Company Audit - I [Company Auditor]

Aspects to be covered under this chapter:-

1. Eligibility & Qualification of company Auditor.
2. Disqualifications for company Auditor.
3. Prohibited services for Auditor.
4. Appointment of Auditor & Rotation of Auditor.
   [includes Audit Committee & Remuneration of Auditor]
5. Ceiling on no. of units to work for Auditor.
6. Powers of Auditor.
7. Duties of Auditor
8. Audit Reports
9. Joint Audit
10. Branch Audit
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① Eligibility & Qualifications of Company Auditor.

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

  A firm can also be eligible for appointment as auditor if majority of partners are practising in india as a chartered accountant.

- LLP can also be appointed as auditor but the partners who are chartered accountants shall be authorised to act and sign on behalf of firm.

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② Disqualifications of Company Auditor

The person falling under following categories will be disqualified or not allowed to be appointed as an auditor of a company-

(i) A body corporate other than LLP under LLP act, 2008.

(ii) - An officer or employee of that company for which auditor is to be appointed.
- Partner or who is in employment of officer or employee of the same company.

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(iii) Holding of Security -

He himself, his Relative, his partner if hold any interest or security in the company; its subsidiary, holding or associate company, or subsidiary of such holding company.

A Relative is allowed to hold securities but less than ₹ 1 lakh face value.

(iv) Indebtness / guarantee / Security -

He himself, his Relative or Partner, is indebted to company, its subsidiary, holding, or associate or subsidiary of such holding company in Excess of ₹ 5 lakhs.

Same, if guarantee given or security provided in connection with indebtness of third person with company in excess of ₹ 1 lakhs.

(v) Business Relationship

A person or a firm, who directly / indirectly has Business Relationship with company, its subsidiary company, holding company, associate company, or subsidiary of such holding company.

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* Business Relationship means "Any transactions entered for a commercial purpose except,

① Commercial transactions which are in nature of professional services.

② Commercial transactions which are in ordinary course of business at **ARM's LENGTH PRICE.**

(vi) **Relative's employment**

A person whose relative is director or is in the employment of the company as director or Key Managerial Personnel (KMP).

(vii) **Person or partner at the date, holding appointment of 20 companies:**

Currently, private companies are also included in cap of 20 companies.

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(viii) **Fraud** - Convicted by a court for an offence involving fraud and a period of 10 yrs. has elapsed from the date of such conviction.

(ix) **Consulting and specialised Services** -

Any person whose subsidiary or associate if any other form of security engaged on the date of appointment in servies as per section 144 [Prohibited Services]

Relative in above points means -

(i) Members of HUF.
(ii) Husband & wife.
(iii) father
(iv) Mother
(v) Son
(vi) Brother
(vii) Sister
(viii) Son's wife
(ix) Daughter

All these include in law's also.

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③ Prohibited Services for Company Auditor

© An Auditor shall provide only such services which are approved by BOD or audit committee.

It shall not include, any of the following services :-

(i) Accounting / Book Keeping.
(ii) Internal Audit.
(iii) Design & Implementation of information system.
(iv) Actuarial Services.
(v) Investment Advisory Services.
(vi) Investment Banking Services.
(vii) Rendering of Outsourced services
(viii) Management & Services.

or any other services as may be prescribed.

© The Auditor or Audit firm which ~~are~~ were engaged in giving any ↑above non-auditing services on or before commencement of this act, they must comply with the provisions of this section before Closure of First financial Year.

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(c) Where a person appointed as an auditor of the company incurs and disqualifications then he must vacate the office and such vacancy will be deemed to be casual vacancy.

(4) Appointment of Auditor & Rotation of Auditor.

4.1. Appointment of Auditor [Section 139].

Appointment of Company Auditor has two types

- Appointment of 1st Auditor.
- Appointment of Subsequent Auditor.

4.1.1. Appointment of 1st Auditor

- Appointment in Non-Government Company.
- Appointment in Government Company.

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Appointment of 1st Auditor Non-govt. company :-

- Auditor shall be appointed by Board of directors (BOD within 30 days of the registration of company.

- If the BOD fails to appoint, then they must inform t members who will hold an EGM and appoint the auditor within next 90 days and who shall hold offi till the conclusion of 1st AGM.

Appointment of 1st Auditor in Govt. company :-

- Auditor shall be appointed by Comptroller & Auditor Genera [CAG] within 60 days from date of registration.

- In case, the CAG does not appoint, BOD shall appoint within next 30 days.

- If BOD also fails to appoint, the members must in EGM appoint an auditor within next 60 days and he shall hold office till the end of 1st AGM.

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4.1.2. Appointment of Subsequent Auditor.

- Appointment in Non-govt. company.
- Appointment in govt. company.

Appointment of Subsequent Auditor in Non-govt. company.

- Every company, shall at its 1st AGM, appoint the auditor who will hold office till the conclusion of 6th AGM, and thereafter, till the conclusion of every 6th AGM.

- At Every AGM, the company shall place the matter relating to such appointment for ratification by member.

- Befor appointment the company must obtain written consent & . Certificate after satisfying all criteria under section 141

- The company shall inform to the auditor and file a notice to the registrar ~~within~~ 15 days before, the date of meeting in which auditor is to be appointed.

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Section 141 → The Auditor appointed shall submit certificate:

> that he is eligible for being a auditor and he is not disqualified as per disqualifications under CA Act, 1949.

> List of proceedings against the auditor, audit firm, or partner of audit firm with respect to professional matter is TRUE & CORRECT.

> Proposed appointment is as per the term of the Act.

> Proposed appointment is under limits provided or under the authority of this act.

> This all should be in **FORM NO. ADT-1**

<u>Appointment of Subsequent auditor in govt. company:</u>

© The Auditor shall be appointed by C&AG within 180 days from the ending of financial year and till the conclusion of next annual general meeting.

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4.2 filling of Casual vacancy

- In Non-govt. company.
- In Government company.

Filling of casual vacancy in non-govt. company:

- The Board of directors must fill the vacancy within the 30 days.

- If the casual vacancy is due to the resignation to the auditor, it shall also be approved in general meeting convened within the 3 months from the recommendations of the Board and he must fill the office till the conclusion of next AGM.

filling of casual vacancy in government company

- Shall be filled by C&AG within 30days.

- If C&AG fails, the BOD must fill it within next 30days.

Casual Vacancy by Resignation :-

- The Auditor Resigned from the company must be file statement in the $\boxed{\text{form [ADT-3]}}$ (as per rules 8 of CAAR) within 30 days to the company & Registrar.

- In case of govt. companies, it shall be filed to C&AG with the relevant reasons according to resignation.

- In the Auditor fails to do the above, he will be punishable with fine which may extend to ₹ 50,000 and which may extend to ₹ 5,00,000.

Other key provisions :-

The Retiring Auditor can be re-appointed if :-

1. He is not disqualified for appointment as an auditor.
2. He has not given in writing that he will not do his work here.
3. The special resolution has not been passed for the appointment of any other auditor.

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4.3 Rotation of Auditors :-

- Class of companies for purpose of rotation excluding OPC & small companies.

(i) Listed Company.
(ii) Unlisted company. → Paid up capital more than 10 crore
(iii). Private Company - Paidup capital more than 20 crore
(iv) Companies having paid up share capital below the above threshold limits but they have public borrowings, from fin. inst., banks, public deposits more than 50 crores.

- A Listed company or a company belonging to such class or class as prescribed, shall not appoint or re-appoint

(i) Individual as auditor for not more than 1 term of 5 consecutive year.
(ii) Audit firm as auditor for not more than 2 terms of 5 consecutive years.

- On the date of appointment, No Audit firm can be appointed as auditor for period of 5 years, if it has a common partner with the Audit firm whose tenure has just expired in preceding financial year.

- Company existing before Act of 2013, it shall comply with requirements & provisions within 3 years from date of commencement of this act.

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4.4. Manner of Rotation of Auditor.

- Where a company is required to form Audit committee → Audit committee will recommend Auditor's name.

- Where a company is not required to form Audit Committee → BOD shall itself recommend Auditor's name.

- The period for which Auditor who has filled the office before commencement of Act, shall be taken for calculation of 5 consecutive / 10 consecutive years. [Retrospective Calculation]

- Incoming Auditor / Audit firm shall not be eligible if they are associated with outgoing auditor / audit firm under same network of Audit firm.

- Partner who is retiring, of audit firm ~~an~~ who has certified financial statement of company, and joins another firm, that firm also will be ineligible for appointment for 5 yrs.

- Joint Auditors -. Company may follow rotation in such manner that both or all joint auditors do not complete term in same year.

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Audit committee

- In Addition to listed companies, following classes shall constitute the Audit committee :-

(i) All public companies whose paid up capital is ₹ 10 crores or more.

(ii) All public companies whose turnover is ₹ 100 crores or more.

(iii) All public companies, who have in aggregate borrowing exceeding ₹ 50 crores & more.

[Note :- Paid up capital, turnover, or borrowings will be taken as existing on the date of last audited financial statements]

Remuneration of Auditors :-

- Remuneration shall be fixed in AGM by members
or
In first AGM by Board Itself

- In addition to Remun. :- All expenses incurred by him.
+
Any facility provided to him.
+
Any remuneration paid to auditor for any requested servic

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Removal of Auditor before expiry of term :-

- Auditor can be removed before expiry of term with :-
  - Special Resolution or
  - After obtaining the previous approval of central government.

- Application to Central government for removal of Auditor shall be made under form $\boxed{\text{ADT-2}}$ with fees.

- Application shall be made within $\boxed{\text{30 days}}$ of resolution passed by board.