**Unit-III**

**Audit of Limited Companies**

***Company Auditor***

A company auditor is an independent professional appointed to examine and verify a company's financial records and statements to ensure accuracy, compliance with accounting standards, and transparency. The primary role of a company auditor is to provide assurance to stakeholders, including shareholders, investors, and creditors, regarding the reliability and integrity of the company's financial reporting.

**Appointment of Company Auditor**

Under the Companies Act, 2013, several sections pertain to the appointment of auditors, including the appointment by the Board of Directors, at the Annual General Meeting (AGM), and by the Central Government. Additionally, the appointment of auditors by special resolution is also covered. Here are the relevant sections:

**1. Appointment of Auditor by the Board of Directors:**

Section 139(1): Every company shall, at the first AGM, appoint an individual or firm as an auditor.

Section 139(2): The first auditor of a company shall be appointed by the Board of Directors within 30 days from the date of incorporation.

**2. Appointment of Auditor at Annual General Meeting (AGM):**

Section 139(1): Subsequent auditors are appointed at every AGM and hold office until the conclusion of the sixth AGM.

**3. Appointment of Auditor by Special Resolution:**

Section 139(1): If the appointment of an auditor is not made at an AGM, the Board of Directors shall appoint an auditor within 30 days from the date of the AGM. If the Board fails to appoint an auditor, the appointment shall be made by the shareholders through a special resolution.

**4. Board of Directors**:

Section 2(10): Defines "Board of Directors" as a collective body of directors of a company.

**5. Annual General Meeting (AGM):**

Section 96: Deals with the convening of the AGM and specifies that every company is required to hold an AGM within six months from the end of the financial year.

Section 139(1): Specifies that the appointment of auditors takes place at the AGM.

**6. Central Government:**

Section 139(5): If a company fails to appoint an auditor at an AGM, the Central Government may appoint a person as an auditor of the company.

1. Shareholders: In many jurisdictions, shareholders have the authority to appoint the company's auditor. This is usually done at the company's annual general meeting (AGM), where shareholders vote on the appointment of the auditor.

2. Board of Directors: In some cases, the board of directors may have the authority to appoint the auditor, especially if the company's articles of association or bylaws grant them such powers. However, the board's decision may still be subject to shareholder approval in certain jurisdictions.

3. Regulatory Bodies: Regulatory authorities, such as government agencies or stock exchanges, may also have requirements regarding the appointment of auditors, particularly for companies operating in regulated industries or listed on stock exchanges. These requirements often include qualifications for auditors and rules regarding auditor independence.

4. Company Management: While company management typically does not have the authority to appoint auditors directly, they may be involved in the selection process by recommending potential audit firms to shareholders or the board of directors. It's important to note that the appointment of an auditor is crucial for maintaining the independence and objectivity of the audit process. Therefore, auditors are usually appointed for a specified term, after which their reappointment is subject to review and approval by shareholders or the board of directors. This helps to ensure that auditors remain impartial and free from undue influence by company management.

An auditor is typically appointed in a company during its annual general meeting (AGM) or through a similar formal process outlined in the company's articles of association or bylaws. Here's a general timeline of when an auditor is appointed in a company:

**1. Annual General Meeting (AGM)**: In most jurisdictions, companies are required to hold an AGM within a certain period after the end of their financial year, often within six months. At the AGM, shareholders vote on various matters, including the appointment of auditors.

**2. Notification and Agenda**: Prior to the AGM, the company sends out notices to shareholders, informing them of the meeting and providing an agenda that includes items such as the approval of financial statements and the appointment of auditors.

**3. Proposal for Auditor Appointment:** The board of directors or management typically proposes the appointment of a specific auditor or audit firm to the shareholders. This proposal may be based on recommendations from the audit committee, management's assessment of audit needs, or other considerations.

**4. Shareholder Vote:** At the AGM, shareholders can vote on the appointment of the auditor. The appointment may require a simple majority or a special majority, depending on the company's bylaws or applicable regulations.

**5. Formal Appointmen**t: Once shareholders approve the appointment, the company formally appoints the auditor. This appointment is usually documented in the minutes of the AGM and may involve signing a letter of engagement or contract with the auditor.

**6. Audit Engagement Begins:** Following the appointment, the auditor begins planning and conducting the audit of the company's financial statements for the upcoming financial year. This involves assessing risks, gathering evidence, and issuing an audit opinion on the company's financial statements.

Under the Companies Act, 2013, several sections govern the compulsory reappointment, ceiling on the number of audits, filling of casual vacancies, qualifications, and disqualifications of auditors. Here's a breakdown of each aspect along with the respective sections:

**1. Compulsory Reappointment:**

Section 139(2): This section mandates that the first auditor of a company shall be appointed by the Board of Directors within 30 days from the date of incorporation. Subsequent auditors are appointed at every Annual General Meeting (AGM) and hold office until the conclusion of the sixth AGM.

**2. Ceiling on Number of Audits:**

Section 141(3): This section sets a limit on the number of companies that a person or an audit firm can audit. As per the rules, an individual can audit a maximum of twenty companies, and an audit firm can audit a maximum of ten companies.

**3. Filling of Casual Vacancies**:

Section 139(8): This section deals with filling casual vacancies in the office of the auditor. If the office of any auditor appointed under Section 139(1) becomes vacant due to resignation, disqualification, etc., the Board of Directors shall appoint another auditor in their place within 30 days.

**4. Qualification of Auditor:**

Section 141(1): This section specifies the qualifications required for appointment as an auditor. An individual must be a Chartered Accountant in practice, and an audit firm must have a majority of partners who are practicing Chartered Accountants.

Section 141(2): It outlines additional qualifications for auditors, such as being a member of the Institute of Chartered Accountants of India (ICAI) and holding a Certificate of Practice.

**5. Disqualification of Auditor:**

Section 141(3): This section outlines the circumstances under which a person or audit firm would be disqualified from being appointed as an auditor of a company. Disqualifications include being indebted to the company, being a relative of a director or key managerial personnel of the company, or holding any security of the company beyond a specified limit.

Section 141(4): It further specifies disqualifications, such as holding an office of profit under the company, being a partner or employee of an officer or employee of the company, or having business relationships with the company beyond a specified limit.

These sections collectively regulate the appointment, qualifications, and disqualifications of auditors under the Companies Act, 2013, in India.

Under the Companies Act, 2013, the process of removal of an auditor, determination of remuneration, and the rights of a company auditor are outlined in specific sections. Here are the relevant sections:

**Removal of Auditor:**

Section 140(1): The auditor appointed under Section 139 may be removed from office before the expiry of their term only by a special resolution passed by the company after obtaining the previous approval of the Central Government in consultation with the Comptroller and AuditorGeneral of India.

Process of Removal of Auditor:

Section 140(1): The company needs to pass a special resolution for the removal of an auditor. Before passing such a resolution, the company must obtain the previous approval of the Central Government in consultation with the Comptroller and AuditorGeneral of India

Remuneration of Auditor:

Section 142(1): The remuneration of the auditor shall be fixed in the general meeting or in such manner as may be determined therein.

Section 142(2): If the remuneration is not fixed in the general meeting, the Board of Directors shall fix such remuneration.

Section 142(3): The remuneration shall be paid by the company.

**Rights of Company Auditor:**

Section 143: This section outlines the powers and duties of auditors. Auditors have the right to access all books, accounts, records, vouchers, etc., of the company and have the authority to obtain information and explanations from the officers and employees of the company.

Certainly! Here are the details of the rights of a company auditor as outlined in the Companies Act, 2013, along with the respective sections:

1. Access to Books, Accounts, and Other Records:

Section 143(1): This section grants auditors the right to access all books, accounts, financial statements, and other relevant records of the company, including its subsidiaries, associates, and joint ventures. The access must be provided by the company's officers.

2. Right to Seek Information and Explanations:

Section 143(2): Auditors have the right to obtain from the company's officers and employees such information and explanations as they consider necessary for the performance of their duties.

3. Right to Obtain Professional Assistance:

Section 143(3): Auditors have the right to obtain professional assistance, at the company's expense, if they consider it necessary for the performance of their duties.

4. Right to Attend General Meetings:

Section 146(2): Auditors have the right to attend any general meeting of the company and to be heard at such meetings on any part of the business that concerns them as auditors.

5. Right to Make Reports to Members:

Section 143(3)(i): Auditors have the right to make a report to the members of the company on the accounts examined by them and on every financial statement which is required by law to be laid before the company in the general meeting.

6. Right to Report to the Central Government:

Section 143(12): Auditors have the right to report directly to the Central Government, in certain prescribed circumstances, if they have reasonable grounds to believe that an offence involving fraud is being or has been committed against the company by its officers or employees.

7. Right to Seek Legal Advice and Take Legal Action:

Though not explicitly mentioned in the Companies Act, auditors also have the right to seek legal advice and take legal action if they believe it is necessary to protect their interests or fulfill their duties.

**Duties of Company Auditor:**

Section 143(1): This section outlines the primary duties of an auditor. These duties include the examination of the company's accounts, financial statements, and related records to ensure their accuracy and compliance with applicable laws and accounting standards.

Section 143(2): The auditor must specifically report on whether the company's financial statements give a true and fair view of the state of affairs of the company, including its profit and loss, cash flows, and changes in equity.

Section 143(3): The auditor is required to express an opinion on whether the company has maintained proper books of account and related records.

Section 143(4): If the auditor finds any discrepancies or irregularities during the audit, they must report such matters to the company's management and, in certain cases, to the central government.

Section 143(5): The auditor must inquire into and report on various matters specified under Section 143(5), including frauds involving officers or employees of the company.

Section 143(6): If the auditor believes that an offense involving fraud is being or has been committed against the company by officers or employees, they must immediately report it to the company's audit committee or the Board of Directors.

**Liabilities of Company Auditor:**

Section 147: This section specifies the liabilities of auditors in case of contravention of auditing standards or any false statements knowingly or recklessly included in their audit reports. It outlines penalties and fines that may be imposed on auditors for such contraventions.

Section 148: This section deals with the punishment for contravention related to the appointment of auditors. If any person contravenes the provisions regarding the appointment of auditors, they shall be punishable with imprisonment or fine or both.

**Special Audit of Companies:**

Power to Order Special Audit: Section 233A empowers the Central Government to order a special audit of a company's accounts by a Chartered Accountant or a firm of Chartered Accountants in certain circumstances. These circumstances may include the interest of the company's shareholders, creditors, or the public interest.

Powers and Duties of the Auditor:

Section 233B: This section outlines the powers and duties of the auditor appointed for a special audit. The auditor has the same powers, rights, and duties as a statutory auditor appointed under Section 139, except those related to the appointment, remuneration, and removal of the auditor.

Remuneration of Auditor:

Section 233B(3): The remuneration of the auditor appointed for a special audit shall be determined by the Central Government. The remuneration may include the fee for services rendered, reimbursement of expenses, and any other costs incurred in conducting the special audit.

Reporting Requirements:

Section 233B(4): The auditor appointed for a special audit is required to submit a report to the Central Government within such time as specified by the government. The report must contain the findings of the audit, along with any observations, recommendations, or suggestions deemed necessary by the auditor.

Section 233B(5): The Central Government may provide directions to the auditor regarding the scope, manner, and procedure of conducting the special audit. The auditor must comply with these directions while conducting the audit and preparing the report.

**Auditor’s Repot**

An audit report is a formal document prepared by an independent auditor after completing an audit of a company's financial statements. It communicates the auditor's opinion on the fairness and accuracy of the financial statements and provides insights into the company's financial health. Here's an overview of the typical sections found in an audit report:

1. Title: The report typically begins with a title indicating it as the "Independent Auditor's Report" or a similar designation.

2. Addressee: The report is usually addressed to the shareholders or the Board of Directors of the company.

3. Introductory Paragraph: This section introduces the auditor and states the purpose of the audit. It may also provide information about the responsibilities of management and the auditor.

4. Scope Paragraph: The auditor describes the scope of the audit, including the procedures performed and the period covered by the audit. This section also outlines the auditing standards used in conducting the audit.

5. Opinion Paragraph: This is one of the most critical sections of the audit report. The auditor provides their opinion on whether the financial statements present a true and fair view of the company's financial position and results of operations. The opinion can be unqualified (clean), qualified, adverse, or a disclaimer, depending on the auditor's findings.

6. Basis for Opinion: In this section, the auditor explains the basis for their opinion, including the audit procedures performed, the evidence obtained, and any limitations encountered during the audit.

7. Other Reporting Responsibilities: The auditor may include information about additional reporting responsibilities, such as reporting on internal controls or other regulatory requirements.

8. Management's Responsibility: Some audit reports include a section outlining management's responsibility for the preparation of the financial statements.

9. Auditor's Signature and Date: The report concludes with the signature of the auditor, indicating their approval of the report, along with the date of issuance.

Creating a comprehensive audit report involves considering several elements, ensuring adherence to specific processes, and incorporating essential points to maintain quality and compliance with regulatory requirements. Here's a detailed breakdown, including the relevant sections of the Companies Act, 2013:

**Elements of an Audit Report:**

Introductory Section: This section includes the title "Independent Auditor's Report" and addresses it to the shareholders or the Board of Directors.

Auditor's Opinion: This section contains the auditor's opinion on whether the financial statements present a true and fair view of the company's financial position and results of operations.

Basis for Opinion: The auditor explains the basis for their opinion, including the audit procedures performed and the evidence obtained.

Description of Responsibilities: The auditor describes their responsibilities under auditing standards and the Companies Act, 2013.

Management's Responsibility: The auditor may include a section outlining management's responsibility for the preparation of the financial statements.

**Process of Creating an Audit Report**

Audit Planning: Before the audit begins, the auditor plans the scope, timing, and procedures of the audit based on risk assessment and materiality considerations

Fieldwork: The auditor conducts fieldwork, which includes gathering evidence through testing, interviews, and analysis.

Evaluation: The auditor evaluates the evidence collected to form conclusions and opinions on the financial statements.

Report Preparation: Based on the evaluation, the auditor prepares the audit report, ensuring it accurately reflects the findings and opinions of the audit.

**Essentials of a Good Audit Report:**

Clear and Concise Language: The report should use clear and concise language to communicate findings and opinions effectively.

Compliance with Standards: The report should comply with auditing standards, regulatory requirements, and any relevant guidelines.

Objectivity and Independence: The report should demonstrate the auditor's objectivity and independence in conducting the audit and forming opinions.

Transparency: The report should be transparent about the audit process, findings, and any limitations or uncertainties encountered.

Timeliness: The report should be issued in a timely manner, ensuring that stakeholders receive relevant information promptly.

**Points to Consider While Making an Audit Report:**

Materiality: Consider the materiality of items when reporting on financial statements.

Consistency: Ensure consistency in reporting format and language throughout the report.

Disclosure Requirements: Adhere to disclosure requirements specified by accounting standards and regulatory authorities.

Accuracy: Verify the accuracy of all information included in the report, including financial data and audit findings.

Professional Judgment: Exercise professional judgment in assessing audit evidence and forming opinions on financial statement

**Audit Certificate**

An audit certificate is a formal document issued by an independent auditor or audit firm confirming that they have conducted an audit of a company's financial statements in accordance with applicable auditing standards and regulatory requirements. It serves as evidence that the audit has been performed and provides assurance to stakeholders regarding the reliability and accuracy of the financial statements. Here's an overview of the typical contents of an audit certificate:

1. Title: The certificate typically begins with a title indicating it as the "Audit Certificate" or a similar designation.

2. Addressee: The certificate is usually addressed to the shareholders, the Board of Directors, or other relevant parties.

3. Introductory Statement: This section introduces the auditor or audit firm and states the purpose of the certificate, which is to confirm the completion of the audit.

4. Description of the Audit: The certificate provides a brief overview of the audit process, including the scope, objectives, and period covered by the audit.

5. Statement of Compliance: The auditor confirms that the audit was conducted in accordance with generally accepted auditing standards (GAAS) or other applicable standards, such as International Standards on Auditing (ISA) or the standards prescribed by the regulatory authority.

6. Opinion: The auditor expresses their opinion on whether the financial statements present a true and fair view of the company's financial position, results of operations, and cash flows in accordance with the relevant accounting standards.

7. Basis for Opinion: The auditor explains the basis for their opinion, including the audit procedures performed, the evidence obtained, and any limitations encountered during the audit.

8. Reference to Audit Report: The certificate may refer to the audit report issued by the auditor, indicating that the opinion provided in the certificate is consistent with the opinion expressed in the audit report.

9. Auditor's Signature and Date: The certificate concludes with the signature of the auditor, indicating their approval of the certificate, along with the date of issuance.