**UNIT 3 - Audit of Limited Companies :Company Auditor’s Appointment , Powers , Duties and Liabilities , Auditor’s report and Audit Certificate**

**What is the purpose for the appointment of the Auditor?**

The purpose of the auditors in the company is to protect the interests of the shareholders. The auditor is obligated by law to examine the accounts maintained by the directors and inform them of the true financial position of the company. Auditor gives his independent opinion to the owners or shareholders of the company to protect and keep the company in a safe financial condition.

**How is the appointment of an Auditor for different kinds of Companies done?**

|  |  |  |  |
| --- | --- | --- | --- |
| **Particulars** | **Non Government**  **Company** | **Listed/Specified**  **Company** | **Government Company** |
| **1. Application for 1st Auditor post  Incorporation** | -Appointed by the Board Of Directors.   -This has to be done within 30 days from the date of Registration. -Appointment can also be done by Members at Extraordinary General Meeting within 90 days of information. | -Appointed by Board Of Directors. -This has to be done within 30 days from the date of Registration. -Appointment can also be done by Members at Extraordinary General Meeting within 90 days of the information | -Appointed by the  Comptroller and Auditor General of India. -This has to be done within 60 days from the date of Registration. -Appointment can also be done by Board Of Directors  within 30 days of incorporation -Members can also appoint  at an Extraordinary General Meeting within 60 days of Information |
| **2. Auditor at First AGM. The written consent and a certificate.** Please note, the appointmentshall be in accordancewith the conditions laid down by the auditor | -The appointment is done by the members -He will hold office till the end of the 6th AGM. | -The appointment is done by the members  for a maximum term of 5/10 consecutive years -Cooling off period of 5  years before next appointment will be there. | -The appointment is done by the Comptroller and Auditor General of India -He should be appointed within 180 days from the 1st of April |
| **3. Appointment of Subsequent Auditor** | -The appointment is done by the members  and he will hold office till the conclusion of the  6th meeting | -The appointment is done by the members  for a Maximum term of 5/10 consecutive years | -The appointment is done by the Comptroller and Auditor General of India within 180 days from the 1st of April |
| **4. Casual Vacancy due to resignation and other reasons** | -The appointment is by the members within 3 months of the recommendations of Board and he will hold office till the next AGM |  | The appointment is done by the :  -CAG (Comptroller and Auditor General) within 30 days  OR  -BOD within the next 30 days |

**Appointment Of Auditor Other Than Retiring Auditor By A Special Notice**

Where a person other than the retiring auditor is proposed to be appointed as an auditor, or where it is proposed that the retiring auditor shall not be re-appointed, a special notice under Section 115 of the companies Act, 2013 has to be given proposing that such a resolution would be moved at the next annual general meeting.

In case where the retiring auditor has completed a consecutive tenure of five years or, as the case may be – ten years then such special notice can be avoided.

For the purpose of special notice the relevant points are as under:

* If the auditor makes a representation in writing to the company and requests for a notification to the members, the company shall
  + State the fact of representation in any notice regarding the resolution
  + The copy of representation should be sent to those members by the company  to whom notice of meeting is sent, whether before or after the receipt of representation.
  + if the copy of representation is not so sent , copy thereof should be filed with the Registrar.
* On receipt of the special notice for removing the auditor, the company should send a copy of the same to the retiring auditor.
* Such representation should be of a reasonable length and not too long.
* The special notice should not be received by the company too late for the purpose of circulation to members.
* Auditor may require the company to read out the representation in the meeting if it is not so notified to members because it was too late or because of company’s default.

If the Tribunal is satisfied that the rights are being abused by the auditor based on an application either of the company or of any other aggrieved person, then:

* the copy of the representation may not be sent, and
* the representation need not be read out at the meeting.

**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

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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), heshall be deemed to have automatically vacated his office.

**Rights and Powers of Company Auditors**

According to Section 227(7) of the Companies Act, a company auditor has the following rights:

**1. Right of Access Books of Accounts:** As per Section 227(1) of the Companies Act every auditor of the company has the right to access at all times to the books of accounts and vouchers of the company, whether kept at the head office of the company or elsewhere. Under section 209(1) (d), a company auditor has the right to examine the cost records also which are required to be maintained by certain companies relating to production sales, stores etc.

**2. Right to Obtain Information and Explanations:**An auditor can call for any information or explanation from different officers of the company which he may think necessary for the performance of his duties.

Apart from the auditor’s right to obtain information and explanation it is the duty of every officer of the company to furnish without delay the information to the company auditor. If the directors or officers of the company refuse to supply some information on the ground that in their opinion it is not necessary to furnish it, then the auditor has the right to mention that in his audit report.

**3. Right to Receive Notices and Other Communication Relating to General Meetings and to attend them:**According to section 231, of the companies act an auditor of a company has the right to receive notices and other communications relating to the general meetings in the same way as that of the members of the company.

Similarly an auditor also has the right to attend any annual general meeting and also to be heard at those meetings which he attends and which concerns him as an auditor.

The auditor also has the right to make a statement or explanation with regard to the accounts he has audited. But he auditor is not expected to answer questions in the general meeting.

**4. Right to Visit Branches:**According to section 228 of the companies act the auditor of the company has the right to visit the branch office or offices of the company.

He can also audit such accounts of eh offices of the company provided that there is not qualified auditor to audit the accounts of the branch office or offices of the company, in such cases, the auditor has the right to access at all times to the books of accounts and vouchers that the company maintains at branch office or offices.

Moreover section 226 of the companies act provides that in case of the company gets the branch accounts audited by some of the local auditors, even the auditor has access at all times, to the books, accounts an vouchers of the company and he can also visit the branches, if he feels necessary.

**5.** **Right to Correct Any Wrong Statement:** The company auditor is required to make a report to the members of the company on the accounts examined by him of the final accounts and the related documents which are laid down before the company in the general meeting.

**6.** **Right to sign the Audit Report:**As per section 229 of the companies act only the person appointed as auditor of the company or where a firm is so appointed, only a partner in the firm practicing in India, may sign the audit report or authenticate any other document of the company required by law to be signed.

**7.** **Right to Being Indemnified:** Under Section 633 of the Companies Act, an auditor is considered to be an officer of the company and he has the right to be indemnified out of the assets of the company against any liability incurred by him in defending himself against any civil and criminal proceedings by the company if it is proved that the auditor has acted honestly or the judgment is delivered in his favour.

**8. Right to seek Legal and Technical Advice:**The company auditor has the full right to seek the opinion of the experts and to take their legal and technical advice so as to discharge his duties efficiently.

**9. Right to Receive Remuneration:** As per Section 224(8) of the Companies Act, the company auditor has the right to receive remuneration provided he has completed the work which he has undertaken to do so.

**Duties and Liabilities of a Company Auditor (Section 227):**

Duties towards the **shareholders**:

**1.** Report shareholders about true and fair state of affairs of the company

**2.** State that balance sheet and profit and loss a/c give all information required by law

**3.**State that balance sheet and profit and loss a/c agree with the books of account

**4.**State that balance sheet and profit and loss a/c agree with accounting standards

**5.** State that he has obtained all the necessary information

**6.** State whether the company has maintained all books as required by law;

**7.** State the reasons of qualification in his report

**8.** State that he has received the audit report on the branch accounts audited by other auditor and how he has dealt with the same in preparing his report

**9.**Auditor shall state in his report whether:

**a)**The loans taken are properly secured and the terms of loans are not against the interests of the company

**b)**Loans given are shown as fixed deposits and the terms of loans are not against the interests of the company

**10.**Transactions recorded as book entry are not against the interests of the company

**11.**Personal expenses of directors have not been charged to revenue a/c of company;

**12.**The company fulfills the requirements of CARO 2003.

**Duties towards Company:**

**1. Prospectus:** According to Sec 56, the auditor is required to certify profits or losses, assets & Liabilities and dividend paid etc in the prospectus.

**2. Statutory Report:** Section 165 requires that the auditor has to certify the statutory report.

**3. Public Deposits:** Section 58AA requires the auditor to report about whether the company has followed all rules and guideline of RBI in regard to public deposits or not.

**4. Signature on Audit Report:** Section 229: It is duty of auditor to sign on his report.

**5. Insolvency (Section 488):**If the company wants itself to be declared insolvent, it is duty of auditor to prepare profit and loss a/c for the current period.

**Duties towards Government:**

**1. CARO-2003:**The auditor has to report para-wise that the company has fulfilled all the requirements of CARO-2003.

**2. Assist the Investigation u/s 237:** It is duty of auditor to assist the investigation ordered by the CG u/s 237.

**Duties towards General Public:**

**1.**His office is of confidence and faith. He must be reliable in all respects.

**2.** He should reveal all material information regarding the state of affairs of the company to the company as well as to the general public.

**3.**While issuing prospectus u/s 56, he should see that the prospectus does not include any misleading information or material.

# Auditor’s Certificate

The term certificate refers to a written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion.

An Auditor’s certificate is a written confirmation of the accuracy of the facts relating to the accounts for a particular time or to a specific matter, which does not involve any estimate or opinion.

An auditor’s certificate represents that he has verified certain precise figures and is in a position to vouchsafe their accuracy as per an examination of documents and books of accounts.

Certification of the statutory report, certification of share transfer, certification of the value of imports and exports of a company, etc. are some of the examples of auditor’s certificate.

## Form of Auditor’s Certificate

If **[the auditor](https://www.iedunote.com/auditor-definition-qualities-types)** is satisfied with the accuracy of the foregoing items, he should give his certificate in connection with the correctness of the prescribed items given in the statutory report.

The form of auditor’s certificate is as follows:

|  |
| --- |
| “We, the undersigned, being the auditors of the company hereby certify that so much of this report as related to the shares allotted, the cash received in respect of such shares and the receipts and payments of the company are correct.”  Place and date  Chartered Accountants |

## Differences between Auditor’s Report and Certificate

|  |  |  |
| --- | --- | --- |
| **Points** | **Auditor’s report** | **Auditor’s certificate** |
| 1. Nature | It is an expression of opinion about the account. | It is a confirmation of correctness and accuracy about some matters. |
| 2. Basis of audit | The report is based on assumptions and estimations. | The certificate is based on actual figures and facts. |
| 3.Criticism | There may be criticism about the report. | There is no scope of criticism about the certificate. |
| 4. Scope | The scope of the report is large. | Its scope is limited. |
| 5. Scope of advice | In the scope there is a scope of giving constructive advice in the company. | No scope of constructive advice Exists in case of a certificate. |
| 6. Time of issue | After the end of each accounting, the year report is mandatory. | A certificate is not mandatory in every year. |
| 7. Liability of auditor | As a report is merely an opinion, if it is not correct, the auditor may not be held responsible. | In case of the wrong certificate, the auditor will be held responsible. |

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# Audit Reports: Types of Audit Reports | Advantages | Limitation

[Audit](https://www.wikiaccounting.com/category/audit/), [Audit Opinion](https://www.wikiaccounting.com/category/audit/audit-opinion/)

## Definition:

The audit report is the report that contains the [audit’s opinion](https://www.wikiaccounting.com/audits-opinion-unmodified-unqualified-and-modifiedqualified-disclaimer-adverse/) which is issued by independence auditors after their examination on the [entity’s financial statements](https://www.wikiaccounting.com/five-types-of-financial-statements-ifrs/) and related reports.

Those including [financial statements](https://www.wikiaccounting.com/five-types-of-financial-statements-ifrs/), management accounts, management reports. or others report like compliant reports.

Mostly, those reports are issued based on the result of auditors’ professional examination against the measurement criteria or standards.

For example, auditors perform their audit on the client’s financial statements against the accounting standard that used to prepare those financial statements.

In other words, they review whether or not financial statements are prepared true and fair view in accordance with the accounting standards. Those standards could be [IFRS, US GAAP](https://www.wikiaccounting.com/top-five-best-seller-accounting-books-for-gaap-and-ifrs-in-2015/) or local GAAP.

After completing their testing, the auditor then issues the audit report on the [financial statements](https://www.wikiaccounting.com/five-types-of-financial-statements-ifrs/) that they just audited. This report will also include [their opinion](https://www.wikiaccounting.com/audits-opinion-unmodified-unqualified-and-modifiedqualified-disclaimer-adverse/) on the financial statements.

## Using:

The audit report is used by many stakeholders including the entity’s management, the board of directors, shareholders, investors, government bodies, banks, and many others.

In most cases, the audit report is issued to cover financial statements over 12 months or a year period.

Investors use audit reports and audited [financial statements](https://www.wikiaccounting.com/five-types-of-financial-statements-ifrs/) to assess the entity’s financial performance and [financial position](https://www.wikiaccounting.com/balance-sheet-ultimate-guide/) for their investment opportunity.

The government agency uses the audit reports and financial statements to assess the completeness and accuracy of the tax declaration.

Shareholders and the board of directors use the audit report to assess the integrity of management and transparency of financial statements.

**Noted:**

Different types of audit report contain different audit’s opinions and the main cause are from the different of misstatements found in the financial statements. Different types of audit reports represent a different level of assurance.

Here are the four types of report that we mentioned above,

## Four Types of Audit Reports:

There are four types of audit reports issued by auditors on financial statements. Each type of report contains different meanings and messages from auditors to users of financial statements.

Those audit reports included the Unqualified Audit Report (Clean Audit Report), Qualified Audit Report, Disclaimer Audit Report, and Adverse Audit Report. The following are the detail of audit reports.

## #1 Unqualified Audit Report (Clean Audit Report):

[Unqualified Audit Report](https://www.wikiaccounting.com/different-between-unmodified-and-unqualified-opinion/) issued by the auditor to financial statements when auditors found no material misstatements after their testing. This report contains an unqualified opinion from an independent auditor.

The report showed that the entity financial statements are prepared and present true and fair and complying with the accounting framework being used.

This is a good sign for all kinds of stakeholders that willing to uses the financial statements. You might find whether the audit report is clean or not in the opinion paragraph.

**[Related article  Current audit files](https://www.wikiaccounting.com/current-audit-files/" \t "_blank)**

Unqualified Audit report not only apparently shown to the shareholders that financial statements are a true and fair presentation, and free from all material misstatements.

But also imply that the management team has high integrity to the shareholders.

However, before putting your truth on the audit report, make sure that the auditor who issued the reports are from independence audit firms. Big four audit firms are the firm that most of the shareholders put their truth on.

## #2 Qualified Audit Report:

[The qualified Audit report](https://www.wikiaccounting.com/qualified-audit-report/) is the report that issue by auditors to the [financial statements](https://www.wikiaccounting.com/five-types-of-financial-statements-ifrs/) that found material misstatements on them. But those material misstatements are not pervasive.

For example, the opening balance of the entity contains a large number of inventories that could not verify.

In this case, the auditor issue a qualified audit opinion on the qualified audit report. However, if the auditor thinks that the misstatement is pervasive, they will issue the adverse opinion in their report.

This kind of report, only inventories that mention are matters. Others information in the financial statements is true and fair.

The term of seriousness, the qualified audit report is more serious than unqualified due to material misstatements on the mention items or accounts in the financial statements.

## #3 Adverse Audit Report:

[Adverse Audit Report](https://www.wikiaccounting.com/what-is-an-adverse-opinion/) is a type of audit report issued to the [financial statements](https://www.wikiaccounting.com/five-types-of-financial-statements-ifrs/) when auditors found that there are material misstatements in the financial statements.

The misstatements found here are different from the material misstatements found in qualified audit reports.

They are not only material misstated for themselves but also affect others accounts and items in the whole financial statements. These are called pervasive.

That means all the items and accounts in the whole financial statements could not be trusted by shareholders, investors, and other stakeholders.

In this report, auditors will list down the client name, financial statements that they were audited and the period the financial statements covered.

Auditor will also state all misstatements found and how they are affected the financial statements and as well as the users of financial statements.

In most cases, auditors also state all the material found the Others Matters which is the message to the users of financial statements to be aware of when they read the financial statements for their own purpose.

## #4 Disclaimer Audit Report:

The[disclaimer audit report](https://www.wikiaccounting.com/disclaimer-opinion-definition-explanation-example/) is the report that issues the [financial statements](https://www.wikiaccounting.com/five-types-of-financial-statements-ifrs/) where there is matter to auditor’s independence and those mater cause auditors not be able to obtain sufficient audit evidence to support their opinion.

**[Related article  Statutory Audit and Non-Statutory Audit](https://www.wikiaccounting.com/statutory-audit-and-non-statutory-audit/" \t "_blank)**

This has happened when auditors are prevented to access to certain information related to items or accounts in financial statements while those items or accounts are believed to be materially misstated and pervasive.

Auditors might not issue the disclaimer opinion if the restrictions are made only the items or accounts that material misstated but not pervasive.

## Advantages of Audit Reports:

* Provide assurance on Financial Statements. Audit reports issued by a professional and independence auditor which is operational independence from the management of the entity. The report issued from them could help the users of the financial statement to assure that financial information is correct or not.
* Prove management integrity on their shareholders. As auditor is independence from management, the report could prove whether managements are honest to their shareholders or not. This is related to principle and agency theory.
* It is the requirement of law and regulation. Most of the countries required the entities which have the specific criteria to have their financial statements audited by independent auditors. Those criteria like annual turnover, the value of assets, and the number of employees. The auditor is the evidence that could prove to the government that the entity is complying with the law.
* It is the requirement of shareholders. Most of the corporate shareholders want their entity’s financial statements to be audited. This report is examined by the experts and express into the easy words that could be understood by most of the shareholders who do not have financial or audit background.
* Parent company’s requirement. Many parent companies that have subsidiaries operating in other countries or even in the same country normally required their subsidiaries’ financial statements to be audited. This report could help them manage the subsidiary even more effectively.
* Help stakeholders to understand about entity’s financial and operational situation. This is probably the most important point. The auditor is required to state the auditor report whether the entity has any going concern problem or not. This includes financial and non-financial problems that could lead the entity to face bankruptcy in the next foreseeable period from the audit report date.

## Limitation of Audit Reports:

* The scope of the audit might be limited by management. This is a popular discussion about audit’ issues. In the audit standard, auditors should have the full right to access any kind of information that could help them to obtain audit evidence to express their opinion. However, in practice, management might try their best to prevent auditors to obtain some sensitive information. These are probably the management don’t fully trust auditors ethic related to confidentiality or management themselves have integrity problems. These problems might prevent auditors to provide the best quality of audit opinion that it should be.
* Time too constraints for auditors. In practice, auditor normally faces time constraints which do not provide them enough time to perform their testing as they should be.
* Auditors’ Independence. The code of ethics required auditors to stay independence from their audit clients. This is to make sure that auditors do not bias when they perform their works as well as when they issue audit opinion.
* Risks that might not detect by auditors: Inherent Risks and Fraud Risks. Audit standard requires auditors to have proper audit planning as well as risks assessment. This is to make sure that the auditing quality is maintained, and audit risks are identified and minimize. However, these things could not auditor to eliminate all kind of risks of material misstatement from financial statements. For example, inherent risks and fraud risks.
* Auditors Qualification and Competency. This is also an important point. We all know that in order to run an audit firm, someone who represents the firm needs to hold CPA qualification. But the thing is because of the competition, and because of the number of works, the quality of the audit report might have some problems. As you may know

**[Related article  Physical verification of fixed assets and inventories](https://www.wikiaccounting.com/physical-verification/" \t "_blank)**

## Conclusion:

As listed above, there are four types of audit reports and those reports are different because of the [nature of material misstatements](https://www.wikiaccounting.com/what-are-material-misstatements/) found by auditors.

Different types of audit reports contain different audit opinions. The unqualified report issued for the financial statements that contain no material misstatement.

[Qualified reports](https://www.wikiaccounting.com/qualified-audit-report/) on the others hand issued to the financial statements that contain [material misstatement](https://www.wikiaccounting.com/what-are-material-misstatements/) yet those misstatements are only for themselves.

The auditor will issue an adverse opinion when the financial statement contains pervasive misstatement. Yet, they will disclaim not to express their opinion if they could not have enough to review financial statements.