

Qualification and Disqualification of Auditors

Qualification

According to Provisions of Section 141(1) of the Companies Act, 2013 “a person shall be eligible for appointment as an auditor of a company only if he is a **chartered accountant within the meaning of Chartered Accountants Act, 1949 and holds a valid Certificate of Practice.**

It has been further provided that the **firm** shall also considered to appointed by its firm name whereof majority of partners practising in India are qualified for appointment as auditor of a company.

According to Provisions of Section 141(2) of the Companies Act, 2013, **a firm including limited liability partnership who are chartered accountants shall be authorised to act as auditor and sign on behalf of the such limited liability partnership or firm.**

Summary:

A person shall appointed as an auditor if he is chartered accountant within the meaning of Chartered Accountants Act, 1949 and holding valid certificate of practice and acting in capacity as

- a) Individual
- b) Partnership Firm
- c) Limited Liability partnership

It has been further provided that only partners who are Chartered Accountants will be authorised to sign on behalf of the firm.

Disqualification of Auditor

According to Provisions of Section 141(3) of the Companies Act, 2013 , following persons shall not be eligible as auditor of the company: -

- a) A **body corporate** other than LLP registered under the LLP Act, 2008
- b) An **officer or employee of the company.**

c) A person **who is partner or who in the employment, of an officer or employee of the company.**

d) A person **who or his relative or partner**

(i) is **holding any security/interest in the company** or its subsidiary or of its holding or associate company or subsidiary of such holding company.

It has been further provided that an relative may hold security or interest in the company **of face value not exceeding one lac rupees.**

(ii) **is indebted to the company** or its subsidiary, or its holding or associate company or subsidiary of such holding company, **in excess of Rs. 5 lacs rupees**

(iii) has **given guarantee or provide any security in connection with the indebtness of any third person to the company** or its subsidiary, or its holding or associate company or a subsidiary of such holding company **for value in excess of Rs. 1 lacs.**

e) A **person or a firm who** (*whether directly or indirectly*) has **business relationship with the company**, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company.

Here the business relationship shall be construed as **any transactions enter into for a commercial** purpose except: -

a) Commercial transactions which are **in the nature of professional services permitted to be rendered by an auditor or audit firm by the professional bodies regulated such members.**

b) Commercial transactions which are **in ordinary course of business of the company at arm's length price as customer.**

f) A person **whose relative is a director or is in the employment of the company as a director or key managerial personnel.**

g) A person

(i) who is in **full time employment elsewhere** or

(ii) a person or a partner **holding appointment as its auditor** is at the date of such appointment or reappointment holding appointment as auditor **for more than 20 companies.**

h) A person who has been **convicted by a court of an offence involving fraud** and a period of **ten years has not elapsed** from the date of such conviction.

i) Any person whose subsidiary or associate company or any other form of entity is **engaged** as on the date of appointment **in consulting or specialised services in reference to provision of Section 144 of the Companies Act, 2013.**

Further According to Provisions of Section 141(4) of the Companies Act, 2013, **where a person appointed as auditor of the company incurs any of the disqualification** mentioned in Section 141(3) of the Companies Act, 2013 after his appointment, **he shall vacate his office as such auditor and such vacancy shall be deemed to be casual vacancy in the officer of the auditor.**

It must be noted that the aforesaid provisions are applicable to all types of auditors i.e. cost auditors, statutory auditors and secretarial auditors.