CA IPC/INTER AUDIT – SAMPLE TEST SOLUTION 34 MARKS

Q 1	A
Q 2	B
Q 3	B
Q 4	B
Q 5	B
Q 6	A
Q 7	B
Q 8	B
Q 9	A
Q 10	D

Q 11 Joint Auditors: When one of the joint auditors of the previous years is considered for ratification by the members as the sole auditor for the next year, it is similar to non-re- appointment of one of the retiring joint auditors. As per sub-section 4 of section 140 of the Companies Act, 2013, **special notice shall be required for a resolution at an annual general meeting appointing as auditor a person other than a retiring auditor**, or providing expressly that a retiring auditor shall not be re-appointed, except where the retiring auditor has completed a consecutive tenure of five years or, as the case may be, ten years, as provided under sub-section (2) of section 139 of the said Act. Accordingly, provisions of the Companies Act, 2013 to be complied with are as under-

(i) Ascertain that special notice u/s 140(4) of the Companies Act, 2013 was received by the company, from such number of members holding not less than one percent of total voting power or holding shares on which an aggregate sum of not less than five lakh rupees has been paid up on the date of the notice, not earlier than 3 months but at least 14 days before the AGM date

(ii) Check whether the said notice has been sent to all the members at least 7 days before the date of the AGM.

(iii) Verify the notice **contains an express intention of a member for proposing the resolution for appointing a sole auditor in place of both the joint auditors** who retire at the meeting but are eligible for re-appointment.

(iv) The notice is also sent to the retiring auditor as per Section 140(4)(ii) of the Companies Act, 2013.

(v) Verify whether any representation, received from the retiring auditor was sent to the members of the company to whom notice of the meeting was sent.

(vi) Verify from the **minutes book** whether the representation received from the retiring joint auditor was considered at the AGM.

Q 12 According to the section 141(3)(d)(ii) of the Companies Act, 2013, a person **who is indebted to the company for an amount exceeding Rs. 5,00,000 shall be disqualified** to act as an auditor of such company and he should vacate his office of auditor when he incurs this disqualification subsequent to his appointment.

However, **where the person has liquidated his debt before the appointment** date, **there is no disqualification** to be construed for such appointment.

In the given case, Mr. Y was appointment as an auditor of PQR Ltd. for the year ended 31.03.2017 at the Annual General Meeting held on 16.08.2018. He repaid the loan amount fully to the company on 10.8.2018 i.e. before the date of his appointment.

Hence, the appointment of Mr. Y as an auditor is **valid** and the shareholder's complaint is not acceptable.

Q 13 Auditors to Attend General Meeting: **According to Section 146 of the Companies Act, 2013, the auditor of a company are under an obligation to attend any general meeting** of the company and not only those meetings at which the accounts audited by them are to be presented and discussed.

In the instant case, the **boards of directors of Secret Ltd. have no right to restrict Mr. Buddha from attending the general meeting** and Mr. Buddha has every right to attend such meeting as conferred by Section 146.

Thus, the action of the board of directors is contrary to the provisions of law and curtails the right of the auditor.

Q 14 Auditor's Attendance at Annual General Meeting: **As per Section 146 of the Companies Act, 2013, it is right of the auditor to receive notices** and other communications relating to any general meeting and to be heard at such meeting, relating to the matter of his concern, **however, it is duty of the auditor to attend the same or through his authorised representative unless otherwise exempted**.

In the instant case, the Board of Directors of a company have filed a complaint with the Institute of Chartered Accountants of India against their statutory auditors for their failing to attend the Annual General Meeting of the Shareholders in which audited accounts were considered.

In view of above discussed provisions of section 146, the statutory auditor of the company should attend the general meetings either through himself or through his authorised representative.

Q 15 **Under sub-section (3) of section 141 along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 (hereinafter referred as CAAR),** the following person shall not be eligible for appointment as an auditor of a company, namely

- Any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialized services as provided in section 144.

Section 144 of the Companies Act, 2013 is a new provision which prescribes certain services not to be rendered by the auditor. Which are given here under: -

(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.

Q 16 The **significance of this term varies in different circumstances on account of the nature of goods and the methods by which cost has been computed**. Essentially, **it refers to an appropriate combination of the cost of purchase, cost of conversion and other costs incurred in the normal course of business in bringing the inventories up to the present location and condition.**

In **determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred**. Examples of such costs are:

(a) **Abnormal amounts of wasted materials**, labour, or other production costs;

(b) **Storage costs, unless those costs are necessary in the production process** prior to a further production stage;

(c) **Administrative overheads** that do not contribute to bringing the inventories to their present location and condition; and

(d) **Selling and distribution costs**.

(e) The **cost of inventories of items that are not ordinarily interchangeable** and goods or services produced and segregated for specific projects should be assigned by specific identification of their individual costs.

(f) The **cost of inventories, other than those dealt with in paragraph 14 of AS-2**, should be assigned by using the first-in, first-out (FIFO), or weighted average cost formula. The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.