



**THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF INDIA  
(SET UP BY AN ACT OF PARLIAMENT)**



Merry  
*Christmas*

**2021 DECEMBER**

**E-NEWSLETTER**

**THRISSUR BRANCH OF SIRC OF ICAI**



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## EDITOR'S DESK



### FRIENDS,

This month started with the hustle and bustle of our Council elections both to the Regional and Central Council. The branch could facilitate the conduct the elections in a flawless manner at the Aaykar Bhawan, S.T. Nagar, Thrissur. More than 420 of our members turned up to vote on the 4th of December, 2021.

Christmas is just two weeks away. Various Christmas traditions have been associated with the celebration of Christmas, and different cultures celebrate it in different ways. The unifying factor is the gifts that are exchanged and the stars and lights of Christmas season and the colourful celebration would be universal.

In celebrating Christmas, we celebrate the love and condescension of God. We celebrate because it was at Christmastime that the Rescuer of all mankind came to save us from the hopeless situation, we were in. God did not stay in heaven; He came down to where we are. That's what Christmas is all about—God's coming down to rescue us, being with us as one among us.

We have three articles this month for our newsletter an article by CA. Valentina Joe on "Accounting, Measurement and Recognition of Cryptographic Assets", by CA. Dileep Balachandran on "Trade Receivables Discounting System (TReDS)" and by CA. Neeraj Agarwal a "Note on Auditor Appointment". I thank all the members who contributed informative articles to our newsletter.

*Wish you all a Merry Christmas,*

**CA. SILPA RAMDAS, FCA, DISA, DIRM(ICAI)**



# CHAIRMAN'S MESSAGE



My Dear Professional Colleagues,

During the month of November, we had been completing the Company Audits and Non-corporate Audits. The income-tax website is not yet fully operational but we have to complete the assignments in time.

During the month our branch had conducted three joint Seminars on 5th, 24th and 30th of November. On 5th of November, we joined other few branches to conduct a Virtual CPE Webinar on “Audit under Section 44AB of The Income Tax Act –Care and Caution” and it was presented by CA. R. Krishnan, Alappuzha.

On 24th of November Webinar was conducted on “Concurrent Audit of Bank Branches –A Practical Approach” by CA Mony, Kozhikode.

On 30th the topic of webinar was “Practical Approach towards – Board meetings & Board Minutes, Annual filings, CSR & Dividend” by CS. Mithun B. Shenoy Kochi.

I thank all the members who are supporting the branch in all its initiatives being responsible professionals. We have already started in person classes for CA students in our branch premises. I also look forward to starting physical meetings at our branch with the active participation and support of all our members.

*Wish you all a Merry Christmas,*

Yours in service of the profession,

**CA. ARYAN K.K.**  
**CHAIRMAN.**





# ACCOUNTING, MEASUREMENT AND RECOGNITION OF CRYPTOGRAPHIC ASSETS



CA VALENTINA JOE A

Cryptographic assets, including cryptocurrencies such as Bitcoin, have generated a significant quantum of interest lately, given their rapid increases in value and volatility. As trading activities in cryptographic assets has rapidly increased, it has attracted regulatory scrutiny across multiple jurisdictions.

At issue now is how to recognise, measure and account the activities associated with the issuances of, and the investment in, the various types of cryptographic assets. Since there are no accounting standards that specifically address cryptographic assets, one must look at the existing IFRS and apply a principles-based approach. In this write up I am going to highlight some of the accounting questions that are currently being discussed and share my opinion on how IFRSs could be applied.

## Evaluation of Accounting approaches

### Can cryptocurrencies be classified as cash and cash equivalents?

As a form of digital money, it might be expected that a cryptocurrency holding could be accounted for as cash. Unlike cash, however, cryptocurrencies are not backed by a government or central bank. Furthermore, they are not considered legal tender in virtually all jurisdictions.

Putting this in an accounting context, IAS 7 'Statement of Cash Flows' does not provide a definition of cash, merely stating that "cash comprises cash on hand and demand deposits". IAS 32 'Financial Instruments: Presentation' however says that "currency (cash) is a financial asset because it represents the medium of exchange and is

is therefore the basis on which all transactions are measured and recognised in financial statements". Looking at this description, it appears clear that cryptocurrencies cannot be considered equivalent to cash as defined in IAS 7 as they cannot readily be exchanged for any good or service.

As well as covering cash, IAS 7 defines a second category of 'cash equivalents' – instruments that are almost as good as cash because they are cash-like in nature.

### Could cryptocurrencies meet this definition?

IAS 7 states that "cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value". Looking at this definition, it seems clear that cryptocurrencies cannot be classified as cash equivalents as they are subject to considerable price volatility (Bitcoin for example lost about 28% of its value in January 2018).

### Can Cryptocurrencies be classified as financial assets?

Another seemingly intuitive approach to accounting for cryptocurrency holdings would be to account for them as financial assets at Fair Value Through Profit or Loss (FVTPL).

For such an approach to be possible however, a cryptocurrency would need to meet the definition of a financial instrument as set out in IAS 32. The Standard defines a financial asset as being "any asset that is:





1. cash
2. an equity instrument of another entity
3. a contractual right:
  - i to receive cash or another financial asset from another entity; or
  - ii to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity
4. a contract that will or may be settled in the entity's own equity instruments and is:
  - i a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
  - ii a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments..."

Cryptocurrencies are not equity instruments or contracts to be settled in equity instruments as possession of cryptocurrency does not give the holder any contractual right to receive cash or another financial asset.

### **Can Cryptocurrencies be classified as investment property?**

IAS 40 defines investment property as: "property (land or a building – or part of a building – or both) held ... to earn rentals or for capital appreciation..." Cryptocurrency holdings cannot be classified as investment property as cryptocurrencies are not physical assets, although cryptocurrencies are held by some entities for capital appreciation.

### **Can Cryptocurrencies be classified as plant, property and equipment?**

IAS 16 defines property, plant and equipment as tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one period.

Cryptocurrency holdings cannot be classified as property, plant and equipment as cryptocurrencies are not tangible assets and do not have a physical form.

### **Can Cryptocurrencies be classified as intangible assets?**

IAS 38 'Intangible Assets' defines an intangible asset as "an identifiable non-monetary asset without physical substance".

The definition can be broken down into three components

**Identifiable** - Looking at the first aspect of this definition, IAS 38 states that an asset is identifiable "if it either: a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations".

Cryptocurrency holdings can be traded on an exchange or in peer-to-peer transactions, and therefore meet this part of the definition.

**Non-monetary** - In terms of whether they are a monetary asset or a non-monetary asset, IAS 38 defines monetary assets as "money held and assets to be received in fixed or determinable amounts of money". The value of a cryptocurrency is not fixed or determinable but subject to major variations that arise from supply and demand and cannot be predicted. Therefore it is not monetary but non-monetary in nature.

**Without physical substance**- Cryptocurrencies are a form of digital money and do not have physical substance.





To summarise, given that cryptocurrencies are a form of digital money and have no physical form, my view is that in the majority of cases this will be the most appropriate classification for them (in some circumstances it may be appropriate to account for them under IAS 2 'Inventories')

Having determined that intangible assets are an appropriate classification for cryptocurrencies, there is then a question of how they should be accounted for under IAS 38.

### **Measurement of crypto currencies**

#### **Cryptocurrency not held for trading (Intangible assets)**

If the cryptocurrency units are acquired in order to hold them and store value over extended period of time or for other purposes, then the standard IAS 38 Intangible Assets can be applied.

Unfortunately, IFRIC ( International Financial Reporting Interpretations Committee) have not given any recommendations or decisions on how to apply IAS 38 for cryptocurrencies.

Here, the main consideration is which model permitted by IAS 38 to apply:

**Cost model** – here, the cryptocurrency should be held at cost less accumulated amortization less impairment.

This is doable – especially when there will probably not be any amortization because cryptocurrencies have indefinite useful life in general.

However, when there are declines in crypto currency's fair value, the impairment in such cases need to be accounted.

Then there is another problem: if the fair value of cryptocurrency increases above the cost, then never recognize this increase under the cost model. That's not very intuitive when holding the cryptocurrency for capital appreciation purposes.

**Revaluation model** – if the active market exists, the cryptocurrencies can be revalued to their fair value and account for any increases directly in other comprehensive income, or for decreases in profit or loss. This is not very symmetric, but if the cryptocurrency is held for capital appreciation, then the revaluation model is probably more appropriate than the cost model

### **Testing for Impairment**

IAS 38 requires an entity to assess whether the useful life of an intangible asset is finite or indefinite.

Cryptocurrencies are designed to act as a store of value over time, my view is that they would be considered to have an indefinite life for the purposes of IAS 38.

An intangible asset with an indefinite useful life is not amortised.

Such assets must be tested for impairment by comparing its recoverable amount with its carrying amount annually, and whenever there is an indication that the intangible asset may be impaired.

#### **Cryptocurrency held for trading**

When holding cryptocurrencies for sale in the ordinary course of business, IAS 2 Inventories will be applicable.

So, when the business is to act as a broker-trader of cryptocurrencies, then IAS 2 should be applied, more specifically IAS 2.3b for commodity brokers and traders.

The commodity brokers and traders measure their inventories (cryptocurrencies) at fair value less cost to sell.

My view is that this measurement will only be appropriate in narrow circumstances where cryptocurrency assets are acquired by the reporting entity with the purpose of selling them in the near future and generating a profit from fluctuations in price or broker-traders' margin.

With the changing laws and regulations around the world, especially in India accounting treatment should be periodically revisited to ensure that it is in line with the applicable accounting standards.

**CA VALENTINA JOE A**

**PROFILE :** Valentina Joe is a Chartered Accountant and an associate member of ICAI from the year 2012. She is currently a Partner at Arun Bijoy & Co, handling the responsibility of the firm at the East Fort Branch. She handles the Tax audit and GST audit engagements. Prior to joining Arun Bijoy and Co she was working at EY as an Associate, then as a Senior Associate for the Transaction Advisory Services ( TAS team). Valentina also has a Bachelors and Masters degree in Commerce and a Post Graduate Diploma in Business Administration from Symbiosis school of Distance Education, Pune. She is also a DISA qualified member.

*Merry Christmas*



# TRADE RECEIVABLES DISCOUNTING SYSTEM (TReDS)



CA. DILEEP BALACHANDRAN

## About-TReDS

TReDS is an electronic platform for facilitating the financing / discounting of trade receivables of Micro, Small and Medium Enterprises (MSMEs) through multiple financiers. These receivables can be due from corporates and other buyers, including Government Departments and Public Sector Undertakings (PSUs). The TReDS can deal with both receivables factoring as well as reverse factoring.

MSMEs, despite their important role in contributing to the Indian economy, continue to face constraints in obtaining adequate finance. One big factor which affects the ability of MSMEs to convert trade receivables into liquid funds are slow paying invoices. To address the financing related issues faced by MSMEs in India, RBI in 2014 introduced the concept of TReDS, a mechanism of trade receivables financing for MSMEs on a secure digital platform. The RBI has since then granted licenses to three TReDS platforms: Mynd Solutions Private Limited ("M1xchange"), Receivables Exchange of India Limited ("RXIL"), and A.TReDS Limited ("Invoicemart"). In just two years, M1xchange and Invoicemart TReDS platforms have discounted MSME invoices worth a combined Rs. 5,500 crores. TReDS is the first attempt in India to introduce factoring without recourse to the Seller and will help MSME Sellers not only in quick realisation of receivables but also efficient price discovery. On a macroeconomic scale, the cash crunch cycle is expected to considerably reduce for all such registered MSMEs. Further, this has the potential to create more jobs for the economy.

TReDS will provide the platform for different participants together for facilitating, uploading, accepting, discounting, trading and settlement of the invoices/bills of MSMEs.

## Participants

Sellers, buyers and financiers are the participants on a TReDS platform. Only MSMEs can participate as sellers in TReDS. Corporates, Government Departments, PSUs and any other entity can participate as buyers in TReDS. Banks, NBFC-Factors and other financial institutions as permitted by the Reserve Bank of India (RBI), can participate as financiers in TReDS.

## TReDS Process

Broadly, following steps take place during financing / discounting through TReDS:

1. Creation of a Factoring Unit (FU\*) - standard nomenclature used in TReDS for invoice(s) or bill(s) of exchange - containing details of invoices / bills of exchange (evidencing sale of goods / services by the MSME sellers to the buyers) on TReDS platform by the MSME seller (in case of factoring) or the buyer (in case of reverse factoring);
2. Acceptance of the FU by the counterparty - buyer or the seller, as the case may be;
3. Bidding by financiers;
4. Selection of best bid by the seller or the buyer, as the case may be;
5. Payment made by the financier (of the selected bid) to the MSME seller at the agreed rate of financing / discounting.





6. Payment by the buyer to the financier on the due date.

**\*Factoring Unit (FU):** Each FU represents a confirmed obligation of the corporates or other buyers, including Government Departments and PSUs. In TReDS, FU can be created either by the MSME seller or the buyer. If MSME seller creates it, the process is called factoring; if the same is created by corporates or other buyers, it is called as reverse factoring.

### **Process flow under TReDS**

1. The corporate buyer indicates the intention to buy by sending a purchase order to the MSME seller.
2. The MSME delivers the goods and generates an invoice. At this stage, there may or may not be an accepted bill of exchange between the buyer and the seller.
3. Based on the invoice or bill of exchange, the MSME goes on their registered TReDS platform creates a 'factoring unit.' The buyer also logs on to TReDS and accepts this factoring unit.
4. Based on the invoice or bill of exchange, the TReDS will standardise the time window available for corporate buyers to 'accept' the factoring units.
5. The MSME seller may decide to go on the TReDS platform and upload documents supporting evidence of the movement of goods.
6. The TReDS will have separate modules for transactions with invoices and transactions with Bills of Exchange.
7. Factoring units may be created in each module as required. Each such unit will have the same sanctity and enforceability as allowed for physical instruments under the 'Factoring Regulation Act, 2011' or under the 'Negotiable Instruments Act, 1881'.
8. The standard format and features of the 'factoring unit' will be decided by the TReDS platform. But each unit will represent a confirmed obligation from the buyer to pay. The unit will have

all details such as information of the seller and the buyer, issue date, due date, amount due, etc.

9. The TReDS platforms should be able to filter these factoring units by any of the above parameters. This provides flexibility of operations to the stakeholders.

10. A notice or advice is created and automatically sent to the buyer's bank once the factoring unit and all the details have been generated.

11. These factoring units can be financed or bid for by any of the financiers registered on the TReDS platform. The final amount quoted by the financier can be viewed only by the MSME seller and not other financiers.

12. There will be a window period provided for financiers to quote these bids against factoring units. Further, financiers are free to choose how long their bids are valid.

13. The MSME then chooses and accepts any bid. The financier then gets the notification that their bid has been accepted.

14. Once a bid is accepted by the MSME seller, financiers cannot revise or change their bid.

15. The factoring unit will then get tagged as 'financed' and the funds will be deposited in the MSME seller's account by the financier on T+2 basis (two business days after the date of acceptance). However, TReDS platforms can choose to speed up the time taken for payment. For instance, MSMEs on the M1xchange platform receive payment in T+1 days (one business day after the acceptance).

16. Simultaneously, financing by a financier generates another notice to the buyer's bank which enables a direct debit from the buyer's account to the financier's account on the due date. These are based on the settlement obligations generated by the TReDS platform.

17. On the due date, the corporate buyer transfers the due amount to the financier. All the while, the TReDS





platform sends due notifications to corporate buyers and their banks reminding them of the amount due.

18. If the buyer doesn't pay on the due date, it will attract penal provisions and enable the banker to proceed against the corporate buyer.

19. Any action in this regard will be strictly non-recourse with respect to the MSME sellers.

20. After financing, these instruments are rated by the TReDS platform and may be further transacted or discounted among financiers in the secondary segment.

21. Any successful trade in the secondary segment will also automatically result in a direct debit authority being enabled by the buyer's bank in favour of the financier.

22. In case any factoring unit is unfinanced, the buyer corporate will pay the MSME seller outside of the TReDS platform.

### **Settlement**

The invoice is uploaded by either buyer or supplier depending on the method of discounting and is approved by the other party. Once the invoice is approved the financiers on the platform start to bid on the invoice. The supplier accepts the bid and the discounted amount is credited in its account in T+1 (Or 2 as the case may be) day, where T is the day of acceptance.

A settlement file provides information as to how much amount has to be debited from and credited to the accounts of participants (sellers, buyers and financiers), due on a particular date / time. In other words, it indicates how much a financier has to pay to an MSME seller, and how much a buyer owes to the financier on a particular date / time. The TReDS entities generate the settlement file and send the same to existing payment systems (for instance, National Automated Clearing House) for actual payment of funds.

### **Benefits to MSMEs (Sellers)**

1. The suppliers/MSME can get faster access to cash at advantageous rates. This also results in faster cash conversion cycle from delivery to cash (reduction in working capital cycle).

2. The overall balance sheet of the suppliers also looks healthy as MSMEs get greater access to finance, at competitive rates without providing any additional collateral and they can get future finance at better rates.

3. The transactions processed under TReDS are "without recourse" to the MSMEs, meaning where the in case the buyer defaults in repayment on due date to the financier, the MSME seller would not have to pay to the financier;

### **Benefits to Corporates (Buyers)**

The benefit of TReDS is not only limited to the MSME Sector, it helps the corporate buyers to purchase goods and services from MSME suppliers. Since the MSMEs are immediately paid through the approved financiers, the corporates enjoy extended payment cycle. It also enables the corporate to better negotiate with their MSME suppliers on the procurement cost.

### **TReDS Compliance**

On November 2, 2018 the Department of Micro, Small and Medium Enterprises issued a notification stating that all companies registered under Companies Act and having a turnover of more than INR 500 crores and all Central Public Sector Enterprises are required to on board a TReDS platform, thus making TReDS registration mandatory for such companies. The Registrar of Companies (RoC) in every state has been nominated to be the competent authority to monitor the compliance of this notification.





## **Points to be Noted**

1. The objective of the TReDS system is to facilitate the financing of bills of MSMEs and bills of exchange that are drawn on corporate buyers by way of discounting by financiers. To this end, the system has put suitable mechanisms in place by which invoice and bills are converted into factoring units.
2. In the very first phase, the system shall aid in the facilitation of discounting of the factoring units by financiers, thereby resulting in the flow of funds to the MSMEs with the final payment of factoring units made on due date by a corporate buyer. In the second phase, the system shall enable discounting and rediscounting of the factoring units.
3. Default handling is outside the purview of TReDS platforms as the defaults on TReDS platform are not the responsibility of TReDS entities.
4. The transactions processed under TReDS are “without recourse” to the MSMEs (non-recourse factoring/reverse factoring) as mentioned above.
5. Financiers get an opportunity to build PSL (Priority Sector Lending) asset portfolio on Trade Receivable Exchange/TReDS platforms.
6. The TReDs system’s process flow is there to enable the minimum uploading of bills of creation and invoices of factoring units by MSME sellers. This includes acceptance by corporate purchasers, rating, re-discounting, discounting etc, of factoring units, providing notifications to each party that are relevant to the transaction, reporting the MSME requirements, and lastly the generation and submission of obligation settlements.
7. The TReDS may from time to time introduce random audits to make sure there is no window dressing, and that factoring units uploaded on exchange are completely authentic, and that these are based on genuine transactions.
8. The TReDs system shall introduce a standard mechanism process for the on-boarding of buyers and sellers on the system. This process shall require all parties to submit their KYC documents to the TReDS, along with resolutions related to authorize corporate personnel buyers and MSME sellers. They shall be given IDs and passwords for multi-level authorizations.
9. The KYC documentation process can be simplified because it needs confirmation of the MSME seller’s banker, or of the corporate buyer, as the case may be.
10. The participants shall have a one-time agreement only.
11. The master agreement between the two parties shall include the buyer’s obligation to pay back on the due date as soon as the factoring unit is accepted online, that there shall be no disputes on the quality of goods, and that set-offs are not allowed.
12. The master agreement shall state the terms and conditions, and shall have a declaration by the seller that any finance received through the system shall not be taken as a part of an existing charge or hypothecation Working Capital Bankers. An NOC may be needed as well to avoid double-financing.
13. In case the financing is based on invoices, and agreement will be executed by the two parties.





14. All agreements shall be in custody of the TReDS.

15. The TReDS system shall review the need for CERSAI registration for all assignments, and it will therefore put mechanisms in place for the same purpose.

#### **Setting-up and operating a TReDS platform**

1. Prior authorisation is required to be obtained from RBI under the Payment and Settlement Systems (PSS) Act, 2007 to set up and operate a TReDS platform.

2. Eligibility criteria for the purpose of setting up and operating a TReDS platform is provided in the guidelines (as amended from time to time) for TReDS issued by RBI. These guidelines are available at the following path: [www.rbi.org.in](http://www.rbi.org.in) → “Payment and Settlement Systems” dropdown → “Guidelines”.

3. RBI’s Press Release dated October 15, 2019 may also be read in this regard. The same can be accessed at the following web links:

[https://www.rbi.org.in/Scripts/bs\\_viewcontent.aspx?Id=3504](https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=3504) and

[https://www.rbi.org.in/scripts/FS\\_PressRelease.aspx?prid=48405&fn=9](https://www.rbi.org.in/scripts/FS_PressRelease.aspx?prid=48405&fn=9)

4. The KYC process adopted by the TReDS entities shall adhere to the “Master Direction – Know Your Customer (KYC) Direction, 2016” dated February 25, 2016 (as amended from time to time) issued by RBI.

#### **Verification of authorised Payment System / TReDS operators**

List of all authorised Payment System Operators (PSOs), including TReDS, is available at the following path: [www.rbi.org.in](http://www.rbi.org.in) → “Payment and Settlement Systems” dropdown → “Information Useful to Customer” → “List of Authorised Entities – Payment System Operators”. Following is the web link for accessing the same:

<https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=12043>

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**CHARTERED ACCOUNTANTS**





# FILING OF E FORM ADT-1 FOR APPOINTMENT OF FIRST AUDITOR



CA. NEERAJ AGARWAL

*Dear All,*

As many of you may know companies irrespective of their businesses are bound to appoint Statutory Auditors. This applicability is not dependent on specific threshold like profit percentage or turnover as is the case in Income Tax Act or for audits of LLP's. A company needs to get its accounts audited even though it may not have any business during the year.

For appointment of auditors Ministry of Corporate Affairs (MCA) has notified e form ADT-1 which asks for details such as Name, Address, Membership number of Auditor along with number of years for which the auditor is being appointed.

There is some confusion regarding the applicability of filing E form ADT-1 for a newly incorporated company in respect of appointment of First Auditor. For example M/s Ramesh & Sons Pvt Ltd was incorporated on 24-04-2019 and so financial year 2019-20 is the first year of operations of the Company. The new auditor has to be appointed by board of Directors within 30 days of incorporation of the Company and filing of form ADT-1 to be done within 15 days from the date of passing of resolution of appointment.

**Relevant provisions of the Companies Act 2013 along with Companies (Audit and Auditors Rules) 2014 highlighting the above mentioned are given below:**

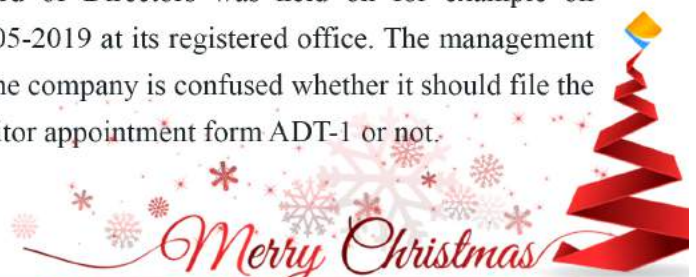
The appointment of first auditors of the Company is governed by the provisions of Section 139(6) of the Companies Act 2013 which reads as under:

*Notwithstanding anything contained in sub-section (1), **the first auditor of a company**, other than a Government company, shall be appointed by the Board of Directors within thirty days from the date of registration of the company and in the case of failure of the Board to appoint such auditor, it shall inform the members of the company, who shall within ninety days at an extraordinary general meeting appoint such auditor and such auditor shall hold office till the conclusion of the first annual general meeting.*

Now Furthermore, the provisions of Companies (Audit and Auditors Rules) 2014, states that filing of e-form ADT 1 is required when the auditor is appointed under the provisions of Section 139(1) of the Companies Act (i.e. appointment of auditor in General Meeting) and not where appointment of auditor is done by the Board of Directors under section 139(6).

This is a loophole, advantage of which is being taken by a lot of newly incorporated companies. Citing the lack of clarity in the provisions companies tend to ignore the filing of First Auditor appointment via e form ADT-1. The appointment is done in papers and MCA is not notified of the same.

In our example, the Company was incorporated on 24-04-2019. Subsequently, the first meeting of the Board of Directors was held on for example on 17-05-2019 at its registered office. The management of the company is confused whether it should file the auditor appointment form ADT-1 or not.



## **Our views**

Since, in this case, the appointment of auditors has been done under section 139(6) and not under section 139(1), the company does not mandatorily require to file e-form ADT 1 within period of 15 days from the date of Board meeting i.e 01st June 2019 but it is still advisable and a good practice to file the same with MCA via form ADT-1. In this connection, it is also important to note that once the Company concludes its Annual General Meeting for FY 2019-20, it has to mandatorily file e-form ADT – 1 within a period of 15 days from the date of AGM for appointment of subsequent auditors (It may be first auditor being reappointed or a new auditor being freshly appointed).

## **What happens if the board fails to appoint the First auditor in the Board meeting?**

The first auditor then shall then be appointed by shareholders in a general meeting within 90 days of intimation of such failure or board meeting (Counting of 90 days is not clearly defined in the provision). In such a scenario since the appointment is being done in a general meeting then it is best to file form ADT-1 notifying the appointment of First auditor.

## **Declaration**

I, Neeraj Agarwal, Bangalore hereby declare that the article, “Note on Auditor Appointment” has been written by me on the basis of legal facts and contents have not been copied from anywhere except legal provisions under various enactments. I further declare that this is my ‘original work’. Any resemblance to any other work/article/book/blog is purely coincidental. Although, I have made every effort to ensure that the information in this article

was correct at press time, I do not assume and hereby disclaim any liability to any party for any loss, damage, or disruption caused by errors or omissions, whether such errors or omissions result from negligence, accident, or any other cause.

CA. NEERAJ AGARWAL

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## **Brief Profile of Author**

Neeraj Agarwal is a Fellow Member of ICAI, Practicing under the banner of M/s AAN & Associates LLP, a firm based out of Kolkata & Bangalore.

Neeraj Agarwal is also registered under Insolvency and Bankruptcy Board of India as a Registered Valuer for valuation of Security or Financial Assets (Passed in Feb 2020)

Neeraj Agarwal is also holding Bachelor of Commerce (B.Com) degree from Calcutta University (Passed in 2011). He also completed a Certificate Course by ICAI on IND-AS in 2020 and currently pursuing Diploma in International Taxation by ICAI.





# Glimpes

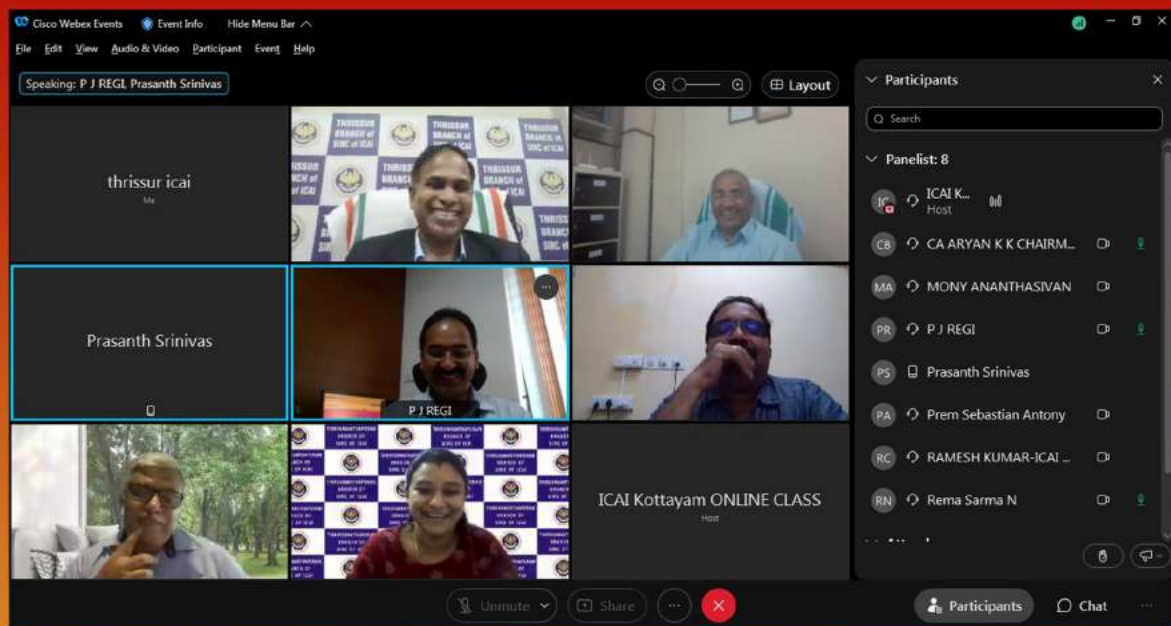


05.11.2021

VIRTUAL JOINT CPE WEBINAR ON

AUDIT UNDER SECTION 44AB OF THE INCOME TAX ACT – CARE AND CAUTIONS

FACULTY : CA. R. KRISHNAN , ALAPPUZHA



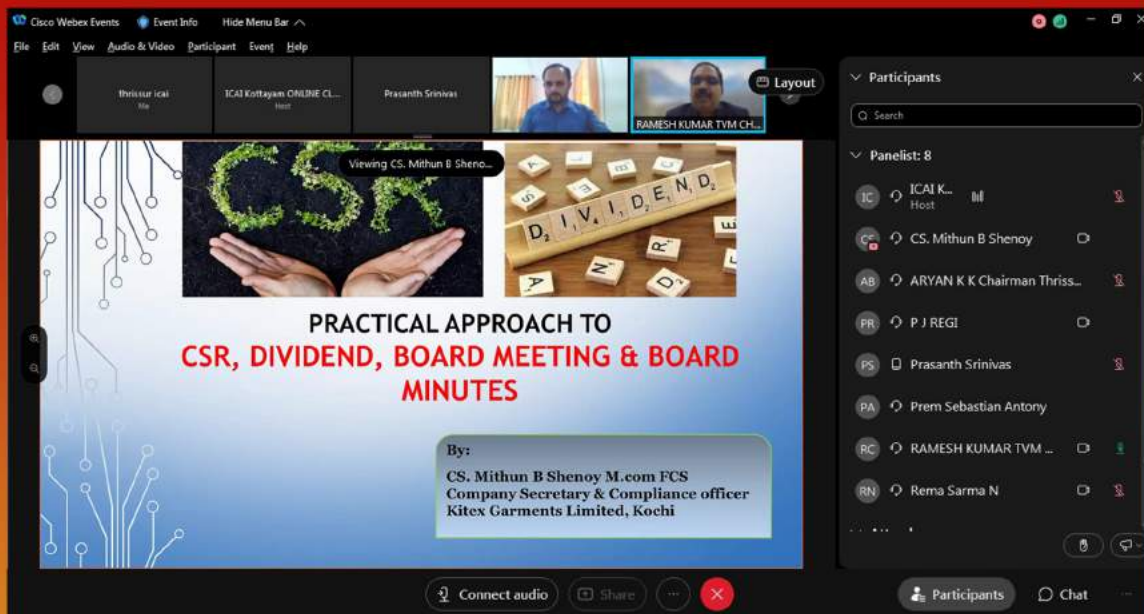
24.11.2021

JOINT VCM ON "CONCURRENT AUDIT OF BANK BRANCHES – A PRACTICAL APPROACH"

FACULTY: CA. A. MONY, KOZHIKODE



# Glimpses



30.11.2021

VIRTUAL JOINT CPE WEBINAR ON

PRACTICAL APPROACH TOWARDS – BOARD MEETINGS & BOARD MINUTES, ANNUAL FILINGS, CSR & DIVIDEND

FACULTY : CS. MITHUN B. SHENOY KOCHI



19<sup>TH</sup> & 20<sup>TH</sup> NOV 2021

PARTICIPATED 53RD REGIONAL CONFERENCE OF SIRC OF ICAI- "VITTHAKAM" AT COIMBATORE,  
RECEIVED THE MEMENTO OF SECOND BEST BRANCH OF SIRC OF ICAI AND  
BEST BRANCH OF SICASA OF SIRC OF ICAI (MEDIUM CATEGORY).





Merry  
*Christmas*



**THRISSUR BRANCH OF  
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