

## UNIT V- COMPANY AUDIT

### Rights and Powers of a Company Auditor:

The Companies Act has given certain rights and powers to a company auditor to enable him to discharge his duties effectively. It should be noted that the rights and powers given by the Companies Act cannot be restricted or curtailed either by the articles of association of the company or by the resolutions of the members of the company in general body meetings. The various rights and powers of an auditor are given below:

1. **Right to access to books of accounts and vouchers:** Under Section 227 (1) of the Companies Act, every auditor of a company has a right to access, at all times, to the books of accounts and vouchers of the company, whether they are kept at the head office of the company or elsewhere. The auditor of the company examines the books and vouchers whenever he likes. The term 'books' includes not only financial books but also all the statutory, statistical and costing books while the term 'vouchers' includes documentary evidences like correspondence, agreements, minutes, invoices, debit and credit notes etc.
2. **Right to obtain information and explanation:** the auditor has a right to ask the directors and officers of the company, to give information and explanation which he may think necessary for the due discharge of his duty as an auditor.
3. **Right to visit the branches of the company:** the company auditor has the right to visit the branches of the company, to audit the accounts if no qualified auditor has been appointed to audit the accounts of the branch offices. If he is required to audit the accounts of the branches, then he has the right to access to all the books of accounts, vouchers etc. of the branches at all times. Even if a company gets the branch accounts audited by some other duly qualified person, the auditor of the company can visit the branch office and examine the books and accounts and vouchers at the branch.
4. **Right to receive notice and other communications of the general meetings and attend the same:** the company auditor has the right to receive notice of and attend every general meeting of the shareholders of the company irrespective of the fact whether the accounts are being discussed or not at such a meeting. He has also the right to speak at such meeting when their accounts are being discussed.
5. **Right to make statements at the general meetings:** he has the right to make any statements for explanation as desired by him at such a meeting in connection with the accounts audited by him but he is not bound to do so on his own account. If he is present at the meeting, he is not bound to answer any questions unless he is asked to do so by the chairman of the meeting.
6. **Right to correct any wrong statements:** an auditor has a right to correct any wrong statement made by the directors relating to the accounts to be laid before the company in the general meeting.
7. **Right to be indemnified:** he has a right to be indemnified out of the assets of the company against any liability incurred by him in defending himself against any civil and criminal proceedings by the company, provided the judgement is in his favour or the court is of the opinion that the auditor has acted honestly.
8. **Right to seek legal and technical advice:** he has the right to seek legal, expert or technical advice in the performance of his work but he must give his own opinion in the report and not that of the experts, lawyers etc.
9. **Right to make representation:** when the auditor is asked to vacate his office before the expiry of his term, then he has the right to make written representation at the general meeting of the company and he has also the right to be heard at the meeting before the resolution removing him is passed.

10. Right to receive remuneration: he has the right to receive his remuneration provided that he has completed the work assigned to him. It may be noted that, if the remuneration payable to the auditor is fixed in the form of an annual fee, he is entitled to full year's fee, even if he is dismissed during the year.
11. Right to sign the audit report: only the person appointed as an auditor of the company or where a firm of auditors is appointed as auditor, only a partner of such a firm can sign the auditor's report or sign or authenticate any other document of the company required by law to be signed or authenticate by the auditor.
12. Right to comment on the inadequacy of the accounting system in his report: the auditor has the right to advise the directors to amend or improve the accounting system, in case the system is inadequate. However, if his advice is not carried out by the directors, he has a right to mention this fact in his audit report.
13. Right to report to the shareholders of the company: the auditor has the right to report to the shareholders of the company whether the books of accounts audited by him show the true and fair view of the financial position of the company. He has also the right to qualify his report.

### Duties of a Company Auditor

An auditor of a company has several duties and responsibilities to perform. These are discussed under two heads, namely,

#### I. Statutory duties

#### II. General duties

##### I. Statutory duties:

These are the duties of an auditor which are specifically provided in the Companies Act and hence they are called statutory duties. These duties of the auditor are as follows:

1. Duty to make a report to the members of the company: it is the most important duty of the auditor to make a report to the members of the company on the accounts audited by him. The report, so submitted, should contain the following:
  - a) Whether in his opinion, the profit and loss account exhibits for true and fair view of the profit or loss of the company.
  - b) Whether in his opinion, the balance sheet is properly drawn up so as to exhibit a true and fair view of the state of affairs of the business of a company.
  - c) Whether he has obtained all the information and explanation which, to the best of his knowledge and belief, were necessary for the purpose of his audit.
  - d) Whether in his opinion, proper books of accounts as required by the law have been kept by the company.
  - e) Whether the report of the branch office audited by a person other than the company's auditor has been forwarded to him and how he has dealt with the same in preparing the auditor's report.
  - f) Whether the balance sheet and profit and loss account dealt with the report are in agreement with the books of accounts and returns.
  - g) Whether the balance sheet and the profit and loss account have been drawn up according to the requirements of the Companies Act.
  - h) Whether the accounts give the information required by the Companies Act in the manner so required.

Where the answers to any of the questions given above is in negative or with qualification, the auditor's report should state the reasons for such answers.

2. Duty to make enquiries: under Section 227 (1A) of the Companies (amendment) Act of 1965, an auditor of a company should enquire:

- a) Whether loans and advances made by the company on the basis of securities have been properly secured and whether the terms on which they have been made are not prejudicial to the interest of the company or its members.
- b) Whether the transactions of the company which are represented nearly by book entries are not prejudicial to the interest of the company.
- c) Where the company is not an investment company, whether the shares, debentures and other securities of the company has been sold at a price less than their purchase price.
- d) Whether loans and advances made by the company have been shown as deposits.
- e) Whether personal expenses have been charged to revenue account.
- f) Where it is stated in the books and papers of the company that any shares have been allotted for cash, whether cash has been actually received in respect of such allotment and if no cash has actually been received, whether the position as stated in the account works and the balance sheet is correct, regular and not misleading.

3. Duty to certify the statutory report: it is the duty of the auditor to certify the correctness of the statutory report after it has been certified as correct by not less than two directors so far as it relates to the following:

- a) The shares allotted by the company.
- b) The cash received by the company in respect of shares.
- c) The abstract of the receipts and payments of the company.

4. Duty to sign his report: it is the duty of the auditor to sign the report prepared by him. In the case of a firm of auditors, any partner of the firm should sign the audit report.

5. Duty to give a statement in prospectus: under Section 56 (1) of Companies Act, the prospectus issued by an existing company should contain a report or statement from the auditor regarding:

- a) Profits and losses.
- b) Assets and liabilities of the company and its subsidiaries.
- c) rates of dividend paid by the company for each of the five financial years preceding the issue of the prospectus.

As such, it is the duty of the auditor of the company to give such a report in the prospectus.

6. Duty to comply with the directives of the central government: under Section 227 (4-A) of the Companies Act the central government is empowered to issue necessary directions to the auditors of certain companies to give specific reports on certain matters of the companies. When the central government issues any such directions, the auditors are required to comply with those directions. The central government issues such directives to auditors of the companies which are engaged in one or more of the following activities:

- a) Manufacturing, mining or processing.
- b) Supplying and rendering services.
- c) Trading.
- d) Business of financing, investment, chit Fund, Nidhi or mutual benefit societies.

7. Duty to certify the declaration of the solvency of the company: when a company goes into voluntary winding up and the declaration of the solvency of the company is made by its directors, to be given to the liquidator, as per Section 488 (2) of the Companies Act, it is the duty of the auditor to certify the declaration of the solvency of the company.

8. Duty to assist investigators or inspectors: Where the central government has appointed the investigators or inspectors to investigate the affairs of the company, it is the duty of the auditor

to preserve and produced before such investigators all books and papers relating to the company and give them all possible assistance in connection with the investigation.

9. Duty to assist the central government in connection with prosecution: under Section 242 (1) of the Companies Act, it is the duty of the auditor to give the central government all reasonable assistance in connection with the prosecution of directors, managing Director or other officers of the company.

10. Duty to make a report on public deposits: under Section 58 (A) of the Companies Act, the auditor of the non-banking company should enquire whether or not such a company has furnished information about the deposits accepted by it from the public to the Reserve Bank of India and whether the directors issued by the Reserve Bank of India regarding the acceptance of public deposits have been complied with by the company or not. If the required information has not been furnished to the Reserve Bank of India or if the directives of The Reserve Bank of India have not been complied with, the auditor should make a report to the Reserve Bank of India, giving the aggregate amount of deposits held by the company.

## II. General duties

The auditor has some other duties which are required to be discharged by him in his capacity as an auditor. These duties have been recognized by the courts. They are also called as legal duties or duties under company law. They are:

1. Duty to exercise reasonable care and skill: the auditor must exercise reasonable care and skill in the discharge of his duties. Since he holds himself out as an expert, he must be honest. He must certify what he does not believe to be true and he must take reasonable care and question before he believes that what he certifies is true.
2. Duty to check the accuracy of accounts: the auditor must check the accuracy of the accounts and see that they show the true and fair view of the affairs of the company.
3. Duty to satisfy himself about securities: it is the duty of the auditor to satisfy himself that the securities mentioned in the books of the company in fact exist. He should personally inspect securities and ensure that they are in safe custody.
4. Duty to scrutinize debentures: it is the duty of the auditor to scrutinize debentures in detail and examine properly the rules of the debenture trust deed.
5. Duty to verify investments: it is the duty of the auditor to verify investments himself while certifying such investments.
6. Duty to report to the shareholders: the auditors must report all material facts and about the violation of the provisions of the Companies Act to the shareholders.
7. Duty to verify the assets: the auditor must verify personally all the assets of the company.
8. Duty to check the stock: it is the duty of the auditor to check the stock and accounts properly.
9. Duty to practice as auditor only if qualified: it is the duty of the auditor not to practice as auditor unless he is a member of ICAI and holds a certificate of practice granted by the Council of the institute.
10. Duty to be a watchdog and not a bloodhound: the auditor is not bound to be a detective or to approach his work with suspicion. He should be a watchdog and not a bloodhound.
11. Duties arising out of professional etiquette: the various duties of the auditor arising out of professional etiquette are as follows:
  - a. The auditor should carry on his duties with due regard to the public interest and not his personal interest.
  - b. He should comply with the rules and regulations of ICAI.
  - c. He must be honest, sincere, technically competent and independent.
  - d. He should disclose full and fair information about the working and financial position of the company to the shareholders.