

CHARTERED ACCOUNTANTS ASSOCIATION

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September 07, 2021

Smt. Nirmala Sitaraman,
Hon'ble Corporate Affairs Minister,
Government of India.

Request to rescind the Proposal to do away with Statutory Audit under Companies Act, 2013 of "Small Companies"

Respected Madam,

We would like to bring to your kind notice that Chartered Accountants Association is representing Chartered Accountants is a constituent body under the Societies Act. The functions of the Association include holding of talks, workshops, seminars and conferences on topics of professional interest with a view to help the members keep themselves abreast of the developments in the fast changing scenario, to represent members before various authorities etc.

Apropos the above, your kind attention is invited towards, the below news being circulated by news channel "CNBC-Awaaz" that the MCA, which is presently under your able leadership, is contemplating to do away with the requirement of statutory audit of "Small Companies". A snippet of the relevant News is being reproduced hereunder for your reference:



Madam, in the above news clipping, a reference has been made to the expression "Small Companies". In this regard, the definition of "Small Companies" as contained under Section 2(85) of the Companies Act, 2013, is being reproduced as under, for a ready reference:

"2(85) "small company" means a company, other than a public company-

(i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than ten crore rupees; and

(ii) turnover of which as per profit and loss account for the immediately preceding financial

year does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than one hundred crore rupees.

Provided that nothing in this clause shall apply to—

(A) a holding company or a subsidiary company;

(B) a company registered under section 8; or

(C) a company or body corporate governed by any special Act;”

Madam, your goodself, in your Budget 2021 speech had expressed the resolve of the Government to expand the definition of “Small Companies” and accordingly vide Notification GSR 92(E) dated 01.02.201 the Companies (Specification of Definitions Details) Rules, 2014 were amended which amended Rule have come into force from 01.04.2021. As per these Rules, the definition of “Small Companies” has been amended by enhancing the paid-up capital base from the limit of Rs 50 lakh to Rs. 2 crores. Similarly, post amendment, the turnover threshold of “Small Companies” has also been enhanced from Rs 2 crores to Rs 20 crores.

Madam, thus, it can be summarised that **presently** so in-order to be qualified as a “**Small Companies**”, a **Private limited company** must have **paid-up share capital** upto/not exceeding Rs. 2 crores & its turnover as per its profit and loss account for the immediately preceding financial year must not exceed Rs.20 crores.

It is in this background of the latest criterion of “Small Companies” that we are putting forth the following points for your kind perusal and favorable consideration:

The Audit of a Company is a continuous check on its financial health:

As per the website of the Institute of Chartered Accountants of India, the purpose of auditing is to satisfy the users of financial statements that the accounts presented to them are drawn up on correct accounting principles and that they represent a true and fair view of the state of affairs of the organisation.

In-fact the role of the auditor is not merely limited to signing the financial statements but is also extended to express an opinion on the financial health of the company. Further, the auditor is required to express an opinion on the truth and fairness of the Balance Sheet continuously, year after year. In-case of any inconsistencies or where the financial statements are not in pari-materia to the extant rules and regulations, the auditor expresses his opinion accordingly.

The Promoters Incorporate Companies after a resolve to be corporatized:

It is stated that given the requirements of law, i.e. the Companies Act, 2013, companies are incorporated by the promoters only after a detailed introspection/resolve to be compliant as a company, needless to state to sustain and meet the incidental costs associated with companies. Thus, incorporation of a company presumes an intention of the promoters to be corporatized including willingness to bear the nominal yet incidental expenses of audit.

The Audited annual accounts give credence to users of the financial statements

It is stated that un-audited annual accounts are preferred over audited annual accounts. Many a times the stakeholders are not limited to promoters only. The stakeholders other than promoters are generally not associated with day-to-day management and control of the companies and therefore they may not have faith and confidence in unaudited annual accounts. In-case the audits of these “Small Companies” is done away with, it is very likely that these stakeholders other than promoters may still engage professionals to independently comment upon the financial affairs of the company. Given that such professionals so engaged will not have the authority associated with the office of an auditor (including access to the books of accounts, records, etc), it is likely that such exercise by independent auditors at the behest of the stakeholders not being promoters would not yield any credibility to the financial statements.

The audited annual accounts are required by various statutory authorities

It would be appreciated that many authorities and organizations require, refer & rely upon the audited annual accounts to judge and ascertain the financial affairs of companies and their profits. Some such authorities and organizations persons include Banks, Financial Institutions, other Lenders, Provident Fund authorities, ESIC authorities, Bonus officers, rating agencies, investors, investment agencies, etc. It is submitted that in the absence of audited annual accounts, there is a high likelihood that the financial accounts of the companies may get dressed up/ cooked up. Thus, absence of audited annual accounts is likely to result in substantial loss of revenue/funds to various users of annual accounts.

The audited annual accounts confer finality to the financial statements.

It is stated that the audit of financial statements results into finalization of the annual accounts. In the absence of audit of financial statements of annual accounts by independent auditors, the financial statements would be merely an insider document having no sanctity or relevance.

The proposed amendment may result in multiple small companies OR diversion of business

It is submitted that any proposed amendment having an effect of taking small companies out of the scope of statutory audit while on one hand would render the provision of Companies Act as well as the Chartered Accountants Act to a mere nullity (to the extent the audit of these companies would not be required), yet at the same time, this would result in diversion of business turnover OR may result in creation/incorporation of many companies to avoid statutory audit even by companies other than "Small Companies". Further, when these companies would not be "small Companies", the credence on the erstwhile financial results would be less and huge reconciliations and efforts would be required by the auditors.

The proposed amendment may result in diversions/ non-utilization of public money for the intended purpose

Madam, it would be appreciated that as per the Companies Auditors Report Orders, an auditor is required to ascertain and comment as to whether the public money borrowed from bank and other lenders have met the requisite / ultimate use or not. In the absence of statutory audit, there would be no checks on usage of such public money which would not only jeopardise the banks and other lenders but would also lead to stress on the Government to infuse more equity in the Public Sector Banks.

In view of the submissions and reasons, though inclusive and not exhaustive, it is humble prayed that the proposal to do away with the audit of "Small Companies" may please be rescinded.

Thanking you,

Yours faithfully,

(CA. Ashwani Kumar Jindal)

General Secretary

M – 9876063350

Copy to

- 1 The Honorable Prime Minister of India\
- 2 The Honorable, MOS Finance
- 3 The Secretary, MCA