Unit - 3

Company Auditor

Appoinment and Removal of Auditor:

Appoinment

Appoinment of first Auditor Sec 224 (5))

Every company should appoint an auditor or auditors (public as well as private Companies).

The first auditor or auditors of Companies Shall be appointed by Board of Director within one month of the registration of the company and such an auditor shall hold office till the conclusion of first annual general meeting.

If the Board fails to make such appointment the company in general meeting & any appoint the first auditor.

Subsequent Appoinment - 224(1)

(1) Each annual general meeting should appoint auditor.

They hold office till untill the conclusion of next annual general meeting.

Give intimation to all other auditors within 7 days of the appoinment unless he is a retiring auditor.

2). unless he is a retiring auditor, shall within 30 days of the receipt from the company of the intimation of his appoinment.

His acceptance or refusal of accept should be intimated to the Registrar.

3) Where at an annual general meetings no auditor are appointed or re-appointed, the central government appoints a person to fill the vacancy.

4) company within 7 days becoming exercisable give notice of that fact to that Government.

If the company fails to intimate central government, the company and Every officer in default shall be punishable with a fine which may extent to 5,000 rupees.

5) Where it is found that the appoinment of the auditor at the annual general meeting was invalid ub intio, the new auditor in his place shall be appointed at the general meeting of the shareholders.

6) The auditor appointed by whatever authority shall be reappointed at the annual general meeting unless-

Not qualified for reappoinment.

he has given the company notice in writing of his unwillingness to be re-appointed.

A resolution passed in meeting appointing Somebody instead of him. providing expressly that he shall not be reappointed.

Notice should be given for appoinment of persons in place of retiring auditor. A resolution should be passed.

If retirement is by reason of death, incapacity or disqualification of that person as the case may be the resolution cannot be preceeded with.

3) Appoinment of Auditor of Government Companies (Sec 619).

The auditor of a Government company is appointed or re-appointed by the central government on the advice of the Comptroller and Auditor, General of India.

4) Appoinment of Auditor by Special Resolution. Sec 224 (A)

Sec 224 - A - inserted in the companies Act in 1974.

Company - not less than 25% of subscribed share capital (whether single or combination).

Public financial institution, Government company or central company or State govt.

Financial other institution estabilished by provincial or State Act.

govt holds not less than 51% of subscribed capital.

Nationalised bank or insurance company or general insurance company.

For the above companies appoinment or re-appoinment of auditor at annual general meeting shall be made by Special resolution.

Otherwise central govt may appoint the auditor.

Casual vaccancies sec 224(1b)

casual vacancy (except prior resignation), filled by Board but remaing auditor may continue.

Vacancy caused by resignation of auditor filled only in general meeting.

Auditor appointed to fill casual vacancy hold office till the conclusion of next annual general meeting.

5) Appoinment of branch auditor (Sec 228)

Accounts of the branches of the company may be audited by company statutory auditor.

When company decides the accounts audited by company auditor any other person other than company auditor shareholder can appoint in general meeting.

If company authorised the board of director can appoint auditor by resolution passed in general meeting.

6) Re-appoinment of auditor 224(2)

Statutory auditor is not appointed on permanent basis. He holds the office till next AGM. Retiring ~~auti~~ auditor all re appointed by passing a special resolution.

unless

He is not qualified

He given notice of his unwillingness

A resolution has been passed about the person not to be appointed.

7) Appoinment of auditor of Government companies - 619

consequence of Refective Appoinment

Where the appoinment of a person as an auditor in AGM is held void ab inito provision of Sec 224(3) will be attracted and fresh appoinment of the auditor can be made by the central government.

Removal of the Auditor (Sec 224 & 225)

Removal before Expiry of Tenure

First auditor may be removed before the expiry of tenure of office, in general meeting by the company with a special notice to the members 14 days before date of meeting.

Approval of Regional Director is not required in this behalf sec 224(5).

Auditor other than first auditor can be removed with the approval of Regional Director in that behalf 224(7)

Removal after Expiry of Tenure (Sec 225)

Sec 225 makes special provisions in respect of a resolution appointing a person other than a retiring auditor or for providing expressly that a retiring auditor shall not be reappointed.

Special notice Sec 190 - Intention for resolution given to company by a member not less than 14 clear days before AGM.

Copy of the notice to be given to retiring auditor.

This may prevent any alteration in appoinment without the knowledge of all the members.

The retiring auditor may make written representation within a reasonable period & ask the company for his representation to the company members.

Unjustified Removal of Auditor

When auditor resign or does not ready for reappointment he may send a written communication to board of director. Incoming auditor should accept the appoinment.

When an eligible auditor has not been reappointed, he may file with the institute a copy of the statement which he may sent to the management of the company for circulation among shareholder.

The committee on a review of communication refered to in pueas 1 and 2 above, any call for such further information as it may deem fit, from the incoming auditor, the outgoing auditor and the company.

Rights of Auditor

An auditor's job is independent of the management of a company. He has to report to the shareholder on the financial statement examined by him during audit.

The right of a company auditor cannot be limited or abridged in any way.

Any resolution or any such provision in the Articles of Association limited the powers of the auditor will be void because the auditor derives his powers from the Specific provision of the Companies Act 1956.

1) Right of Access to the books, accounts and vouchers - Sec 227(1)

An auditor of a company has a right to access at all times to the books and accounts and vouchers of the company, whether kept at the head office or else where.

2) Right to obtain information and explanation Sec 227(1)

The company auditor is entitled to obtain all such information and explanation from the officers of the company, which he thinks necessary for performing his duties as auditor.

3) Right to Receive notices and attend the General meeting Sec 231

Receive all notices and communication relating to a general meeting.

to attend any general meeting of the company.

to heard at any general meeting.

4) Right to make corrections in Financial Statement

If an auditor, finds, some mistakes in financial statement he has to rectify the same or to suggest the management of the company to make necessary correction.

5) Right to Report to the members (227(2))

It is the right as well as duty of the auditor to make a report to the members of the company on the financial statements.

6) Right to visit Branches and to have access to Branch accounts 228 (2)

The auditor of the company has to right visit any branch office of the company, if he deems it necessary for his duty.

7) Right to sign Audit Report (229)

The auditor of the company may sign the auditor's report or sign or authenticate any other document of the company required by the law to be signed by the auditor.

8) Right to take expert's opinion

Auditor can take the advice of expert on any technical or legal matter.

9) Right of to receive remunaration (224(8))

The auditor has the right to receive remunaration for the Service rendered by him to the company.

10) Right to Indeminity clause of 99 of Table A of Schedule 1)

The auditor of a company is entitled to be indemnified out of the asset of the company against and liability incurred by him in the course of defending any proceedings.

11) Right of lien on working papers

The working papers contain the information of confidential nature. The auditor can claim the possession of the working paper on the ground that he has collected these papers to perform audit.

12) Right of lien on the Books of Account and other Relevant Document

If the auditor is not paid his audit fee, he has the right to return the book of account and other documents.

Duties and liabilities of Auditor:

Sec 227 (3) prescribes the duties of the auditor. No restrictions can be imposed on these duties either by a provision in the Articles or by passing a resolution at a general meeting of the shareholders.

The duties of a company auditor can broadly be classified into four catagories.

Statutory duties

Duties arising out of common law.

Duties arising out of professional enthics and etiquette

General duties.

Statutory duties.

a) To certify Statutory Reports (See 165)

See 165(4) of the Act provides that the auditor of a public Ltd. company must certify the accuracy of contents of the statutory report.

b) To report the matter of the company See 227(2).

To make report to the member of the company on the books of accounts examined by him, balance sheet and profit and loss account in general meeting.

c) To encures into speific matters (227(1A))

Loans & Advances on security are properly Secured.

Authenticity of the transaction

Non-investment company - price of share less than or more than its purchase price.

Whether loans & Advances are shown as deposit.

Whether personal expenses have been charged to revenue account.

Information about share issue.

d) To certify director's declaration of solvency (Sec 488)

In voluntary winding up declaration is to be given about solvency of the company by the directors.

e) To respect for prospectus Sec 56(1)

prospectus for

profit & losses

assets and liabilities of the company and its subsidiaries.

rates of dividend paid by the company.

f) To assist inspector Sec 245(i)(6)

where an inspector is appointed by the central government to investigate the affairs of the company.

g) To assist public prosecutor 242(1).

As per Sec 242(1) of the Act an auditor should be required to extend to the central government all resonable assistance in connection with such prosecution.

Duties Arising out of common law

By an agreement an auditor may be asked to carry out a number of additional duties such as advise the client on company law and transaction matters ascertain the extent of overstocking of inventory or perform any other managerial task.

Other duties are:

To guide assist and represent the company on taxation matter.

To offer his advice on company law matters.

To conduct internal or any other no-statutory audit.

To perform any managerial activity.

To offer any other Service as undertaken to perform.

Duties Arising out of professional Ethics

under code of professional conduct audit professional have the following duties at their end.

a) Auditor should exercise Sensitive professional and moral Judgement in all their activities.

b) Auditors should accept the obligation to act in a way that will serve the public instrest, honour the public trust and demonst commitment to professionalism.

c). Integrity: To maintain and brouden public confidence, auditor should perform all professional responsibilities with highest sense of integrity.

d) objectivity and independence

An auditor should maintain objectivity and be free of conflicts of instrest in discharging professional responsibilities.

e) Due care must be given to technical and ethical standards, improving competence and the quality of service.

Scope and nature of Services

Liabilities of an auditee

1) civil Liabilities

Negoligence

Breach of contract

Liabilities to their parties

2) criminal liabilities

False Reporting

Fraudenlent certification

collution

3) professional liabilities:

code of conduct violations

Displinary actions.

4) Contractual liabilities.

1) civil liabilities

An auditor may face liabilities if their negligence or misconduct course financial harm to clients, shareholders on other stakeholder.

Negligence

Failing to exercise reasonable care and skill during an audit, such as not defecting mistatement.

Breach of contract

Auditor can be held liable for negligence if they fail to exercise due care and skill in conducting the audit, resulting in losses for their client or third parties.

To clients

Auditor a duty of care to their clients, and if their negligence results in losses, the auditor can be held liable.

To third parties

Auditor can also be liable to their parties who rely on the audited financial statements.

criminal liability

Fraud

Auditor can be held criminally liable for knowingly or willfully fullfging records related to the audit.

offenses under the companies Act

Auditor can also face criminal liability under the companies Act for various offences.

Personal liability

misconduct

Auditor can face penalities for professional misconduct from regulatory bodies like the Institute of chartered Accountant of India.

Breach of Ethics

Auditor are expected to a there to professional standards and ethical principles and failure to do so can result in professional liability.

Regulatory liability

Non-compliance

Auditor can face liability for non-compliance with laws and regulation including those set by the national Financial Reporting Authority.

Professional conduct and Ethics in Auditing

Professional condnct and ethics in auditing involve athering to specific principles and guidelines to ensure integrity, objectivity, confidentiality, and competence in the profession.

Auditor must maintain impartiality avoid conflicts of instrest and uphold confidentiality when handline sensitive information.

Key principles of Auditing Ethics

Integrity

Auditor must act with honesty and trustworthiness, avoiding any action that compromise their integrity or the profession's reputation.

Objectivity:

Auditor must maintain impartiality and avoid conflicts of instrest, ensuring that their assesment are unbiased & reliable.

Confidentiality

Auditor have a duty to protect Sensitive information acquired during their work and not ~~discharge~~ disclose it without proper authorization or legal obligation.

competency

Auditor must possess the necessary Skills and knowledge to perform their duties effectively and maintain their professional knowledge and competence.

Professional Behaviour

Auditor should conduct themselves professionally upholding high standard of conduct and athering to relevant laws and regulation.

Independence

Auditor must maintain independence from the organizations they audit to ensure objectivity and avoid conflict of instrest.

Due care:

Auditor are expected to act diligently and with due care in planning and performing their work.

Importance of Ethics in Auditing

maintaining credibility

Protecting public Trust

Promoting fair and Transparent financial Reporting

Preventing fraud and misrepresentation

upholding professional Standards

Audit Report

Audit Reporting is the communication of audit conclusion after having carried out the audit process in accordance with audit plan.

Audit Report is the Summarised expression of certain facts and opinions regarding the conduct of the audit and conclusion with refarance to it.

Basic Elements of Audit Report

Tittle

Tittle should be "Auditor's Report" or "Branch Auditor Report.

Address :

The auditor's report should address the person whom it is meant to be forwarded.

opening or introductory paragraph

A brief overview of the audit, including, the company and the period covered.

Scope paragraph

Defines what the auditor reviewed classifying the boundaries of the audit.

opinion paragraph

The opinion paragraph of the report should indicate the financial reporting framework to prepare the financial statements.

Date of the report

The date of report indicates the date on which the auditor sign his report.

Place of report

The town in which the audit report is signed should be indicated.

Auditor Signature

The report should be signed by the auditor in his personal name.

Recent Trends in Auditing

Recent auditing trends include a strong focus on technology, ESG (Environmental, Social, and Governance) audits, and cybersecurity audits.

1) Technology Adoption
   - Artificial Intelligence and machine le
   - Robotic process Automation
   - Block chain Technology
   - Data Analytics.

2) ESG Auditing.
   - Growing Importance of ESG
   - Enhanced Reporting

3) Cybersecurity Audits
   - cybersecurity Audits
   - Data privacy.

4) Other Notable Trends
   - Remote Auditing
   - continuous Auditing
   - Focus on quality & Ethics
   - The changing Role of Auditor

Information System Audit (ISA)

An information system audit is an examination of an organisation's IT infrastructure and application to assess their effectiveness and compliance with regulation and internal policies.

objectives:

Ensure the integrity and Security of data.

Evaluate the effectiveness of IT controls.

verify compliance with regulation and standards.

Improve IT operation and efficiency.

Support financial audits.

Types of IS Audits:

Financial Statement Audit

verifies the accuracy and reliability of an organisation financial information.

Compliance Audit:

This type of audit evaluates whether IT System and practice comply.

operational Audit:

Assess the efficiency and effectiveness of IT operations.

Security Audit :

Audit focuses on the security of IT Systems and infrastructure, evaluating controls related to access, data protection disater recovery.

Benefits of Audit

Reduced risk of data breaches and cyberattacks.

Improved data integrity and accuracy

Enhanced compliance with regulation.

Increased efficency and cost Savings

Improved public trust

Impact of computerizations of Audit Approach

Computerization has significantly impacted auditing, enhancing efficency accuracy and the ability to process large data volumes. It enhances auditor to leverage technology for tasks like data analysis, risk assesment and automation of routine procedures.

Positive Impacts

Computerised audit techniques improves efficiency.

It enhances accuracy.

Data volume handling can be enhanced.

Hiding more effective risk assessment during the audit process

Enhances better communication of findings of stakeholders.

Ensuring the integrity of financial records.

Cost can be reduced audit costs.

Provide neat, clean and easily accessible records.

challenges and consideration

It requires Specialised Skill and training.

Protecting Sensitive audit data in a digital environment is crucial.

Auditor need to ensure the reliability and integrity of the computer Systems and Software.

The use of AI in auditing raises ethical question about bias and data privacy.

Online computer System Audit

Online computer System audit is a type of audit, often part of an IT audit, that focuses on examining the effectiveness, efficiency and Security of an organisation's online computer systems and related process.

Scope :

An online computer System audit can encompasses various aspects of an organisations IT environment, including hardware, Software networks, databases and the rules for their use.

Purpose :

The main goal of an online computer System audit are to evaluate the effectiveness of internal control identify, vulnerabilities, and ensure the confidentiality integrity and availability of information.

Methods :

Auditor may use various methods including online tools, to collect and analyze data, access System configurations and evaluate the effectiveness of Security measures.

Benefits :

Regularly conducted online computer System audit can help organisations improve their IT Security posture, reduce risk and ensure compliance with relevant regulations and Standards.

Types :

Information Security Audit

Technology Audit

Continuous Audit

Information Security Audit :

An information Security audit is a Systematic assessment of an organisation's Security policies, procedure and controls to identify vulnerabilities and weakness.

Purpose of Information security Audit

Identify vulnerabilities

Assess Security posture

Ensure compliance

Improve Security

Protect Information Assets.

Benefits :

Reduced Risk

Compliance Assurance

Improved Security posture

Enhanced Trust

Increased Effi

Types :

manual Assessment

Automated Assessment

Third party Audit

Technology Audit :

A technology audit is a comprehensive review of an organisation's IT infrastructure policies and operations to assess its effectiveness, Security and compliance.

purpose and Benefits:

Ensuring Efficiency and Effectiveness

Identifying Security Gaps

compliance with Regulation and Standards,

Data Integrity and Asset protection

cost optimization.

Types of Technology Audit

Internal Audit - within organisation

External Audit - within third parties

General control Audit } - overall effectiveness

Application control Audit - Examine specific application

Continuous Auditing:

Continuous auditing involves using technology to automatically and frequently collect and analyse audit evidence from an organisation's IT System, processes, transaction and control.

Benefits :

Reduce risk of fraud and errors.

Improved compliance

Enhanced control monitoring

more efficient audit processes

Improved decision-making.

key aspects :

Real - time or near real - time analysis

Automation

Focus on continuous monitoring

Early warning System

Enhanced compliance

Procedure of Audit under ISA System

An information System audit typically follows a structured process involving planning, feild work, audit reporting and follow - up.

Information System Audit procedure

1) planning :

clearly define the scope, objectives and methology of the audit.

Identify the potential risk

Determination of Scope under this audit.

Develop a detailed plan.

Field work:

Gather relevant information

Evaluate the effectiveness of internal controls.

collect & analyse evidence to support auditor's findings.

Audit Reporting

Summarise the findings

provide recommendation for corrective action.

prepare a comprehensive audit report

follow up:

monitor the implementation of recommended corrective actions.

conduct periodic reviews.