

## **Qualifications of Auditors:**

U/S 226 defines the qualifications, disqualifications for a statutory auditor. U/S: 226(1) a person shall not be qualified as an auditor unless he is a chartered accountant within the meaning of chartered accountants act, 1949.

**Disqualification of Auditors:** (Who cannot be appointed as an Auditor).

A body Corporate

An officer or employee of the Company

A partner

A person who is indebted to the company for any amount exceeding Rs.1000/- or has given a guarantee of third person concerned with the company above Rs.1000/-.

A person is holding any security which carries voting rights.

For any above reason, for all such firms which are subsidiaries.

## **Appointment of Auditors:**

**Appointment of First Auditors:** u/s 224(5) first auditors shall be appointed by the BOD within 1 month from the date of registration of the company. These auditors will work until the conclusion of the First AGM.

**Appointment by the Shareholders:** u/s 224(1) every year in the AGM auditors are to be appointed by passing an ordinary resolution. Such auditors must accept within 30 days else another AGM must be called to appoint a auditor.

## **Reappointment of Auditor:**

**Appointment by Central Government:** u/s 224(3) where no auditor is appointed, reappointed the central govt. will appoint a person to fill the vacancy.

**Appointment in case of Casual vacancy:** Casual vacancy arises due to death, insanity, disqualification or insolvency of the auditor. u/s 224(6) BOD has the power to fill the vacancy.

**Appointment by Special resolution:** u/s 224A where 25% or more share are with a) PFI or Govt. Coy or Central Govt. or State Govt. b) Nationalized Bank or Insurance Coy, the appointment of the Auditors will be by way of special resolution only.

**Appointment of auditors of Government Company:** u/s 619 auditors are appointed by the CAG.

**Ceiling on Number of Audits:** u/s 224(1B) not more than 20 companies at a time out of this not more than 10 having Rs. 25 lakhs as capital. Private, foreign companies are not taken for the counting.

**Remuneration of Auditor:** u/s 224(8) if auditor is appointed by the BOD or CG they will fix his remuneration however for other services proved by the auditor he may be given extra remuneration.

**Removal of Auditor:** Removal before the expiry of the Tenure

First Auditor: By the BOD by passing an ordinary resolution.

Subsequent Auditor: Before passing the ordinary resolution permission from the Central Government is required

## **Rights & Duties of Auditor:**

### Rights of the Company Auditor:

- Right of access to books and account.
- Right to obtain information or exploration
- Right to inspect Branch Accounts
- Right to receive notices
- Right to attend general meeting
- Right to remuneration
- Auditors Lien

### Duties of Company Auditor:

#### Statutory Duties:

- Report to Members
  - Duty as to inquiry
  - Report as to additional matters
  - Duty to sign report
  - Duty as to statutory report
  - Duty as to prospectus
  - Duty as to report under voluntary winding up
  - Duty to assist investigation
- #### Duties under common Law:
- Duty to perform contract
  - Duty of Care & Caution

## **Liabilities of an Auditor:**

Liabilities in case of Non-Statutory Audit: Where the audit is with a sole proprietorship or partnership then the level of liability will depend on the contract between the parties.

Liabilities in case of Company Audit:

Civil Liability

Liability for Negligence

Liability for Misfeasance

Liability under the Income Tax Act

Criminal Liability

- a. Mis-statement in Prospectus
- b. Non- Compliance by Auditor with Sec 227 and 229
- c. Failure to assist investigation
- d. Failure to assist prosecution of guilty officers
- e. Failure to return property, books or papers
- f. Public examination by court
- g. Penalty for falsification of books
- h. Prosecution of Auditor

Penalty for deliberate act of commission or omission

Liabilities the IPC