

# AUDITING – COMPANY AUDIT

BY-

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THE  
COMPANY  
AUDIT

# Learning Objectives -

- Meaning of Company Auditor
- Qualifications/Disqualifications of an Auditor
- Appointment of an Auditor
- Duties
- Powers/Rights of an Auditor
- Punishments for contravention of provisions

# INTRODUCTION

- A Joint stock Company is managed by a few elected representatives of the Shareholders called individually 'Directors' and collectively the 'Board' and also by some top officials.
- The capital contributed by the shareholders is employed by these directors and some top officials for the business of the company and accounts are also maintained by them.
- The accounts of the company are required to be checked and examined by independent qualified persons called auditors.
- Companies Act, 2013 is a rule-based Act.
- Section 139 to 148 of the Companies Act, 2013 (hereinafter referred to as 'the Act' unless otherwise mentioned) deal with provisions relating to audit of Companies.

# MEANING OF AN AUDITOR

The Companies Act does not define the term 'auditor'. But the Act defines the word 'Chartered Accountant'. As per Section 2(17) of the Act, "chartered accountant" means a chartered accountant as defined in clause (b) of sub-section (1) of section 2 of the Chartered Accountants Act, 1949 (38 of 1949) who holds a valid certificate of practice under sub-section (1) of section 6 of that Act;

# QUALIFICATIONS OF AN AUDITOR

- A person shall be eligible for appointment as an auditor of a company only if he is a Chartered Accountant.

Note: a firm whereof majority of partners practising in India are qualified for appointment as aforesaid may be appointed by its firm name to be auditor of a company

- Where a firm including a limited liability partnership is appointed as an auditor of a company, only the partners who are chartered accountants shall be authorised to act and sign on behalf of the firm.

# DISQUALIFICATION OF AN AUDITOR

Under section 141(3) along with Rule 10 of the Companies (Audit and Auditors) Rules, 2014 (hereinafter referred as CAAR), the following persons shall not be eligible for appointment as an auditor of a company, namely-

- A body corporate other than Limited Liability Partnership registered under the Limited Liability Partnership Act, 2008.
- An officer or employee of the company.
- A person who is a partner, or who is in the employment, of an officer or employee of the company.

# DISQUALIFICATION OF AN AUDITOR

- A person who, or his relative or partner-
  - Is holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company;  
Relative- may hold security or interest in the company of the Face Value not exceeding Rs.100000/-  
[Relative- include members of HUF, spouses, Father and Mother (including stepfather and mother) Son (including step-son), Son's wife, Daughter, Daughter's husband, Brother (including step-brother), Sister (including step-sister).]
  - Is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of Rs.500,000; or
  - Has given a guarantee or provided any securities in connection with the indebtedness of any third person to the Company or its Subsidiary, or its Holding or Associate Company or a Subsidiary of such Holding Company, in excess of Rs.100,000.



# DISQUALIFICATION OF AN AUDITOR

- A person or 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, of such nature as may be prescribed.
- A person whose relative is a Director or is in the employment of the Company as a director or Key Managerial Personnel.
- A person who is in full time employment elsewhere or a person or a partner of a firm holding appointment as its auditor, if such person or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies other than one person companies, dormant companies, small companies and private companies having paid up share capital less than Rs.100 crore.
- 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.

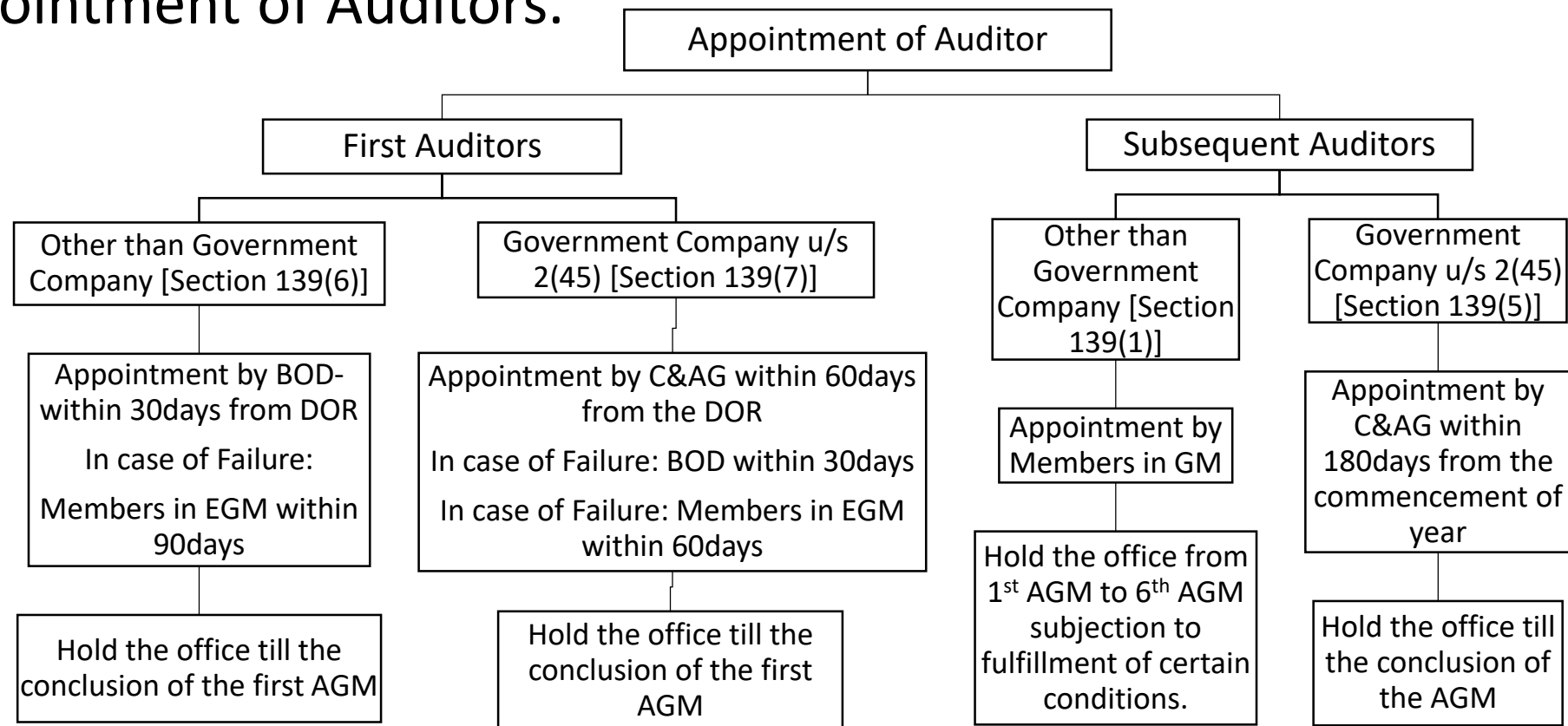
# DISQUALIFICATION OF AN AUDITOR

Any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialized services as provided in Section 144.

- Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in section 141(3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be casual vacancy in the office of the auditor.

# APPOINTMENT OF AUDITOR

- Section 139 of the Companies Act, 2013 contains provisions regarding Appointment of Auditors.



# POWERS / RIGHTS OF AUDITORS

- Right of access to books and vouchers
- Right to obtain information and explanations
- Right to visit branches, and access branch accounts
- Right to remuneration
- Right to have qualifications, etc. read out at general meeting
- Right to receive Notices and to attend General Meeting

# Duties of an auditor

- Inquiry into specified areas [Section 143(1)]
- Reporting as to True and Fair [Section 143(2)]
- Reporting requirements [Section 143(3)]
- Reasons for negative remark or qualification [Section 143(4)]
- Duties wrt audit of Government Companies [Section 143(5),(6),(7)]
- Compliance with Auditing Standards [Section 143(9),(10)]
- Additional matters reporting as per NAFRA [Section 143(11)]
- Reporting of Frauds [Section 143(12),(13),(15)]
- Signing Audit Report [Section 145]

# Punishment for Contravention [Section 147]

## Contravention

Of Section 139 to 146

Of Section 139,143,144,145

Company

Every Officer in Default

Auditor

Fine of  
Minimum - Rs.25,000  
Maximum – Rs.5Lakhs

Imprisonment of Maximum  
1year, or  
Fine of Min Rs.10,000, Max Rs.1  
Lakh, or  
Both of the above

**(a) Normal:** Fine of Min Rs.25,000, Max  
Rs.5Lakh  
**(b) If done knowingly or wilfully,** with  
intention to deceive the Company or its  
Shareholders or Creditors or Tax Authorities:  
Imprisonment of Maximum 1year, or  
Fine of Min Rs.1Lakh, Max Rs.25Lakh, or  
Both of the above.