

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 cas book balance amount to negligence.**
- **Not to make complete examination of bad debts and it's 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.**