

Company Auditor Series – Version 2

Chapter 4 – Power & Duties of Auditors



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Namaste

In Chapter 4 of this version 2.0 series, we would discuss the power / rights and duties of auditors as per the Companies Act 2013.

Powers / Rights of an Auditor

Section 143 of the Companies Act 2013 contains various powers and duties of an auditor. An Auditor must exercise such powers to make a report on financial statements and give a true and fair view of the state of the company's affairs of the company. The powers of an auditor include:

- Right of access to the books of accounts at all times whether kept at registered office or other place.
- Enquire from the officers of the company such information and explanation as he may consider necessary for the performance of his duties as auditor
- An auditor of a holding company shall also have the right of access to the records of all its subsidiaries and associate companies in so far as it relates to the consolidation of its financial statements with that of its subsidiaries and associate companies.
- Right to receive all notices of, and other communications relating to, any general meeting (AGM / EGM).
- Right to attend either by himself or through his authorised representative (who shall also be qualified to be an auditor) any general meeting (AGM / EGM).
- Right to be heard at AGM / EGM on any part of the business which concerns him as the auditor.

Duties of an Auditor

Every auditor of the company must comply with such duties to give a true and fair view of the state of the company's affairs in which he is appointed. The duties of an auditor include:

- To sign auditor's report or sign / certify any other document of the company as per s. 145.
- To comply with the Standards on Auditing

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- To attend either by himself or through his authorised representative (who shall also be qualified to be an auditor) any general meeting (AGM / EGM) unless otherwise exempted by the company.
- To seek information and report, if required, on 6 matters stated in s. 143(1). The matters have to be enquired into and if required, to be reported in the main audit report, namely:
 1. Whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are prejudicial to the interests of the company or its members?
 2. Whether transactions of the company which are represented merely by book entries are prejudicial to the interests of the company?
 3. Where the company not being an investment company or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company?
 4. Whether loans and advances made by the company have been shown as deposits?
 5. Whether personal expenses have been charged to revenue account?
 6. Where it is stated in the books and documents of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, & if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading?
- To make a report on the accounts examined by him of the company as per the provisions of the act, accounting and auditing standards and any rules made thereunder to give a true and fair view of the company's affairs as at the end of its financial year and profit or loss and cash flow for the year and such other matters as prescribed in section 143(2).
- To state in his audit report (as required by s. 143(3)):
 1. Whether he has sought & obtained all the information & explanations which to the best of his knowledge and belief were necessary for the purpose of his audit and if not, details thereof and the effect of such information on the financial statements?

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2. Whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books and proper returns adequate for the purposes of his audit have been received from branches not visited by him?
3. Whether the report on the accounts of any branch office of the company audited u/s 143(8) by a person other than company's auditor has been sent to him and the manner in which he has dealt with it in preparing his report?
4. Whether the company's balance sheet and profit and loss account dealt with in the report are in agreement with the books of account and returns?
5. Whether, in his opinion, financial statements comply with the accounting standards?
6. The observations or comments of the auditors on financial transactions or matters which have any adverse effect on the functioning of the company
7. Whether any director is disqualified from being appointed as a director u/s 164(2)?
8. Any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith.
9. Whether the company has adequate internal financial controls with reference to financial statements in place and the operating effectiveness of such controls (to be reported in cases other than of an OPC, small company or a private company which has turnover less than Rs. 50 Crores as per latest audited financial statement or which has aggregate borrowings from banks or financial institutions or any body corporate at any point of time during the financial year less than Rs. 25 crores)?
10. Other matters as per Rule 11 of the Companies (Audit and Auditors) Rules 2014. Currently there are 6 matters to be reported as per rule 11 including audit trail (edit log).
 - Where any of the matters required to be included in the audit report are answered in the negative or with a qualification, the report has to state the reasons therefor.
 - In case of government company and other companies where CAG has appointed the auditor, the auditor shall submit the report to CAG which, among other things, should

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include the directions, if any, issued by the CAG, the action taken thereon and its impact on the accounts and financial statement of the company.

- To report if he has the reason to believe that an offence of fraud of Rs 1 crore or more is being committed or has been committed by the company's officers or employees in the course of performing audit, to the Central Government (CG) within 15 days from the receipt of reply or observations from the Board or Audit Committee (which shall be done within 45 days from the date of communication of such fraud to Board or Audit Committee). In case there is no reply from the Board or Audit Committee then auditor shall forward his report to CG which shall be sent to the secretary of MCA. The report shall be in the form ADT-4.
- In case the fraud is involving less than Rs 1 crore, the auditor shall report to Audit Committee u/s 177 or to the Board within 2 days of knowledge of fraud specifying the parties involved, nature of fraud and approximate amount involved.
- The Branch auditor shall have same duties as that of the company auditor regarding:
 - Same contained in sub-sections (1) to (4) of section 143.
 - To submit his report to the company's auditor.
 - The provisions of section 143(12) read with rule 12 hereunder regarding reporting of fraud by the auditor shall also extend to such branch auditor to the extent it relates to the concerned branch.
- Though not expressly mentioned, yet he should inform of any disqualification arisen after being appointed which creates a casual vacancy in the office of the auditor.

I hope this document is of use to you. I thank *CA. Shreya Jain, Ms. Sakshi and Ms. Riya* in assisting me to update this chapter of the series. Your suggestions and comments would be highly appreciated.

Best Regards

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EARLIER CHAPTERS

Chapter No.	Title	Link
1	Types of Audits	https://lunawat.com/Uploaded_Files/Attachments/F_18291.pdf
2	Qualifications & Disqualifications	https://lunawat.com/Uploaded_Files/Attachments/F_18293.pdf
3	Appointment of Auditor	https://lunawat.com/Uploaded_Files/Attachments/F_18299.pdf

(Disclaimer: Though full efforts have been made to state the interpretations correctly, yet the author is not responsible / liable for any loss or damage caused to anyone due to any mistake / error / omissions)

ABOUT CA. PRAMOD JAIN

He is a commerce graduate [B. Com (H)] from Shri Ram College of Commerce (SRCC). He is a fellow member of the Institute of Chartered Accountants of India (FCA). He is a fellow member of the Institute of Companies Secretaries of India (FCS). He is a fellow member of the Institute of Cost Accountants of India (FCMA). He is a Bachelor of Law (LL. B). He is qualified as an Information System Auditor [DISA (ICAI)]. He is also a member of All India Management Association (MIMA). He is also an Insolvency Professional (IP). He has also passed the Certificate Course on CSR of ICAI. He has also passed the Proficiency Self-Assessment Test for Independent Director's Databank. He has passed certification course NCFM of National Stock Exchange of India (NSE). He has also done certification course CAAT and post qualification certificate course on Valuation of ICAI.

He is elected as Central Council Member of ICAI for 2 consecutive terms from 2019 to 2025. Apart from being member in more than 25 committees / groups / directorates of ICAI, and other Bodies he is / was:

- Chairman of Accounting Standards Board (ASB) of ICAI for 3 years from 2022 to 2025
- Deputy Convenor of Centre for Audit Quality Directorate (CAQD) for 2024-25
- Convenor - Members & Students (Grievances Handling & e-Sahayata) Directorate for 2023-24
- Chairman of Accounting & Finance Services Sectional Committee SSD-12 under the Services Sector Division Council (SSDC) of Bureau of Indian Standards (BIS) for 2023-24
- Chairman of Expert Advisory Committee (EAC) of ICAI for Year 2022-23
- Co-Chairman of Corporate Affairs Committee of PHDCCI for the year 2022-23
- Chairman of Committee on International Taxation (CITAX) of ICAI for 2021-22

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- Chairman of Taxation Audit Quality Review Board (TAQRB) of ICAI for the year 2021-22.
- Member of Quality Review Board (QRB) for 2 terms from 2020 to 2026.
- Member of the SME Implementation Group (SMEIG) of IFRS Foundation, UK for 3 years from 2023 to 2026.
- Chairman of Valuation Standards Board (VSB) of ICAI for the year 2020-21.
- Chairman of CSR Committee of ICAI for year 2020-21.
- Vice-Chairman of Committee on MSME & Start-up of ICAI for the year 2021-22.
- Vice-Chairman of Women Members Empowerment Committee (WMEC) of ICAI for 2021-22.
- Vice-Chairman of Direct Tax Committee (DTC) of ICAI for 2 years from 2019 to 2021.
- Vice-Chairman of Committee on International Taxation (CITAX) of ICAI for Year 2019-20.
- Member of ICAI Disciplinary Committee for the year 2020-21.

He is the conceptualizer of the portal www.expertspanel.in which is a one stop solution for all professional queries which has given more than 36000 answers since its launch in mid of year 2018.

He has delivered more than 1700 lectures and articles on various topics of Income Tax, Corporate Laws, LLP, Audits, Peer Review, Quality Review, etc. at more than 200 forums throughout the country. Most of his presentations and articles since 2013 are available for free download from www.lunawat.com and from 2018 at www.expertspanel.in also.

He is Senior Partner of M/s LUNAWAT & CO., Chartered Accountants. He is president, founder convener and member of various Boards, Directorate, Committees, Study Circles, etc. of ICAI, ICSI and other prestigious bodies and associations. He has been a Technical Reviewer with Financial Reporting Review Board (FRRB) and Quality Review Board (QRB) and Peer Reviewer with Peer Review Board (PRB).

He has authored books on “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, *Limited liability Partnership – A Complete Resource Book*, “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, “Importance of LLP after Companies Act, 2013”, “Chartered Accountant’s Documentation and compliance under Companies Act 2013, Peer Review and Quality Review”, “Limited Liability Partnership – Law, Procedures and Taxation”, “Documentation for Chartered Accountants”, “Limited Liability Partnership – Law and Procedures with Ready Reckoner”, “Fringe Benefit Tax & Banking Cash Transaction Tax”, “Documentation for Audits” and “Accounting Standards and CARO”.

He has written various articles on taxation, company law and audit in various journals. He has vast practical experience in income tax, audit, corporate laws and LLP.

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