

Notes by Akhilesh Kumar  
J K college Biraul Darbhanga  
YouTube : A Commerce Education

**Notes BY: AKHILESH KUMAR(Guest Teacher)**

**DEPARTMENT OF COMMERCE**

**JANTA KOSHI COLLEGE BIRAU, DARBHANGA**

**FOR-LNMU -B.com part -3<sup>rd</sup> Paper-viii - Principles of Auditing**

**Lecture -3**



Easy to Understand the concept

## **Unit -2 and 3**

### **Audit programme and company Audit**

#### **❖ Qualities of an Auditor:**

**The Auditor must possess the following qualifications and qualities:**

- 1. Only the qualified chartered accountant can be appointed as auditor of a limited company.**
- 2. The auditor must have thorough knowledge of principles and practice of all aspects of accountancy. He must be familiar with all systems of accountancy in use.**
- 3. He should have adequate knowledge of financial management, industrial administration and business organization.**
- 4. He must have thorough knowledge of audit case laws as per the various cases decide by the courts in and outside India.**
- 5. He should be able to understand the technical details of business whose accounts he is going to audit.**
- 6. An auditor must be honest i.e. He must certify that he does not believe to be true and he must take reasonable care and skill before he believes what he certifies is true.**
- 7. He must act impartially and not influenced by others, directly or indirectly while discharging his duties.**
- 8. He should be hard working, systematic and methodical.**
- 9. He must have capacity to hear arguments of others.**

**10. He should have adequate skills and courage to write audit report correctly clearly and concisely.**

**11. He should not disclose the secrets of his client.**

## **Appointment of an Auditor**

**Appointment of Auditor in case of Sole proprietor:** The appointment of Auditor in case of Sole trader is done by the owner of the business. In case of sole traders the auditor generally acts as an Accountant who also prepares accounts besides checking their accuracy. As He is appointed by an Individual he must get clear instructions from his client in writing as to what he is expected to do. His Work and its scope will depend upon the agreement with his client since the appointment of an auditor is not under any statute, therefore the rights and the duties will depend upon the agreement.

**Appointment of Auditor in case of partnership:** The Auditor of a partnership firm is made By the mutual consent of all the partners.

**Appointment of Companies Auditors:** The provisions regarding appointment of the auditor Are contained in section 139 of Companies Act 2013 :

- 1. Appointment of auditor by members [sec 139(1)]:**

- a. A company shall appoint an individual or a firm as an Auditor at the first annual General meeting and each subsequent sixth annual general meeting.**
  - b. Such auditors shall hold office till conclusion of sixth annual general meeting.**
  - c. Such appointment shall be placed before the members at each annual general Meeting for ratification.**
  
- 2. Period for which the appointment is made [sec 139(2)]:**
  - a. An individual can be appointed for a term no more than five years.**
  - b. An audit firm can be appointed for a consecutive term not more than two terms Of five years.**
  - c. An individual or a firm which has completed its term shall not be eligible for Reappointment as auditor in the same company for five years from the Completion of term.**
  
- 3. Appointment of auditor of Government companies (sec 139 (5)):**  
**The comptroller and Auditor general shall in respect of financial year appoint an auditor duly qualified within 180 Days from the**

**commencement of financial year who shall hold office till conclusion of annual General meeting.**

- 4. Appointment of First Auditor by Board of Directors [sec139 (6)]:**  
The first auditor of a Company other than government company shall be appointed by the board of directors within 30 days of registration of company. If the board fails to appoint first auditor it shall inform the Members of company who shall appoint auditor within 90 days at extra ordinary general Meeting who shall hold the office till conclusion of first annual general meeting.
  
- 5. Appointment of First Auditor of Government Company [sec 139 (7)]:** The first Auditor Of a Government Company shall be appointed by Comptroller and Auditor general within 60 Days of registration of company. In case of its failure to appoint first auditor, then board of Directors shall appoint auditor within next 30 days. The company shall inform the members if He board fails to appoint first auditor who shall appoint the auditor within 60 days at extra Ordinary general meeting who shall the office till conclusion of the first general meeting.
  
- 6. Casual vacancy of an Auditor [sec 139 (8)]:**
  - a. The casual vacancy of auditor, except in case of Government Company, shall be Filled by the board of directors within 30 days but if it arises as a result of**

**Resignation of the auditor it shall be approved by company at general meeting Convened within 3 months o recommendation of board. Such auditor shall hold Office till conclusion of next annual general meeting.**

- b. Casual vacancy in case of Government Company shall be filled by Comptroller And Auditor General within 30 days if he fails to fill the vacancy, the board shall Fill the vacancy within next 30 days.**

### **Reappointment of a retiring auditor [sec 139 (9)]:**

**Such an auditor can be reappointed at annual general meeting if.**

- a. He is not disqualified for reappointment.**
- b. He has not given notice to company of his unwillingness.**
- c. A special resolution has not been passed at annual general meeting appointing Some other person or providing expressly that he shall not be reappointed.**

**All the above is subject to the provisions of sec 139 (1)**

### **Qualifications of an Auditor:**

- 1. A person shall be eligible for the appointment of an auditor of a company only if he is a Chartered accountant.**

- 2. Where a firm including a limited liability partnership is appointed as an auditor of a Company, only the partners who are chartered accountants shall be authorized to act and Sign on behalf of firm.**

### **Disqualifications of an Auditor:**

**The following persons shall not be eligible for the appointment as an auditor of a Company:**

- 1. An officer or employee of the company.**
- 2. A person who is a partner, or who is in employment or an officer or employee of the Company.**
- 3. A person or a firm who, whether directly or indirectly has business relationship with the Company, or subsidiary of such holding company or associate company of such nature as May be prescribed.**
- 4. A person whose relative is director or is in the employment of the company as director or Key managerial personnel.**
- 5. A person who is in full time employment elsewhere or a person or a partner of a firm Holding appointment as its auditor, if such**

**persons or partner is at the date of such Appointment or reappointment holding appointment as auditor of more than 20 companies**

- 6. A person who has been convicted by a court of an offence involving fraud and a period of 10 Years has not elapsed from the date of such conviction.**

### **Remuneration of an Auditor (sec 142)**

- 1. The remuneration of the Auditor of a company shall be fixed in its general meeting or in Such manner as may be determined therein.**
- 2. The Remuneration under sub section (1) shall, in addition to the fee payable to an auditor, Include the expenses, if any, incurred by the auditor in connection with the audit of the Facility extended to him but does not include any remuneration paid to him by any other Services rendered by him at the request of the company.**

### **Removal, Resignation of an Auditor**

- 1. The Auditor appointed under section 139 may be removed from his office before expiry of is Term only by a special resolution of**



**the company after obtaining the previous approval of The central Government.**

- 2. The Auditor who resigns from the company shall file within a period of thirty days from the date Of resignation, a statement in a prescribed form with the company a registrar, the auditor Shall also file such statement with the comptroller and auditor – general indicating the Reasons and other facts as may be relevant with regard to his resignation.**

### **Rights of an Auditor**

- 1. Right to Access books of accounts: Every auditor of a company has right to free and Complete access at all the times to the books, accounts and vouchers of the company**
- 2. Right to obtain the information and explanation: An auditor is authorized to obtain Such information and explanation as the auditor may think necessary for the performance of His duty as auditor.**
- 3. Right to receive notice: All notices of the company and other communications relating to Any general meeting of the company shall be forwarded to the auditor of the company. He Is also authorized to attend the meetings and make any statement or explanation with Regard to the accounts audited by him.**

- 4. Right to sign audit report: only the person appointed as auditor of the company, where a Firm so appointed only a partner in the firm practicing in India, may sign the auditor's report Or authenticate any other document of the company required law to be signed or Authenticated by auditor.**
  
- 5. Right to seek legal and technical advice: The auditor of a company is entitled to seek The legal and technical advice which may be needed in the performance of his duties.**
  
- 6. Right to remuneration: on completion of his work an auditor is entitled to his remuneration.**
  
- 7. A person who has been convicted by a court of an offence involving fraud and a period of 10 years has not elapsed from the date of such conviction.**