

## UNIT-IV

### **INTRODUCTION OF COMPANY AUDIT**

Company is the artificial being which separate entity from the owner or management. At the end of the period the auditor must submit company's financial statement to the user after proper examination. When an auditor apply auditing activities to examine the statement in order to give expert opinion their on such types of auditing activities are called company audit.

### **DEFINITION**

**Company audit** : under the sec 183(3) of the company act 1994: company audit means “ the balance sheet and profit and loss account or income or expenditure account, cash flow statement of a company shall be caused to be audited by the auditor of the company as in the company act provided.

### **Provisions as to auditor in the companies act**

- 224 : Appointment and remuneration of auditors
- 224A : Appointment of auditor by special resolution in certain cases.
- 225 :Resolutions for appointing or removing auditors
- 226 :Qualifications and Disqualifications of auditor.
- 227 :Powers and duties of auditors
- 228 :Audit of accounts of branch office of the company
- 229 :Signature of audit report
- Sec .230:Reading and inspection of auditor's report
- Sec . 231:Right of auditor to attend general meeting
- Sec . 232:Penalty for noncompliance
- Sec . 233:Penalty for noncompliance by auditor
- Sec . 233A: Power of Central govt. to direct special audit in certain cases
- Sec . 233B: Audit of Cost accounts in certain cases

## QUALIFICATION OF AN AUDITOR

1. A person can be appointed as an auditor of a company only if he is a Chartered Accountant within the meaning of the Chartered Accountants Act of 1949.
2. In case a firm is appointed as an auditor of a company, all the partners of the firm must be Chartered Accountants.
3. One holder of a certificate under the Restricted Auditors Certificate Rules 1956 is also qualified to Act as an auditor of a company.

## DISQUALIFICATION OF AUDITORS - sec 226(3)s

According to Provisions of Section 141(3) of the Companies Act, 2013, following persons shall not be eligible as auditor of the company: -

- a) A **body corporate** other than LLP registered under the LLP Act, 2008
- b) An **officer or employee of the company.**
- c) A person **who is partner or who in the employment, of an officer or employee of the company.**
- d) A person **who or his relative or partner**

(i) is **holding any security/interest in the company** or its subsidiary or of its holding or associate company or subsidiary of such holding company.

It has been further provided that an relative may hold security or interest in the company **of face value not exceeding one lac rupees.**

(ii) **is indebted to the company** or its subsidiary, or its holding or associate company or subsidiary of such holding company, **in excess of Rs. 5 lacs rupees**

iii) has **given guarantee or provide any security in connection with the ineptness of any third person to the company** or its subsidiary, or its holding or associate company or a subsidiary of such holding company **for value in excess of Rs. 1 lacs.**

e) A **person or a firm who** (*whether directly or indirectly*) has **business relationship with the company**, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company.

Here the business relationship shall be construed as **any transactions enter into for a commercial purpose** except: -

a) Commercial transactions which are **in the nature of professional services permitted to be rendered by an auditor or audit firm by the professional bodies regulated such members.**

b) Commercial transactions which are **in ordinary course of business of the company at arm's length price as customer.**

f) A person **whose relative is a director or is in the employment of the company as a director or key managerial personnel.**

g) A person

(i) who is in **full time employment elsewhere** or

(ii) a person or a partner **holding appointment as its auditor** is at the date of such appointment or reappointment holding appointment as auditor **for more than 20 companies.**

h) A person who has been **convicted by a court of an offence involving fraud and a period of ten years has not elapsed** from the date of such conviction.

i) Any person whose subsidiary or associate company or any other form of entity is **engaged** as on the date of appointment **in consulting or specialized services in reference to provision of Section 144 of the Companies Act, 2013.**

Further According to Provisions of Section 141(4) of the Companies Act, 2013, **where a person appointed as auditor of the company incurs any of the disqualification** mentioned in Section 141(3) of the Companies Act, 2013 after his appointment, **he shall vacate his office as such auditor and such vacancy shall be deemed to be casual vacancy in the officer of the auditor.**

**It must be noted that the aforesaid provisions are applicable to all types of auditors i.e. cost auditors, statutory auditors and secretarial auditors.**

#### **APPOINTMENT OF AUDITOR (Section 226)**

- Chartered Accountant in practice
- Partnership firm of CA's in practice
- Holder of a certificate in Part 'B' States
- Appointment by directors
- Appointment by shareholders
- Appointment by the Central Government
- Appointment by the Comptroller and Auditor General

## **A. APPOINTMENT BY DIRECTORS**

### **B. FIRST AUDITORS :**

C. The board of directors shall appoint the first auditor(s) of the company within **One Month** of the **Date Of Registration** of the company.

### **D. CASUAL VACANCY:**

E. The directors have been empowered to fill any casual vacancy in the office of an auditor, except which is caused by prior resignation of an auditor.

## **B. APPOINTMENT BY SHAREHOLDERS**

### **FIRST AUDITORS :**

In case the directors fail to appoint the first auditor(s), the shareholders shall do so at a general meeting by passing a resolution.

### **SUBSEQUENT AUDITORS:**

Every subsequent auditor is appointed every year at every annual general meeting by the shareholders.

A subsequent auditor appointed by the shareholders at any annual general meeting will hold office till the conclusion of the next annual general meeting.

The company shall within 7 days give intimation to the auditor so appointed. The auditor shall inform in writing to the Registrar of Companies within 30 days of his appointment.

### **CASUAL VACANCY:**

If a casual vacancy in the office of an auditor arises by his resignation, such vacancy should only be filled by the company in a **General Meeting**.

## **C. APPOINTMENT BY CENTRAL GOVERNMENT**

**If a company, at an annual general meeting, fails to appoint or re-appoint an auditor, the Central Government may appoint a person to fill the vacancy.**

The company has to give notice of the above fact to the Government within 7 days of the Annual General Meeting.

The appointment by the Central Government is made from the panel of names suggested by the applicant company.

## **D. APPOINTMENT BY THE COMPTROLLER AND AUDITOR GENERAL**

In case of Government Companies, the Comptroller and Auditor General appoints or re-appoints the auditor.

### **REMUNERATION OF AN AUDITOR**

1. The remuneration of the first auditor is fixed by the Board of Directors, if he is appointed by the Board of Directors.
2. The remuneration of every subsequent auditor, who is appointed by the company, is fixed by the company in the general meeting.
3. Where a subsequent auditor is appointed by the Central government on the failure of the company to appoint the auditor, his remuneration will

### **REMOVAL OF AUDITOR**

### **REMOVAL OF AUDITOR BEFORE THE EXPIRY OF HIS TERM**

Section 224(7)

The purpose of this section is to make the removal of an independent and conscientious auditor difficult.

1. Removal of First Auditor
2. Removal of Subsequent Auditor

### **REMOVAL OF AN AUDITOR**

An auditor may be removed before the expiry of the term for which he has been appointed.

The first auditor appointed by the directors of the company may be removed before the expiry of his term of office and another person may be appointed in his place by the shareholders at a general meeting by passing an ordinary resolution to that effect.

A subsequent auditor appointed by the shareholders at an annual general meeting can be removed from the office before the expiry of his term of appointment by the shareholders in general meeting by passing an ordinary resolution after obtaining previous sanction of the central govt.

Thereafter, if the members desire that the auditor should be removed before his term of office and another person should be appointed in his

place, an ordinary resolution should be passed by the shareholders at the general meeting.

It may be noted that for the removal of a subsequent auditor, the provisions approval of the central government also must be obtained.

### **Appointment Of An Auditor In Place Of A Retiring Auditor**

Section 225

#### **Special Notice Of The Resolution:**

For appointing a person other than the retiring auditor, a special notice of such a resolution should be given to the company at least fourteen days before the meeting.

#### **Right Of Retiring Auditor To Make Representation:**

The retiring auditor has a right to make representations in writing to the company, not exceeding a reasonable length, and request for their notification to the members.

#### **Right To Get Representation Circulated:**

The company, on receipt of the representation, shall mention the fact of the representation in the notice of the meeting and send a copy thereof to every member to whom the notice of the meeting is sent.

#### **Other Rights:**

Besides the rights mentioned, the retiring auditor also has a right to be heard at the meeting.

#### **Passing Of Resolution:**

The general meeting may by passing an ordinary resolution, remove such an auditor.

### **RIGHTS OF A COMPANY AUDITOR**

#### **1.Right of access to books of account of Vouchers:**

An auditor of a company has a right of access to the books of accounts and vouchers of the company

whether they are kept at the head office of the company or elsewhere.

#### **2)Right to examine the cost records:**

An auditor of a company has a right to examine the cost records along with the quantitative records relating to production, sales, stocks etc.

**3) Right to obtain information & explanations:**

An auditor of a company has a right to obtain from the directors and officers of the company such information and explanation as he may think necessary for the performance of his duties as an auditor.

**4. Right to correct any wrong statement:**

An auditor of a company has a right to correct any wrong statement made by the Directors relating to the accounts to be laid before the company in the general meeting.

**5) Right to comment on the inadequacy of the accounting system in his report:**

If the system of maintaining accounts is inadequate, he can advise the directors to amend the system of accounting.

**6. Right to visit branches:**

The auditor of the company can visit the branch and examine the books and accounts and vouchers at the branch.

**7) Right to receive notice and other communications of general meeting: -**

An auditor of a company has a right to receive notice and other communications relating to any general meeting, in the same way as a member of the company

**8) Right to attend the general meeting of the shareholders:**

An auditor has the right to attend every general meeting of the shareholders.

**9) Right to speak at the general meeting: -**

An auditor of a company has a right to speak at a general meeting where his certified accounts are discussed

**10) Right to sign the audit report: -**

An auditor has the right to sign the audit report.

**11) Right to report to the members of the company: -**

An auditor has a right to report to the members of the company,

if the accounts audited by him show an unsatisfactory state of affairs.

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**13) Right to receive any remuneration for his audit work:**

An auditor of a company has a right to receive remuneration for his audit work provided he has completed the work which he undertook.

**DUTIES AND RESPONSIBILITIES OF A COMPANY AUDITOR**

Statutory duties.

Contractual duties

Certain duties imposed by legal or court decisions

Duties arising out of professional.

**LIABILITIES OF AN AUDITOR**

1. Civil Liability in case of Negligence
2. Specific statutory Liabilities
3. Criminal Liabilities
4. Professional Misconduct

**AUDIT REPORT**

**INTRODUCTION**

An audit report is a statement through which an auditor submits his findings and expresses his opinion on the state of affairs of the company's business.

In other words, it is a statement through which an auditor summarizes result of his audit work.

A audit report is a document which contains the opinion of the auditor on the financial statements or its components or items examined.

The report is made out on the basis of information available to the auditor.

Objectives of Audit Report

The main objective of audit is to report to the owners on the true and fair position of the business.

Audit report is the medium through which an auditor expresses his opinion on the financial state of affairs of the clients business.

It summarizes the results of the audit work conducted by the auditor.

### **CHARACTERISTICS OF AUDIT REPORT**

- 1) It is the medium through which an auditor expresses his opinion on the financial statement.
- 2) It is the end product of audit.
- 3) It is based on information.
- 4) The audit report may be short or long.
- 5) The audit report may be in the form of letter or statement.
- 6) The audit report is attached to the

### **IMPORTANCE OF AN AUDIT REPORT**

It is a statutory requirement in the case of a company audit.

It is the end product of audit. It summarizes the result of the audit work done by the audit.

It is the medium through which an auditor submits his findings and expresses his opinion on the state

An audit report ensures to the shareholder that the accounts of the company are properly maintained.

It is evidence in the court of law

### **ESSENTIALS OF AN AUDIT REPORT**

It must be a statement of facts.

The report must contain the auditor's opinion.

The report should not give vague statement.

The report should be convincing.

It must be simple to understand.

It must be forceful.

It should be unbiased.

The information given in the report should be clear and concise.

The report must convey to the client the material facts known to the auditor.

The report must be signed by the auditor.

The report must be attached to the balance sheet.

## **TYPES OF AUDIT REPORT**

### **Clean or unqualified report**

When an auditor is satisfied with the affairs of the company and the fairness of the balance sheet and profit and loss account of the concern, he gives in his report the various matters without any reservations, qualifications or modifications. Such a report is called a clean report or unqualified report. An auditor gives a clean report when he is satisfied as to the truthfulness and fairness of the accounts and the financial statements of the company.

### **QUALIFIED OR ADVERSE REPORT**

When an auditor finds some irregularities in the books of accounts or in the financial statements, the auditor gives a report mentioning the irregularities. Such a report is called a qualified report.

A qualified report is a report in which the auditor inserts any qualifications, modifications or reservations.

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- ❖ The auditor must sign the report.
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