

## **C&AG Guidelines on Finalization of Accounts**

### **OFFICE OF COMPTROLLER & AUDITOR GENERAL OF INDIA** **10, BAHADUR SHAH ZAFAR MARG, NEW-DELHI 110 002**

Appointment of auditors of Government Companies/Deemed Government Companies under Section 619(2) of Companies Act 1956

[As revised in August 2004 – applicable to appointment orders issued prior to August 2004 also]

#### **I. CONDITIONS FOR THE COMPANY**

1. The Company may send a list of Directors and the previous Auditors of the Company giving their names & addresses to the newly appointed Auditors immediately on receipt of the appointment letter
2. While the Auditor is responsible for forming and expressing an independent opinion on the financial statements, the responsibility for their preparation is that of the management of the enterprise. The audit of the financial statements does not relieve the management of its responsibilities relating to the maintenance of adequate accounting records, internal controls and safeguarding of the assets of the enterprise. As provided in Section 215(3) of the Act, the Company should submit to the Auditors the Balance Sheet and Profit & Loss account duly approved by the Board of Directors for their report thereon.
3. According to Section 227(1) of the Act, the books of accounts & vouchers may be made available to the Auditors. A suitable program of audit in consultation with the Statutory Auditors and the concerned MAB/AG be drawn up so as to complete the audit within the prescribed time schedule. Details of transactions or explanation called for by the Statutory Auditors must be furnished expeditiously.
4.
  - i. The remuneration payable to the Auditors fixed by the Company in accordance with the amended provisions of Section 224(8) of the Companies Act, 1956 may be intimated immediately to the office of C&AG and to the Auditors.
  - ii. While fixing the Auditor's remuneration, due consideration might be given to the volume of work involved, amount of time normally spent by the audit firm's partners/chartered accountant employees and the audit clerk.
  - iii. While fixing audit fee due consideration might also be given to the notification No. 1-CA (7)/75/2004 dated 12-05-2004 issued by the Institute of Chartered Accountants of India prescribing minimum audit fee. It has been clarified that city/town referred to in the Notification refers to city/town of the Head office or Branch Office of the Auditor to which the audit is actually allotted.
  - iv. In cases where audits are allotted to the Branch office of the CA Firm, no TA/DA should be paid by the company for the audit of the Company/Units located at the same station of the Branch.
5. In the interest of maintaining the independence of Auditors, no assignment for consultancy or internal audit or any other services may be provided to the firm or its partners or relatives (husband, wife, brother or sister or any lineal ascendant or descendant) of partners of the firm or its Associates

during the year of audit and for one year after the firm ceases to be Auditor. Non-audit assignments that involve performing management functions or making management decisions are also prohibited during the year of audit and for one year after the firm ceases to be Auditor. This condition would not apply in case of Auditors being entrusted assignments for the tax audit under Income Tax Act, review of quarterly/half yearly accounts as per SEBI guidelines and other statutory certificates related to the audit assignment.

6.
  - a. The Company should confirm past audit details including audit fees. The changes in details including the fees in the future may be intimated to the office of the C&AG from time to time. Any other remuneration like TA/DA, Certification fees etc.(Tax/Management consultancy fee) paid to the Statutory/Branch Auditors in addition to the audit fees in the last three years and in future may also be intimated. The remuneration for other work like review of quarterly accounts as per SEBI guidelines, fees for tax audit, other statutory certificates etc. should be restricted to a reasonable the percentage of the total audit fee payable to the Auditors and which in total should not exceed the fee payable for carrying out the statutory audit as provided in the notification dated 08-03-2002 issued by ICAI. The details of such remuneration may also be intimated to the office of the C&AG for record.
  - b. The Auditors have to comply with the directions issued by the office of the C&AG under Section 619(3)(a) of the Companies Act, 1956 and for this purpose the Auditors have to attend meetings called by the concerned MAB/AG. For attending such meetings, reasonable expenditure on TA/DA incurred by the Auditors may be reimbursed by the Company.
7. Proposals for reorganization of units in the future may be sent to the office of the C&AG well before the beginning of the financial year the accounts of which are to be audited.
8. The Company may also intimate the office of C&AG the date of commencement of audit and the date on which the comments of the C&AG of India along with the Auditors Report is placed in AGM as per the provisions of Section 619(5) of the Companies Act, 1956.
9. To reduce the arrears, in case of Companies whose accounts are in arrears and to avoid delays in appointing Auditors for the past few accounting years in arrears, the Company may initiate action for appointment of Auditors for the subsequent years soon after the completion of audit of the preceding years. A copy of such certified accounts may be made available direct to the Principal Director (Commercial) in the office of C&AG. If the process is repeated in succession, the Company can hold a series of meetings of the share holders and present the accounts. It can thus clear the accounts for 3-4 years within a period of one year.

## II. CONDITIONS FOR THE AUDITORS

1. The appointment/re-appointment of Auditors is subject to their performance for the previous year's audit being judged satisfactory by the MAB/AG concerned.

2. The Auditors may intimate their acceptance as Auditors of the Company within 3 weeks of receipt of the appointment letter (i) to the Company (ii) to the office of C&AG (iii) to the concerned MAB/PAG/AG entrusted with the Supplementary Audit of the Company. If for any reason the Auditors are not in a position to accept the appointment, they may intimate all the above mentioned offices immediately along with the reasons for their decision
3. The appointment/re-appointment of Auditors is subject to the Auditors making the following declarations/undertakings:
  - . that no partner of the firms of the Auditors is related to the Managing Director/Whole-time Director or a part-time Director of the Company within the meaning of Section 6 of the Companies Act, 1956 read with schedule 1(A).
  - i. that neither the firm nor its Partners or Associates have any interest in the business of the company
  - ii. that the appointment/re-appointment will be within the limit specified in sub-section (1B) and (1C) of Section 224 of the Companies Act, 1956. The Auditor may also refer to the Gazette Notification no. 1-CA(7)/53/2001 dated 19-05-2001 of the Institute of Chartered Accountants of India wherein it is specified that a member of the Institute in practice shall be deemed to be guilty of professional misconduct, if he holds at any time appointment of more than the "specified number of audit assignments" of the Companies under Section 224 and/or Section 228 of the Companies Act, 1956 and the explanation thereto.
  - iii. that no unreasonable TA/DA, out of pocket expenses will be claimed from the Company. In cases where audits are allotted to the Branch office of the CA Firm, no TA/DA should be claimed by the CA Firm from the Company for the audit of the Company/Units located at the same station of the Branch
  - iv. that during the year of audit and for one year after the Firm ceases to be Auditor, no assignment for internal audit or consultancy or other services to the Company will be accepted either by the Firm or by its partners or relatives (husband, wife, brother or sister or any lineal ascendant or descendant) of partners of the Firm or by its Associates. Non-audit assignments that involve performing management functions or making management decisions are also prohibited during the year of audit and for one year after the Firm ceases to be Auditor. This condition would not apply to assignments for the tax audit under Income Tax Act, review of quarterly/half yearly accounts as per SEBI guidelines and other statutory certificates related to the audit assignment.
  - v. That no partner/Chartered Accountant employee of the Firm of Auditors has been held guilty of professional misconduct by the Institute of Chartered Accountants of India during last year (in case any partner of the firm has been held guilty of professional misconduct by the Institute of Chartered Accountants of India, to furnish details thereof)
4.
  - . The Auditors may start the audit of the Company immediately on receipt of the accounts of the Company. However, they should

certify the accounts for the year only after the audited accounts for the previous year has been laid before the AGM for their consideration. In case audited accounts of the previous years has been considered but finally not adopted by the shareholders, the Auditor can certify the accounts of the succeeding year indicating the fact of the non-adoption of the previous years accounts in their report.

- a. The time schedule for conducting the audit may be drawn-up with scheduling of audit i.e. indicating the period of audit of different departments/units of the PSU and also the name of Personnel & their qualification who will be deployed for audit of each unit. A copy of the time schedule so fixed may be sent to the concerned MAG/AG so that they may also draw their time schedule for supplementary audit.
  - b. The Auditor must complete the audit of the units/branches allotted to them within the time schedule stipulated by the management so that the statutory time schedule for placing the accounts in the AGM could be adhered to.
5. Record of audit work done in the form of working papers should be retained with sufficient information so as to support the Auditor's significant conclusions and judgements. Such working papers and other information collected during the audit may be provided to the representatives of MAG/AG as and when called for during supplementary audit under Section 619(4) of the Companies Act, 1956.
  6. The Auditors shall have to comply with the directions issued by the office of C&AG under Section 619(3) of the Companies Act, 1956. The remuneration is inclusive of the fee on account of the additional work involved in this regard.
  7. The Auditors shall also certify the statutory report under Section 165 of the Companies Act, 1956 and no extra remuneration is payable on this account.

The Company/Auditors will have to comply with the other provisions of the Companies Act, 1956 also as may be required, which are not specifically covered above.

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*The term "Associates" includes (a) other firms of Chartered Accountants in which any employee or partner of the Audit firm has an interest and (b) any employee or partner of the Audit firm practicing as a Chartered Accountant in his/her individual capacity.*

[Copy circulated to all concerned vide PE.104/2004/Pt/183 Dated 19-12-2005]