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DEPARTMENT OF COMMERCE

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FOR-LNMU -B.com part - 3Rd Paper-viii – Principles of Auditing Unit- 3 Company Audit

Company Audit

A company is said to be an artificial person created by law having a separate legal entity distinct from its members. It cannot be directly managed by its owners because they are very large in number have small holding and also scattered over a wide area. As such the management and control of the affairs of the company is done by directors but an absolute faith put in directors is not considered to be desirable on social and moral grounds. Hence, it becomes essential for a company to appoint an independent and qualified person i.e. an auditor, to verify and certify the truth and fairness of the financial statements.

Further, the companies usually work with a large staff and auditing serves a very useful purpose of locating all errors and irregularities in their work.

In order to achieve the above objectives, The Indian Companies Act 1956 has made it a statutory obligations for joint staff companies, whether public or private, to get their accounts audited by qualified auditor.

Statutory requirements governing the Company Auditors
Before commencing the audit work of company, the auditor should go through the following :

1. Ensuring Whether his appointment is in order: Before commencing the audit work of a company the auditor shall ensure that all legal provisions relating to his appointment have been duly complied with to ensure his appointment is in order. If his appointment is made in general meeting of the company, he should obtain the resolution of his appointment passed in such meeting. In case he has appointed in place of retiring auditor, he shall find out a due notice has been given to the retiring auditor in this regard. In case if the casual vacancy is due to resignation of the auditor, he shall obtain the copy of the resolution passed at general meeting making his appointment. He shall ensure that his remuneration has been fixed by the company as per the provisions of the Act.

2. Inspection of Statutory Books and Documents: Before the auditor commences the work of audit, he should examine the following documents :

- a. Memorandum of Association.
- b. Articles of Association.
- c. Prospectus.
- d. Certificate of incorporation and certificate to commence business He should also examine the following statutory books and registers.
 - a. Register of Members. (Sec 88)
 - b. Index of Members. (Sec 88)
 - c. Register and Index of Debenture holders. (Sec 88)

d. Register to Mortgages and charges (Sec 85)

e. Register of Investment [sec 187(3)]

f. Foreign Register (Sec 88)

g. Register of Contracts (Sec 188, 184 and 189)

h. Register of Directors, managing Director , Manager and Secretary (170)

i. Register of Director's Shareholdings (170)

j. Register of Deposits (73)

k. Register of Loans (Sec [186(9)]

l. Minute books (118)

3. Inspection of Contracts: The auditor should inspect and examine the contracts which have Been entered into by a company with other e.g.

a. Contracts with the vendors of any property.

b. Contracts with brokers and under writers for their commission.

c. Contract with the promoters for the preliminary expenses, etc.

If any statement regarding these contracts has been made by the company in the Prospectus, the auditor should see that such statement is correct and that entries relating to Such contracts are correctly recorded in the books of account.

4. Study of Previous year's balance Sheet and Auditor's report: the auditor should inspect the Previous year's balance sheet to verify the opening balances of the current year. Moreover,

According to Companies Act, the corresponding figures of the previous year have to be given In the balance sheet.

The last audit report is inspected by the auditor mainly for two purposes.

a. To formulate a rough idea about the company and its working.

b. To see whether the recommendations made there in have been carried Out or not.

5. Study of the Internal Control System in Operation: The study and evaluation of the internal Control system in operation is important it serves as a basis there on. It helps the auditor in Determining the extent of the tests to which auditing procedures can be restricted.