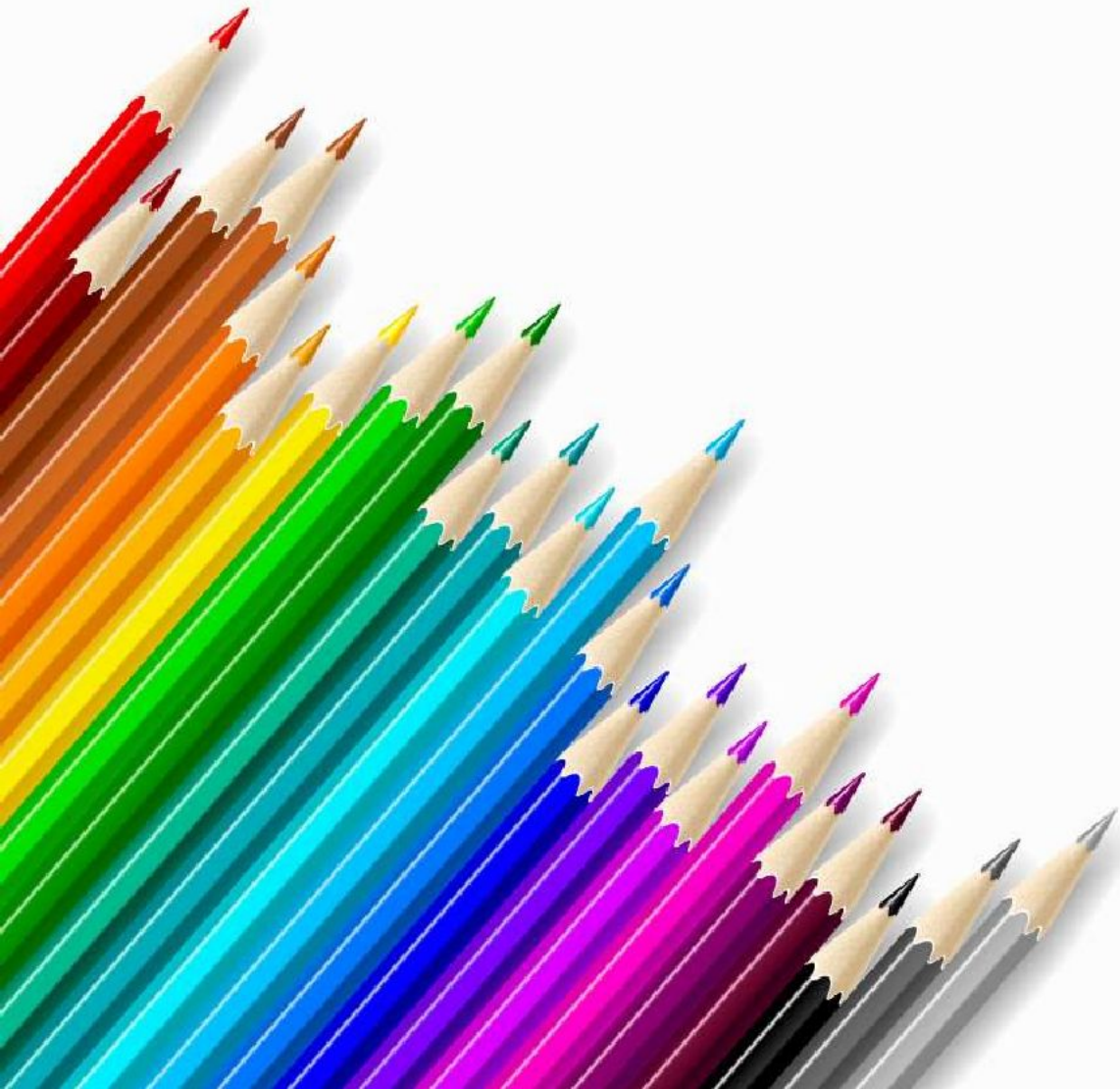


Company Auditor






Introduction

- ❑ Audit is the examination or inspection of various books of accounts by an auditor followed by physical checking of inventory to make sure that all departments are following documented system of recording transactions. It is done to ascertain the accuracy of financial statements provided by the organization.



Qualifica tion

- ❑ According to the provision in Section 226 of the Companies Act,
 - ❑ According to the provision of Chartered Accountants Act, 1949, a person, who is a member of the “Institute of Chartered Accountants of India” qualified and can be appointed as an Auditor of the Company.
 - ❑ Any firm whose all partners are qualified and practicing Chartered Accountants and those who possess the above mentioned eligibility such firm can practice in the name of the firm.
 - ❑ A person holding a certificate under “Restricted Auditor’s Certificate” (Part B State) Rules, 1956 is also qualified to act as auditor of a Company.



Appointment and Re-appointment of auditor

□ according to section-224 of the Companies Act:

1. First Appointment :

The board of directors appoints the first auditor of the company within one month of the registration of the company, which continues till the end of the first annual general meeting of the company.

If the board of directors does not appoint the first auditor of the company in this way, the first auditor of the company is appointed in the annual general meeting of the company.

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2. Appointment every year :



Every year, Company appoints the auditor in the annual general meeting by share holders. The auditor appointed this way holds office till the completion of next annual general meeting.

The auditor has to be intimated about his appointment within seven days after the resolution about the appointment has been passed in the annual general meeting.



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And after getting this information the auditor has to inform the registrar of companies in writing in a prescribed form whether he has accepted or refused the appointment within thirty days. This provision is also applicable in the case of reappointment of an auditor according to the Companies Act.



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3. Re-appointment :

Only the auditor who has been appointed by the company should be reappointed in the annual general meeting. Of course, reappointment is not done under following circumstances :

- (1) If auditor is not qualified for reappointment.
- (2) If a resolution has been passed to appoint another person instead of him or resolution has been passed that the same auditor should not be reappointed.
- (3) If auditor has given a notice in writing to the company about his unwillingness for his own reappointment.



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- (4) If the notice about the resolution of other auditor's appointment instead of the current auditor has been received by the company but because of death, insanity, inability or disqualification of such person, the resolution cannot be proceeded with.



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4. Appointment by the Central Government :

When the appointment or re-appointment of an auditor is not possible at annual general meeting of the company, the Central Government appoints the auditor. In this case, the company has to inform the Central Government within the seven days of completion of annual general meeting of the company that the auditor is not appointed or re-appointed.



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5. Appointment of an auditor of Government Company or Corporation :

In the Corporation, government companies which are established by the laws of State Government or Central Government in which the government has the right for more than 50%, the appointment of an auditor of such companies is done by the Central Government on the advice of the Comptroller and Auditor General of India.

e.g. LIC, General Insurance Corporation..

The current CAG of India is Shashi Kant Sharma, who was appointed on 23 May 2013.



Auditor's Remuneration :

If the auditor has been appointed by the board of directors, his remuneration too will be decided by the board of directors. If the auditor has been appointed by the annual general meeting, his remuneration will be decided by the annual general meeting itself. If auditor has been appointed by the Central Government, the Central Government will decide his remuneration too. In short, one who appoints will decide the remuneration too but the remuneration is paid by the company.



Removal of an Auditor

1. On the Expiry of his term:

- ☐ The First Auditor appointed by BoD
- ☐ Holds office till the conclusion of the next AGM
- ☐ The Company Can remove such auditor at a general meeting
- ☐ And can appoint any other person
- ☐ But notice for the nomination of such person must have been given to the members of the co. before 14 days of meeting



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2. Before the expiry of his Term:

- ☐ The Auditor appointed by BoD can be removed by the share holders in the general meeting and another person nominated to be appointed in his place for which a special notice has to be given to the members 14 days before the meeting. The approval of central Govt. is not required.
- ☐ In other circumstances the auditor can be removed by the co. but the approval of Central Govt. must be obtained.



Rights of an Auditor

1. Access to Books and Accounts:

- ☐ Books, a/c and vouchers whether kept at any place
- ☐ Examine vouchers and books of a/c and all supported documents
- ☐ All time free to examine the documents
- ☐ According to the Law Auditor has right to access to the books and all documents but he may not get help from the Court.

2. Right to Obtain Information and Explanation:

- ☐ such information and explanation he may think necessary for the performance of his duties as an auditor.

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3. **Right to Attend General Meeting:**

- ☐ Entitled to receive all notice of GM like any other member
- ☐ Not compulsory to attend all meeting
- ☐ But adverse comment of his report then he should remain present

4. **Right to be Heard at the Meeting:**

- ☐ right to make clarification on any point regarding accounts that he has examined
- ☐ he is not bounded to give reply to any que. Raised in the meeting except the Chairman Asks.



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5. Right to visit Branches:

6. Right to receive Remuneration:

- ☐ He has the right to receive remuneration. Provided he has completed his work.
- ☐ According Dicksee...

7. Right to receive notice of Removal:

- ☐ When any share holders desires to propose any other person as an Auditor he has to give the Special notice to the Co. so do the Auditor as he has the right to receive and also has the right to make representation in writing in his defense against such notice.
- ☐ He also has the right to compel the co. to send his reply to all member and to have it read at GM



Duties of An Auditor

- A. Duties of an auditor according to Companies Act.
- B. Duties of an auditor according to judicial decision.
- C. Professional Ethics. (Code of Conduct)



A. Auditors duties according to Companies Act :

1. To present Audit report:

- ☐ It is the preliminary duty of an auditor that he should present the report before shareholders after verification of accounts of the company.
- ☐ The auditor has to address his report to only the shareholders and present it to them.
- ☐ Only in special audit, auditor has to give his report addressing the Central Government.
- ☐ It is not auditor's duty to send audit report to each and every shareholder. Once he submits such a report to the company secretary, his duty is considered to be fulfilled.

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2. Certification to be given for statutory report :

- ☐ The company has to hold a statutory meeting within six months after registration of the company in which statutory report is to be presented. The auditor has to give a certificate for the following matters in this statutory report.
 - (1) Number and types of shares issued by the company.
 - (2) Total amount of cash received by the company for allocated shares.
 - (3) Statement of receipts – payments of cash till that date.



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3. When the prospectus is issued:

- ❑ The company who has been running business and when it issues the prospectus, the information and detail of profit-loss account of the last five years, amount of dividend distributed every year during the last five years and the auditor's report for assets and liabilities of the company should be included in the prospectus.



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4.Assist the special auditor/inspector :

- ☐ To verify company's accounts and management, Central Government appoints special auditor. At that time, it is auditor's duty to offer necessary and possible help to such auditor-inspector.



B. Duties of an auditor according to judicial decision:

1. To be acquainted with the Articles:

- ☐ The Auditor should make him self acquainted with the AoA of the Company.

2. To exercise reasonable care-skill :

- ☐ According to the statement of the Justice Lipse in the judicial decision of Kingston Cotton mills case, auditor should exercise reasonable care and skill while doing his duty. Of course, what is reasonable care-skill can be decided on the basis of particular circumstances of respective case.

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3. To verify the truthfulness of transactions :

- ❑ According to the judicial decision of Registrar of Companies Mumbai V/s. P.M. Hedge case, an auditor can only view the accounts from the view but he has to inquire in depth and should verify the truthfulness and authenticity of transactions not only him self that it contains a true and correct picture of the co.'s affairs but to all the members of the companies and so to the third party.



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4. To verify the assets :

- ❑ In the judgment of London Oil Storage Co. Vs. Sear Hasluck & Co. the judge Shri Alverstone has ruled that, “it was auditor’s duty to verify the existence of all assets shown in the balance sheet. If the auditor fails to do his duty, auditor is liable to submit the loss suffered by the client.

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5. Disclose true economic condition :

- ❑ In the case of London and General Bank Ltd., the judge Shri Lindle has stated that it was not the auditor's duty to give advice to the trader but to disclose the true economic condition of the company.



C. Professional Ethics: (Code of Conduct)

1. Regarding the acceptance of appointment or re-appointment:

- ☐ If he is appointed in place of retiring auditor, auditor should inform the retiring auditor in writing before he accepts the appointment. Moreover, he should accept the appointment or re-appointment after following the provisions of sections 224 and 225 of Companies Act.

2. Regarding the rejection of less fees :

- ☐ Appointment cannot be accepted on lower fees in place of any other Chartered Accountant.



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3. Regarding signing the report :

- ☐ A person who is the member or a partner of Institute of Chartered Accountant of India can sign the annual accounts. Any other person should not be allowed to sign on the annual report on his behalf.

4. Regarding not getting work through advertisement :

- ☐ Through advertisements or circulars auditor's work cannot be obtained.



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5. Regarding not getting work by giving commission:

- ☐ He cannot pay commission, brokerage or pay fees out of profit of business to get any work of audit. Of course, there is nothing wrong if he gives the share of profit to the partner of the firm after his retirement or death as per agreement.