

AUDITING

Vth SEMESTER

TOPIC:.

AUDIT PLANNING

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AUDIT PLANNING

Qualification of a Company Auditor

According to Section 226(1) and 226(2) of the Companies Act, the prescribed qualifications of an auditor are as follows:

Qualification [sec226 (1)]:

1. The auditor of a co. may be either, an individual or a firm
2. In the case of an individual, he should be a Chartered Accountant within the meaning of Chartered Accountants Act 1949 i.e. he should be holding certificate of practice.

3. In the case of firm of auditor's all the partners of a firm shall be chartered accountants practicing in India within chartered accountants Act 1949.

Qualification [Sec 226(2)]:

A person holding a certificate issued by central govt. under restricted state auditors rules prior to the enactment of part B state laws 1951 can also be auditor of the co.

The central government is empowered to frame rules relating to granting renewals, suspension or cancellation of such certificates.

Disqualification of a Company Auditor

According to section 226(3) of the Companies Act, the following persons shall not be appointed as auditors of a company:

1. A body corporate. A company cannot audit any other company,
2. An officer or employee of the company.
3. A person who is either a partner or employee of an officer or employee of the company.
4. A person who has taken debt from the company for amount exceeding Rs. 1,000.

5. A person who has taken guarantee of another person who has taken a loan exceeding Rs. 1,000 from the company.

6. A person who holds shares or debentures of the company cannot audit that company.

7. A person, who is disqualified for being appointed as auditor of a company, is automatically disqualified for being auditor of its holding company or its subsidiary company or any other subsidiary of holding company.

Appointment of Auditor

The Companies Act has not defined casual vacancy. But one can say that casual vacancy for an auditor arises due to disqualification, resignation, death, etc.

1. The Board of Directors may appoint an auditor to fill the casual vacancy caused by any reason other than by resignation.
2. Where there are more than one auditor, the remaining auditor may act as the auditor during the vacancy period.
3. Where the casual vacancy is due to resignation, the vacancy can be filled up only at a annual general meeting.

Reappointment of Auditor

1. A retiring auditor may be re-appointed at the annual general body meeting by passing a resolution.

2. Reappointment of a retiring auditor is not automatic. A resolution at the annual general body meeting is required.

However, a retiring auditor shall not be reappointed,

a) When he does not qualify for reappointment.

b) When he is not interested or expressed unwillingness to accept reappointment.

c) When a resolution is passed in the AGM appointing some other auditor. Companies (Amendment) Bill, 2003 requires a special resolution.

d) When opted not to reappoint him.

e) When resolved to appoint some other auditor and such resolution could not be proceeded

Removal of Auditor

The Companies Act, 2013 lays the provision for the removal or change of auditor before the completion of his tenure. This happens in those cases where the organization is not satisfied with the services of the auditor. The procedure of the removal of the auditor has been given in the *subsection* (1) of **Section 140** of the Act.

Before being removed by the firm, the auditor is given a fair and reasonable chance of laying down reasons for his inappropriate conduct.

If the auditor is being removed before the completion of his term, an approval from the central government is necessary before passing a special resolution by the company.

The application to the Central Government has to be done in the form **ADT-2** as prescribed in Rule **7** of the Companies (Audit & Auditors) Rules, 2014. A prescribed fee provided under Section **12** of the **Companies (Registration Offices and Fee) Rules, 2014** needs to be submitted along with this form.

The application has to be made within *thirty days* of the resolution passed by the board.

The company can hold a general meeting within *sixty days* of receipt of the approval of the Central Government for passing the auditor appointment resolution.

If you want to hire an auditor for your company, then you need to have a clear overview of the roles and responsibilities of an auditor. The rules related to appointment, reappointment, and removal of the auditor are certain factors that you need to consider before announcing recruitment.

RIGHTS, DUTIES AND LIABILITIES OF AUDITOR

Rights and Powers of Company Auditors

According to Section 227(7) of the Companies Act, a company auditor has the following rights:

1. Right of Access Books of Accounts: As per Section 227(1) of the Companies Act every auditor of the company has the right to access at all times to the books of accounts and vouchers of the company, whether kept at the head office of the company or elsewhere. Under section 209(1) (d), a company auditor has the right to examine the cost records also which are required to be maintained by certain companies relating to production sales, stores etc.

2. Right to Obtain Information and

Explanations: An auditor can call for any information or explanation from different officers of the company which he may think necessary for the performance of his duties.

Apart from the auditor's right to obtain information and explanation it is the duty of every officer of the company to furnish without delay the information to the company auditor. If the directors or officers of the company refuse to supply some information on the ground that in their opinion it is not necessary to furnish it, then the auditor has the right to mention that in his audit report.

3. Right to Receive Notices and Other Communication Relating to General Meetings and to attend

them: According to section 231, of the companies act an auditor of a company has the right to receive notices and other communications relating to the general meetings in the same way as that of the members of the company.

Similarly an auditor also has the right to attend any annual general meeting and also to be heard at those meetings which he attends and which concerns him as an auditor.

The auditor also has the right to make a statement or explanation with regard to the accounts he has audited. But he auditor is not expected to answer questions in the general meeting.

4. Right to Visit Branches: According to section 228 of the companies act the auditor of the company has the right to visit the branch office or offices of the company.

He can also audit such accounts of the offices of the company provided that there is not qualified auditor to audit the accounts of the branch office or offices of the company, in such cases, the auditor has the right to access at all times to the books of accounts and vouchers that the company maintains at branch office or offices.

Moreover section 226 of the companies act provides that in case of the company gets the branch accounts audited by some of the local auditors, even the auditor has access at all times, to the books, accounts and vouchers of the company and he can also visit the branches, if he feels necessary.

5. Right to Correct Any Wrong Statement: The company auditor is required to make a report to the members of the company on the accounts examined by him of the final accounts and the related documents which are laid down before the company in the general meeting.

6. Right to sign the Audit Report: As per section 229 of the companies act only the person appointed as auditor of the company or where a firm is so appointed, only a partner in the firm practicing in India, may sign the audit report or authenticate any other document of the company required by law to be signed.

7. Right to Being Indemnified: Under Section 633 of the Companies Act, an auditor is considered to be an officer of the company and he has the right to be indemnified out of the assets of the company against any liability incurred by him in defending himself against any civil and criminal proceedings by the company if it is proved that the auditor has acted honestly or the judgment is delivered in his favour.

8. Right to seek Legal and Technical

Advice: The company auditor has the full right to seek the opinion of the experts and to take their legal and technical advice so as to discharge his duties efficiently.

9. Right to Receive Remuneration: As per Section 224(8) of the Companies Act, the company auditor has the right to receive remuneration provided he has completed the work which he has undertaken to do so.

Duties and Liabilities of a Company Auditor (Section 227):

Duties towards the shareholders:

1. Report shareholders about true and fair state of affairs of the company
2. State that balance sheet and profit and loss a/c give all information required by law
3. State that balance sheet and profit and loss a/c agree with the books of account
4. State that balance sheet and profit and loss a/c agree with accounting standards

5. State that he has obtained all the necessary information

6. State whether the company has maintained all books as required by law;

7. State the reasons of qualification in his report

8. State that he has received the audit report on the branch accounts audited by other auditor and how he has dealt with the same in preparing his report

9. Auditor shall state in his report whether:

a) The loans taken are properly secured and the terms of loans are not against the interests of the company

b) Loans given are shown as fixed deposits and the terms of loans are not against the interests of the company

10. Transactions recorded as book entry are not against the interests of the company

11. Personal expenses of directors have not been charged to revenue a/c of company;

12. The company fulfills the requirements of CARO 2003.

Duties towards Company:

- 1. Prospectus:** According to Sec 56, the auditor is required to certify profits or losses, assets & Liabilities and dividend paid etc in the prospectus.
- 2. Statutory Report:** Section 165 requires that the auditor has to certify the statutory report.
- 3. Public Deposits:** Section 58AA requires the auditor to report about whether the company has followed all rules and guideline of RBI in regard to public deposits or not.
- 4. Signature on Audit Report:** Section 229: It is duty of auditor to sign on his report.

5. Insolvency (Section 488): If the company wants itself to be declared insolvent, it is duty of auditor to prepare profit and loss a/c for the current period.

Duties towards Government:

1. CARO-2003: The auditor has to report para-wise that the company has fulfilled all the requirements of CARO-2003.

2. Assist the Investigation u/s 237: It is duty of auditor to assist the investigation ordered by the CG u/s 237.

Duties towards General Public:

- 1.** His office is of confidence and faith. He must be reliable in all respects.
- 2.** He should reveal all material information regarding the state of affairs of the company to the company as well as to the general public.
- 3.** While issuing prospectus u/s 56, he should see that the prospectus does not include any misleading information or material.

Audit Programme

An audit program is a set of directions that the auditor and its team members need to follow for the proper execution of the audit. After preparing an audit plan, the auditor allocates the work and prepares a program which contains steps that the audit team needs to follow while conducting an audit. Thus, an auditor prepares a program that contains detailed information about various steps and audit procedures to be followed by the audit.

An audit program provides a basic plan for the audit team regarding the entity's business, its size, how to conduct the audit, allocation of work among team members and the estimation of time within which it should complete the work. It contains details regarding the relevancy of evidence, materiality level, risk tolerance, measure of the sufficiency of the evidence. Thus, programs enhance the accountability of the audit team and its members for the work performed by them.

An auditor may revise the audit program if he considers it necessary due to prevailing circumstances.

The size of the entity, type of business or services in which entity deals, applicable laws, the effectiveness of internal controls, and various other relevant factors, also affect an audit program.

Thus, an auditor prepares an audit program according to its scope of work. The minimum essential work to be performed is the Standard Programme. However, there is no set audit standard program applicable in all the circumstances.

Audit working papers document the activities that the audit program performs. Audit working papers support the work performed by the auditor for providing assurance that the audit was performed in accordance with all the applicable standards on auditing (SA's). It helps the auditor in the proper execution of audit work.

An audit program covers various steps of auditing in an audit program like the assessment of internal control, ascertaining accuracy and reliability of books of accounts, inspection, vouching and verification, valuation of assets and liabilities, scrutiny of accounts, presentation of financial statements, and submission of reports and related disclosures.

Audit Note Book

Audit Note Book is a register maintained by the audit staff to record important points observed, errors, doubtful queries, explanations and clarifications to be received from the clients. It also contains definite information regarding the day-to-day work performed by the audit clerks. In short, audit note book is usually a bound note book in which a large variety of matters observed during the course of audit are recorded.

The note book should be maintained clearly, completely and systematically. It serves as authentic evidence in support of work done to protect the auditor against any legal charge initiated against him for negligence. It is of immense help to the auditor in preparing audit report. It also acts as a valuable guide for conducting audit for future years.

Engagement Letter

An audit engagement is an arrangement that an auditor has with a client to perform an audit of the client's accounting records and financial statements. The term usually applies to the contractual arrangement between the two parties, rather than the full set of auditing tasks that the auditor will perform. To create an engagement, the two parties meet to discuss the services needed by the client. The parties then agree on the services to be provided, along with a price and the period during which the audit will be conducted.

This information is stated in an engagement letter, which is prepared by the auditor and sent to the client. If the client agrees with the terms of the letter, a person authorized to do so signs the letter and returns a copy to the auditor. By doing so, the parties indicate that an audit engagement has been initiated.

This letter is useful for setting the expectations of both parties to the arrangement.

The term may also indicate all of the work performed by an auditor for a client under the terms of an engagement letter. In this case, an audit engagement spans the full range of audit procedures that may be used, including the examination of the client's financial statements and the preparation of an audit report.

THANK YOU