

**E-contents for Bcom, part-1**  
**Vaniya Mahavidyalaya, Patna**  
**University**

**Subject: AUDITING**

**Topic: LIABILITY OF COMPANIES**  
**AUDITOR**

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# **INTRODUCTION**

**Auditing is the independent examination of financial information of an entity whether profit oriented or not and irrespective of its size, or legal form.**

**\* True and fair view(condition)-**

- Proper accounting policies**
- Accounting standards**
- Adequate disclosure in notes and accounts**

## **TYPES OF AUDIT REPORTS-**

- Clear report (if all conditions are fulfilled)**
- Qualified report (error and misstatements)**
- Adverse report (big error)**
- Disclaimer of opinion (client not co-operate, huge rok tok, not able to give any opinion)**

## **LIABILITIES OF A COMPANY AUDITOR**

**In case of sole trade and partnership- Audit is not compulsory, scope and liabilities will depend upon the agreement held between the auditor and his client. He owes a moral as well as legal duty to third party who may rely on such account with dealing with the concern whose account has been audited.**

**According to companies act audit is compulsory for company. In this act there is a provision for qualifications, appointment, rights, duties.**

## **#TYPES OF LIABILITY**

### **1. Civil liability**

- For negligence**
- For misfeasance**

### **2. Criminal liability**

### **3. Other liability**

- To third party**
- Of an honorary auditor**
- For negligence of assistant**

**1. Civil liability- It arises due to failure in duty, damages or compensation will be paid by the auditors as per court order.**

- **Liability for negligence-**
  - **fail to perform his duties with reasonable care**
  - **compensate to suffered party**
  - **negligence includes all such errors which cause loss to others**
  - **act of commission or omission**
  - **fail to exercise the degree of professional care and skill**
  - **he needs to take exactly what needed not undertake detailed investigation**

**#Types of negligence-**

- **Ignoring article and not to oppose paying dividend out of capital amount to negligence.**
- **Not verifying petty cash book balance amount to negligence.**
- **Not to make complete examination of bad debts and its reserve is negligence.**

- **Not to work with proper care and skill amount to negligence.**

**# Liability for misfeasance- It is a legal term used for an act that is not illegal but is performed in a way that harms another individual.**

**- It happens when auditor commits a breach of duty and trust.**

**- It arises only in the event of winding up of a company.**

**- A case of misfeasance can't be filled against an auditor during the existence of the company.**

**- Where company is liquidated or under liquidation the liquidator or shareholders or creditors can file a suit against the auditor.**

## **2. Criminal liability**

**- It arises because of offences against the statutory provisions.**

**- criminal neglect, actual fraud or conspiracy of auditor.**

**- punishable with fine or imprisonment or both.**

**# criminal liability under companies act-**

- **For misstatements in prospectus**

- **Fraudulently inducing a person to invest**
- **Failure to disclose frauds**
- **Professional misconduct**
- **For furnishing false income**
- **Don't give support or initiative to the appointed inspector**
- **For having the property of a company without any consideration**
- **Penalty for falsification of book**
- **Penalty for false statements**

### **3. Other liability**

**# Liability to third party- Creditors, bankers, taxation authority, investors and etc.**

**-Liability for fraud**

**- Liability for moral duties**

**- Liability to his employees**

**- liability to the institute of chartered accountant**

**- Not liable for unlawful acts of the employer**

**# Types of cases for misfeasance-**

- **Not to give correct information to the shareholders regarding balance sheet is misfeasance.**
- **Not to perform the work carefully and effectively leads to misfeasance.**
- **Falsification of accounts leads to misfeasance.**
- **Not to understand doubtful facts is misfeasance.**