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Sub-Section (i)]

Government of India  
Ministry of Corporate Affairs

NOTIFICATION

New Delhi, the .....2014

G.S.R....(E).- In exercise of powers conferred by sub-sections (1), (2) and (4) of section 139, sub-sections (1) and (2) of section 140, sub-section (3) of section 141, sub-sections (2), (3), (8) and (12) of section 143, sub-section (3) of section 148 read with sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013) and in supersession of the Companies (Central Government's) General Rules and Forms, 1956 in so far as they relate to matters covered under these rules, except as respects things done or omitted to be done before such supersession, the Central Government hereby makes the following rules, namely:-

**1. Short title and commencement.-** (1) These rules may be called as the Companies (Audit and Auditors) Rules, 2014.

(2) They shall come into force on the 1<sup>st</sup> day of April, 2014.

**2. Definitions.-** (1) In these rules, unless the context otherwise requires,-

(a) "Act" means the Companies Act, 2013 (18 of 2013);

(b) "Annexure" means the Annexure enclosed to these rules;

(c) "fees" means fees specified in the Companies (Registration Offices and Fees) Rules, 2014.

(d) "Form" or "e-Form" means a form set forth under these rules which shall be used for the matter to which it relates;

(e) "section" means section of the Act.

(2) The words and expressions used in these rules but not defined and defined in the Act or in the Companies (Specification of definitions details) Rules, 2014 shall have the meanings respectively assigned to them in the Act or in the said rules.

**3. Manner and procedure of selection and appointment of auditors.-** (1) In case of a company that is required to constitute an Audit Committee under section 177, the committee, and, in cases where such a committee is not required to be constituted, the Board, shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and whether such qualifications and experience are commensurate with the size and requirements of the company:

Provided that while considering the appointment, the Audit Committee or the Board, as the case may be, shall have regard to any order or pending proceeding relating to professional matters of conduct against the proposed auditor before the Institute of Chartered Accountants of India or any competent authority or any Court.

(2) The Audit Committee or the Board, as the case may be, may call for such other information from the proposed auditor as it may deem fit.

(3) Subject to the provisions of sub-rule (1), where a company is required to constitute the Audit Committee, the committee shall recommend the name of an individual or a firm as auditor to the Board for consideration and in other cases, the Board shall consider and recommend an individual or a firm as auditor to the members in the annual general meeting for appointment.

(4) If the Board agrees with the recommendation of the Audit Committee, it shall further recommend the appointment of an individual or a firm as auditor to the members in the annual general meeting.

(5) If the Board disagrees with the recommendation of the Audit Committee, it shall refer back the recommendation to the committee for reconsideration citing reasons for such disagreement.

(6) If the Audit Committee, after considering the reasons given by the Board, decides not to reconsider its original recommendation, the Board shall record reasons for its disagreement with the committee and send its own recommendation for consideration of the members in the annual general meeting; and if the Board agrees with the recommendations of the Audit Committee, it shall place the matter for consideration by members in the annual general meeting.

(7) The auditor appointed in the annual general meeting shall hold office from the conclusion of that meeting till the conclusion of the sixth annual general meeting, with the meeting wherein such appointment has been made being counted as the first meeting:

Provided that such appointment shall be subject to ratification in every annual general meeting till the sixth such meeting by way of passing of an ordinary resolution.

*Explanation.-* For the purposes of this rule, it is hereby clarified that, if the appointment is not ratified by the members of the company, the Board of Directors shall appoint another individual or firm as its auditor or auditors after following the procedure laid down in this behalf under the Act.

**4. Conditions for appointment and notice to Registrar.-** (1) The auditor appointed under rule 3 shall submit a certificate that -

(a) the individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act, the Chartered Accountants Act, 1949 and the rules or regulations made thereunder;

(b) the proposed appointment is as per the term provided under the Act;

(c) the proposed appointment is within the limits laid down by or under the authority of the Act;

(d) the list of proceedings against the auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

(2) The notice to Registrar about appointment of auditor under fourth proviso to sub-section (1) of section 139 shall be in Form **ADT-1**.

**5. Class of Companies.-** For the purposes of sub-section (2) of section 139, the class of companies shall mean the following classes of companies excluding one person companies and small companies:-

(a) all unlisted public companies having paid up share capital of rupees ten crore or more;

(b) all private limited companies having paid up share capital of rupees twenty crore or more;

(c) all companies having paid up share capital of below threshold limit mentioned in (a) and (b) above, but having public borrowings from financial institutions, banks or public deposits of rupees fifty crores or more.

**6. Manner of rotation of auditors by the companies on expiry of their term.-** (1) The Audit Committee shall recommend to the Board, the name of an individual auditor or of an audit firm who may replace the incumbent auditor on expiry of the term of such incumbent.

(2) Where a company is required to constitute an Audit Committee, the Board shall consider the recommendation of such committee, and in other cases, the Board shall itself consider the matter of rotation of auditors and make its recommendation for appointment of the next auditor by the members in annual general meeting.

(3) For the purpose of the rotation of auditors-

(i) in case of an auditor (whether an individual or audit firm), the period for which the individual or the firm has held office as auditor prior to the commencement of the Act shall be taken into account for calculating the period of five consecutive years or ten consecutive years, as the case may be;

(ii) the incoming auditor or audit firm shall not be eligible if such auditor or audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

*Explanation. I* - For the purposes of these rules the term "same network" includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

*Explanation. II* - For the purpose of rotation of auditors,-

(a) a break in the term for a continuous period of five years shall be considered as fulfilling the requirement of rotation;

(b) if a partner, who is in charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of chartered accountants, such other firm shall also be ineligible to be appointed for a period of five years.

### **Illustration explaining rotation in case of individual auditor**

Illustration 1:-

Number of consecutive years for which an individual auditor has been functioning as auditor in the same company [in the first AGM held after the commencement of provisions of section 139(2)]	Maximum number of consecutive years for which he may be appointed in the same company (including transitional period)	Aggregate period which the auditor would complete in the same company in view of column I and II
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I	II	III
5 years (or more than 5 years)	3 years	8 years or more
4 years	3 years	7 years
3 years	3 years	6 years
2 years	3 years	5 years
1 year	4 years	5 years

Note: 1. Individual auditor shall include other individuals or firms whose name or trade mark or brand is used by such individual, if any.

2. Consecutive years shall mean all the preceding financial years for which the individual auditor has been the auditor until there has been a break by five years or more.

### **Illustration explaining rotation in case of audit firm**

Illustration 2:-

I	II	III
Number of consecutive years for which an audit firm has been functioning as auditor in the same company [in the first AGM held after the commencement of provisions of section 139(2)]	Maximum number of consecutive years for which the firm may be appointed in the same company (including transitional period)	Aggregate period which the firm would complete in the same company in view of column I and II
I	II	III
10 years (or more than 10 years)	3 years	13 years or more
9 years	3 years	12 years
8 years	3 years	11 years
7 years	3 years	10 years
6 years	4 years	10 years
5 years	5 years	10 years
4 years	6 years	10 years

3 years	7 years	10 years
2 years	8 years	10 years
1 year	9 years	10 years

Note:1. Audit Firm shall include other firms whose name or trade mark or brand is used by the firm or any of its partners.

2. Consecutive years shall mean all the preceding financial years for which the firm has been the auditor until there has been a break by five years or more.

(4) Where a company has appointed two or more individuals or firms or a combination thereof as joint auditors, the company may follow the rotation of auditors in such a manner that both or all of the joint auditors, as the case may be, do not complete their term in the same year.

**7. Removal of the auditor before expiry of his term.-** (1) The application to the Central Government for removal of auditor shall be made in Form **ADT-2** and shall be accompanied with fees as provided for this purpose under the Companies (Registration Offices and Fees) Rules, 2014.

(2) The application shall be made to the Central Government within thirty days of the resolution passed by the Board.

(3) The company shall hold the general meeting within sixty days of receipt of approval of the Central Government for passing the special resolution.

**8. Resignation of auditor.-** For the purposes of sub-section (2) of section 140, when an auditor has resigned from the company, he shall file a statement in Form **ADT-3**.

**9. Liability to devolve on concerned partners only.-** In case of criminal liability of any audit firm, the liability other than fine, shall devolve only on the concerned partner or partners, who acted in a

fraudulent manner or abetted or, as the case may be, colluded in any fraud.

**10. Disqualifications of auditor.-** (1) For the purpose of proviso to sub-clause (i) of clause (d) of sub-section (3) of section 141, a relative of an auditor may hold securities in the company of face value not exceeding rupees one lakh:

Provided that the condition under this sub-rule shall, wherever relevant, be also applicable in the case of a company not having share capital or other securities:

Provided further that in the event of acquiring any security or interest by a relative, above the threshold prescribed, the corrective action to maintain the limits as specified above shall be taken by the auditor within sixty days of such acquisition or interest.

(2) For the purpose of sub-clause (ii) of clause (d) of sub-section (3) of section 141, a person who or whose relative or partner is indebted to the company or its subsidiary or its holding or associate company or a subsidiary of such holding company, in excess of rupees five lakh shall not be eligible for appointment.

(3) For the purpose of sub-clause (iii) of clause (d) of sub-section (3) of section 141, a person who or whose relative or partner has given a guarantee or provided any security in connection with the indebtedness of any third person to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of one lakh rupees shall not be eligible for appointment.

(4) For the purpose of clause (e) of sub-section (3) of section 141, the term "business relationship" shall be construed as any transaction entered into for a commercial purpose, except -



(i) commercial transactions which are in the nature of professional services permitted to be rendered by an auditor or audit firm under the Act and the Chartered Accountants Act, 1949 and the rules or the regulations made under those Acts;

(ii) commercial transactions which are in the ordinary course of business of the company at arm's length price - like sale of products or services to the auditor, as customer, in the ordinary course of business, by companies engaged in the business of telecommunications, airlines, hospitals, hotels and such other similar businesses.

**11. Other matters to be included in auditors report.-** The auditor's report shall also include their views and comments on the following matters, namely:-

(a) whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;

(b) whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;

(c) whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.

**12. Duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor.-** (1) For the purposes of sub-section (8) of section 143, the duties and powers of the company's auditor with reference to the audit of the branch and the

branch auditor, if any, shall be as contained in sub-sections (1) to (4) of section 143.

(2) The branch auditor shall submit his report to the company's auditor.

(3) The provisions of sub-section (12) of section 143 read with rule 12 hereunder regarding reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.

**13. Reporting of frauds by auditor.-** (1) For the purpose of sub-section (12) of section 143, in case the auditor has sufficient 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 report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below:

(i) auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after he comes to knowledge of the fraud, seeking their reply or observations within forty-five days;

(ii) on receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee alongwith his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;

(iii) in case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government alongwith a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time.

(2) The report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement Due or by Speed post followed by an e-mail in confirmation of the same.

(3) The report shall be on the letter-head of the auditor containing postal address, e-mail address and contact number and be signed by the auditor with his seal and shall indicate his Membership Number.

(4) The report shall be in the form of a statement as specified in Form **ADT-4**.

(5) The provision of this rule shall also apply, mutatis mutandis, to a cost auditor and a secretarial auditor during the performance of his duties under section 148 and section 204 respectively.

**14. Remuneration of the Cost Auditor.-** For the purpose of sub-section (3) of section 148,-

(a) in the case of companies which are required to constitute an audit committee-

(i) the Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;

(ii) the remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;

(b) in the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

**FORM NO. ADT-1**

[See rule 4(2) of the Companies (Audit and Auditors) Rules, 2014]

**Notice of appointment of auditor by the company**

1.(a) Corporate identity number (CIN) or foreign company registration number (FCRN) of the company

(b) Global Location Number (GLN) of company

2. (a) Name of the company:

(b) Address of the registered office or of the principal place of business in India of the company:

(c) E-mail ID of the company

3. Date of meeting at which the auditor appointed \_\_\_\_\_

4. Category of Auditor  Individual  Firm

5.(a) Income Tax PAN of Auditor or auditor's firm

(b) Name of the Auditor or Auditor's firm

(c) Membership Number of Auditor or auditor's firm's registration number

(d) Address of the Auditor or auditor's firm

(e) City

(f) State

(g) Pin code

(h) Email id of the auditor or auditor's firm

Place:

Date:

### **Verification**

I am authorised by the Board of Directors of the Company vide resolution no..... dated..... to sign this form and declare that all the requirements of Companies Act, 2013 (18 of 2013) and the rules made thereunder in respect of the subject matter of this form and matters incidental thereto have been complied with. I also declare that all the information given herein above is true, correct and complete including the attachments to this form and nothing material has been suppressed.

#### **To be digitally signed by**

Designation (to be given)

DIN of the person signing the form.

#### **Note:**

This eform has been taken on file maintained by the Registrar of companies through electronic mode and on the basis of statement of correctness given by the filing company. Attention is also drawn to provisions of section 448 of the Act which provide for punishment for false statement.

**FORM NO. ADT-2**

**Application for removal of auditor(s) from his/their office  
before expiry of term**

[See rule 7(1) of Companies (Audit and Auditors) Rules, 2014]

**1.** (a) Corporate identity number (CIN) or foreign company registration number (FCRN) of the company:

(b) Global Location Number (GLN) of company:

**2.** (a) Name of the company:

(b) Address of the registered office or of the principal place of business in India of the company:

(c) E-mail ID of the company:

**3.**(a) Service request number of relevant special resolution

(b) date of filing the form

(c) date of passing the special resolution

(d) date of the annual/extraordinary general meeting

4. Details of the application clearly indicating the grounds for seeking removal of auditor

5. Whether the accounts have been qualified during last three years (if yes, give details)

6. Details of opportunity given to auditor concerned for being heard
7. Whether any civil or criminal proceedings are pending between the company and the concerned officers. \_\_\_ Yes \_\_\_ No. If yes, give complete details.
8. Date of appointment of the concerned auditor and SRN of notice of his appointment and period for which the auditor was appointed.
9. Whether any special notice has been received for removal of auditors. Yes or No. If yes, the date of receipt of notice and the percentage of capital held by the members giving such notice or percentage of the number of members in case of company limited by members.
10. Whether all due audit fee has been paid to the concerned auditors. If no mention the amount of arrears.
11. Details of other services been rendered by such auditors to the company.
12. Pendency of Audit i.e, number of financial years for which audit is pending.
13. Stage of accounts of the company for each of such financial year i.e, yet to be approved by the Board or approved by the Board but yet to be handed over to auditors or approved by the Board, handed over to auditors but audit not yet completed or audit completed, draft report not yet given by the auditors.
14. Whether there is any dispute with regard to the Books of Accounts in the possession of auditors but not delivered back to the company. Yes or No.

**Verification**

I am authorized by the Board of Directors of the Company vide resolution no..... dated..... to sign this form and declare that all the requirements of Companies Act, 2013 and the rules made thereunder in respect of the subject matter of this form and matters incidental thereto have been complied with. I also declare that all the information given herein above is true, correct and complete including the attachments to this form and nothing material has been suppressed.

**To be digitally signed by**

Designation (to be given)

DIN of the person signing the form

**Attachments:**

1. Copy of the special resolution
2. Details of the grounds for seeking removal of auditor
3. Minutes of the annual general meeting or extraordinary general meeting
4. Optional attachments, if any

Note:

Attention is also drawn to provisions of Section 448 and 449 which provide for punishment for false statement and punishment for false evidence respectively.

For office use only: E-form Service Request Number (SRN)..... E-form filing date....

Digital signature of the authorizing officer

This e-form is hereby approved/rejected

Date of signing



**FORM NO. ADT-3**

[See rule 8 of Companies (Audit and Auditors) Rules, 2014]

**Notice of Resignation by the Auditor**

**1.(a)** Corporate identity number (CIN) or foreign company registration number (FCRN) of the company:

(b) Global Location Number (GLN) of company:

**2.(a)** Name of the company:

(b) Address of the registered office or of the principal place of business in India of the company:

(c) E-mail ID of the company:

3. Category of Auditor  Individual  Firm

4.(a) Income Tax PAN of auditor or auditor's firm

(b) Name of the auditor or auditor's firm

(c) Membership Number of auditor or auditor's firm's registration number

(d) Address of the auditor or auditor's firm

(e) City

(f) State

(g) Pin code

(h) Email id of the auditor or auditor's firm

5. Reasons for resignation

6. Whether letter of resignation is attached Yes/No

7. Any other facts relevant to the resignation

**Verification**

I hereby confirm that the information given in this form and its attachments is correct and complete.

I am duly authorised to sign and submit this form.

To be digitally signed by

Auditor / Partner of the audit firm

Whether Associate or Fellow:

\_\_\_\_\_ Associate          \_\_\_\_\_ Fellow

Membership Number:

Attachments:

1. Resignation letter, if attached
2. optional attachments, if any.

**Form No.ADT-4**

**REPORT TO THE CENTRAL GOVERNMENT**

(See rule 13(4) of the Companies (Audit and Auditors) Rules, 2014)

Date:

**Subject:** Report under sub- section (12) of section 143 of the Companies Act, 2013 on suspected offence involving fraud being committed or having been committed

1) (a) Name of the Company

(b) CIN:

(c) Address of the Registered Office:

2) (a) Name of the auditor or auditor's Firm

(b) Membership Number

(c) Address

3) Date of the annual general meeting when the Auditor was appointed or reappointed

4) SRN and date of filing

5) Address of the office or location where the suspected offence is believed to have been or is being committed

6) Full details of the suspected offence involving fraud (attach documents in support)

7) Particulars of the officers or employees who are suspected to be involved in the commission of the offence, if any:

a) Name(s) :

b) Designation

c) If Director, his DIN

d) PAN

- 8) Basis on which fraud is suspected:
- 9) Period during which the suspected fraud has occurred
- 10) Date of sending report to the Board or Audit committee as per rule 13(1)
- 11) Date of reply received from Board or Audit committee, if any and if so received, attach copy thereof and give gist of the reply
- 12) Whether the auditor is satisfied with the reply of the Board or Audit committee. Yes \_\_\_\_\_ No \_\_\_\_\_.
- 13) Estimated amount involved in the suspected fraud;
- 14) Details of steps , if any, taken by the company in this regard;  
(Furnish full details with references)
- 15) Any other relevant information.

**VERIFICATION**

I, ....., Proprietor/Partner of ....., Chartered Accountants do hereby declare that the information furnished above is true, correct and complete in all respects including the attachments to this form.

**(Name, Signature and**

**Seal of the Auditor)**

**Attachments:**

1 Optional attachments

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Note: The report on this form along with attachments thereto is to be given in a sealed cover to the Secretary, Ministry of Corporate Affairs in the manner provided in Rule 13.

[File No. 1/33/2013-CL-V]

(Renuka Kumar)

Joint Secretary to the Government of India