Auditors

Their duties and rights

A quick guide

Oifig an Stiúrthóra um
Fhorfheidhmiú Corparáideach

Office of the Director
of Corporate Enforcement

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About this guide

We have produced this quick guide to explain some of the legal duties and rights of auditors under the Companies Act.

What is an audit?

An audit is a review of a company's financial statements by an independent expert called an auditor. The purpose of an audit is to give the company's owners (also known as members or shareholders) an independent opinion of the financial statements for the period under review.

The audit also helps people doing business with the company to assess whether they can rely on what the company says about its finances.

What is an auditor?

An auditor is an independent accountant who is qualified to carry out audits.

Who can be a company auditor?

An accountant (or firm of accountants) who holds a qualification to undertake audits from one of the following bodies:

- Association of Chartered Certified Accountants;
- Institute of Certified Public Accountants in Ireland;
- Chartered Accountants Ireland;
- Institute of Chartered Accountants in England and Wales;
- Institute of Chartered Accountants in Scotland;
- Institute of Incorporated Public Accountants.

Who cannot be a company auditor?

Directors, company secretaries, employees and their near relations are not allowed to audit their own company's financial statements. This is to make sure the audit is truly independent.

In addition, the following people cannot act as auditors:

- an **undischarged bankrupt** – this is someone who has filed for bankruptcy but has not received permission from the court to stop making payments on their debts; or
- a **disqualified person** – this is someone that a court has found guilty of fraud or serious misconduct and has disqualified from acting as a director for a certain time.

What does an audit involve?

In carrying out an audit, an auditor will usually:

- try 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 (things about the company that must be included in the financial statements);
- decide if the company's accounting policies (the method used to calculate items and totals in the balance sheet and profit and loss account) are reasonable;
- test that the company's internal controls are effective in preventing loss or fraud;
- assess whether the estimates and judgements that the directors relied on when they prepared the financial statements are acceptable;
- evaluate any significant events that have happened 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 needed?

Companies must have their financial statements audited every year, unless the company is entitled to claim an audit exemption. For instance, small private companies and some companies limited by guarantee (CLGs) can decide not to have an audit if they meet two of the following conditions:

- a turnover (income) of €8.8 million or less;
- a balance sheet total of €4.4 million or less (the balance sheet gives the company's assets and liabilities at a particular time);
- 50 or fewer employees, on average.

In addition, the company must have filed its annual return for both the current year and the previous year on time with the Companies Registration Office (CRO).

How are auditors appointed?

The directors of a new company usually appoint the 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?

The main duty of an auditor is to report to the members on the accuracy and reliability of the company's financial statements. The auditors' report must be given to every member and be read at the AGM.

What opinions may auditors give?

There are four types:

- **a positive opinion** – this says the financial statements give a true and fair view of the company's financial affairs;
- **a qualified opinion** – this says that the financial statements give a true and fair view of the company's financial affairs except for certain circumstances which are stated in the opinion;
- **a disclaimer of opinion** – this says that the auditor is unable to say 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 of the company's financial affairs.

What other duties do auditors have?

Duty to report a company's failure to keep adequate accounting records

If auditors find that a company has not kept adequate accounting records, they must tell the company in writing. If the company's directors do not correct the situation within seven days, the auditors must inform the CRO. The CRO will publish the information and notify the Office of the Director of Corporate Enforcement (ODCE).

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

- tell the Office of the Director of Corporate Enforcement (ODCE); and
- help the ODCE with its investigation of the company.

Duty to explain reasons for resigning

When auditors resign before the end of their term or say they do not wish to be reappointed, they must explain this in writing to the CRO. They must also tell the CRO if they believe the company's members or creditors should be told the reason for the resignation. The CRO will publish this information.

Duty to exercise professional integrity

Auditors must carry out an audit using reasonable skill and care. If they don't, they may have to pay damages to the company or its members.

What rights do auditors have?

Auditors have the right to:

- see the books and accounts of the company and its subsidiaries;
- get information and explanations from the company's directors and employees;
- be notified of company general meetings and attend and address those meetings; and
- if there is a proposal to remove them as auditors, explain the circumstances to members at a general meeting and challenge that removal.

Where can I get more information?

You can find more detailed information about auditors on our website, *www.odce.ie*.

If you are unsure about auditors' duty and what you need to do under the law, you should get independent professional advice.

Disclaimer

This Quick Guide sets out some of the basic legal duties of auditors. It is not a legal interpretation of any part of the Companies Act. The Director of Corporate Enforcement accepts no responsibility or liability for any errors, inaccuracies or omissions in this guide.

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Office of the Director
of Corporate Enforcement

For Further Information contact:

Office of the Director
of Corporate Enforcement
16 Parnell Square
Dublin 1
Ireland

01 858 5800
Lo-call 1890 315 015

01 858 5801

info@odce.ie

www.odce.ie

Tá leagan Gaeilge den leabhrán seo ar fáil
An Irish version of this booklet is available