

UNIT V- COMPANY AUDIT

Auditor of a company

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 the accounts are also maintained by them the accounts of the company are required to be checked and examined by independent qualified persons called auditors. The Companies Act therefore provides for the compulsory appointment of an auditor to check and examine the affairs of the company and report the same to company's shareholders. The accounts of every company, public or private, must be audited by qualified auditors. The auditor is expected to examine the accounts of the company with a view to inform the shareholders the true financial position of the company.

Meaning of an auditor:

The Companies Act does not define the term 'auditor', but it may be defined as any Chartered Accountant appointed qualified for the purpose of examining the accounts of a joint stock company and making a report there on to the shareholders every year at the annual general meeting to company. Since the auditor is appointed by the shareholders at the annual general meeting, he acts as an agent or servant of the shareholders to examine the accounts of the company and make a report to the shareholders about the true state of affairs of the company.

Qualifications of a Company Auditor:

The necessary qualifications of an auditor who can audit the accounts of a limited company are contained in Section 226 of the Companies Act, these qualifications are as follows:

1. He must be a practicing chartered accountant within the meaning of the Chartered Accountants Act 1949. A Chartered Accountant means a person who is a member of the Institute of Chartered Accountants of India.
2. A firm of auditors can be appointed as an auditor of a company in its firm name, but all the partners of such a firm must be chartered accountants. In such a case, any partner of such a firm may act as an auditor in the name of the firm.
3. A person holding a certificate under the Restricted Auditors Certificate (Part B States) Rules 1956, is also qualified to act as an auditor of a company.

Disqualifications of a Company Auditor:

The following persons are disqualified for appointment as auditors of a company.

- a) A body corporate.
- b) An officer or employee of the company.
- c) A person who is a partner or who is in the employment of any officer for employee of the company.
- d) A person who is indebted to the company for an amount exceeding Rs.1000 or who has given any guarantee of any third person to the company for an amount exceeding Rs.1000.

In the context of this disqualifications it may be noted that, when an auditor becomes disqualified after his appointment or any of the above grounds, he is deemed to have vacated his office immediately after the disqualification.

Appointment of a company auditor:

The legal provisions relating to the appointment of a company auditor may be discussed as follows:

1. Appointment of first auditor:

a) The auditor of a company shall be appointed by the board of directors within one month of the registration of the company. The auditor, so appointed, shall hold office until the conclusion of the first annual general meeting.

b) Appointment of the first auditor should be made by passing a resolution by the Board at its meeting.

c) If the board of directors fail to make such appointment the company in its first general meeting shall appoint the first auditor.

2. Appointment of subsequent auditor:

a) Every company shall, at each annual general meeting, appoint an auditor or auditors to hold office from the conclusion of that meeting until the conclusion of the next annual general meeting, and shall, within 7 days of appointment, give intimation there of to every auditor so appointed.

The auditor, so appointed, unless he is a retiring auditor, shall within 30 days of the receipt from the company of the intimation of his appointment, inform the Registrar in writing that he has accepted or refused to accept his appointment.

b) Reappointment of retiring auditor: Ordinarily retiring auditor shall automatically be reappointed at the annual general meeting, but in the following cases the retiring auditor shall not be reappointed;

- If he is not qualified for reappointment.
- If he has given to the company a notice in writing of his unwillingness to be re-appointed.
- If resolution has been passed at the meeting appointing somebody instead of him or providing expressly that he shall not be re-appointed.
- If a notice has been given to the company of intended resolution to appoint some person or persons in the place of a retiring auditor.

3. Appointment by the Central government:

If an auditor is not appointed or re-appointed at the annual general meeting, the company shall notify this fact to the Central government within 7 days thereafter, and the Central government may appoint a person to fill the vacancy. If the company fails to intimate the fact within 7 days, the company and every officer of the company who is in default shall be punishable with fine which may extend to Rs.500.

4. Appointment of auditors of government companies:

Under Section 619 of Companies Act, the auditor of the Government Company shall be appointed or re-appointed by the central government on the advice of the Comptroller and Auditor General of India. But while making appointment, effect shall be given to the provisions relating to ceiling on company audit as per Section 224 (1-B) and (1-C).

5. Appointment of auditors by special resolution

As per Section 224(A) in the case of a company in which not less than 25% of the subscribed share capital is held, whether singly or jointly by-

- a) A public financial institution or a government company or the Central government or any State government or
- b) Any financial or other institution established by the provincial or state act in which a state government holds not less than 50% of the subscribed share capital or
- c) A nationalized bank or an insurance company carrying on general insurance business the appointment or reappointment of the auditor shall be made by a special resolution.

6. Appointment in case of a casual vacancy

The casual vacancy, in general, means vacancy in the office of the auditor resulting from accidental circumstances such as death, incapacity or disqualification of the auditor. Any casual vacancy can be filled up by the board of directors. However casual vacancy caused by the resignation of an auditor cannot be filled up by the board of directors. It can be filled up only by the shareholders at the general meeting. An auditor appointed to a casual vacancy can hold office only till the conclusion of the next annual general meeting.

Removal of auditors

An auditor may be removed before the expiry of the term for which he has been appointed. The first auditor appointed by the directors of the company may be removed before the expiry of his term of office and other person appointed in his place by the shareholders at the general meeting by passing an ordinary resolution to that effect.

In any other case, an auditor may be removed from office before the expiry of his term by passing an ordinary resolution. But this can't be done by the company after obtaining prior approval of the Central government.

For the removal of any auditor first or subsequent following procedures has to be followed:

First, a special notice of 14 days containing the proposed resolution to remove an auditor before his term of office and to appoint a new auditor in his place must be given to the company, by any member interested.

On receipt of the notice of such a resolution, the company must send a copy of the resolution to the auditor who is sought to be removed. After receiving a copy of the proposed resolution, the auditor concerned can make his representation to the company in writing. The copy of the auditor's representation if so desired by the auditor shall be sent by the company to every member of the company. In case the copy of the representation of the auditor is not sent to the members, the representation should be read out at the meeting. Further, the auditor should also be given a chance to speak on his case at the meeting.

Therefore, if the members desire the auditor should be removed before his term of office and another person should be appointed in his place, an ordinary resolution should be passed by the shareholders at the general meeting.