NAVIGATING THE DYNAMICS OF STATUTORY AUDITOR ROTATION

December 5, 2023

Rotation of Statutory Auditors

The Companies Act, 2013 provides for the mandatory rotation of statutory auditors for listed as well as certain other classes of the companies. The main object of the rotation of auditors is to have more independence.

SECTION AND RULE DESCRIPTION

No listed company or a company belonging to such *class or classes of companies* as may be prescribed, shall appoint or re-appoint—

(a) an individual as auditor for more than one term of five consecutive years; and
(b) an audit firm as auditor for more than two terms of five consecutive years.

Provided that------------------

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 fifty crore or more;
(c) all companies having paid-up share capital below the 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.*

CEILING LIMIT FOR PRIVATE COMPANY

Private companies having:
(a) paid-up share capital of INR 50 Crores (fifty) or more; or
(b) public borrowings from financial institutions, banks, or public deposits of INR 50 crores or more.

COOLING OFF PERIOD

A cooling-off period of 5 years has been prescribed for both, individual and audit firms before they can be appointed again. Therefore, an audit firm becomes eligible for additional appointment only if there has been a break in the audit service for a continuous period of 5 years. Further, the rotation requirement extends beyond the retiring audit firm. No audit firm having a common partner or partners with the outgoing audit firm can be appointed as auditor of the same company until the cooling-off period of the firm has expired.

ROTATION IN CASE OF JOINT AUDITS AND OTHER AUDITS

In the case of joint audits, each individual audit firm's association / tenure will determine when it will have to rotate. However, the rule also specifies that in case of joint audits, the company could follow the rotation of auditors in such a manner that both or all of the joint auditors do not complete their term in the same year.

In other cases, the board should consider the matter of rotation of auditors and make its recommendation for the appointment of the next auditor by the members of the annual general meeting. If the board disagrees with the recommendation of the Audit Committee, it should refer back to the recommendation to the committee for reconsideration citing reasons for such disagreement. If the Audit Committee, after considering the reasons given by the board, decides its disagreement with the committee and sends its recommendation for consideration of the members in the annual general meeting; and if the Board agrees with the recommendations of the Audit Committee, it is required to place the matter for consideration by members in the annual general meeting.

> Audit rotation achieves the purpose of periodic breaks to audit engagements by avoiding continuous relationships between an auditor and the client.

Queries?
If you have any queries about this article, please reach out to our experts:

Manu Srivastava (マヌ スリバストバ)
Managing Partner

Mobile: +91-99-7180-3336
Email: Manu@HLS-Global.in

Ejima Naoto (江嶋直人)
General Manager | Japan Desk

Mobile: +91-91-0803-0825
Email: nejima@HLS-Global.in

Priyanka Bhutani (プリヤンカブータニ)
Senior Manager | Knowledge Management

Mobile: +91-85-8797-2798
Email: Priyanka@HLS-Global.in

HLS Global in India

New Delhi (Corporate Office)

Vegas Mall, Office Block-B, 8th Floor, Unit No.883, Sector-14, Dwarka, New Delhi 110075 | India
Tel.: +91-11-6134-0450
Email: Info@HLS-Global.in
JapanDesk@HLS-Global.in

Gurugram

Level 1, Building No. 10A, DLF Cyber City, Gurugram
Tel.: +91-79-8266-6136
Email: Info@HLS-Global.in

Japanese Zone - Neemrana

Office No. 206, Regent Square Mall, CP-4, Japanese Zone, Neemrana, Rajasthan - 301705
Tel.: +91-73-5732-0237
Email: JapanDesk@HLS-Global.in

Lucknow

Office No. 22/181, Indira Nagar, Lucknow, Uttar Pradesh - 226016
Tel.: +91-93-3536-3533
Email: Info@HLS-Global.in

Mumbai

WeWork Enam Sambhav, BKC, C-20, G Block, Bandra-Kurla Complex, Mumbai, Maharashtra - 400051
Tel.: +91-22-4880-8605
Email: Info@HLS-Global.in

Ahmedabad

A - 413, Titanium Business Bark, Beside Railway underpass, Makarba, Ahmedabad-380051
Tel.: +91-79-8266-6136
Email: Info@HLS-Global.in

Connect with us on Social Media

www.HLS-Global.in

Noida

304, 3rd Floor, Tradex Tower-1, Alpha Commercial Belt, Alpha-1, Greater Noida, Uttar Pradesh-201310
Tel.: +91-79-8266-6136
Email: Info@HLS-Global.in

Bangalore

WeWork Galaxy, MG Road, 43, Residency Road, Bangalore, Karnataka 560025
Tel.: +91-79-8266-6136
Email: Info@HLS-Global.in

HLS Global Worldwide

Japan Office

Tokyo

www.HLS-Global.jp

US Offices

Los Angeles (Headquarters)
New York
Indianapolis
Chicago
Atlanta
San Jose

www.HLS-Global.com

Mexico Offices

Mexico City
Irapuato

www.HLS-Global.mx

Germany Office

Stuttgart

www.HLS-Global.de

ASTHOM

A member firm of ASTHOM Partners, Japan

https://asthom.co.jp/

Germany | **Hong Kong** | **India** | **Japan** | **Malaysia** | **Philippines** | **Singapore** | **Thailand** | **USA** | **Vietnam**