Auditors

Their duties and rights

A quick guide

Oifig an Stiúrthóra um Fhorfheidhmiú Corparáideach

Office of the Director of Corporate Enforcement

Plain English
Approved by NALA

Introduction

We have produced this information booklet to explain the role of auditors under the Companies Acts.

What is an audit?

An audit is an examination of a company's financial statements prepared by the directors of the company. Its purpose is to give the company's owners (also known as members or shareholders) an independent, professional and informed opinion stating to what extent the financial statements:

- have been prepared according to the Companies Acts, any other relevant legislation and relevant accounting standards; and
- give a true and fair view of the state of the company's affairs, its profit or loss for the financial year and its assets and liabilities at the end of that year.

The audit is also of value to people doing business with the company because it helps them to assess the reliability of the company's stated financial position.

What is an auditor?

An auditor is an independent professional person who is qualified to audit a company's financial statements.

Who can be an auditor?

A qualified accountant or firm of accountants can act as a company's auditor. In general, they must hold a valid practising certificate from a recognised body such as the:

- Association of Chartered Certified Accountants (ACCA);
- Institute of Certified Public Accountants in Ireland (ICPAI);
- Institute of Chartered Accountants in Ireland (ICAI);
- Institute of Chartered Accountants in England and Wales (ICAEW);
- Institute of Chartered Accountants in Scotland (ICAS); or
- Institute of Incorporated Public Accountants (IIPA).

To make sure that the audit is truly independent, some qualified people cannot be auditors of certain companies. For example, they cannot be the auditor of a company if they are:

- a director or employee of the company; or
- a family member, partner or employee of a director.

In addition, bankrupts are prohibited from being an auditor while their debts remain unpaid or until a court excuses them from paying those debts. People may also be disqualified from acting as auditors for a certain period if a court has found them guilty of fraud or serious misconduct.

What does an audit involve?

In carrying out an audit, an auditor will usually:

- seek to understand the company's business;
- identify the areas of the financial statements that are most likely to be wrong;
- check the accuracy of some transactions, account balances and disclosures;
- decide if the company's accounting policies are reasonable;
- test that the company's internal controls are effective;
- assess the validity of directors' estimates and judgements when they prepared the financial statements;
- evaluate any significant events that have occurred since the financial statements were prepared;
- write to the directors setting out any problems discovered during the audit and advise on how to deal with them; and
- write and issue the auditor's report to the members of the company.

When is an audit required?

In general, a company must have its financial statements audited every year. However, some small companies can decide not to have an audit if they meet certain conditions, including:

- having a turnover of no more than €8.8m;
- having no more than €4.4 million as its balance sheet total;
- having no more than 50 employees, on average; and
- being up to date with its filing obligations with the Registrar of Companies.

How are auditors appointed?

The directors of a new company usually appoint its first auditor. After that, the company's members appoint or reappoint the auditor at each annual general meeting (AGM).

What are the duties of auditors?

Duty to provide an audit report

The main duty of auditors is to report to the members on whether in their opinion the company's financial statements give a true and fair view. The auditors' report must be made available to every member and be read at the AGM.

If the auditor cannot give a positive opinion, they may give:

- **a qualified opinion** – this says that the financial statements give a true and fair view of the company's state of affairs except for certain stated circumstances;
- **a disclaimer of opinion** – this states that the auditor is unable to form an opinion as to whether the financial statements give a true and fair view; and
- **an adverse opinion** – this says that the financial statements do not give a true and fair view.

Duty to report failure to maintain proper books of account

If auditors form the opinion that a company has not kept proper books of account, they must notify the company of this opinion. If the directors do not take the necessary steps to correct this situation within seven days, auditors must notify the Companies Registration Office (CRO) of their opinion. The CRO makes this notice public.

Duty to report indictable offences

An indictable offence is an offence that is serious enough to be tried before a judge and jury in the Circuit Court.

If auditors discover information during an audit that leads them to believe that the company or anyone associated with it has committed an indictable offence under the Companies Acts, they must:

- report this to the Office of the Director of Corporate Enforcement (ODCE); and
- help the ODCE with their investigation of the report.

Duty to explain reasons for resigning

When auditors resign before the end of their term or state that they do not wish to be reappointed, they must explain this in a notice to the CRO. The notice should state if they consider that any circumstances connected with their resignation should be brought to the attention of the company's members or creditors. This notice is made public.

Duty to exercise professional integrity

Auditors must carry out an audit with professional integrity. If they do not comply with their duty to exercise reasonable skill and care, they may be liable for damages to the company or to its members in particular.

What are the rights of auditors?

Auditors have the right to:

- access the books and accounts of the company and its subsidiaries;
- access information and explanations from the company's directors and employees;
- be notified of company general meetings and attend and address the meetings; and
- explain at a general meeting the circumstances of any proposal to remove them as auditor and to contest that removal.

Conclusion

A more detailed information book on company auditors is available under Decision Notice D/2002/1 from www.odce.ie. The website also gives guidance on the duty of auditors to report suspected indictable offences to the ODCE.

Notes

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