



**DEPARTMENT OF COMMERCE
D.B. COLLEGE, JAYNAGAR
LALIT NARAYANA MITHILA UNIVERSITY, DARBHANGA (BIHAR)**

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**CORE CONCEPT OF
PRINCIPLE OF AUDITING**

2. A company can cause a breach of contract by alteration of the articles. A company would not be liable for damages, if such contract is wholly dependent on the articles, but it would be liable for damages for breach of contract if such contract is wholly independent of the articles.
3. Alteration cannot increase the liability of any members by asking him to subscribe to more shares.
4. The alteration cannot constitute a fraud upon the minority share holders.

Qualification and Disqualification of a Company Auditor

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)]:



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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.

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.

Auditing vs Accountancy: "Audit Begins where Accounting Ends"

The word audit is derived from the Latin word “AUDIRE” which means to hear. Initially auditor was a person appointed by the owners to check account whenever the suspected fraud, he was to hear explanation given by the person responsible for financial transactions. Emergence of joint stock .