

# COMPANY AUDITOR

Before going into detail discussion of company audit lets discuss briefly type of audit.

1. **External audit:** Also known as statutory audit, it involves the independent examination of truth and fairness of financial statement [b/s & p/L a/c]. Our chapter co audit relates with this audit.
2. **Internal audit :** also known as operational audit , it involves the appraisal activity taken by the organisation over effectiveness of internal control , risk management, investigation of fraud etc . it is conducted by the employee of the company that is why it is called internal audit.
3. **Forensic audit :** it is generally relates with fraud investigation for legal implication. Finding of a forensic audit could be used in court of law as expert opinion.
4. **Public sector audit :** it is also called propriety audit. state or central government owned company required statutorily to be audited by public sector auditor i.e. comptroller and auditor general.
5. **Information system audit:** it verify that there is proper control over IT infrastructure within the organisation

6. **Environmental and social audit:** it examine environmentally related data regarding environmental risk Its impact , policy target etc to interested party.
7. **Compliance audit:** this audit is conducted to know that whether company has complied with all the laws and regulation implied upon it.
8. **Fiscal audit :**
  - a) Tax audit: tax audit are conducted to access the accuracy of the tax return filed by a company.
  - b) GST Audit: it involves examination of record, returns and other document maintained by GST registered person. It also ensure correctness of sale tax and refund declared by entity.

**Which company required compulsorily to be audited:**

1. **For Limited liability Partnership (LLP):** Statutory audit is applicable if turnover in any financial year exceeds Rs. 40 Lakhs or its contribution exceeds Rs. 25 Lakhs.
2. **For Private Company/ Public Company:** Mandatory irrespective of Turnover, profits etc. If the company is incurring loss even then statutory audit is required.

### 3. Appointment of auditor (other than govt. co.)

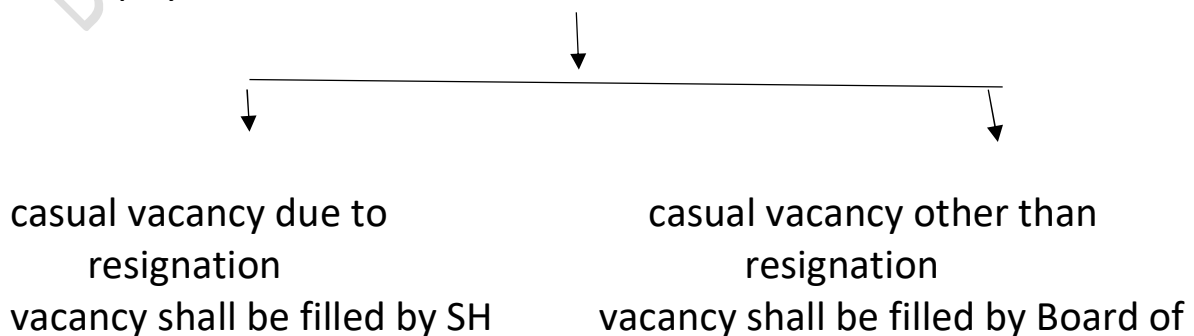
	<b>First auditor sec139(6)</b>	<b>Subsequent auditor sec139(1)</b>
1. Appointing authority	Board of director	by shareholder at AGM
2. Time limit for appointment	within one month from registration of company	# at every 6th AGM
3. Tenure of office	till conclusion of 1st AGM	# till conclusion of the 6th AGM
4. Fail to appoint auditor within time limit	Appointment shall be made by member in EGM within 90 days By ordinary resolution	Appointment shall be made by Central Government

#appointment of auditor is made for 5 consecutive years but the appointment has to be ratified by member in every AGM.

#### casual vacancy in the office of auditor

##### sec139(8)

casual vacancy means vacancy arising in the office of auditor before the expiry of his term in normal course.



in AGM

Director

All such appointed auditor shall hold office till the conclusion of next AGM

**Appointment of auditor by  
comptroller and auditor general  
sec139(7)**

In case of a **Government company** the **first Auditor** shall be appointed by the comptroller and auditor general and it will be made within 60 days from the date of incorporation.

If CAG fails to appoint  
within 60 days

board shall appoint the first auditor  
within next 30 days

if board fails to appoint the first auditor  
within 30 days

shareholder shall appoint first auditor  
within 60 days at extraordinary general meeting(EGM)

**Subsequent auditor of government company is also  
appointed by CAG**

CAG shall appoint subsequent auditor in respect of financial year within 180 days from the commencement of financial

year and such auditor shall hold office till the conclusion of next AGM.

Casual vacancy in the office of auditor shall also be filled by CAG within 30 day

↓  
If CAG fails to appoint within 30 days

**Board shall fill casual vacancy within next 30 days.**

Auditor appointed due to casual vacancy shall hold office till the conclusion of the next AGM.

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## **Rotation of Auditor sec139 (2) and 139(4)**

Sec 139 (2) and (4) applicable to

(a) Listed company

(b) all such company as may prescribe by the govt.

Following company have been prescribed for the purpose of rotation

- (a) All unlisted public company having paid up capital 10 cr or more.
- (b) All pvt lmt company haing share capital 20 cr or more
- (c) All co. having paid up capital below the limit mentioned in (a) and (b) above but having public borrowing from financial institution , bank or public deposit of rs 50cr or above.

### **Manner of rotation**

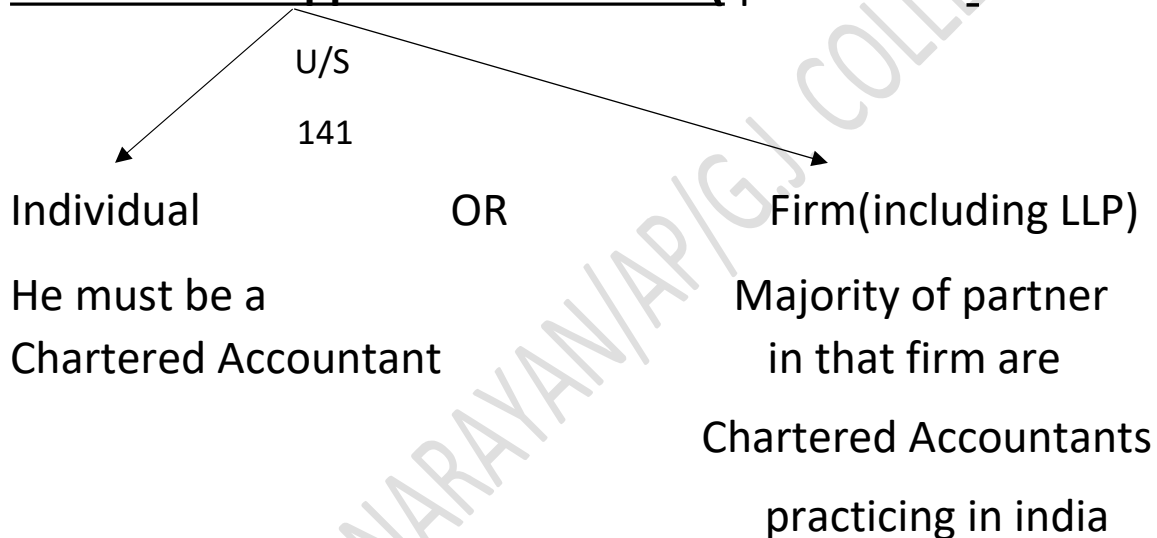
<b><u>Auditor is individual</u></b>	<b><u>Auditor is a firm</u></b>
Appointed or reappointed not more than 1 term of 5 consecutive years	Appointed or reappointed not more than 2 term of 5 consecutive years

If individual auditor who has completed 1 term of 5 consecutive year or auditor as a firm who has completed 2 terms of 5 consecutive years (10) years shall not be eligible for reappointment as

auditor in the same company for 5 years from the completion of such term.

# Members may impose some strict provision i.e. rotation period may be less than 5 years or audit shall be conducted by more than one auditor.

### Who shall be appointed as auditor (qualification of auditor\_)

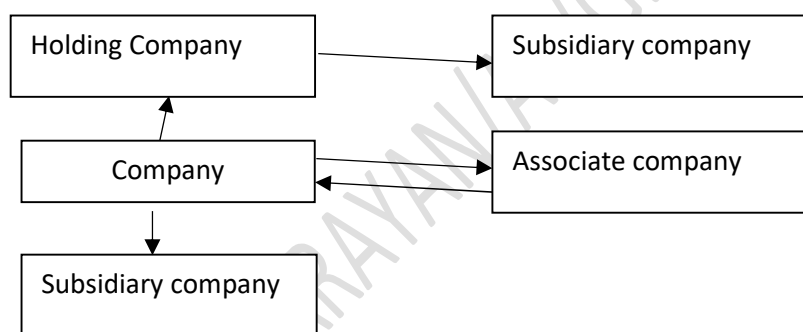


### Disqualification of Auditor

Following person shall not be eligible for appointment as auditor of a company.

- (a) only an individual, a partnership firm or a limited liability partnership firm can act as an auditor and not a company.
- (b) An officer and employee of a company

- (c) A person who is a partner of an officer or employee of a company or a person who is in employment of officer and employee of a company.
- (d) A Person who, or his relative or his partner
- Is holding any security in or
  - Indebted of rs 5 lacs or more or
  - Has given a guarantee or provide any security in connection with the indebtedness of any third person in excess of rs 1 lac. In
- company in which auditor has to be appointed or its holding co or its subsidiary or associate co. or all the subsidiary of such holding company.



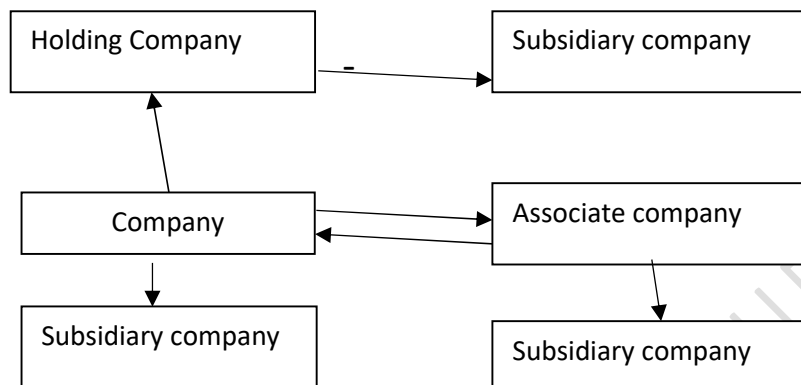
#however a person shall not be disqualified if his relative holds any security in the company of face value not exceeding Rs 1000 or total value Rs 100000.

# If a relative acquires any security exceeding Rs 100000 then the auditor shall take corrective action within next 60 days so as to maintain the limit of Rs 100000.

(e) A person or a firm who weather directly or indirectly, has business relation of some specific nature as may be



prescribe, with the company in which auditor has to be appointed or its holding co or its subsidiary or associate co. or all the subsidiary of such holding company or subsidiary of such associate company.



# specific nature means all kind of commercial transaction except nature of professional service rendered by the auditor or ordinary course of business transaction at arm length price i.e. purchase of goods at market value from that company

- (f) A person whose relative is 
 ↗ Director or  
 ↘ Managerial person

In such company.

- (g) A person who is full time employment elsewhere or at the time of appointment he holding appointment as auditor in more than 20 companies.
- (h) A person who is convicted by the court for an offence involving fraud and a period of 10 yrs has not elapsed from date of such conviction.

- (i) If any person whose subsidiary or associate co or any other form of entity is engage in consulting and specialised service as provided in sec 144.

Even if after appointment of auditor any of the above disqualification incurs, then he shall vacate his office of auditor.

### **Right and duties of auditor**

1. Auditor has right to access all the books of account and voucher of the company whether they are kept in the registered office of a company or any other place.
2. For the purpose of consolidation of the financial statement of a company auditor has also access to the records of the subsidiary of such company.
3. Auditor has right to receive all notices regarding general meeting.
4. The auditor shall have right to be heard at general meeting on any part of the business which concerned him as the auditor.
5. Auditor has right to enquiry from the officer or employee of a company such information and explanation as he may consider necessary for the performance of his duties as auditor.
6. He has right of lien on books of accounts of company on which he worked upon.

7. Auditor has right to receive remuneration.

8. Auditor has right to receive notice of removal.

### **Duties of auditor sec143(2)**

#### **1.Duty to make enquiries**

It is duty of the auditor to make enquiries about all the item present in the financial statement of the company.

#### **2.Duty to make report**

It is duty of the auditor to make report and present it in the general meeting of the shareholder , the report should be based on the account examine by him and the financial statement made by the company.

#### **3.Auditor states in his report whether the account examine by him and the financial statement ,give a true and fair view of -**

A. The state of affair of the company e at the end of the financial year

B. Profit and loss for the year and

C. Cash flow for the year

The auditor shall make his report as per the provision of the act and auditing standard and prescribe such other matter as he considered necessary.

#### 4. Duty to report on principal assertion

1. whether he receive all information and explanation which are necessary for the preparation of the audit
2. proper books of accounts are maintained as per the law and all the returns are received from the branches not visited by him
3. whether profit and loss account and balance sheet are in agreement with the books of account
4. comment of auditor on financial matter which have adverse effect on the company
5. whether any director is disqualified from being appointed as director under subsection 2 of section 164
6. He has to also report about internal financial control system of company.

5. Duty of auditor regarding matter to be included in auditors report such as impact of any pending litigation on the financial position of the company and any foreseeable losses which may be incurred in long term contract yes also report if any delay has made by the company in transferring amount required to be transfer to the investor education and protection fund by the company

6.If auditor give any reverse adverse remark in the auditor's report he has to state the reason there of.

7.It is duty of auditor to sign audit report.

### **Remuneration of auditor section 142**

Generally, remuneration of auditor is fixed by the appointing authority

Except in the case of appointment of auditor by CAG.

Remuneration of first auditor. Why board of directors

Remuneration of other subsequent auditors. And the auditor appointed by CAG is fixed by member in general meeting and in such manner as may be decided in the general meeting

remuneration of auditor appointed by central government is fixed by the central government.