

**GOVERNMENT OF INDIA
MINISTRY OF CORPORATE AFFAIRS**

**RAJYA SABHA
STARRED QUESTION No. 13
ANSWERED ON TUESDAY, THE 11TH DECEMBER, 2018**

EXIT BY AUDIT FIRMS AND DIRECTORS

QUESTION

***13. DR. PRABHAKAR KORE**

**Will the Minister of CORPORATE AFFAIRS
be pleased to state:-**

- (a) whether it is a fact that incidents of exit by audit firms and directors from troubled companies are on the rise in the country;
- (b) if so, the number of audit firms and directors who quit troubled companies during the last one year; and
- (c) the details of measures taken by Government to strengthen the standards of governance of companies in the country?

ANSWER

THE MINISTER OF CORPORATE AFFAIRS SHRI ARUN JAITLEY

(a) to (c): A statement is laid on the Table of the House.

STATEMENT REFERRED TO IN ANSWER TO PART(a) to (c) OF RAJYA SABHA STARRED QUESTION NO.13 FOR 11TH DECEMBER, 2018 REGARDING EXIT BY AUDIT FIRMS AND DIRECTORS.

- (a) & (b): The resignation / exit by auditors and directors is permissible under law subject to disclosure of the reasons to the Registrar of Companies in e-form ADT-3 and DIR-11 (followed by DIR-12 by the companies), respectively. There are 34,563 auditors/ audit firms and 1,38,508 directors have resigned during the year 2017-18. Further, notices have been issued to some of the auditors/ audit firms for providing insufficient reasons for resignation in respect of listed companies.
- (c): The Government has taken following measures under the provisions of the Companies Act, 2013 to strengthen the overall Corporate Governance Standard:
- (i) Chapter X of the Companies Act, 2013 provides for regarding audit and auditor, appointment of auditors, removal, resignation of auditors, eligibility, qualifications and disqualification of auditors, remuneration of auditor, powers and duties of auditors and auditing standard, restricting auditors for doing certain services, empowering auditor to sign audit report, auditor to attend the general meetings and punishment for contravention.
 - (ii) Section 129(1)/143(10) of the Act, 2013 provides for requirements of compliance with accounting and auditing standards on companies/their auditors;
 - (iii) Section 138 of the Act, 2013 and Rule 13 of the Companies (Accounts) Rules, 2014 provides for requirement of internal audit for listed company and such other companies mentioned therein which include bigger companies;
 - (iv) Section 139 and 141(3)(g) of the Act, 2013 appointment of auditor and provides for stringent and more accountable role for auditors (including their rotation and restriction on maximum number of audit companies);
 - (v) Section 140(5) of the Act, 2013 provides for National Company Law Tribunal (the Tribunal) empowered to direct a company to change company's auditors in case the Tribunal is satisfied that the auditor acted in a fraudulent manner;
 - (vi) Section 141/147 of the Act, 2013 provides eligibility, qualification and disqualification of auditors/ for more stringent provisions for independence and integrity of the auditor and or substantial penalty provided in case of defaults by auditor;
 - (vii) Section 144 of the Act, 2013 provides for Auditor not to perform specified non audit services to the audited company;
 - (viii) Section 143(12) of the Act, 2013 provides for Auditors (including cost auditor and secretarial auditor) to report fraud noticed by them to Central Government;
 - (ix) Section 177 of the Act, 2013 provides for that The Board of Directors of every listed public and such other companies as may be prescribed shall constitute an Audit Committee consisting of minimum of three Directors

with independent Directors forming a majority. The Audit Committee has to perform various duties including recommendation for appointment of Auditors, reviewing Auditor independence and performance.

- (x) Chapter V of the Chartered Accountants Act, 1949 and First & Second Schedules thereof for legal framework for the disciplinary action for misconduct on the part of Chartered Accountants.
- (xi) Section 132 of the Companies Act, 2013 provides for constitution of the National Financial Reporting Authority (NFRA) to oversee the quality of service of the profession and take action against misconduct in certain cases and sub section 4 confers powers on NFRA to impose penalties on audit firms.
- (xii) Further, Companies (Audit and Auditors) Rules 2014 was notified which prescribe manner and procedure of selection and appointment of auditors, informing appointment of auditor to ROC, rotation of auditors by the companies on expiry of their term, removal of auditor before their expiry of term for resignation of Auditors, disqualification of auditors, duties and powers for conducting branch audit, reporting of frauds by auditors, other matters to be included in the auditors report.
