# Companies Act, 2013 – Accounts and Audit Provisions

(CA P N Shah)

The existing Companies Act was enacted in 1956 with the object to consolidate the law relating to corporate sector and to regulate its activities. This Act is in force for the last over 56 years and has been amended several times. In view of changes in national and international economic environment and growth of our economy, the Government has decided to replace the Companies Act, 1956, by a new legislation. Originally Companies Bill, 2009 was introduced in the Lok Sabha in August, 2009 and was referred to Parliamentary Standing Committee. The Government received several suggestions from various stakeholders. After due consideration of various recommendations, a fresh Companies Bill, 2011 was introduced in the Lok Sabha and again referred to the Parliamentary Standing Committee. Lok Sabha has passed this Bill as Companies Bill, 2012 on 18th December,2012. Now the Rajya Sabha has also passed the Bill in August, 2013. The President has given his assent on 29th august, 2013. Thus the Companies Act, 2013, has now been enacted and will come into force from the date to be notified by the Government. It may be noted that out of 470 Sections, 98 Sections have come into force with effect from 12/09/2013 by a notification issued by the Government. Sections 128 to 133 and 138 to 148 of this Act deal with Accounts, Audit and Auditors. These provisions will have far reaching implications for the Audit Profession. In this article some important provisions contained in the Companies Act, 2013 are discussed.

## 1. Maintenance of Accounts

1.1 New section 128 of the Companies act, 2013 (New Act) provides for books of accounts to be maintained by the company. This section is similar to the existing section 209 of the Companies Act,1 956. The new section provides that every company shall prepare and keep at its registered office and at its branches such books of account and other relevant papers as may be prescribed. The company can maintain such books and records in the electronic mode. It is clarified in the section that the books of account should be kept on accrual basis and according to the double entry system. The section also provides that the company shall retain the books of accounts with the relevant vouchers and relevant other financial records for a period of 8 financial years. Recently, the

government has issued some Draft rules framed under the New Act for public comments. Draft rules 9.1 and 9.2 deal with procedure for maintenance of accounts by Companies.

1.2 It may be noted that for the first time new section 2(41) defines the term "Financial Year" to mean the period ending on 31st March of every year. Therefore, every company will now be required to maintain accounts from 1st April to 31st March which is the accounting year to be adopted for Income tax purpose. There is only one exception to this rule in the case of a holding company or subsidiary company incorporated outside India which is required to maintain its accounts for a financial year which is different from April to March. In such a case, different financial year can be adopted by getting approval of the National Company Law Tribunal (Tribunal). Further, if any existing company is adopting different financial year it will have to fall in line with the new provision within a period of two years from the date on which the new Companies Act comes into force.

## 2. Financial Statements

2.1 New Section 129 provides for preparation of financial statements. The term 'Financial Statement' is defined in the new section 2(40) to include balance sheet, profit and loss account/income and expenditure account, cash flow statement, statement of changes in equity and any explanatory note annexed to the above. Section 2(40) has come into force from 12/09/2013. New section 129 corresponds to existing section 210. It provides that the financial statements shall give a true and fair view of the state of affairs of the company and shall comply with the accounting standards notified under new section 133. It is also provided that the financial statements shall be prepared in the form provided in new schedule III.

2.2 It may be noted that in the new schedule III the provisions for preparation of balance sheet and statement of profit and loss have been given which are on the same lines as in the existing schedule VI. Further, in the new Schedule III detailed instructions have been given for

preparation of consolidated financial statements as consolidation of accounts of subsidiary companies is now made mandatory in section 129.

2.3 It may be noted that for the first time a provision has been made in the new section 129(3) that if a company has one or more subsidiaries it will have to prepare a consolidated financial statement of the company and of all the subsidiaries in the form provided in the new schedule III. The company has also to attach along with its financial statement, a separate statement containing the salient features of the financials of the subsidiary companies in such form as may be prescribed by the rules. It is also provided that if the company has interest in any associate company or a joint venture the accounts of that associate company as well as joint venture shall be consolidated. For this purpose "associate company" has been defined in new section 2(6) to mean a company in which the reporting company has significant influence i.e. it has control of atleast 20% of the total share capital of the company or has control on the business decisions under an agreement. The Central Government has power to exempt any class of companies from complying with any of the requirements of this section and the rules made under the section.

2.4 New section 136 provides for right of members to get copies of audited financial statements, auditors' report, Board Report etc. at least 21 days before the date of AGM. In the case of a listed company it will be sufficient if a statement containing the salient features of such documents in the prescribed form is sent to the members at least 21 days before the AGM. Further, new section 137 provides for filing of the financial statement etc. with ROC. These provisions are similar to existing sections 219 and 220.

2.5 Draft Rules 9.3 and 9.4 provide for procedure to be followed and the Forms for compliance with Section 129.

3. Reopening of Accounts

3.1 New sections 130 and 131 provide for the manner in which a company can reopen or recast its books of account or financial statements. This is a new provision made in the company legislation for the first time. At present, the Government has taken the view that the accounts once adopted by the members of the company at the AGM cannot be reopened or recast.

3.2 New section 130 provides that if it is found that (i) the accounts for a particular year were prepared in a fraudulent manner or (ii) the affairs of the company were mismanaged during the relevant period casting a doubt on the reliability of financial statements, an application will have to be made by the Central Government, the Income tax Authorities, the SEBI, any other statutory regulatory body or authority or any concerned party to a competent Court or Tribunal. On receipt of the order of the Court/Tribunal the company will have to reopen its accounts or recast its financial statements in conformity with the order. The accounts so revised or recast shall be considered as final.

3.3 New section 131 provides for voluntary revision of financial statements or Director's Report. Under this section, if it appears to the directors that (i) financial statement or (ii) report of the Board of Directors for a particular financial year does not comply with the provisions of the new sections 129 or 134, they can revise the financial statement or director's report in respect of any of the three preceding financial years. For this purpose the directors have make an application to the Tribunal in the prescribed manner and obtain its order. Before giving such an order the Tribunal has to give notice of hearing to the Central Government and the Income tax Authorities. It is also provided that such revised financial statement or report of directors shall not be prepared more than once in any financial years. Further, detailed reasons for such revision will have to be disclosed by the directors in their report to the members in the relevant financial year in which revision is made.

3.4 The Central Government has been authorised to make Rules about the procedure for such voluntary revision of financial statements and

director's report. These Rules will also provide for reporting requirements applicable to the auditors of the company. Draft rules 9.5 to 9.8 provide for the procedure to be followed by the Company for this purpose.

4. Accounting and Auditing Standards

4.1 New Sections 132, 133 and 143(10) provide for issue of Accounting and Auditing Standards. Existing Sections 210A and 211(3A) to (3C) deal with notification of Accounting Standards on the advice of National Advisory Committee on Accounting Standards (NACS). It may be noted that NACAS is now replaced by a new authority called National Financial Reporting Authority (NFRA) with very wide powers.

4.2 New Section 132 provides for constitution of NFRA, its functions and powers. Briefly stated these provisions are as under.

(i) The Central Government will constitute NFRA consisting of a chair person, who shall be a person of eminence and having expertise in accounting, auditing, finance or law and such other full-time or part-time members, not exceeding 15, as may be prescribed.

(ii) Terms and conditions and the manner of appointment of chairperson and members of NFRA and other related matters shall also be prescribed.

4.3 New Section 133 provides that the Central Government will prescribe the Standards of Accounting or any addendum to such standards as recommended by the Institute of Chartered Accountant of India (ICAI) in consultation with and after examination of recommendations made by NFRA. These Accounting Standards will be binding on the companies as well as their auditors. New section 143(10) provides that the Central Government will prescribe standards of Auditing or any addendum to such standards in a similar manner. It is also provided that until such auditing standards are notified by the Government, the existing Auditing Standards issued by ICAI will be binding on the auditors. It may be noted that new Section 133 has come into force from 12/09/2013. However, Section 132

providing for constitution of NFRA has not yet come into force. In such an event it is difficult to understand how powers u/s 133 will be exercised by the government under this Section. Further, it is not clear as to what is the position of NACAs at present. Draft Rule 9.9 provides that the existing accounting standards made under the Companies Act, 1956, shall continue till the new standards are framed.

5. **The functions of NFRA:**

5.1 New Section 132 provides for functions of NFRA as under:-

(a) to recommend to the Central Government about formation of Accounting Standards and Auditing Standards for adoption by Companies and their auditors.

(b) to monitor and enforce the compliance with the accounting and auditing standards in such manner as is prescribed in the Rules.

(c) to oversee the quality of service of the profession associated with ensuring compliance with such standards.

(d) to suggest measures required for improvement in the quality of service by the professionals (i.e. chartered accountants, Cost accountants and company secretary) and such other related matters as may be prescribed.

(e) to perform such other functions relating to the above matters as may be prescribed by the Rules.

5.2 The powers which NFRA can exercise are as under.

(a) Power to investigate, either on its own or on a reference made by the Central Government, in cases of such bodies corporate or persons, as may be prescribed, into the matters of performance or other misconduct committed by a Chartered Accountant or a Firm of Chartered Accountants. Once NFRA initiates this investigation, ICAI will have no authority to initiate or continue any proceedings in such matters.

(b) NFRA shall have the same powers as vested in a civil Court under Code of Civil Procedure, 1908. In other words it can

issue summons, enforce attendance, inspect books and other records, examine witness etc.

(c) If any professional or other misconduct is proved, NFRA can impose penalty as under.

- In the case of an Individual CA. minimum penalty of Rs. 1 lac which may extend to 5 times of the fees received by the Individual.
- In the case of a C.A. Firm, minimum penalty of Rs. 10 lacs which may extend to 10 times the fees received by the Firm.
- NFRA can debar any Chartered Accountant or a CA Firm from practice for a minimum period of six months or for such higher period not exceeding 10 years.

5.3 Any person/firm aggrieved by any order of NFRA can file appeal before the Appellate Authority. The Central Government has been empowered to appoint such Appellate Authority consisting of the chairperson and not more than two other members. The qualifications of those constituting the Appellate Authority and all other related matters will be prescribed by the Rules.

5.4 The above provisions in new section 132 will over ride any provisions contained in any other statute. This will mean that the council of ICAI will not be able to exercise its powers relating to disciplinary action against auditors of companies. Even powers to formulate auditing standards, ensure quality of audit etc. are now vested in NFRA. To this extent the autonomy conferred on ICAI under the C.A. Act, 1949, is partially taken away.

## 6. Rotation of Auditors

6.1 ICAI had successfully objected to the introduction of the system of Rotation of Auditors for the last over six decades. Several commissions and Parliamentary Committees had agreed that rotation of auditors is not in the interest of the Accounting Profession and the corporate sector. In spite of this, provision for rotation of auditors has now been introduced by enactment of new section 139 in the New Act.

6.2 Appointment of Auditors:

The provisions of new section 139 dealing with appointment of auditors can be briefly stated as under.

(i) After incorporation of a company, the first auditors (Individual or Firm of CA) should be appointed by the Board of Directors within 30 days. If the Board does not make such appointment, an extraordinary general meeting of members will have to be called within 90 days for appointment of auditors. The first auditors shall hold office upto the conclusion of first AGM.

(ii) At the first AGM, the auditors will have to be appointed for a period of 5 years i.e. from conclusion of the AGM to the conclusion of the sixth AGM. This appointment will have to be ratified by the members every year at each AGM during this period of 5 years.

(iii) Before appointment, the auditors will have to give their consent in writing along with a certificate in accordance with the prescribed conditions. The auditor has also to give a certificate that the criteria for his appointment given in new section 141 is satisfied.

(iv) After such appointment, the company will have to file a notice with ROC within 15 days and also inform the auditors.

(v) Draft Rules 10.1 and 10.2 provide for the procedure for selection of Auditors and conditions of their appointment.

6.3 Procedure for Rotation of Auditors:

(i) The system of Rotation of Auditors has been introduced in the case of Auditors of listed companies and other class of companies (specified companies) as may be prescribed by rules. This is provided in new section 139(2) as under.

(a) If the auditor is an Individual, he cannot be auditor of such a company for more than 5 consecutive years.

(b) If a firm/LLP is auditor, it cannot be auditor of such a company for more than two terms of 5 consecutive years (i.e. 10 years)

(c) In the case of an Individual who has been auditor for one term of 5 years, he cannot be reappointed by the company for the next 5 years. In the case of a firm/LLP who has been auditors of such a company for 10 years cannot be reappointed by the company for the next 5 years. It may be noted that any firm/LLP which has one or more partners who are also partners in the outgoing audit firm/LLP cannot be appointed as auditors during this 5 year period.

(d) After the Companies Act, 2013, comes in force, every existing listed or specified company will have to comply with the above provisions relating to Rotation of Auditors within 3 years from such commencement. From the wording of second proviso to Section 139(2) it is not clear whether, for the purpose of Rotation, the period prior to the New Act coming into force should be counted for calculating the period of 10 years. Draft Rule 10.4(4)(i) states that for the purpose of Rotation the period for which the Auditor has been holding office as Auditor prior to the commencement of the New Act shall be taken into account in calculating the period of 5 or 10 consecutive years.

(e) Thus, if an Auditor (Individual) was Auditor of any specified Company for 5 consecutive years or a Firm has been Auditors of such a Company for 10 consecutive years prior to the New Act coming into force, such Auditors will be subject to the new provisions for Rotation. As stated in Para 9.2 below, the provisions relating to Rotation will also apply to Branch Auditors.

(f) The Central Government can make Rules to prescribe the manner in which companies shall rotate their

auditors. It may be noted that Draft Rule 10.1 to 10.4 provide for procedure for Rotation of Auditors.

(g) It may be noted that Draft Rule 10.3 provides that the above provisions for Appointment and Rotation of Auditors will apply, besides listed Companies, to all public and private companies, other than one-person Company or small Companies.

(ii) New section 139(3) provides that the members of any company can resolve at any AGM that the audit firm/LLP appointed by it shall rotate the audit partner and his team at such internals as specified in their resolution.

(iii) It may be noted that section 139 specifically provides that the term 'Firm' shall include a Limited Liability Partnership (LLP). Section 141 also states that a body corporate will not include a LLP. In other words, any company can appoint LLP wherein majority of the partners are practicing chartered accountants, as auditors of the company.

(iv) In the case of Government companies, the C & AG has been given power to appoint auditors within the specified time limit. Provisions have also been made for filling up casual vacancy in the office of the auditors in Government companies as well as private sector companies. There are also provisions to deal with contingencies where retiring auditors are not be reappointed. It is also provided that in the cases of private sector companies where Audit Committees are constituted, the appointment of auditors can only be made by the Board/AGM after consideration of the recommendation of the audit committee. These procedures are on similar lines as provided in the existing Companies Act with minor modifications

6.3 Since the C.A. Act permits Chartered Accountants to form LLP for professional practice and the new Companies Act permits such LLP to render service as auditors of companies, it is necessary to suggest to the Government for amendment of section 47 of the Income tax Act. At present, section 47 (xiiib) provides for exemption from capital gains tax when a company is converted into LLP, subject to certain conditions. There is no similar exemption given on conversion of firm into LLP. Unless this exemption is given by amending section 47 of the Income tax Act, it will be difficult for existing C.A. firms to convert into LLP for rendering audit service. Let us hope that council of ICAI will make suitable representation to the Central Government for amendment of Income tax Act.

## 7. Removal of Auditors

7.1 New Section 140 provides for Removal, Resignation etc. of Auditors. The procedure given in this section is more or less similar to the existing procedure in section 225 with the following difference.

(i) Under new section 140 an auditor can be removed from his office before the expiry of his term only after obtaining the previous approval of the Central Government and after passing a Special Resolution by the Members. For this purpose the company will have to comply with the prescribed rules.

(ii) If an auditor resigns from his office, he is required to file, within 30 days, a statement in the prescribed form with the company and ROC. In the case of a Government company, this form is also required to be filed with C& AG. In this statement the auditor has give reasons and other facts relevant for his resignation. For failure to comply with this requirement, the auditor is punishable with a minimum fine of Rs. 50,000/- which may extend upto Rs. 5 lacs.

(iii) If the auditor is found to have, directly or indirectly, acted in a fraudulent manner or abetted or colluded in any fraud by the

company or any of its officers, the Tribunal can, on its own or on an application by the company, Central Government or any concerned person, direct the company to change the auditors. In the case of such an application by the Central Government for change of Auditors, the Tribunal can, within 15 days, pass an order that the auditor shall not function as such and the Central Government will be able to appoint another auditor. The auditor who is removed by the Tribunal cannot be appointed as an auditor of that company for 5 years. Further, under the new section 447 the auditor who is guilty of fraud will be punishable with imprisonment for a minimum term of six months which may extent to 10 years and shall also be liable to pay a minimum fine of an amount involved in the fraud which may extend to 3 times the said amount. If the fraud involves public interest the minimum period of imprisonment will be 3 years.

7.2 Draft Rules 10.5 and 10.6 provide for procedure for removal and resignation of an Auditor.

8. Eligibility and Qualification of Auditors

8.1 New section 141 deals with eligibility, qualifications and disqualifications of Auditors. This section is similar to the existing section 226 with the following modifications.

(i) A firm of Chartered Accountants can be appointed as auditors of a company only if majority of its partners are partners practicing in India.

(ii) As stated earlier, a LLP can be appointed as auditors of a company. However, in such a case only those partners of LLP who are chartered accountants in practice can be authorised to act and sign on behalf of the LLP.

(iii) It is provided that no Individual or Firm of chartered accountants can be appointed as auditors of a company if the Individual, his partner or partner of the firm or any relative of such persons hold any shares in the company, its holding or subsidiary or associate company. However, a relative of such

persons can hold shares of the F.V of Rs.1,000/- or such higher amount prescribed by the rules. Draft Rule 10.7(2) increases this limit from Rs.1,000/- to Rs.1 Lac. Similarly, the limit for indebtedness to the Company, its subsidiary etc. is also fixed by Draft Rule 10.7(3) at Rs. 1 Lac.

(iv) A person whose relative is a director or is in employment of the company as a director or key managerial personnel cannot be appointed as auditor.

(v) A person who is associated with any entity which is engaged in consulting and specialized services as specified in the new section 144 cannot be appointed as auditor.

8.2 Draft Rule 10.7 provides for circumstances under which an Auditor will be disqualified.

9. Powers and Duties of Auditors

9.1 New section 143 provides for powers and duties of Auditors. This section is similar to existing section 227. In the Auditor's Report on the financial statements, apart from the existing reporting requirements, the auditor has to state (i) the observations or comments on the financial transactions or matters which have any adverse effect on the functioning of the company and (ii) whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls. The Central Government is also authorized to expand the requirements of reporting by the Auditor. Draft Rule 10.8 states that the Audit Report shall now state the views of the Auditors in respect of (a) whether the Company has disclosed the effect of any pending litigations on its financial position in its financial statement, (b) whether the company has made provision for foreseeable losses on long term contracts, including derivative contracts and (c) whether there has been delay in depositing money into the Investor Education and Protection Fund by the Company.

9.2 New section 143(8) provides for appointment of Branch Auditors. This section is similar to the existing section 228. At present if the

statutory auditor is not to conduct the audit of the branch members can appoint branch auditors at AGM or authorise the Board of Directors to make such appointment. New section provides that the Branch Auditors will have to be appointed by the members in AGM as provided in new section 139. From this provision it is evident that the Branch Auditors will have to be appointed for a consecutive period of 5 years. Similarly, it appears that the Branch Auditors will be subject to the system of Rotation of Auditors u/s 139(2) in the audit of a listed company or a specified company as stated to above.

9.3 As stated earlier, the auditors will have to comply with the Auditing Standards while conducting Audit of any company as provided in new section 143(10).

9.4 It is also provided in section 143 that if an auditor, during the course of audit, has reason to believe that an offence involving fraud is being committed by the officers/employees against the company, the auditor will have to report to the Central Government in the prescribed manner. If the auditor fails to comply with this reporting requirement, without reasonable cause, he shall be punishable with minimum fine of Rs.1 lac which may extend to Rs. 25 lacs. Draft Rule 10.10 provides for procedure for reporting such frauds by the auditors. From this it is evident that under this Section only Matrial Fraud is to be reported. It is also clarified in Rule 10.10(2) that for this purpose materiality shall mean (a) Frauds that happening frequently or (b) Frauds where the amount involved or likely to be involved are not less than 5% of the net profit or 2% of turnover of the preceding financial year of the Company.

9.6 It may be noted that a Chartered Accountant having at least 10 years experience in Company matters can now be appointed as a Company Liquidator as provided in new Section 275. Under this Section it is provided that when a Company is being wound up by the Tribunal, it can appoint a professional i.e. Chartered Accountant, Advocate, Company Secretary, Cost Accountant or such professional whose name is on the Panel maintained by the Central Government in the prescribed manner as a liquidator. Such liquidator has to perform duties of Liquidator as provided in the Act.

10. Auditor not to render non-audit services

10.1 New section 144 provides that Auditor of a company shall render only such other services to the company as may be approved by the Board of Directors or the Audit Committee. However, it is specifically provided that the auditor shall not render, directly or indirectly, other services such as (a) accounting and book keeping services, (b) internal audit, (c) design and implementation of any financial information system (d) actuarial services, (e) investment advisory services, (f) investment banking services, (g) rendering of outsourced financial services, (h) management services and (i) any other kind of services as may be prescribed.

10.2 It may be noted that this is a new provision and there is no restriction of this type in the existing Companies Act. Therefore, if any auditor is rendering any such non-audit service to the company before the new Act comes into force, he will have to comply with this provision of new section 144 before the end of the financial year after the new Act comes into force.

10.3 It is also provided in this section that the prohibited non-audit services cannot be rendered by the following associates of the auditor.

(i) If the auditor is an Individual :- The Individual himself, his relative any person connected or associated with him, or any entity in which the Individual has significant influence or control or whose name or trade mark/brand is used by the Individual.

(ii) If the auditor is a firm or LLP :- Such firm/LLP either itself or through its partner or through its parent, subsidiary or associate or through any entity in which the firm/LLP or its partner has significant influence or control or whose name, trade mark or brand is used by the firm/LLP or any of its partners.

10.4 From the above it appears that under this section the auditor can render non-audit service such as tax audit, direct or indirect tax advice,

company law advice, tax or company law representation before appropriate authorities, FEMA matters and other related services.

11. Cost Auditors:

New Section 148 provides for appointment of Cost Auditors by Board of Directors of Companies engaged in the business of manufacture of such goods as may be notified by the Government. The procedure for appointment and reporting by the Cost Auditor is similar to the existing procedure. Draft Rule 10.11 provides for procedure for fixing remuneration of Cost Auditor.

12. Penalty Provisions

New section 147 provides for punishment for contravention of the provisions of new sections 139 to 146. These penalty provisions are as under.

(i) If a company contravenes any of the provisions of new sections 139 to 146 it shall be liable to pay minimum fine of Rs. 25,000/- which may extend to Rs. 5 lacs. Further, every officer who is in default shall be punishable with imprisonment upto one year and minimum fine of Rs. 10,000/- which may extend to Rs. one lac or with both.

(ii) If an auditor of a company contravenes any of the provisions of sections 139 and 143 to 145, the auditor shall be punishable with minimum fine of Rs. 25,000/- which may extend to Rs. 5 lacs. If it is found that the auditor has contravened those provisions knowingly or willfully with the intention to deceive the company, its share holders, creditors or tax authorities, he shall be punishable with imprisonment for a term upto one year and with a minimum fine of Rs. one lac which may extend upto Rs. 25 lacs.

(iii) If any auditor is convicted of an offence as stated in (ii) above, he shall be liable to (a) refund the remuneration received by him to the company and (b) pay for damages to the company, statutory bodies / authorities or to any other

persons for loss arising out of incorrect or misleading statements of particulars made in his audit report.

(iv) In the case of audit of a company which is conducted by an audit firm, if it is proved that any partner or partners of the audit firm have acted in a fraudulent manner or abetted or colluded in any fraud by the company, its Directors or officers, the civil or criminal liability, as provided in this Act or any other law, for such act shall be joint and several of the firm and each of its partners.

(v) New section 148 provides for audit of cost records in specified companies. This section is more or less similar to existing section 233B with some modifications. It may be noted that the above penalty provisions contained in new section 147 are applicable to the company as well as the Cost Auditor in the same manner as stated above.

13. **To Sum Up**

13.1 The above provisions relating to accounts and audit contained in the Companies Act, 2013 will have far reaching impact on the companies and auditors. It appears that these provisions are being made with a view to curb the present day tendency on the part of some companies to manipulate accounts with a view to benefit those in management or with a view to reduce tax. Some of these provisions are very harsh and they are likely to affect the development of the corporate sector and the profession of Chartered Accountants.

13.2 The New Act will curtail the autonomy of the Institute of Chartered Accountants of India to issue Accounting Standards and Auditing Standards. These standards will now be notified by the Government in consultation with NFRA. This is a new national authority to be appointed by the Government with very wide powers. This National Authority will be able to take disciplinary action against erring auditors and award punishment to them. Therefore, the autonomy of ICAI to take disciplinary action against its members will be curtailed to this extent. It appears that

the Central Government is now loosing the confidence reposed in the Council of ICAI for the last over 6 decades and started transferring this important function of regulating the C.A. profession to other Government controlled Agencies. It is surprising that the Council of ICAI has not taken general membership into confidence and no public protest has been made when such legislation was being made by the Parliament.

13.31Considering the responsibilities being placed on the auditors it appears that small and medium size audit firms will find it difficult to continue in audit practice. No such audit firm will be able to undertake such responsibilities with threat of litigation in the event of unintended and genuine mistakes. The provisions relating to restrictions on number of years one can continue to remain auditor of a company and restriction on rendering other services will also impact the ability of such small and medium size firms to continue in audit practice. Let us hope that the provisions for removal of auditors, awarding punishment and other harsh provisions will be implemented by the Government and other authorities in a reasonable, sympathetic and fair manner.