

www.professoraugustin.com
(new)

STUDY Income tax
Accounts, Auditing
And commerce related
subjects

Appointment and Removal of Auditors

PRESENTED BY Aiswarya-III B.Com.(PE-I-4th
rank all India)

Under the guidance of Prof. Augustin Amaladas
M.Com., AICWA., PGDFM., B.Ed.

Sections

- 224 Appointment and remuneration of auditors
- 224A Auditor not to be appointed except with the approval of the company by special resolution in certain cases
- 225 Provisions as to resolutions for appointing or removing auditors
- 226 Qualifications and Disqualifications
- 227 Powers and duties of auditors
- 228 Audit of accounts of branch office of the co.
- 229 Signature of audit report

- 230 Reading and inspection of auditor's report
- 231 Right of auditor to attend general meeting
- 232 Penalty for non compliance with s.225 to 231
- 233 Penalty for non compliance by auditor with s.227 to 229
- 233A Power of Central govt. to direct special audit in certain cases
- 233B Audit of Cost accounts in certain cases

Who is eligible to act as auditor of a Company ??

Chartered Accountant
Sec 226(1) of Companies Act.

Holder of Certificate under part 'B'
States Act, 1956
Sec 226(2) of Companies Act.

Sole Proprietorship Concern

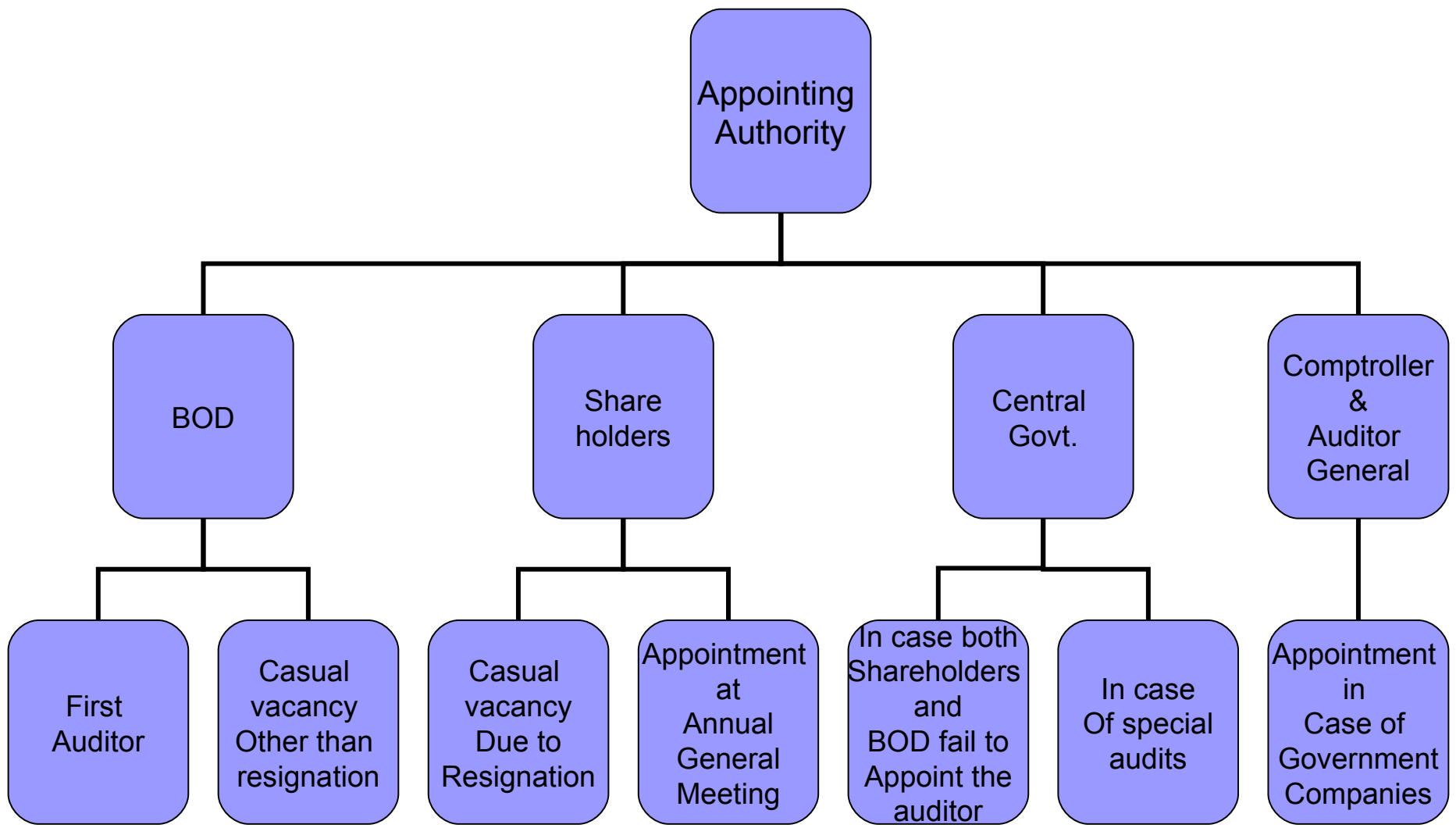
- Member of ICAI
- Holding Certificate of Practice
- Should practice in India

Partnership Firm

- All Partners are
- members of ICAI
 - Holding Certificate of practice
 - practising in India

Disqualification - sec 226(3)

- Body Corporate
- Employee / officer of the company
- Partner/employee of such employee/officer of the company
- Any debt due more than Rs. 1000 or security given in favour of a Chartered Accountant for more than Rs. 1000
- Holding shares having voting power.
- Disqualified by subsidiary company, then disqualified by holding company also and vice versa

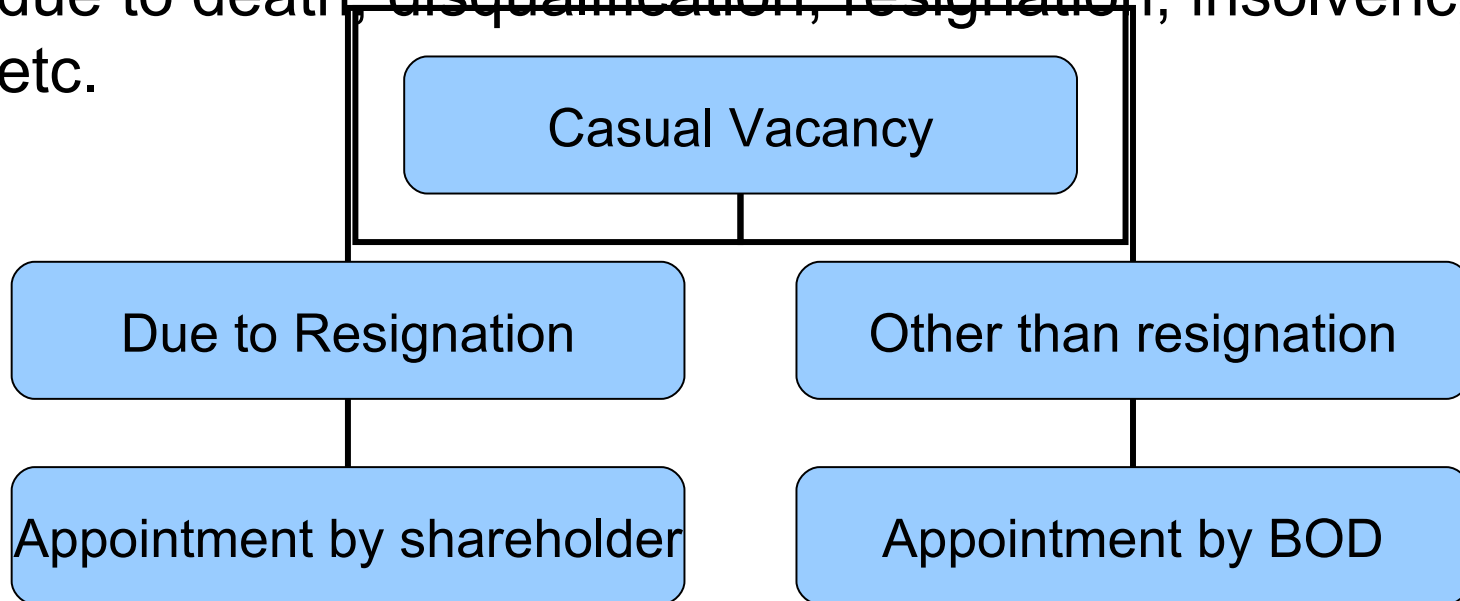


First Auditor..[224(5)]

- The 1st auditor is appointed by the BOD by passing a Board Resolution.
- The tenure of the first auditor is from the date of appointment to the first annual general meeting.
- The appointment of first auditor will not be valid if the name of the 1st auditor is merely mentioned in the AoA.
- The first auditor can be removed without obtaining Central government's approval.

Casual Vacancy.[224(6)]

- Casual vacancy is a situation where once the auditor is appointed but subsequently fails to occupy the office due to death, disqualification, resignation, insolvency etc.



Appointment of auditor at the AGM[224(1)]

- The auditor is appointed at the AGM by passing an ordinary resolution.
- The tenure of the auditor is from one AGM to another AGM.
- The auditor once appointed by the shareholders should file his consent with the ROC to act as an auditor.

Appointment by the CENTRAL GOVERNMENT.. [224(3)]

- If both the BOD and the shareholders fail to appoint an auditor, the management and every officer responsible should inform the central government of such non-appointment.
- The Central govt. will nominate the requisite person to act as auditor of the company
- When the resolution is passed to appoint the auditor but subsequently auditor declines the appointment, in such a case casual vacancy is not created. Hence, the appointment of the auditor is by the central government only.

Special auditor..[233A]

When the affairs of the company are carried out in such a manner where by it is,

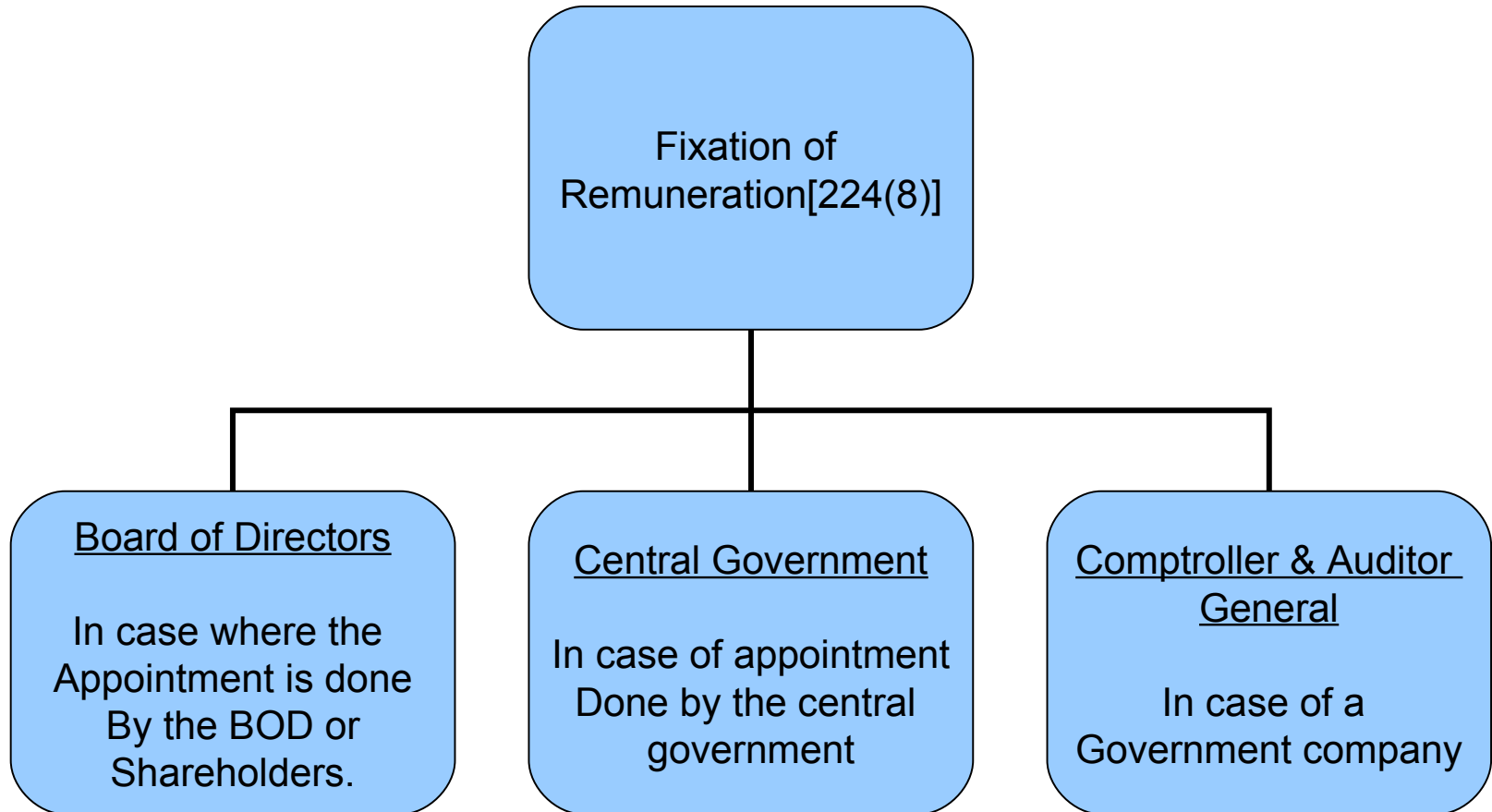
1. Injurious to the trade
2. It is not beneficial to the creditors or creditors are subject to fraud. The central govt. by itself or by an application made by any person may order for special audit.

The Central govt. will nominate a Chartered Accountant to act as a special auditor. He need not hold a Certificate of practice.

Appt. by C & AG[619]

- The comptroller and auditor general will appoint auditor only in relation to Government company.
- A private company which is a subsidiary of the government company will also be treated as a government company.

Remuneration..



The remuneration paid to the auditor should be shown as paid to

(ii) Auditor

(iii) Advisor

(a) Income tax matters

(b) Company law matters

(c) Management services

(d) Other services

Rights of an auditor..

- Right to access books of accounts of the company.[227(1)]
- Right to information and explanation from the officers of the company
- Right to visit branches where he is not satisfied with the details given by the branch auditor[228]
- Right to receive notice of AGM[231]

```
graph TD; A[Removal of auditor Before completion Of tenure[224(7)]] --> B[First auditor]; A --> C[Other auditor]; B --> D[Removal can be made by the BOD Without obtaining the Central govt.'s approval]; C --> E[Removal by the shareholders At the general meeting with prior Approval from Central government.];
```

Removal of auditor
Before completion
Of tenure[224(7)]

First auditor

Removal can be made by the BOD
Without obtaining the Central govt.'s
approval

Other auditor

Removal by the shareholders
At the general meeting with prior
Approval from Central government.

Removal of the auditor by the shareholders[225].

- Prior approval of the central govt. should be obtained for removal of the auditor.
- Special notice is sent by shareholders at least 14 days before the General meeting.
- The co. on receipt of such notice should inform all the shareholders and the existing auditor atleast 7 days before the General meeting.

- The existing auditor has the right to make any representation which the co. can send to all its shareholders or read out at the GM.
- Where any officer thinks that the representation made by the existing auditor are defamatory in nature he can always make an appeal to the central government for restraining such auditor.
- The ordinary resolution passed whereby the new auditor is appointed.

QUESTIONS AND ANSWERS

1. The tenure of the auditor is from one AGM to another AGM . In case once the auditor was appointed and subsequently no AGM was held, then he continues to act as an auditor even for those years where auditor was not appointed.

2.MN & Co., Chartered Accountants were appointed as the auditors of a public limited company in their AGM.

Various Co-operative and term lending institutions held 51% of the paid up capital of the Company. Comment on the appointment.

According to Sec. 224A
in the case of a company where more than 25% of
the paid up capital is held by a financial institution,
a special resolution is required for the appointment
of an auditor.

3) An auditor purchased goods worth Rs 1500 on credit from a company being audited by him. The company allowed him one month credit, which is normally allowed to all known customers.

Ans : Disqualified u/s 226(3) as he is indebted to the company for more than Rs. 1000

3) A, a CA has been appointed as the auditor of L Ltd. In the AGM held in sep 2005, which assignment he accepted. In Jan 2006 he joined B, another CA who is the manager of finance in L Ltd.

Acc to Sec 226(3) A is disqualified to act as an auditor as he is an Employee of the employee of the company.

4) While conducting the audit of A Ltd for the year 31.03.2006, the auditor wanted to refer the minute books. The Board of Directors refused to show the books . Comment.

Acc to Sec 227 the auditor has a right to access all the books of the Company – both statutory and non statutory books.
Here the auditor can give a qualified opinion.

5) The First auditors of A Ltd, a government company was appointed by the board of directors.

Acc to Sec 619 – the auditor of a government company
Should be appointed by the Comptroller and Auditor General.
Hence in this case the appointment is not valid

6) B owes Rs 1001 to C Ltd of which he is the auditor. Is his appointment valid? Will it make any difference, if the advance is taken for meeting travelling expenses?

He is disqualified u/s 226(3) as he owes more than Rs. 1000 to the Company.

He is disqualified even though it is taken for meeting travelling Expenses as he can recover fees only based on work Completed in a progressive manner.

7) Mr. M , a CA is appointed as the auditor of X Ltd in the AGM held on 20.09.05 for the year 05-06. No AGM is held in the year 06-07. The BOD assumes M as the auditor for the year 06-07 also. Is the assumption right?

The assumption is correct as the tenure of the auditor is
From one Annual general meeting to another
Annual general meeting only.

8) S & Co., Chartered accountants were appointed as the first auditors of A Ltd by virtue of their name being included in the articles of association.

Acc to Sec 224(5) – First auditor is appointed by the board
By passing board resolution only. If no resolution is
Passed then no appointment.

THANK YOU

- THIS IS YOUR WEB
- www.professoraugustin.com
- www.augustin.co.nr (OLD)
- THREAT IS AN OPPORTUNITY