

② Rotation of Auditors:

(i) Sec. 139(2): Listed Companies and Other prescribed Companies (Rule 5) shall not appoint:



(i) an Individual - as auditor for more than one term of five consecutive years.



(ii) an Audit firm - as auditor for more than 2 terms of five consecutive years each.

Rule 5 of CAAR, 2014: Companies (other than small companies and OPC) covered below:

- ✓ (a) Public Unlisted Companies having PUC \geq 10 crores;
- (b) Private Companies having PUC \geq 50 crores;
- ✓ (c) Companies not covered in (a) and (b) above, having borrowings from banks, financial institutions or public deposits \geq 50 crores.

Examples:

		<u>PUC</u>	<u>T/O</u>	<u>Borrowings</u>	<u>Rotation applicable or not</u>
A Ltd.	- <u>Listed</u>	5 cr.	-	42 Cr.	Applicable (Listed)
B Ltd.	- <u>Listed</u>	15 cr.	-	90 Cr.	" (")
C Ltd.	- <u>Unlisted</u>	<u>20 Cr.</u>	-	25 Cr.	" (PUC \geq 10 cr.)
D Ltd.	"	6 Cr.	-	46 Cr.	Not applicable
E (P) Ltd.	"	10 Cr.	-	46 Cr.	" "
F (P) Ltd.	"	22 Cr.	-	<u>51 Cr.</u>	Applicable (Borrowing \geq 50)
G (P) Ltd.	"	<u>54 Cr.</u>	-	42 Cr.	Applicable (PUC \geq 50 cr.)
H (P) Ltd.	"	<u>1.5 Cr.</u>	<u>18 Cr.</u>	<u>52 Cr.</u>	Not applicable being a small company.

Provisions relating to rotation covered u/s 139(2):

(i) cooling off period: Individual auditor or firm auditor shall not be eligible for re-appointment for a period of 5 years in same company after completion of their respective tenures.

(ii) Disability of other firms having common partners:

Audit firms having common partners as on [date of appointment] with the firm whose tenure has just expired, shall not be eligible for appointment for a period of 5 years.

Example: XYZ Ltd. (listed company) is willing to appoint M/s ABC and Co. as their auditor its AGM to be held on 15.09.2022, in (PQR & Co.) which tenure of existing auditor expires.

Existing auditor (PQR and Co.) is having 3 Partners - P, Q and R

M/s ABC and Co. (Proposed auditor) is having 4 Partners - A, B, C and R

Q.1: whether ABC and Co. can be appointed as auditor in XYZ Ltd.

Ans: No, as Mr. R is a common partner as on date of appointment.

Q.2: Will your answer change, if ABC and Co. is having only three partners A, B and C.

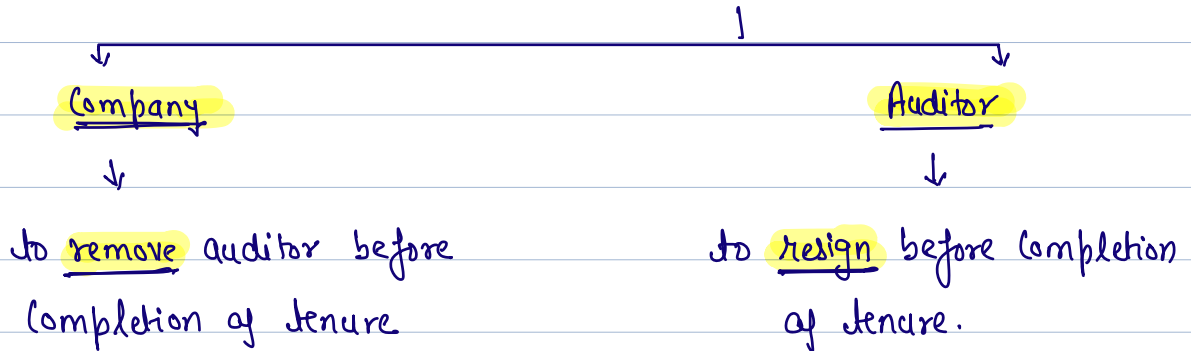
Ans: ABC and Co. can be appointed as auditor.

Q.3: Assuming that ABC and Co. is having 3 Partners A, B and C, and after their appointment as auditor in XYZ Ltd., Mr. R joins ABC and Co as a partner. whether ABC and Co. need to vacate the office.

Ans: ABC and Co. is not required to vacate the office.

(iii) Implications of Sec. 139(2):

Sec. 139(2) shall not prejudice the rights of



(iv) Sec. 139(3): Rotation among auditing partner and Joint Audit:

Members of the company may resolve the following:

A, B, C

Sy. $\begin{bmatrix} 1-A & A \\ 2-A & B \\ 3-B & C \\ 4-B & A \\ 5-C & B \end{bmatrix}$

- a) Rotation of auditing partner and his team at prescribed interval. (as decided by members)
- b) That the audit may be carried out by more than one auditor (i.e. Joint Auditor).

Note: If more than one auditors are appointed then provisions of SA-299 "Joint Audit of financial statements" shall apply.

(iii) Sec. 139(4): Powers of C.G.:

C.G. may prescribe the manner of rotation for the purposes of Sec. 139(2).

Note: Rule 6 prescribes the manner of rotation for the purposes of Sec. 139(2).

(iv) Rule 6 : Manner of Rotation :

(a) Audit Committee shall recommend to Board the name of auditor who replaces the existing auditor.

BoD shall consider the recommendations of audit committee and forward to members.

Members shall consider the recommendations in AGM.

(b) For the purpose of rotation, individual auditor or audit firm shall not be eligible for a period of 5 years, if it belongs to same network to which retiring auditor belongs to.

Example: A Ltd. (Listed Company) is willing to appoint M/s XYZ and Associates as its auditor on completion of two tenures of M/s ABC and Associates.

Q.1 whether XYZ and Associates can be appointed as auditor, if XYZ and Associates and ABC and Associates are part of Network of KPMG.

Ans.: No, as both firms belong to same network. [Rule 6]

Q.2. whether XYZ and Associates can be appointed as auditor, if Mr. Z is a partner in XYZ and Associates as well as ABC and Associates.

Ans.: No, as Mr. Z is a common partner as on date of appointment. [Sec. 139(2)]

Q.3. Whether XYZ and Associates can be appointed as Auditor, if there is no common partner and no common network.

Ans: Yes, as Sec. 139(2) and Rule 6 do not prohibit/restrict such appointment.

Q.4. What will be the consequences if in Q.3, after appointment of XYZ and Associates as auditor,

(a) a partner of ABC and Associates join XYZ and Associates as partner.

(b) XYZ and Associates becomes part of Network MN considering that ABC and Associates is already a part of Network MN.

Ans: (a) No consequences, XYZ and Associates need not to vacate the office. [Sec. 139(2)]

(b) XYZ and Associates disqualified and need to vacate the office. [Rule 6]

(c) Break in the term should be for a continuous period of 5 years.

(d) A partner in charge of audit firm, who certifies the financial statements of the company, if retires from the firm and joins another firm of Chartered Accountants, that other firm shall also be disqualified to be appointed as auditor of that company for a period of 5 years.

Example: M/s ABC and Associates, having partners A, B and C is auditor of PQR (P) Ltd, having PUC of ₹ 80 Crores.

Tenure of ABC and Associates is expiring in upcoming AGM to be held on 20.08.2022.

FY FY 2021-22, audit report and financial statements were signed/certified by Mr. A.

Mr. A resigns from ABC and Associates on 10.08.2022 and joins MN and Associates.

Q. Whether MN and Associates can be appointed as auditor in AGM of PQR (P) Ltd. on 20.08.2022.

A. No. as Mr. A, certifying partner of retiring firm, resigns from retiring firm and joins MN and Associates as auditor.

Q. What will be answer if Mr. A joins MN and Associates on 15.09.2022.

A. MN and Associates can be appointed as auditor in AGM to be held on 20.08.2022, but need to vacate the office on 15.09.2022, after being disqualified due to joining of Mr. A as partner.