Internal Audit under Section 138 of Companies Act 2013

# Internal Audit

As per section 138 of Indian Companies Act 2013 read with Rule 13 Of Companies (Accounts) Rules, 2014, certain class of companies are required to appoint Internal Auditors. An extract of Rule 13 of Companies (Accounts) Rules, 2014 is as follows-

Extract of Rule 13 of Companies (Accounts) Rules, 2014

*“13. Companies required to appoint internal auditor.-*

*(1) The following class of companies shall be required to appoint an internal auditor or a firm of internal auditors, namely:-*

*(a) every listed company; Always applicable*

 *(b) every s unlisted public company having-*

*(i) paid up share capital of fifty crore rupees or more during the preceding financial year; or*

*(ii) turnover(income) of two hundred crore rupees or more during the preceding financial year; or*

*(iii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year; or*

*(iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding financial year; and*

*(c) every private company having-*

*(i) turnover of two hundred crore rupees or more during the preceding financial year; or*

*(ii) outstanding loans or borrowings from banks or public financial institutions exceeding one*

*hundred crore rupees or more at any point of time during the preceding financial year:*

*Provided that an existing company covered under any of the above criteria shall comply with the*

*requirements of section 138 and this rule within six months of commencement of such section.*

*Explanation.- For the purposes of this rule – The internal auditor may or may not be an employee of the company; The Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.*

*However, the rule specifies that an internal auditor may or may not be an employee of the company. The Internal auditor may be a CA/CWA or any other professional. And also neither the rules nor the Act, has specified the duties and responsibilities. So even if the rules and act made the appointment of Internal Auditor mandatory, the same rules and Act provides option to companies to appoint any person as internal auditors. And also any one who has the knowledge can became an Internal Auditor, because the rules did not define the word “any other professional”*

SHORTCUTS TO REMEMBER ABOVE LIMITS

I-LCD –Internal Auditors(I)- LCD(Gift)

Since this section provides indirect avenues & opportunities to internal auditors, it is termed as Internal auditor’s gift



Key Points:

1. For the purpose of checking the aforesaid limits , it may be noted that Preceding Financial year to be considered. For Eg. For Checking the applicability of section 138 of Indian Companies Act 2013( Internal Auditor) for FY 2014-15 , FY 2013-14 to be taken into consideration.

2. For easy remember of the aforesaid limits , one should consider the above limit decreasing in same proportion respectively i.e “L” is half of “I”, “C” is half of “L” and so on.

3. Listed companies has to comply with section 138 of companies act 2014 irrespective of above limit.

4. For Private unlisted companies, There are two limits to check out the applicability of aforesaid section i.e Income & Loan

5. Internal auditor should either be a chartered accountant or a cost accountant, or such other professional as may be decided by the board to conduct Internal Audit of functions and activities of the company.

We are also reproducing extract of Section 138 of the Companies Act, 2013 for your ready reference-

*138. Internal audit*

*(1) Such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.*

*(2) The Central Government may, by rules, prescribe the manner and the intervals in which the internal audit shall be conducted and reported to the Board.*

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