

**A. AUDIT AND AUDITORS :**

With the background of Satyam corporate scandal in India, 2013 Act extensively enhances accountability of the auditors. The key changes in this respect are as follows:

**Appointment of Auditors [Section 139(1)]:** Auditors will now be appointed for a term of five years. However, their term will be ratified at each annual general meeting.

**Mandatory Rotation [Section 139(3)]:** Auditors for listed companies (and other classes of companies as may be prescribed) are now required to mandatorily rotate their auditors – every five years in case of the appointment of an individual as auditor and every 10 years in case of appointment of an audit firm with a uniform cooling off period of five years in both cases. Further, firms with common partners in the outgoing audit firm will also be ineligible for appointment as auditor during the cooling off period.

**Non Audit Service:** Any services to be rendered by an auditor of a company should be approved by the Audit Committee or the board of the company. Additionally, the auditor is restricted directly or indirectly from providing certain specific services, which include:

- Accounting and book keeping services;
- Internal audit;
- Design and implementation of any financial information system;
- Actuarial services;
- Investment advisory services;
- Investment banking services;
- Rendering of outsourced financial services;
- Management services and any other services which may be prescribed.

**Secretarial Audit [Section 204]:**The 2013 Act provides for a mandatory requirement to have secretarial audit which is required to form a part of the director's report for all listed companies and other classes of companies that may be prescribed.

**Internal Audit:** The importance of internal audit has been well acknowledged in Companies (Auditor Report) Order, 2003 (the 'Order'), pursuant to which auditor of a company is required to comment on the fact that the internal audit system of the company is commensurate with the nature and size of the company's operations. However, the Order did not mandate that an internal audit should be conducted by the internal auditor of the company. The Order acknowledged that an internal audit can be conducted by an individual who is not in appointment by the company.

The 2013 Act now moves a step forward and mandates the appointment of 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.

The class or classes of companies which shall be required to mandatorily appoint an internal auditor as per the draft rules are as follows:

- Every listed company
- Every public company having paid-up share capital of more than 10 crore INR
- Every other public company which has any outstanding loans or borrowings from banks or public financial institutions more than 25 crore INR or which has accepted deposits of more than 25 crore INR at any point of time during the last financial year.

**Auditing standards:** The Standards on Auditing have been accorded legal sanctity in the 2013 Act and would be subject to notification by the NFRA. Auditors are now mandatorily bound by the 2013 Act to ensure compliance with Standards on Auditing. The 2013 Act, in several sections, has given cognizance to the Indian Accounting Standards, which are standards converged with International Financial Reporting Standards, in view of their becoming applicable in future.