

Class: B.Com (Hons) Semester III

Subject : BCH 3.1 AUDITING AND CORPORATE GOVERNANCE

8.Topic: Appointment, Qualification, Disqualification and Rotation of Company Auditor.

8.1: Introduction:

Every company has to get its accounts audited by its Statutory Auditor irrespective of size and turnover and file the same with the Registrar of Companies.

The Companies Act 2013 mandates every company to keep its books of accounts and other relevant books and papers and financial statement giving a true and fair view on accrual basis and as per double entry system which shall be maintained at the registered office of the company for every financial year. However, the board of directors may keep the books of accounts at any other place in India after filing a notice with the Registrar of Companies.

8.2: Who can become Auditor of a Company:

The audit of a company shall be carried out by the Statutory Auditor appointed by the company in its Annual General Meeting. A Chartered Accountant who holds a valid certificate of practice under Chartered Accountants Act, 1949 can only become an auditor of the company. Also, the company can appoint a firm as its auditor if majority of partners are practicing in India and are eligible for appointment. Further, only those partners who are chartered accountant shall be allowed to sign on behalf of such a firm.

8.3: Appointment of First Auditor by a Company:

The first auditor of company shall be appointed within 30 days from the date of incorporation of the company by the board of directors. If the Board fails to appoint one, the members of the company have to appoint the first auditor at an Extraordinary General Meeting 120 days from the date of incorporation.

8.4: Appointment of Auditors

Audit of Private Limited Companies will require appointment of an Auditor by the Board of Directors after the incorporation of a company in the first Annual General Meeting within 30 days of incorporation. In case the Board of Directors fail to appoint an Auditor, the members of the company must be informed. The members will then be required to appoint an Auditor within 90 days at an Extra Ordinary General Meeting. An Auditor so appointed will hold office until the conclusion of the 1st Annual General Meeting.

The auditor will typically hold the term until the conclusion of 6th AGM or the 5 years. The appointment of an auditor can also be made for a period of 1 year, renewable at each Annual General Meeting. Before the appointment of the Auditor, a written consent along with Certificate must be obtained from the Chartered Accountant. *However, according to this he/she is eligible for appointment as auditor of a company that the proposed appointment is in accordance with the Companies Act.*

8.5: 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 Act1949.

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.

8.6: 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.

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.

8.7: Rotation of Auditors

The appointment of auditors at AGM is for a period of 5 years. Rotation of Auditors are applicable for companies that comes under the categories:

- Listed Companies
- Unlisted Public Company having paid up share capital of rupees 10 crores or more;
- Private limited companies having paid up share capital of rupees 50 crore or more;
- Unlisted public company and Private company having public borrowings from financial institutions, banks or public deposits of rupees 50 crore or more.

Rotation of Auditors are not applicable to One Person Company (OPC) and Small Companies. That means, OPC) and Small Companies can appoint or reappoint an individual for more than one term of five consecutive years or an auditor firm for more than for more than two terms of five consecutive years.