

## Lecture No. 4 of Company Audit

### ⑤ Eligibility, qualification and disqualifications of Auditors (Sec. 141):

(a) Sec. 141(1): A person shall be appointed as auditor only if he is a Chartered Accountant having CoP. (Individual Auditor)

A firm whereof majority partners are Chartered accountants practicing in India, can be appointed as auditor in firm's name.  
(Firm Auditor)

(b) Sec. 141(2): A firm (including LLP), if appointed as auditor, only the partners, who are Chartered Accountants, are authorised to act and sign on behalf of the firm.

(c) Sec. 141(3): Following persons are disqualified to be appointed as auditor of the company:

(a) Body Corporate (Other than LLP):

Ex.: Mr. X (Practising CA) incorporates XYZ (P) Ltd.

whether XYZ (P) Ltd. can be appointed as auditor of any Other Company.

Ans.: No

(b) Officer/Employee of the company

Ex.: Mr. B (Practising CA) is also a director of AB (P) Ltd.

whether Mr. B can be appointed as auditor of

AB (P) Ltd.

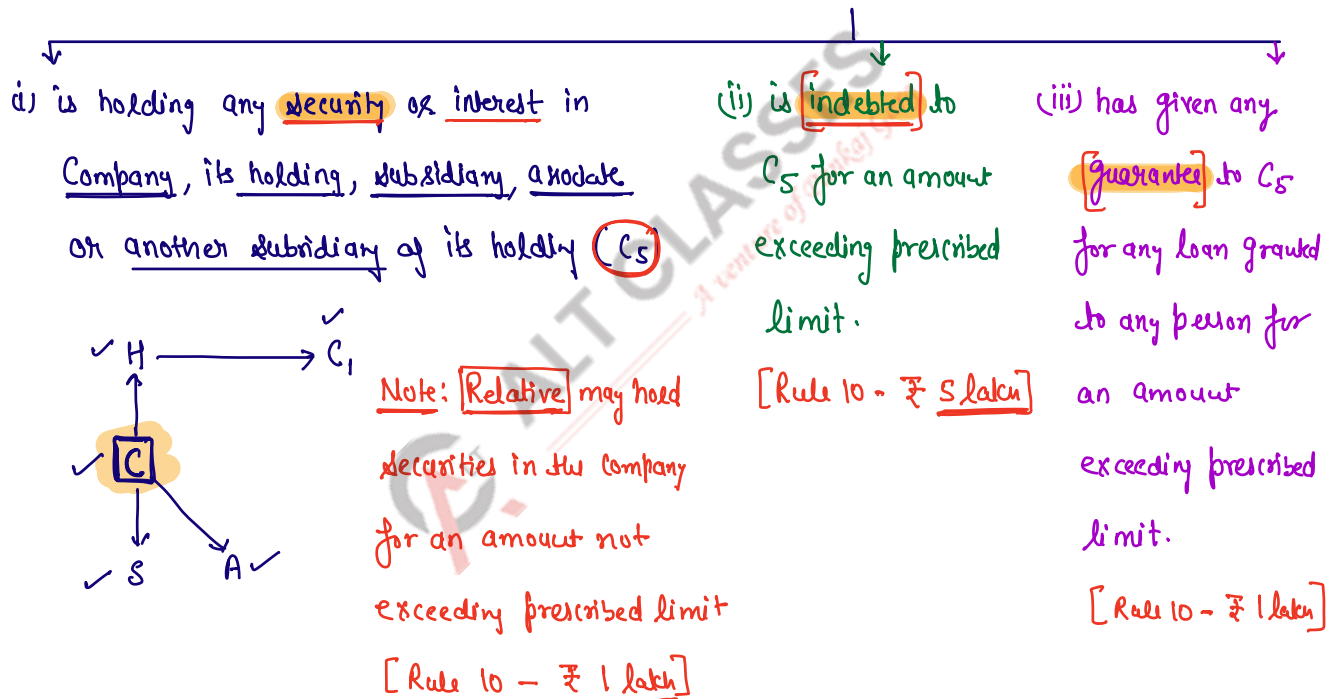
(c) Partner / Employee of officer / Employee of company :

Ex: Mr. R (Practicing CA) is a director of ABC Ltd. Mr. R is also a partner of RS and Associates (CA firm) having two partners (R and S).

Q. Whether Mr. S can be appointed as auditor of ABC Ltd.

Q. Whether Mr. K (Employee of RS and Associates) and also a practicing CA, can be appointed as auditor of ABC Ltd.

✓(d) a person, who himself or his partner or relative

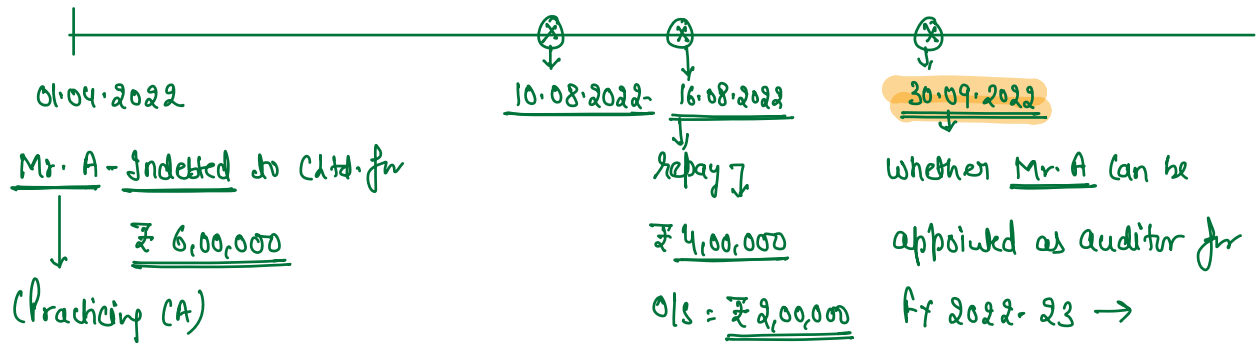


[Rule 10 - ₹ 5 lakh]

[Rule 10 - ₹ 1 lakh]

Note: These provisions need to be examined

↓  
at the time of appointment



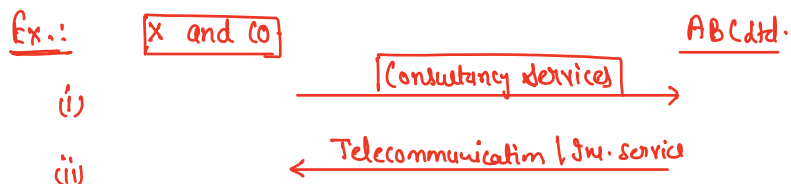
Ex. Mr. A appointed as Auditor <sup>of ABC Ltd.</sup> on 30.09.2022.

On 25.10.2022, Mr. A acquires shares of ABC Ltd. having F.Y. 1.05 lakh (Market value = ₹ 99,000). State the consequences.

Sol.: Mr. A is required to take corrective action within 60 days from 25.10.2022, so as to ensure that shareholding of Mr. A in ABC Ltd. does not exceed ₹ 1 lakh.

However, if corrective action is not taken, Mr. A is required to vacate the office on expiry of 60 days from the date of acquisition.

(e) a person, or a firm, who directly or indirectly is having any business relationship with the company, its holding, subsidiary, associate or subsidiary of its holding or associate company.



(f) a person, whose relative is a director of the Company or in the Employment of the Company as a director or K.M.P.

Ex: Mr. X, brother of Mr. Y (Practicing CA) is a director of ABC Ltd. whether Mr. Y can be appointed as auditor of ABC Ltd. - No

(g) A person who is in full-time employment elsewhere

or

a person who is auditor of >20 companies excluding

Note: Limit is applicable per partner basis, in case of firm.

(a) OPC ; (b) Small Company

(c) Dormant Company

(d) Pvt. Ltd. Co. having PUC < 100 Cr.

and Company has not committed any default in filing Annual Return and A.S. with the ROC)

✓ Note: As per Council General Guidelines, 2008, a member of ICAI in practice can accept 30 audit assignments excluding OPC and Dormant Companies.

Example: ABC and Associates is having 3 partners. Mr. A is also in full time employment with MN Ltd.

ABC and Associates is having 50 audits comprising of

audit of OPC = 10 x

audit of Dormant Cos. = 5 x

audit of small Cos. = 2 x

Audit of Pvt. Ltd. Co. - PUC < 100 Cr. (no default in filing A.S.) = 3 x

" " " " " - PUC > 100 Cr. = 5

20

audit of public Companies = 25

Q.1: Compute Maximum no. of audit allowed to ABC and Associates

Q.2: Compute the no. of audits which ABC and Associates can accept in relation to public Companies.

Q.3: whether ABC and Associates can accept audit of 22 public Companies more.

Ans.: Q.1 = 20 audit x 2 = 40 audits

Q.2 = Existing audits covered under ceiling limit = 30  
No. of audits that can be accepted in relation to public Companies = 10 (40-30)

Q.3 = No

(h) a person who is convicted by a court, of any offence involving fraud and a period of 10 years not elapsed since date of conviction.

(i) a person who directly or indirectly renders any services covered u/s 144 to the Company, or its subsidiary or holding Company.

(D) Sec. 141(4): Subsequent disqualification!

where a person attracts any disqualification referred u/s 141(3), after appointment as auditor, he shall vacate the office and such vacancy shall be treated as casual vacancy.

## ⑥ Auditors not to render certain services - Sec. 144

- (a) Auditor of a company can render only those services to the company as approved by Audit Committee or BOD, as the case may be.
- (b) However, auditor cannot render below-mentioned services, directly or indirectly, to the company, its holding or subsidiary company:
- (i) Accounting and Book-keeping
  - (ii) Internal Audit
  - (iii) Design and Implementation of financial info. system.
  - (iv) Actuarial services
  - (v) Investment advisory services
  - (vi) " banking "
  - (vii) Rendering of outsourced financial services
  - (viii) Mngt. services
  - (ix) Such other services as may be prescribed.

## ⑦ Remuneration of auditor: Sec. 142

- (a) Authority to fix remuneration: Remuneration of auditor shall be determined by members in general meeting; or general meeting may determine the manner in which remuneration may be fixed.

Note: However, in case of fixt auditors appointed by BOD, remuneration may be fixed by BOD.

- (b) Inclusion: Remuneration of auditor shall include all expenses incurred by the company in relation to audit.

(c) Exclusion: Auditor's remuneration shall not include any fees paid to Auditor for other services rendered by him.

---

Home Work: - Questions of Sec. 141  
- class of Sec. 143

