

person concerned and an order is made by a court of competent jurisdiction or the tribunal to the effect

that the accounts prepared are in a fraudulent manner or the affairs of the company were mismanaged

so as to cast a doubt on its reliability.

b. The Accounts so revised or recasted shall be its final.

Voluntary Revision of Financial statements or Board’s Report (Section 131)

a. If it appears to the company that the financial statements of the company or Report of the board do

not comply with the provisions of sec.129 or sec.134 they may prepare revised financial statement or a

revised report of any 3 preceding financial year after obtaining the approval of tribunal in this behalf

and the copy of order shall be filed with Registrar

b. this revision is required to disclosed in Board’s report of the financial year in which the revision is

made and such a revision shall not be made or filed more than once in a financial year

**Constitution of National Financial Reporting Authority NFRA (Section 132)**

This is newly inserted in companies Act 2013

a. The Central Government has introduced a new regulatory authority named as National Financial

Reporting Authority (NFRA).

b. The Authority Shall make recommendations to central Government on Accounting and auditing

policies ,monitor and enforce the compliance with accounting and auditing standards and Oversee the

quality of the services provided by the professionals

**Powers of NFRA**

a. To investigate either suo moto or by reference made by the CG for bodies corporate or persons, into

the matters of professional misconduct committed by members or firm of Chartered Accountants,

registered under the Chartered Accountants Act,1949. Provided that no other institute or body shall

initiate or continue any proceedings in such manner of misconduct where the National Financial

Reporting Authority has initiated an investigation.

b. Where professional or other misconduct is proved it has the power to

- imposing penalty of not less than Rs 1 Lakh ,but which may extend to five times of the fee received in

case of individuals and Rs10 Lakhs , but which may extend to ten times of the fee received in case of

firms and

- debarring the member or the firm from engaging himself or itself from practice as member of the ICAI

for a minimum period of six months or for such higher period of not exceeding ten years.

**Financial Statements, Board Report (Section 134)**

a. The auditor’s report is to be attached to financial statements.

b. The financial statements including consolidated financial statement if any, shall be approved by the

board of directors before they are signed on behalf of the board at least by the chairman where he is

authorized by the board or by two directors out of which one shall be MD or CEO and by CFO and

company secretary of the company. In case of one person company by only by one director

**Corporate Social Responsibility (CSR) (Section 135)**

a. The Companies Act mandates the CSR guidelines for the following companies

b. Having Net worth of INR 500 crores or more or

c. Turnover of INR 1000 crores or more or

d. Net profit of INR 5 crores or more

e. Such a company shall constitute a CSR Committee of Board Comprising of 3 or more directors one of

whom shall be an Independent Director, the committee shall formulate a policy for the activities specified in Schedule VII of the Companies Act 2013.

f. Quantum of amount to be spent: 2% of the average net profits of immediately preceding 3 years, and

if not spent, an explanation with reasons thereof shall be required to be given in the director’s report.

**Depreciation**

a. The Companies Act 1956 had dealt with the depreciation of only tangible assets. However the

Companies Act 2013 specifically provides that depreciation of intangible assets is to be done as per

accounting standards.

b. The Companies Act 2013 prescribes the Useful life of Assets instead of methods & rates and 5% as

the residual value while computing the rate of depreciation.

c. It provides for a new concept of ‘Component wise depreciation’ of the Asset. Where a part of the

asset is significant to total cost of the asset and the useful life of that part is different from the useful life

of the remaining asset, useful life of that significant part shall be determined separately and to be

depreciated accordingly.

**Significant Provisions relating to Audit and Auditors in companies Act 2013:**

With the background of corporate scams in the recent years, the new act extensively enhances

accountability of auditors.

**Appointment (Section 139)**

a. Every company shall at its first AGM 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 AGM and thereafter till the

conclusion of every sixth meeting

b. In Listed and specified companies

Appointment Period

An individual --- 1 term of consecutive 5 years

An audit firm --- 2 terms of consecutive 5 years

Cooling period --- 5 years before next appointment

**Rotation of Auditors:**

c. The Companies act 2013 has mandated the rotation of the auditors, the auditors of the listed

companies are to be rotated for every 5 years and the audit firm is to be rotated for a period of every

10 years with the uniform cooling period of 5 years in both cases.

d. Further the firms with common partners in the outgoing audit firm are also ineligible for appointment

as auditor during the cooling off period of the firm of the common partner.

e. The time limit for existing companies to comply with the above section is 3 years from the date of

commencement of this Act

**Discretion of members:**

Members of the company may resolve that, in the audit firm appointed by it, the auditing partner and his team shall be rotated every year or the audit shall be conducted by more than one auditor

**Removal or Resignation of auditor (Section 140):**

a. The auditor may be removed from his office before the expiry of his term only by a special resolution

and after obtaining previous approval from CG in this behalf.

b. The auditor who has resigned from the company shall file within a period of 30 days from the date of

resignation a statement in prescribed form with the company under registered.

c. If the auditor does not comply with the above he or it shall be punishable with a fine which shall not be less than Rs 50,000/- but which may extend to Rs 5,00,000/-.

**Eligibility for Appointment (Section141)**

a. A person shall be eligible for appointment as an auditor of a company only if he is a Chartered

Accountant.

b. Where a firm Including a LLP is appointed as an auditor of a company only the partners who are

chartered Accountants Shall be authorized to act and sign of behalf of the firm

**Remuneration of Auditors (Section 142):**

The Remuneration of the Auditors shall be fixed in the general meeting and in addition to the audit fee

payable it includes all expenses incurred in connection with the audit.

**Power and Duties of Auditors (Section 143):**

a. The auditor of a company shall have a right of access at all times to the books of account and

vouchers of the company.

b. He shall be entitled to require from the company such information and explanation as he may

consider necessary for the purpose of the audit.

Auditors Report [Section143(2)] The auditor shall make a report to the member of the company on

the accounts examined by him and on every financial statements which are required by or under this act

to be laid before the company in general meeting.

**Fraud reporting [Section 143(12)]**

If an auditor of the company in the course of 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 a

period of 60 days.

**Auditors not to render certain services (Section 144)**

In order not to farewell with the concept of Independence of Auditors, the auditors are prohibited to

render the following services either directly or indirectly to the company or to its holding or subsidiary

company

Accounting and book keeping services

Internal audit

Design & implementation of any financial information system.

Actuarial services

Investment advisory services.

Investment banking services

Rendering of outsource financial services.

Management services.

**Signing of audit report (Section 145)**

The auditor shall sign the audit report of the company.

Observations, Qualifications & Comments which have any adverse effect on the functioning of the

company mentioned in the audit report shall be read before the company in general meeting shall

be open for inspection by any member of the company.

**Auditors to Attend the AGM (Section 146):**

The auditor of a company either by himself or through his authorized representative shall mandatorily

attend the AGM unless exempted by the company.

**Secretarial Audit:** The Act requires Secretarial Audit report to form a part of director’s report for all

listed and other class of companies.

**Maintenance of Costing and Stock records and Cost Audit (Section 148)**

a. A company engaged in the production, processing, manufacturing or mining activity is also required

to maintain particulars relating to utilization of material, labor or other items of cost as may be

prescribed.

b. Section 148(4) states that a Cost Audit is required to be conducted in addition to the audit u/s 143

and requires appointment of a Cost Auditor who will furnish the report to the Board after complying

 with the cost accounting standards. The board will then furnish the report to the Central government

along with the information and explanation on every qualification or reservation of the cost audit

report.

To conclude, the provisions relating to the Audit and Auditors of the Companies Act 2013 are creating

onerous responsibility on the Auditors for compliance and reporting.

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