

ENSURING TRANSPARENCY: A GUIDE TO INSPECTION, INQUIRY, AND INVESTIGATION IN INDIAN COMPANIES

Chapter XIV of the Companies Act, 2013 allows the government to check and investigate companies. The **ROC** can ask for information, search records, and start inquiries. A special body called **the Serious Fraud Investigation Office (SFIO)** handles serious fraud cases and can arrest people for certain crimes. Companies must follow basic rules like registering, filing forms, and submitting annual returns. If they don't, the government can take action to enforce these rules.

- **INSPECTION, INQUIRY AND INVESTIGATION**

Inspection, inquiry and investigation are three connected but different regulatory actions, which start with some information. This can be understood from the given example.

The Police get some information about happening of something. The police officer, having jurisdiction, visits and inspect the place where the incident had happened. He receives all kind of information which might directly or indirectly, be related to the incident reported. After this, police file a formal first information report. Their after police do its own inquiry before filing its charge sheet in the court and the court order investigation in the matter, wherever required.

➤ **PURPOSE OF CONDUCTING INSPECTION:**

- 1) To detect any income concealed by providing false accounts.
- 2) To have knowledge about the mismanagement of the business of a company and transactions entered into by the company with intent to defraud creditors, shareholders or for any fraudulent or unlawful purposes.
- 3) To determine if the statutory auditors have discharged their functions and duties in determining the true and fair view of a company's accounts.
- 4) To enable the Government to identify the amount of profits gained but not adequately accounted for.
- 5) To detect misapplication of funds leading a company in the state of financial crisis.
- 6) To keep a watch on performance of a company.
- 7) To detect misuse of fiduciary responsibilities by the company's management for personal aggrandizement.
- 8) To ensure timely redressal of grievances of investors of the company

- **INSPECTION, INQUIRY, INSPECTION REPORT AND SEARCH AND SEIZURE (SECTION 206 TO 209)**

1. **INSPECTION:**

a. **ORDER OF INSPECTION**

- i. By Registrar
- ii. By Regional Director under power delegated to it by Central Government
- iii. By Central Government by a general or special order.

b. **INSPECTION ORDERED BY REGISTRAR**

- i. If no information or explanation is given to the Registrar within the specified time.
- ii. If the Registrar examines the documents, submitted, and is of the opinion that the information or explanation furnished is inadequate.
- iii. If the Registrar is satisfied on examination of the documents furnished that some unlawful affairs are conducted in the company and company does not disclose a full and fair statement of the information required.

c. INSPECTION ORDERED BY REGIONAL DIRECTOR

- There are seven regional directors and there is an Inspection unit attached to the office of every Regional Director for carrying out the inspection of the books of accounts of Companies. The Central Government may after examining report of ROC, direct Regional Director to order for inspection of books and papers of a company.

d. INSPECTION ORDERED BY CENTRAL GOVERNMENT

- The Central Government may by general or special order authorise any statutory authority to carry out the inspection of books of account of a company or class of companies. Such inspection may be carried out by any statutory authority including SFIO, ICSI, ICAI, SEBI, IRDA, CCI, TRAI, etc. depending upon the circumstances of the case.

2. INQUIRY

- a. After inspection of documents registrar may further initiate inquiry if he is satisfied that the affairs of the company are being carried on-
 - i. for a fraudulent purpose
 - ii. unlawful purpose
 - iii. not in compliance with the provision of this Act or
 - iv. Investor's grievances not being addressed.

3. INSPECTION REPORT

- a. According to section 208, the Registrar or inspector shall, after the inspection or an inquiry, submit a report in writing to the Central Government along with documents, if any, and provide a recommendation that further investigation into the affairs of the company is necessary giving his reasons in support of the same.

4. SEARCH AND SEIZURE (SECTION 209)

- a. The registrar or inspector may make an application to the special court for obtaining orders of search and seizure. Once the orders are obtained they can-
 - i. enter and search the place or places where such books or papers are kept;

And

- ii. Seize such books and papers as he considers necessary after allowing the company to take copies of, or extracts from, such books or papers at its cost.

- ✓ Special court may pass an order for search and seizure only when it is proved that the documents, books or registers of the company may be altered or destroyed.
- ✓ The Register or inspector shall return the books and papers within one hundred and eighty days after such seizure to the company from whose custody or power such books or papers were seized. These books and papers may be called for by the Registrar or inspector for a further period of one hundred and eighty days if they are needed again.
- ✓ They can take copies or extracts or place identification on such books or documents seized in such other manner as he considers necessary.
 - In conclusion, Chapter XIV of the Companies Act, 2013 empowers the government to maintain strict oversight of companies through inspections, inquiries, and investigations. The provisions enable regulatory authorities like the Registrar of Companies (ROC), Regional Directors, and the Central Government to detect fraudulent activities, ensure compliance with corporate governance standards, and address investor grievances. The Serious Fraud Investigation Office (SFIO) plays a crucial role in handling severe corporate fraud. The framework also includes provisions for search and seizure to prevent tampering with crucial documents. These regulatory mechanisms promote transparency, accountability, and protect the interests of stakeholders by ensuring that companies operate within the law.