

The Company Auditor

Appointment of Auditor [Section 139]

Ans: Every company shall, at the first annual general meeting, appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting and thereafter till the conclusion of every sixth meeting.

1. The company shall place the matter relating to such appointment for ratification by members at every annual general meeting.
2. Before such appointment is made, the written consent of the auditor to such appointment, and a certificate from him or it that the appointment, if made, shall be in accordance with the conditions as may be prescribed, shall be obtained from the auditor.
3. The certificate shall also indicate whether the auditor satisfies the criteria provided in section 141.
4. The company shall inform the auditor concerned of his or its appointment, and also file a notice of such appointment with the Registrar within fifteen days of the meeting in which the auditor is appointed.

Appointment of First Auditor

Ans:

1. First auditor of the company, other than a Government company, shall be appointed by the BOD within 30 days from the date of registration of the company;
2. If BOD fails to appoint, by the member of the company within 90 days at an extraordinary general meeting appoint the first auditor;
3. In case of Government company, first auditor shall be appointed by CAG within 60 days from the date of registration;
4. If CAG fails to appoint, by the BOD of the company within next 30 days;
5. If again BOD fails to appoint the first auditor of the company, by the member of the company within 60 days at an extraordinary general meeting;
6. Tenure of the first auditor of the company in both the above cases till the conclusion of the first annual general meeting;

Appointment of Subsequent Auditor

Ans:

1. At the first annual general meeting, appoint an individual or a firm as an auditor who shall hold office from the conclusion of that meeting till the conclusion of its sixth annual general meeting;
2. Before such appointment, the written consent of the auditor to such appointment and a certificate from him shall be in accordance with the condition as may be prescribed;
3. Within 15 days of the meeting the company shall file a notice of such appointment with the registrar;
4. No listed company or a company belonging to such class or classes of companies as may be prescribed, shall appoint or re-appoint
 - a) An individual as auditor for more than one term of five consecutive years; and
 - b) An audit firm as auditor for more than two terms of five consecutive years.
- Cooling Period:- an individual auditor who has completed his term under clause (a) & (b) shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term.
5. At the time of rotation of auditors, incoming audit firms/ auditor having common partner/s with the erstwhile audit firm shall not be eligible for appointment;
6. Firm shall include a limited liability partnership incorporated under the Limited Liability Partnership Act, 2008;
7. In the case of Government company, CAG in respect of a financial year, appoint an auditor duly qualified to be appointed as an auditor of the company within a period of 180 days from the commencement of the financial year who shall hold the office till the conclusion of the AGM;

Re-Appointment of Auditor

Ans: A retiring auditor may be re-appointed at an annual general meeting, if -

- a) he is not disqualified for re-appointment;

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- b) he has not given the company a notice in writing of his unwillingness to be re-appointed; and
- c) A special resolution has not been passed at that meeting appointing some other auditor or providing expressly that he shall not be re-appointed;
- Where at any annual general meeting, no auditor is appointed or re-appointed, the existing auditor shall continue to be the auditor of the company;
- Where provision of section 177 is applied, all appointments, including the filling of a casual vacancy of an auditor shall be made after taking into account the recommendations of such committee.

❁ Class of Companies

Ans: It excluding one person companies and small companies

- a) All unlisted public companies having paid up share capital of rupees ten crore (10 Cr.) or more.
- b) All private limited companies having paid up share capital of rupees twenty crore (20 Cr.) or more;
- c) All companies having paid up share capital of below threshold limit mentioned in (a) and (b) above, but having public borrowings from financial institutions, banks or public deposits of rupees fifty crores (50 Cr.) or more.

❁ Manner of rotation of auditors by the companies on expiry of their term

Ans:

1. The Audit Committee shall recommend to the Board, the name of an individual auditor or of an audit firm who may replace the incumbent auditor on expiry of the term of such incumbent.
2. Where a company is required to constitute an Audit Committee, the Board shall consider the recommendation of such committee, and in other cases, the Board shall itself consider the matter of rotation of auditors and make its recommendation for appointment of the next auditor by the members in annual general meeting.
3. For the purpose of the rotation of auditors-
 - i. In case of an auditor (whether an individual or audit firm), the period for which the individual or the firm has held office as auditor prior to the commencement of the Act shall be taken into account for calculating the period of five consecutive years or ten consecutive years, as the case may be;
 - ii. the incoming auditor or audit firm shall not be eligible if such auditor or audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

Explanation. I - For the purposes of these rules the term “same network” includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control.

Explanation. II - For the purpose of rotation of auditors,-

- a) A break in the term for a continuous period of five years shall be considered as fulfilling the requirement of rotation;
 - b) If a partner, who is in charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of chartered accountants, such other firm shall also be ineligible to be appointed for a period of five years.
4. Where a company has appointed two or more individuals or firms or a combination thereof as joint auditors, the company may follow the rotation of auditors in such a manner that both or all of the joint auditors, as the case may be, do not complete their term in the same year.

❁ Removal, resignation of auditor and giving of special notice [section 140]

Ans:

- **Removal:** By a special resolution of the company and after obtaining the previous approval of the central Government, the auditor appointed under section 139 may be remove from his office before the expiry of his term. Before taking any action under this sub-section, the auditor concerned shall be given a reasonable opportunity of being heard.
- **Resignation:**
 1. The auditor shall file within 30 days from the date of resignation, a statement in prescribed form with the company and the registrar;

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2. In case of Government company, the auditor shall send such statement with the CAG, indicating the reason and other facts with regards to his resignation;
3. If fails to comply with sub-section (2), punishable with fine not less than Rs. 50,000 but may extend to Rs. 5,00,000;

- **Special Notice:**

1. Special notice for resolution at an annual general meeting for appointment of auditor other than a retiring auditor;
2. On receipt of notice of such a resolution, the company shall forthwith send a copy thereof to the retiring auditor;
3. Where notice is given of such a resolution and the retiring auditor makes with respect thereto representation in writing to the company and requests its notification to members of the company, the company shall, unless the representation is received by it too late for it to do so,-
 - a) In any notice of the resolution given to members of the company, state the fact of the representation having been made; and
 - b) Send a copy of the representation to every member of the company to whom notice of the meeting is sent, whether before or after the receipt of the representation by the company,
4. If a copy of the representation is not sent as aforesaid because it was received too late or because of the company's default, the auditor may require that the representation shall be read out at the meeting.

- **Eligibility, qualifications and disqualifications of auditors [section 141]**

Ans:

1. A person shall be eligible for appointment as an auditor of a company only if he is a chartered accountant.
Provided that 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.
2. 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.
3. The following persons shall not be eligible for appointment as an auditor of a company, namely:-
 - a) a body corporate other than a limited liability partnership registered under the Limited Liability Partnership Act, 2008;
 - b) an officer or employee of the company;
 - c) a person who is a partner, or who is in the employment, of an officer or employee of the company;
 - d) 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.
 - ➔ Provided that the relative may hold security or interest in the company of face value not exceeding one thousand rupees or such sum as may be prescribed;
 - ➔ is indebted to the company, or its subsidiary, or its holding or associate company or a subsidiary of such holding company, in excess of such amount as may be prescribed; or
 - ➔ has given a guarantee or provided any security 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, for such amount as may be prescribed;
 - e) a person or a 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;
 - f) a person whose relative is a director or is in the employment of the company as a director or key managerial personnel;
 - g) a person who is in full time employment or a person or a partner of a firm holding appointment as its auditor, if such persons or partner is at the date of such appointment or reappointment holding appointment as auditor of more than twenty companies;
 - h) 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;
 - i) any person whose subsidiary or associate company or any other form of entity, is engaged as on the date of appointment in consulting and specialised services as provided in section 144.
 - j) Where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

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Remuneration of auditors [Section 142]

Ans:

- The remuneration of the auditor of a company shall be fixed in its general meeting or in such manner as may be determined therein. However, board may fix remuneration of the first auditor by it.
- In addition to the fee payable to an auditor, include the expenses, if any, incurred by the auditor in connection with the audit of the company and any facility extended to him but does not include any remuneration paid to him for any other service rendered by him at the request of the company.

Powers and duties of auditors and Auditing Standards [section 143]

Ans:

Powers/Right of Auditor:

- Right to access to Books:** Every auditor of a company shall have a right of access at all times to the books of account and vouchers of the company, whether kept at the registered office of the company or at any other place and shall be entitled to require from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor.
- Right to obtain information and explanation from officers:** This right of the auditor to obtain from the officers of the company such information and explanations as he may think necessary for the performance of his duties as auditor is a wide and important power. In the absence of such power, the auditor would not be able to obtain details of amount collected by the directors, etc. from any other company, firm or person as well as of any benefits in kind derived by the directors from the company, which may not be known from an examination of the books. It is for the auditor to decide the matters in respect of which information and explanations are required by him. When the auditor is not provided the information required by him or is denied access to books, etc., his only remedy would be to report to the members that he could not obtain all the information and explanations he had required or considered necessary for the performance of his duties as auditors.
- Right to receive notices and to attend general meeting:** The auditors of a company are entitled to attend any general meeting of the company (the right is not restricted to those at which the accounts audited by them are to be discussed); also to receive all the notices and other communications relating to the general meetings, which members are entitled to receive and to be heard at any general meeting in any part of the business of the meeting which concerns them as auditors.
- Right to report to the members of the company on the accounts examined by him:** The auditor shall make a report to the members of the company on the accounts examined by him and on every financial statements which are required by or under this Act to be laid before the company in general meeting and the report shall after taking into account the provisions of this Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of this Act or any rules made thereunder or under any order made and to the best of his information and knowledge, the said accounts, financial statements give a true and fair view of the state of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and such other matters as may be prescribed.
- Right of Comptroller and Auditor-General of India:** In the case of a Government company, the Comptroller and Auditor-General of India shall appoint the auditor of section 139(5) or (7) and direct such auditor the manner in which the accounts of the Government company are required to be audited and thereupon the auditor so appointed shall submit a copy of the audit report to the Comptroller and Auditor-General of India which, among other things, include the directions, if any, issued by the Comptroller and Auditor-General of India, the action taken thereon and its impact on the accounts and financial statement of the company.
The Comptroller and Auditor-General of India shall within 60 days from the date of receipt of the audit report have a right to,—
 - ➔ Conduct a supplementary audit of the financial statement of the company by such person or persons as he may authorise in this behalf; and for the purposes of such audit, require information or additional information to be furnished to any person or persons, so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General of India may direct; and
 - ➔ Comment upon or supplement such audit report. Any comments given by the Comptroller and Auditor-General of India upon, or supplement to, the audit report shall be sent by the company to every person entitled to copies of audited financial statements under sub section (1) of section 136 and also be placed before the annual general meeting of the company at the same time and in the same manner as the audit report.
 - ➔ Test report. Further, without prejudice to the provisions of this Chapter, the Comptroller and Auditor-General of India may, in case of any company covered under sub-section (5) or sub-section (7) of section 139 of Companies Act, 2013, if he considers necessary, by an order, cause test audit to be conducted of the accounts of such company and the provisions of section 19A of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971, shall apply to the report of such test audit.

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- **Duties of Auditor**

- a) **Duty of Auditor to Inquire on certain matters:** It is a duty to inquire into the following matters-

- i. whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members;
- ii. whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company;
- iii. where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;
- iv. whether loans and advances made by the company have been shown as deposits;
- v. whether personal expenses have been charged to revenue account;
- vi. where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading.

- b) **Duty to audit report:** The auditor's report shall also state-

- i. whether he has sought and obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, the details thereof and the effect of such information on the financial statements;
- ii. whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
- iii. whether the report on the accounts of any branch office of the company audited by a person other than the company's auditor has been sent to him under the proviso to that sub-section and the manner in which he has dealt with it in preparing his report;
- iv. whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns;
- v. whether, in his opinion, the financial statements comply with the accounting standards;
- vi. the observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company;
- vii. whether any director is disqualified from being appointed as a director of section 164(2);
- viii. any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith;
- ix. whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;
- x. such other matters as may be prescribed.

- c) **Duty to state the reason for qualification or negative report:** Where any of the matters required to be included in the audit report under this section is answered in the negative or with a qualification, the report shall state the reasons therefor.

- d) **Duty to report on frauds:** if an auditor of a company in the course of the performance of his duties as auditor, has reason to believe that an offence of fraud involving such amount or amounts as may be prescribed, is being or has been committed in the company by its officers or employees. The auditor shall report the matter to the Central Government within such time and in such manner as may be prescribed.

- e) **Duty to comply with Auditing Standards:** The Central Government may, in consultation with the National Financial Reporting Authority, by general or special order, direct, in respect of such class or description of companies, as may be specified in the order, that the auditor's report shall also include a statement on such matters as may be specified therein. Every auditor shall comply with the auditing standards.

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Audit of Branch office

Ans:

- **Audit of Branch Office by company's auditor or branch auditor** - Where a company has a branch office, the accounts of that office shall be audited either by the company's auditor (i.e. auditor appointed for the company in AGM) or by any other person qualified for appointment as an auditor of the company under the 2013 Act. Such 'branch auditor' shall be appointed as such under section 139 of the 2013 Act - first part of section 143(8) of the 2013 Act.
- **Audit of branch offices outside India** - Where the branch office is situated in a country outside India, the accounts of the branch office shall be audited either by the company's auditor or by an accountant or by any other person duly qualified to act as an auditor of the accounts of the branch office in accordance with the laws of that country. The duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be as may be prescribed - second part of section 143(8) of the 2013 Act.
- **Report by Branch Auditor to company's auditor** - The branch auditor shall prepare a report on the accounts of the branch examined by him and send it to the company's auditor. The company's auditor shall deal with the report of branch auditor in his report in such manner as he considers necessary - proviso to section 143(8) of the 2013 Act.
- **Duties and powers of company's auditors in connection with branch audit** - Duties and powers of company's auditor (main auditor) with reference audit of branch and branch auditor shall be as contained in section 143(1) to 143(4) of the 2013 Act and Rule 12(1) of Companies (Audit and Auditors) Amendment Rules, 2015. Thus, the company's auditor is responsible even if branch auditor is appointed.
- **Branch auditor's responsibility to report fraud** - Responsibility to report fraud, as applicable to company's auditor applies to branch auditor.

Other matters to be included in auditor's report

Ans: The auditor's report shall also include their views and comments on the following matters, namely:-

- a) whether the company has disclosed the impact, if any, of pending litigations on its financial position in its financial statement;
 - b) whether the company has made provision, as required under any law or accounting standards, for material foreseeable losses, if any, on long term contracts including derivative contracts;
 - c) whether there has been any delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the company.
- **Duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor**
 1. The duties and powers of the company's auditor with reference to the audit of the branch and the branch auditor, if any, shall be as contained in sub-sections (1) to (4) of section 143.
 2. The branch auditor shall submit his report to the company's auditor.
 3. The provisions of sub-section (12) of section 143 read with rule 12 hereunder regarding reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.
 - **Reporting of frauds by auditor:**
 1. In case the auditor has sufficient reason to believe that an offence involving fraud, is being or has been committed against the company by officers or employees of the company, he shall report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below.
 - i. Auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after he comes to knowledge of the fraud, seeking their reply or observations within forty-five days;
 - ii. On receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;
 - iii. In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply within the stipulated time.
 2. The report shall be sent to the Secretary, Ministry of Corporate Affairs in a sealed cover by Registered Post with Acknowledgement

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Due or by Speed post followed by an e-mail in confirmation of the same.

3. The report shall be on the letter-head of the auditor containing postal address, e-mail address and contact number and be signed by the auditor with his seal and shall indicate his Membership Number.
4. The report shall be in the form of a statement as specified in Form ADT-4.
5. The provision of this rule shall also, mutatis mutandis, to a cost auditor and a secretarial auditor during the performance of his duties

Auditor not to render certain services [section 144]

Ans: An auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case maybe, but which shall not include any of the following services (whether such services are rendered directly or indirectly to the company or its holding company or subsidiary company, namely:-

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| 1. Accounting and Book Keeping Services; | 5. Investment Advisory Services; |
| 2. Internal Audit; | 6. Investment Banking Services; |
| 3. Design and Implementation of any Financial Information System; | 7. Rendering of Outsourced Financial Services; |
| 4. Actuarial Services; | 8. Management Services; and |
| | 9. Any Other Kind Of Services as May Be Prescribed. |

An auditor or audit firm who or which has been performing any non-audit services on or before the commencement of this Act shall comply with the provisions of this section before the closure of the first financial year after the date of such commencement.

- In case of auditor being an individual, either himself or through his relative or any other person connected or associated with such individual or through any other entity, whatsoever, in which such individual has significant influence or control, or whose name or trade mark or brand is used by such individual;
- In case of auditor being a firm, either itself or through any of its partners or through its parent, subsidiary or associate entity or through any other entity, whatsoever, in which the firm or any partner of the firm has significant influence or control, or whose name or trade mark or brand is used by the firm or any of its partners.

Auditor to sign audit reports, etc. [section 145]

Ans: The person appointed as an auditor of the company shall sign the auditor's report or sign or certify any other document of the company in accordance with the provisions of sub-section (2) of section 141, and the qualifications, observations or comments on financial transactions or matters, which have any adverse effect on the functioning of the company mentioned in the auditor's report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

Auditor to attend General meeting [section 146]

Ans: All notices of, and other communications relating to, any general meeting shall be forwarded to the auditor of the company, and the auditor shall, unless otherwise exempted by the company, attend either by himself or through his authorised representative, who shall also be qualified to be an auditor, any general meeting and shall have right to be heard at such meeting on any part of the business which concerns him as the auditor.

Punishment for contravention [section 147]

Ans:

1. If any of the provisions of sections 139 to 146 (both inclusive) is contravened, the company shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to one year or with fine which shall not be less than ten thousand rupees but which may extend to one lakh rupees, or with both.
2. If an auditor of a company contravenes any of the provisions of section 139, section 143, section 144 or section 145, the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees.

Provided that if an auditor has contravened such provisions knowingly or wilfully with the intention to deceive the company or its shareholders or creditors or tax authorities, he shall be punishable with imprisonment for a term which may extend to one year and with fine which shall not be less than one lakh rupees but which may extend to twenty-five lakh rupees.

3. Where an auditor has been convicted under sub-section (2), he shall be liable to—

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- i. refund the remuneration received by him to the company; and
 - ii. pay for damages to the company, statutory bodies or authorities or to any other persons for loss arising out of incorrect or misleading statements of particulars made in his audit report.
4. The Central Government shall, by notification, specify any statutory body or authority or an officer for ensuring prompt payment of damages to the company or the persons under clause (ii) of sub-section (3) and such body, authority or officer shall after payment of damages to such company or persons file a report with the Central Government in respect of making such damages in such manner as may be specified in the said notification.
 5. Where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in any fraud by, or in relation to or by, the company or its directors or officers, the liability, whether civil or criminal as provided in this Act or in any other law for the time being in force, for such act shall be of the partner or partners concerned of the audit firm and of the firm jointly and severally.

Role of Cost Audit

Ans: Government needs authentic and reliable data of cost for various purposes like price fixation of controlled commodities. The information is also useful in various decisions like fixation of duty drawback, export incentives, amount of excise duty the product can bear, deciding whether special incentives are required to a particular industry etc.

- **Usefulness of Cost data to Company** - The cost data is useful to company in

- a) Price fixation of final products
- b) Controlling wasteful expenditure
- c) Reduction of waste and scrap
- d) Optimum utilisation of labour, material and machinery
- e) Deciding proper product mix to optimise production and profitability
- f) To eliminate loss making products
- g) improving efficiency
- h) Supplying cost data when required by Government
- i) Taking 'make or buy' decision
- j) Making break even analysis for decision making etc.

- **Maintenance of Cost Records**

Realising the importance of proper cost records and control, section 148(1) of the 2013 Act provides that Central Government can direct that particulars relating to the utilisation of material or labour or to other items of cost as may be prescribed shall also be included in the books of account kept by that class of companies. The direction can be issued to such class of companies engaged in the production of such goods or providing such services as may be prescribed by a notification.

In respect of companies regulated by special Act (like insurance, banking, electricity), the Central Government shall, consult the regulatory body constituted or established under such special Act before issuing such order in respect of any class of companies - provision to section 148(1) of the 2013 Act.

- **Cost Audit**

If the Central Government is of the opinion, that it is necessary to do so, it may, by order, direct that the audit of cost records of class of companies, which are covered under section 148(1) of the 2013 Act (for maintenance of cost records) and which have a net worth of such amount as may be prescribed or a turnover of such amount as may be prescribed, shall be conducted in the manner specified in the order [section 148(2) of the 2013 Act.]

The cost audit is necessary only when specific order is issued by Central Government.

- **Audit by Cost Accountant**

Cost Audit can be done only by a 'Cost Accountant'. The Cost Accountant/ firm of cost accountants will be appointed by Board of Directors of the company. His remuneration will be fixed by members in the prescribed manner [section 148(3) of the 2013 Act].

"Cost accountant" means a cost accountant as defined in section 2(1)(b) of the Cost and Works Accountants Act, 1959 [section 2(28) of the 2013 Act].

As per government guidelines, a Cost Accountant holding certificate of practice on part time basis is not entitled to conduct cost audit. Thus, only a Cost Accountant in whole-time practice can conduct cost audit.

Appointing Cost Auditor and his Remuneration - An individual cost accountant or firm of cost accountants can be appointed as Cost Auditor. Where company has Audit Committee, appointment and remuneration will be recommended by audit committee and approved by Board. If there is no audit committee, appointment and remuneration fixation will be done by Board. Later, this remuneration shall be ratified by shareholders.

- **Limit on number of Cost Audit per person** - Limit on number of audits per person, as are applicable to Statutory Auditors are

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applicable to Cost Auditor also - MCA Master Circular No. 2/2011 dated 11-11-2011.

- **Statutory Auditor cannot be appointed as Cost Auditor** - Statutory auditor appointed under section 139 of the 2013 Act cannot be appointed to audit cost records - first proviso to section 148(3) of the 2013 Act.
- **Duty of Company** - The company shall give all assistance and facilities to the Cost Auditor for auditing the cost records section 148(5) of the 2013 Act.
- **Responsibility and rights of Cost Auditor** - Responsibility, duties, rights and obligations of cost auditor are same as Financial Auditor as specified in Chapter X of the 2013 Act - Section 148(5) of the 2013 Act.

Provisions relating to reporting fraud under section 143(12) of the 2013 Act are applicable to cost auditor also - section 143(14) of the 2013 Act.

- **Qualifications, Rights, duties and obligations of Cost Auditor**

The qualifications, disqualifications, rights, duties and obligations of Cost Auditor /firm of cost auditors are same as applicable to statutory auditors - section 148(5) of the 2013 Act.

- **Submission of Cost Audit Report**

The Cost Audit Report should be submitted to Board of Directors of the company - proviso to section 148(5) of the 2013 Act.

After such submission, the company shall furnish the report to Central Government within 30 days, along with full information and explanation on every reservation or qualification contained in the report - section 148(6) of the 2013 Act.

The information and explanation is required to be submitted electronically.

After considering the report of cost auditor and explanations given by the company, the Central Government can ask for further information and explanations. The company shall submit the same within prescribed time. [section 148(7) of the 2013 Act].

- **Penalty for Non-Compliance**

In case of default, company as well as auditor is liable under section 147 of the 2013 Act [The provisions as applicable to Statutory Auditors]

- **Cost Accounting Standards**

"Cost auditing standards" mean such standards as are issued by the Institute of Cost Accountants of India, constituted under the Cost and Works Accountants Act, 1959, with the approval of the Central Government - Explanation to section 148(3) of the 2013 Act.

- **Cost Accountant must follow Cost Accounting Standard** - The Cost Accountant must comply with cost accounting standards - proviso to section 148(5) of the 2013 Act.

These Cost Accounting Standards have been made mandatory for being applied for preparation and certification of general purpose cost accounting statements w.e.f. 1-4-2010. If the standards are not followed while preparing of cost accounting statements, it shall be duty of Cost Accountant to make a suitable disclosure/qualification in his audit report /certificate.

- **Remuneration of the Cost Auditor**

For the purpose of sub-section (3) of section 148,—

- a) In the case of companies which are required to constitute an audit committee—

- i. the Board shall appoint an individual, who is a cost accountant in practice, or a firm of cost accountants in practice, as cost auditor on the recommendations of the Audit committee, which shall also recommend remuneration for such cost auditor;
- ii. the remuneration recommended by the Audit Committee under (i) shall be considered and approved by the Board of Directors and ratified subsequently by the shareholders;

- b) in the case of other companies which are not required to constitute an audit committee, the Board shall appoint an individual who is a cost accountant in practice or a firm of cost accountants in practice as cost auditor and the remuneration of such cost auditor shall be ratified by shareholders subsequently.

- **Distinction between Financial Audit & Cost Audit**

Following are distinctions between financial (statutory) audit and cost audit.

1. All companies must keep proper books of account, while keeping cost accounting records is compulsory only in case of specified companies.
2. Financial Audit is compulsory every year, while cost audit has to be carried out only when Cost Audit Order is issued by Central Government.
3. Financial audit is done by practising Chartered Accountant. Cost audit can be done by practising Cost accountant.
4. Financial Auditor is appointed in AGM, while Cost Auditor is appointed by Board of Directors.
5. Report of Financial Auditor has to be submitted to members, which has to be adopted in the AGM. The Cost Audit report has to be submitted to Central Government, with a copy to the Company.

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- **Similarities between Financial Audit and Cost Audit**

Following are similarities -

- a) Restrictions on number of audits a person can undertake are identical,
- b) Powers of auditors are identical,
- c) Disqualifications of auditors are identical,
- d) Penal provisions for non-submission of records and books of account to auditors are similar, though not identical.

- **Scope of Audit Committee**

Ans: An Audit Committee consists of three to five members formed to serve as communication link among various departments. Audit Committee has a fourfold relationship and therefore has to interact with management, internal auditor, statutory auditor and the public.

- 1) The Scope of Audit Committee can be discussed as follows: -
- 2) Review of annual financial statements before submission to the Board of Directors.
- 3) Selection of the Statutory Auditor
- 4) Act as lies on between the Statutory Auditor and Board of Directors
- 5) Administrative control of the internal control functions through the feedback between the Internal Auditor and the Audit Committee.
- 6) Over seeing internal central operation.
- 7) Over seeing internal audit operations and feedback between internal audit committee and developing the internal auditing authority through broad based internal audit programming.
- 8) Review and approval of financial information for publication
- 9) Review proposed changes in accounting system and procedures.
- 10) Help resolve differences between management, internal and statutory auditor.
- 11) Report on the audit committee acting in the Annual Reports of Board of Directors.
- 12) Ensure reliability of organisation's financial statements and operational activities. To be effective and purposeful, the audit committee should maintain the following
- 13) Audit Committee should have the independence of management, Statutory Auditor and Internal Auditor. The Board of Directors allows full freedom to the audit committee to investigate into any areas of operation.
- 14) The relation between the audit committee and management should be cordial and congenial towards optimum efficiency and healthy growth of the organization.
- 15) There should be a regular line of communication through occasional meetings with the management.
- 16) There should be good communication relationship interwoven among management, internal auditor and statutory auditor.

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