

- **Exceptions to the rule (Indoor Management)**

Knowledge of irregularity

A person who has actual knowledge of the internal irregularity cannot claim the protection of this rule, because he could have taken steps for self-protection. A person who himself is a party to the inside procedure, such as a director is deemed to know the irregularities, if any.

T.R Pratt (Bombay) Ltd. V. E.D. Sassoon & Co. Ltd. - Company

A lent money to Company B on a mortgage of its assets. The procedure laid down in the articles for such transactions was not complied with. The directors of the two companies were the same. Held, the lender had notice of the irregularity and hence the mortgage was not binding.

Negligence and suspicion of irregularity

Where a person dealing with a company could discover the irregularity if he had made proper inquiries, he cannot claim the benefit of the rule of indoor management. The protection of the rule is also not available where the circumstances surrounding the contract are so suspicious as to invite inquiry, and the outsider dealing with the company does not make proper inquiry.

Forgery

The rule in Turquand's case does not apply where a person relies upon a document that turns out to be forged since nothing can validate forgery.

In Ruben v. Great Fingall Ltd, a company was not held bound by a certificate issued by its secretary by forging the signature of two directors.

However, in *Official Liquidator v. Comm. of Police*, the Madras High Court held the company liable where the Managing Director had forged the signature of two other directors.

Representation through articles,

A person who does not have actual knowledge of the company's articles cannot claim as against the company that he was entitled to assume that a power which could have been delegated to the directors was in fact so delegated. In *Rama Corporation v. Proved Tin and General Investment Co*, the plaintiffs contracted with the defendant co and gave a cheque under the contract.

The director could have been authorized but in fact, was not. The plaintiffs had not read the articles. The director misappropriated the cheques and plaintiff sued. Held, director not liable as it was outside his authority.