

INTRODUCTION TO COMPANY AUDIT

STRUCTURE

- 8.0 Objectives
- 8.1 Qualification Of An Auditor
- 8.2 Disqualification Of Auditors
- 8.3 Appointment Of First Auditors
- 8.4 Appointment Of The Subsequent Auditor
- 8.5 Removal Of Auditor

8.0 OBJECTIVES

After studying the unit the students will be able to

- Know about the Qualifications of an auditor
- Understand the Disqualifications of an Auditor
- Explain how to appoint the first auditor
- Know the rules and regulations related to removal of an auditor

8.1 QUALIFICATION OF AN AUDITOR

The provision regarding qualification of auditor is governed by Section 226 of the Companies Act, 1956
Sec 226(1) states

- A person will be qualified for appointment as an auditor of a company (public or private) only if he is a Chartered Accountant within the meaning of the Chartered Accountants Act, 1949
- The same section also provides that a firm of Chartered Accountants will be qualified for appointment as the auditor of a company in its firm name provided all the partners practicing in India are qualified for appointment
- In case of the firm being appointed as auditor, any practicing partner may act in the name of the firm.

8.2 DISQUALIFICATION OF AUDITORS

The provision regarding disqualification of auditor is governed by section 226 of the Companies Act, 1956.

1. Section 226(3)

The following persons are not qualified for appointment as auditors of a company:

- a) A body corporate an officer or employee of the company

- b) A partner or employee of an officer or employee of the company
- c) A partner or employee of an officer or employee of the company
- d) A person who is indebted to the company for more than Rs. 1000

OR

A person who has given any guarantee or provided any security in connection with the Indebtedness of any third person to the company for more than Rs. 1000.

- e) A person holding any security (a security would mean an instrument carrying voting rights) of that company after a period of one year from the date of commencement of the Companies (Amendment) Act, 2000.

2. Section 226(4)

A person is not eligible for appointment as an auditor of any company if he is disqualified from acting as auditor of that company's subsidiary or holding company or of any other subsidiary of the same holding company and vice- versa.

3. Section 226(5)

If an auditor after his appointment, becomes subject to any of the disqualification mentioned in section 226(3) and section 226(4), he shall be deemed to have automatically vacated his office.

8.3 APPOINTMENT OF FIRST AUDITORS

The main points regarding appointment of the First Auditors of a company are given in **Section 224(5)**:

1. The first auditors of a company can be appointed by the board of directors within one month of the date of registration/ incorporation of the company by means of a resolution.
2. The auditors so appointed shall hold office until the conclusion of the first Annual General Meeting.
3. If the Board of Directors fails to appoint the First Auditor within one month, the company in a general meeting is empowered to make the appointment.
4. The auditors so appointed by the Board of Directors may be removed by the company at a general meeting which may appoint any other auditor.
5. An auditor cannot be appointed as First Auditor simply because his name has been stated in the Articles of Association.
6. The First Auditor need not sent an intimation by the company of their appointment and the First Auditor are themselves not required to inform the registrar of Companies about their acceptance/ refusal of such an appointment.

8.4 APPOINTMENT OF THE SUBSEQUENT AUDITOR

The main points regarding appointment of Subsequent Auditor of a company are given below:-

1. Section 224(1) empowers the shareholders to appoint auditor at each Annual General Meeting by means of a resolution.
2. Upon an auditor being appointed in the Annual General Meeting, the company is to give intimation thereof to the concerned auditor within seven days of the appointment.
3. On receipt of the intimation from the company about his appointment, the auditor is required to send a written communication to the concerned Registrar of Companies within 30 days in form no.23B indicating whether he has accepted or declined the appointment.
4. The auditor so appointed shall hold the office from the conclusion of one Annual General Meeting to the conclusion of the next Annual General Meeting.
5. The auditor will be guilty of professional misconduct if at any time he accepts audit more than the specified numbers of audit assignments of the company u/s 224 of the Act.

8.5 REMOVAL OF AUDITOR

1. The first auditor appointed by the directors may be removed by the shareholder in the first Annual General Meeting. Such Auditors can even be removed from their office before the expiry of their term of office without the permission from the Central Government.
2. In any other case, auditor can be removed only by the company in General Meeting after obtaining previous approval from the Central Government
3. An Auditor, on the expiry of the terms of his office may not be reappointed and thus removed from his office.
 - a) Resolution requiring special notice (of fourteen days) should be passed at the general meeting [Sec. 225(1)].
 - b) On receipt of notice of resolution, company shall send copy of the notice to the retiring auditor [Sec. 225(2)].
 - c) On receipt of notice, retiring auditor can send written representation of a reasonable nature to the company which should be informed to the members. Normally company has to circulate such representation to the shareholders, unless it is received too late. A notice of resolution also should be circulated, stating a fact of such a representation. If the representation is not circulated for being received too late or because of the default of the company, auditor can insist it to be read at the meeting. [Sec. 225(3)].
 - d) However, company or any other person like directors or shareholders have a right to file a petition with Company Law

Board (CLB) to refrain the

- e) auditor from making such representation, if it is to secure needless publicity or is defamatory. In such a case, on the direction of the CLB, copies need not be sent or read at the meeting [Sec. 225(3)]. These provisions apply to removal of the auditors appointed by Central Government also.
4. The other relevant provisions are that if a new auditor is appointed, the company should within 7 days, inform the new auditor. The new auditor should inform the Registrar within one month of such intimation received about his decision and he should also communication with the retiring auditor in this matter, is he accepts the post

