Statutory Audit for Companies in India: Frequently Asked Questions

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- *All public and private companies and certain LLPs are mandated to get their accounts audited each financial year.*
- *Statutory audit provides an accurate representation of a company's financial situation.*
- *Statutory audit is governed under the Companies Act, 2013, and Companies (Audit and Auditors) Rules, 2014.*

The purpose of the statutory audit is to determine whether a company is providing an accurate representation of its financial situation by examining the information, such as books of account, bank balance, and financial statements.

All public and private limited companies have to undergo a statutory audit. Irrespective of the nature of the business or turnover, these companies are mandated to get their annual accounts audited each financial year.

Meanwhile, a limited liability partnership (LLP) has to undergo a statutory audit only if its turnover in any financial year exceeds INR 4 million (US$55,945) or its capital contribution exceeds INR 2.5 million (US$34,963).

Statutory audit is governed under the Companies Act, 2013, and Companies (Audit and Auditors) Rules, 2014.

How to conduct a statutory audit?
For this purpose, every company and its directors must first appoint an auditor within 30 days from the date of registration of the company.

At each Annual General Meeting (AGM), the shareholders of the company must appoint an auditor who holds the position from one AGM to the conclusion of the next AGM. The Companies (Amendment) Act, 2017 maintains that the auditors can only be appointed for a maximum term of five consecutive AGMs.

However, in individual and partnership firms, auditors cannot be appointed for more than one or two terms, respectively.

Who can conduct a statutory audit?
As per the law, only an independent chartered accountant, or a chartered accountant firm, or limited liability partnership firm (LLP) with majority of partners practicing in India are qualified for appointment as an auditor of a company.
The Companies Act, 2013 specifically disqualifies the following individuals or firms from becoming an auditor:

- A corporate body other than the LLP registered under the Limited Liability Partnership Act, 2008;
- An officer or employee of the company;
- A person who is a partner with an employee of the company or employee of a company employee;

- Any person who is indebted to a company for a sum exceeding INR 1,000 (US$14) or who have guaranteed to the company on behalf of another person a sum exceeding INR 1,000 (US$14);
- Any person who has held any securities in the company after one year from the date of commencement of the Companies (Amendment) Act, 2000; or
- Any person who has been convicted by a court of an offence involving fraud and a period of 10 years has not elapsed from the date of such conviction.

What does the audit report include?
The Company Auditor's Report Order (CARO), 2016 requires an auditor to report on various aspects of the company, such as fixed assets, inventories, internal audit standards, internal controls, statutory dues, among others.

The auditor must follow the auditing standards as recommended by the Institute of Chartered Accountants of India (ICAI). In case the auditor uncovers any fraud during the audit must report it to the government immediately.

After the audit is completed, the auditor should submit the audit report to the members and shareholders of the company.

Is there a penalty for non-compliance?
For non-compliance with a statutory audit, fines range from INR 25,000 (US$351) to INR 500,000 (US$7,029) for the company.

For every officer in default, imprisonment of up to one year, or fine of INR 10,000 (US$140) to INR 100,000 (US$1,405), or both.

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