

Chapter 10 – Audit & Auditors

(Sections 139 – 148, Companies Act, 2013 + Companies (Audit & Auditors) Rules, 2014)

◆ 1. Introduction

- **Audit** = Independent examination of financial information of a company, to express an opinion whether FS give a **true & fair view**.
- **Auditor** = Chartered Accountant (CA) in practice, appointed to conduct audit.
- Purpose: Ensure **accountability, transparency & investor confidence**.

◆ 2. Appointment of Auditor (Sec 139)

(a) First Auditor

- **By Board** within 30 days of incorporation.
- If Board fails → **members** appoint within 90 days at EGM.
- Tenure: Till conclusion of first AGM.

(b) Subsequent Auditor

- Appointed at **first AGM**.
- Tenure: **5 years** (till conclusion of 6th AGM).
- Appointment must be **ratified every year** in AGM (earlier provision; now omitted).

(c) Rotation of Auditors (Sec 139(2))

- Applies to:
 - Listed cos.
 - Unlisted public co. with paid-up share capital \geq ₹10 Cr.
 - Private co. with paid-up share capital \geq ₹50 Cr.
 - Companies with borrowings \geq ₹50 Cr.

Limits:

- Individual → max 1 term of 5 years.
- Audit Firm → 2 terms of 5 years (total 10 years).
- Cooling-off: 5 years.

◆ **3. Eligibility & Disqualifications (Sec 141)**

(a) Eligibility

- Only a **Chartered Accountant (CA)** in practice.
- Firm of CAs may be appointed (majority partners must be CAs).

(b) Disqualifications

- Body corporate (except LLP of CAs).
- Officer/employee of company.
- Partner/employee of officer/employee of company.
- Person holding **security/interest** in company or subsidiary/associate.
- Person indebted > ₹5 Lakh.
- Person given guarantee/security > ₹1 Lakh.
- Relative holding securities ≤ ₹1 Lakh allowed.

◆ **4. Remuneration (Sec 142)**

- Fixed by members in **general meeting**.
- Includes audit fee & expenses.

◆ **5. Powers & Duties of Auditor (Sec 143)**

(a) Powers

- Access to books, accounts, vouchers at all times.
- Entitled to require info & explanations from officers.

(b) Duties

- Report whether FS give **true & fair view**.
- Report on:
 - Proper books kept?
 - Branch audit reports considered?
 - Directors' disqualification u/s 164(2)?
 - Loans & advances properly secured?
 - Deposits rules complied?
 - Adequacy of internal controls.
 - Frauds noticed (must be reported to CG if > ₹1 Cr).

👉 Auditor's Report to be read at AGM & filed with ROC.

◆ **6. Auditor's Report & CARO**

- Auditor must give report to members on FS.
- Central Government issues **CARO (Companies Auditor's Report Order)** specifying additional matters (e.g., fixed assets, loans, statutory dues, frauds, etc.).

◆ **7. Branch Audit (Sec 143(8))**

- Branch accounts may be audited by:
 - Company's auditor, OR
 - Another qualified auditor in India.

◆ **8. Cost Audit (Sec 148)**

- Central Govt. may order **cost audit** for companies engaged in specified goods/services (e.g., cement, steel, pharma).
- Conducted by a **Cost Accountant in practice**.

◆ **9. Special Provisions**

(a) Resignation of Auditor (Sec 140)

- Auditor resigning must file **Form ADT-3** with ROC within 30 days.

(b) Removal of Auditor (Sec 140)

- Before expiry of term → CG approval + SR in GM.

(c) Casual Vacancy

- Board fills within 30 days; if in listed co. → approval in GM within 3 months.

◆ **10. Auditor's Liability (Sec 147)**

(a) For Contravention of Act

- Company: Fine ₹25,000 – ₹5,00,000.
- Auditor: Fine ₹10,000 – ₹1,00,000.

(b) For Wilful Misstatement/Fraud

- Imprisonment up to **1 year** + fine ₹50,000 – ₹25,00,000.

- Auditor liable to **refund audit fees** & pay damages.

Exam-Oriented Questions (Chapter 10)

(A) Definitions / Theory

1. Who can be appointed as company auditor? Who cannot?
2. Explain provisions relating to rotation of auditors.
3. What are auditor's powers under Sec 143?
4. What is the procedure for removal of an auditor before expiry of term?
5. Distinguish between Statutory Audit, Branch Audit & Cost Audit.

(B) Practical / Case-Based

1. ABC Ltd. (public co., paid-up capital ₹15 Cr) wants to appoint the same CA firm for 12 years continuously. Is it allowed?
2. Mr. A, a CA, holds shares worth ₹10,000 in XYZ Ltd. Can he be appointed auditor?
3. Auditor of a listed company resigned on 1st Sept. Within how many days must he file ADT-3?
4. An auditor failed to report a fraud of ₹1.5 Cr. What consequences?
5. Board filled casual vacancy in auditor's office in a listed co. Is members' approval required?