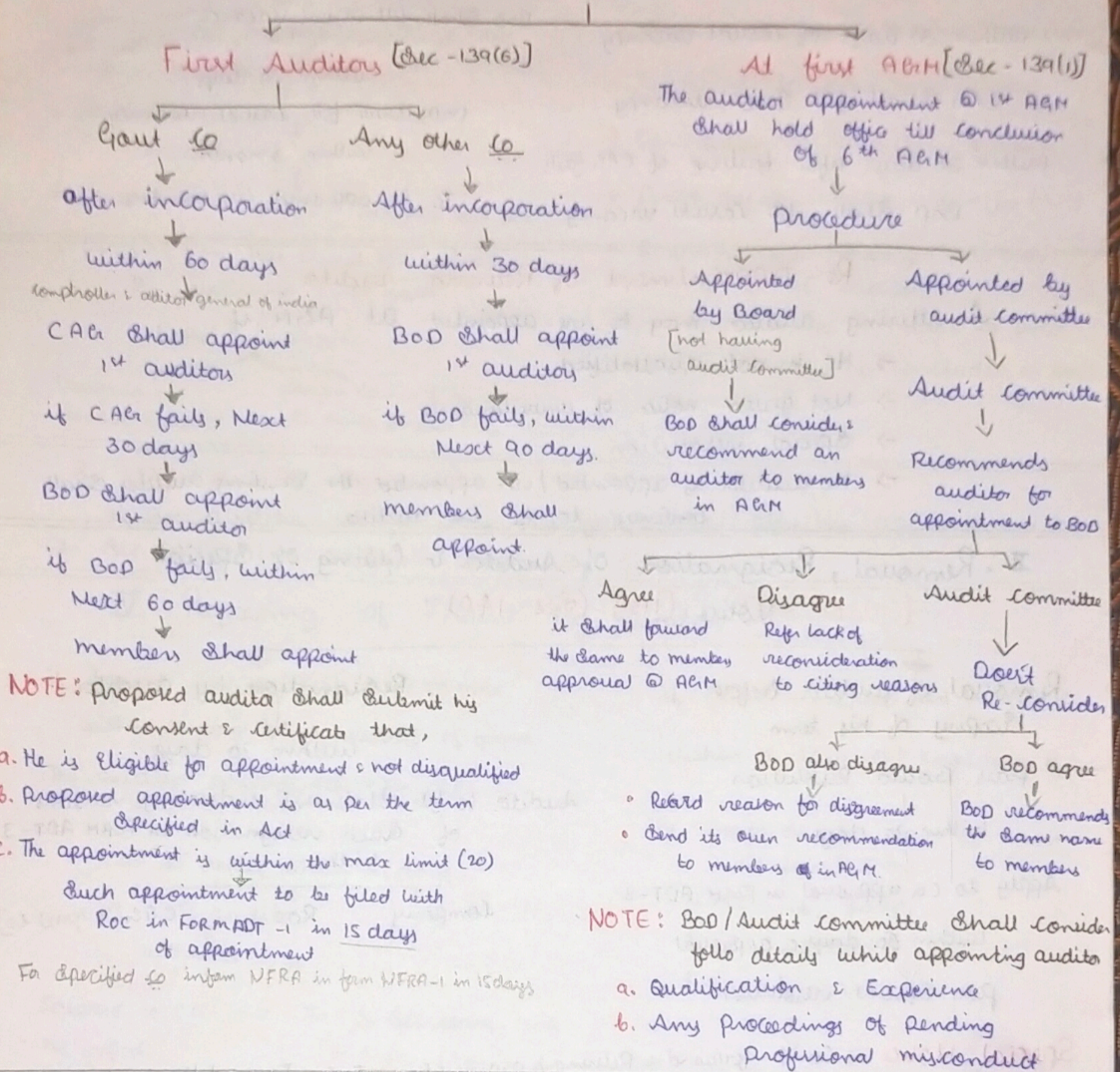
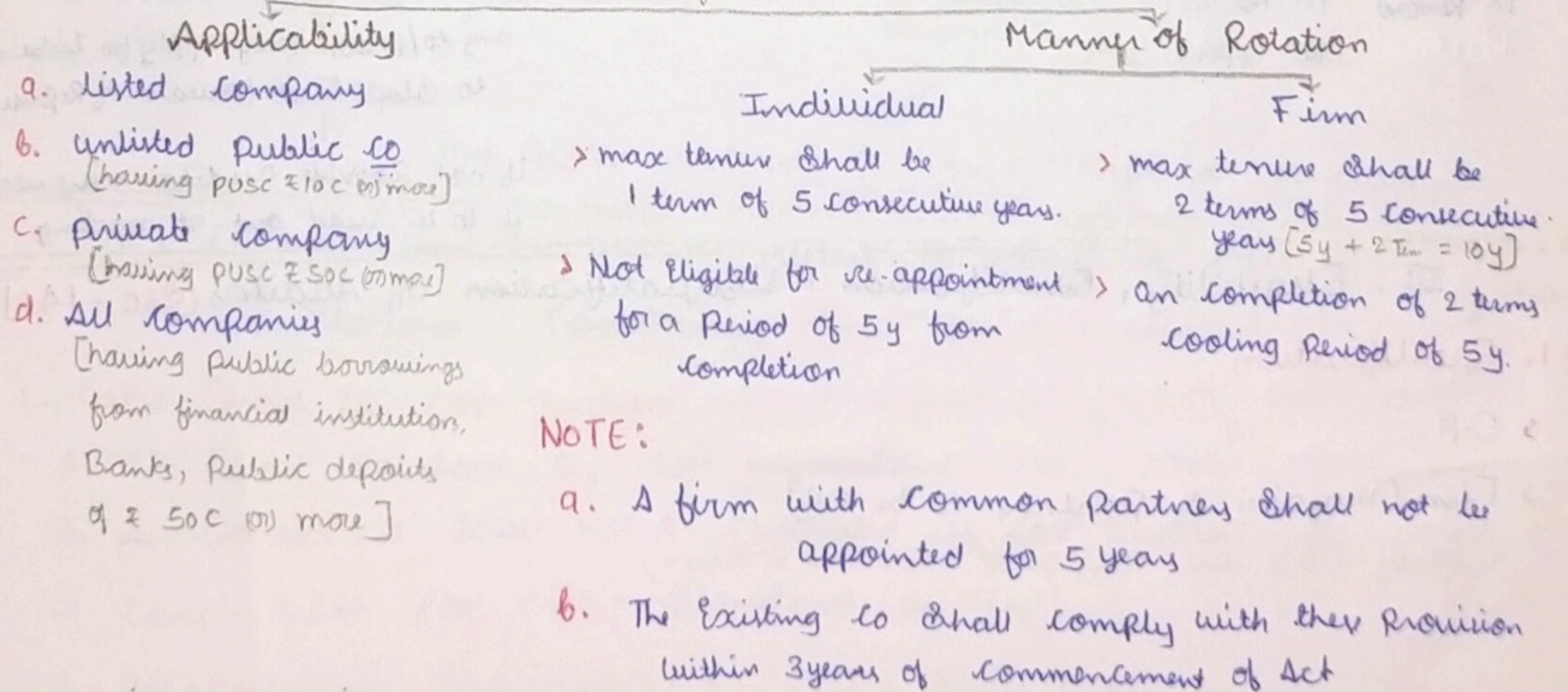


Audit And Auditor

I. Appointment of Auditor [Sec - 139]



Tenure / Rotation of Auditor [Sec - 139(2) & (4)]



Casual Vacancy of Auditor [Sec-139(8)]

In case of Co whose audit is done by
Comptroller & Auditor General of India
↓
within 30 days of casual vacancy

CAE shall fill such vacancy

within 30 days after failure if CAE fails

BOD shall fill casual vacancy

other company

within 30 days

BOD shall fill casual vacancy
Note: if vacancy is due to resignation then

within 30 days

BOD shall fill casual vacancy

within 3 months

To be approved by members.

Re-appointment of Retiring Auditor

A retiring auditor may be re-appointed at AEM if

- He is not disqualified
- Not given notice of unwillingness
- Special resolution
- No auditor is appointed / re-appointed the existing auditor shall continue to be the auditor

II. Removal, Resignation of Auditor & Giving of Special Notice [115] (Sec-140)

Removal of auditor before
expiry of his term

Pass Board Resolution

within 30 days

Apply to CA approval in FORM ADT-2

within 30 days of approval

Pass special resolution

Resignation by auditor

within 30 days

Auditor to file Statement indicating reasons
of such resignation in FORM ADT-3
with

Company

Roc

CAE [if govt co]

Special Notice

→ Co →

forward notice to Retiring auditor

Representation → To Co →

Forward the Representation

→ To members

For Removal

For not to

Re-appoint

any co/person may apply for tribunal
to stop such forward of Representation

if not possible, auditor may request
it to be read out at meeting

III. Eligibility, Qualification & Disqualification of Auditors [Sec-141]

1. Qualification

> CA

> Firm (majority of partners to be CA)

(Only CA's are authorised to act & sign)

2. Disqualification [Sec-141(3)]

I. Firm

- * Body Corporate (except LLP)
- * Officer / Employee of Co
- * Partner / Employment of officer / Employee of Co
- * Person who renders services u/s 144
- * Person / firm has direct or indirect

Big relationship with cash

Doesn't include

Professional Services Rendered
 ordinary course of his
 at arms length Price

II. A person / his relation / partners

- * Security in cash [He can't, but Relations upto 10%]
 - * Indebted to cash [Excess ₹ 50000]
 - * Guarantees to cash [Excess ₹ 100000]
 - * Person whose relative is director / KMP
 - * Person / partner holding more than 20% as auditor
- [Dormant, OPC, Small Co, Private Co pvt Ltd less than ₹ 100C] not included in limit

3. Vacation of office

if an auditor incurs any disqualification after his appointment as per Sec-141(3), then he shall vacate the office

IV. Reporting of Fraud by Auditor [Sec-143(12)]

if fraud involved is ₹ 10000000 more
within 2 days of knowledge of fraud

The auditor should report the matter to
audit Co / BoD

Need to reply within 45 days

To auditor

within 15 days

Forward to CA → To The Secretary, MCA

- his report
- Reply of audit committee
- if no reply received, then to be informed

[in sealed cover by
Part 2 - mail in
FORM ADT-4]

if fraud involved less than ₹ 10000000

within 2 days of knowledge of fraud

The auditor should report to audit
Company / BoD

Nature of fraud

Amt involved

Parties involved

Co shall disclose details in

Board's Report

(a) to (c) & (d) Remedial Action Taken

This process is same for cost & secretarial auditor

V. Central Govt to Specify Audit of items of cost in Certain Companies [Sec-148]

1. Who shall be cost auditor

- It shall be done by cost accountant
- Auditor u/s-139 shall not be appointed as cost auditor
- Comply with cost audit Standard (By ICAI)
- Qualification, disqualification, Rights shall apply to cost auditor [Sec 141 & 143]

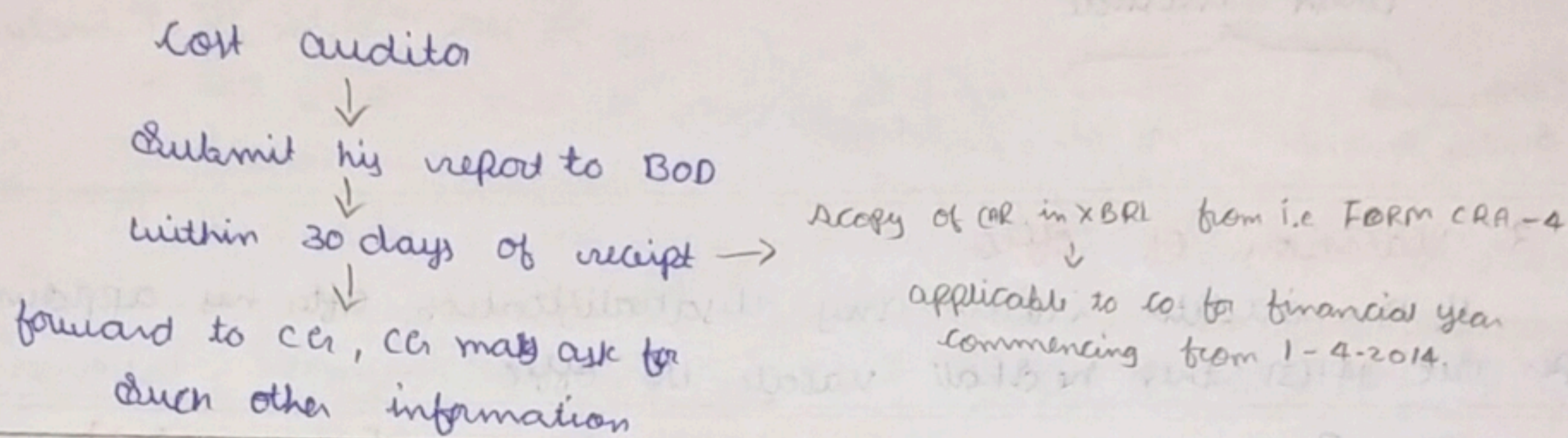
2. Cost audit

Mandatory only if Cr makes an order for Co with such turnover (or) Net worth as prescribed.

3. Appointment of cost auditor

- * if Co has audit committee, they shall recommend to Board & Remuneration shall be approved by members
- * if Co does not have audit committee, BOD shall appoint & remuneration shall be fixed by Board & approval of members is required

4. Cost Audit Report [CAR]



5. Cost Record

mandatory for Co engaged in production / supply of GIs as prescribed
eg: Telecom, Electricity, etc...

Maintenance

mandatory only if Cr makes order
(Co under special act, Cr to consult regulatory authority)

what is to be maintained

Particulars relating to

- utilisation of materials
- utilisation of labour
- other items of cost.

Duties of Auditor

- Inquiry into specified areas [Sec-143(1)]
- Reporting as to true & fair view [Sec-143(2)]
- Reporting requirements [Sec-143(3)]
- Reasons for negative qualifications [Sec-143(4)]
- Duties with respect to audit of govt Co [Sec-143(5)(6)(7)]
- Compliance with auditing standards [Sec-143(9)(10)]
- Additional matters reporting to NAFRA [Sec-143(11)]
- Reporting of frauds [Sec-143(12)(13)(15)]

Audit Committee
Statutory audit

Audit & Auditor

Appointment of Auditor [Sec-139] (who can be appointed as auditor
Every Co shall appoint an individual/
firm (if incorporated under law) as an auditor
of the Co @ first AGM

- * first Auditor
- * Subsequent Auditor

Term of appointment as auditor
auditor shall hold office from first AGM to till its 6th AGM.

Manner & procedure of Selection of appointment of auditor

- * Co required to constitute an audit committee - competent authority
> audit committee will recommend auditor for appointment to BOD

Agree - it shall forward the name individual / firm as auditor to the members in AGM.

Disagree - it shall refer back the recommendation to committee for reconsideration citing reasons for such disagreement.

Audit Committee

doesn't re-consider to BOD → BOD agree

→ BOD disagree

Note: BOD / Audit Committee shall consider foll points

BOD recommends to same as auditor to the members in AGM

BOD records the reason for disagreement (or) send its own recommendation to members in AGM

- > Qualification & Experience
- > any proceedings of pending professional mis-conduct

maximum terms & length in case of individual & firm

- unlisted public Co → Pusc 10c (or) more
- Private Ltd Co → Pusc 50c (or) more
- public borrowing → deposits → 50c (or) more.

shall not appoint (or) re-appoint as auditor

- * individual as auditor → more than 1 term of 5 consecutive years
- * firm as auditor → more than 2 term of 5 consecutive years

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

a. where a Co is required to constitute an audit committee

- > Audit committee shall recommend to Board the name of an individual auditor (or) firm may replace the incumbent auditor on expiry of the term of such incumbent

- > The Board shall consider the recommendation of such committee & make its recommendation for appointment of the next auditor by the members in AGM.

b. In other cases, the Board shall itself consider the matter of rotation of auditors & make its recommendation for appointment of the next auditor by the members in AGM.

First Auditor v.v. 21P

The first auditor of a Co, other than a govt Co, shall be.

- > appointed by BOD
- > within 30 days of the date of registration of the Co.
- > The auditor so appointed shall hold office until the conclusion of the first AGM.

The first auditor of a govt Co ^[Any other Co owned or controlled, directly or indirectly by CG or SG partly or wholly]

- > appointed by CAQ [Comptroller & Auditor General]
- > within 60 days from the date of registration of the Co
- > auditor shall hold office till the conclusion of first AGM.
- > if CAQ fails to appoint auditor, Board appoint within next 30 days
- > Board fails, inform to members of Co how to make appointment within 60 days at EGM.
- > Even appointed by Board (or) by members of EGM. the first auditor shall hold office till the conclusion of first AGM.

Subsequent Auditor v.v. 21P

In financial year, the CAQ of India shall appoint a duly qualified auditor within 180 days from the commencement of the FY. shall hold office till conclusion of AGM [for govt Co & any other Co.]

Steps to removal of auditor

Special Notice → for removal of auditor

↓
Board Meeting → Board resolution

↓
Application to Cr. → made in ADT-2 within 30 days of Board resolution

↓
Approval of Cr. received

↓
Special Notice to be sent for AGM → within 60 days of approval

↓
Auditor - give reasonable opportunity of being heard

↓
Passing Special Resolution

↓
Auditor will be removed.

Resignation by Auditor

Form of Statement - ADT-3 [for both Co govt & other]

Time period for filling - within 30 days of resignation [both]

Statement filled with Co, Register [in govt Co → Co, Register & CAQ]

Penalty: if not file a statement for resignation shall pay 50000 (or) Remuneration → WEL
Continues failure 500 each day → max. 200000