

Companies Act, 1956

Section 227 - Powers and Duties of Auditors

(1) Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, whether kept at the head office of the company or elsewhere, and shall be entitled to require from the officers of the company such information and explanations as the auditor may think necessary for the performance of his duties as auditor.

1 [1A) Without prejudice to the provisions of sub-section (1), the auditor shall inquire -

(a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interest of the company or its members;

(b) whether transactions of the company which are represented merely by book entries are not prejudicial to the interests of the company;

(c) where the company is not an investment company within the meaning of section 372 or a banking company, whether so much of the assets of the company as consist of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;

(d) whether loans and advances made by the company have been shown as deposits;

(e) whether personal expenses have been charged to revenue account;

(f) where it is stated in the books and papers of the company that any shares have been allotted for cash, whether cash has actually been received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance-sheet is correct, regular and not misleading.]

(2) The auditor shall make a report to the members of the company on the accounts examined by him, and on every balance-sheet and profit and loss account and on every other document declared by this Act to be part of or annexed to the balance-sheet or profit and loss account which are laid before the company in general meeting during his tenure of office, and the report shall state whether, in his opinion and to the best of his information and according to the explanations given to him, the said accounts give the information required by this Act in the manner so required and give a true and fair view -

(i) in the case of the balance-sheet, of the state of the company's affairs as at the end of its financial years; and

(ii) in the case of the profit and loss account, of the profit or loss for its financial year.

(3) The auditor's report shall also state -

(a) whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;

(b) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books, and proper returns adequate for the purposes of his audit have been received from branches not visited by him;

2 [(bb) whether the report on the accounts of any branch office audited under section 228 by a person other than the company's auditor has been awarded to him as enquired by clause (c) of sub-

section (3) of that section and how he has dealt with the same in preparing the auditor's report;]

(c) whether the company's balance-sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns;

3 [(d) whether, in his opinion, the profit and loss account and balance-sheet comply with the accounting standards referred to in sub-section (3C) of section 211;]

4 [(e) in thick type or in italics the observations or comments of the auditors which have any adverse effect on the functioning of the company;

(f) whether any director is disqualified from being appointed as director under clause (g) of sub-section (1) of section 274.]

5 [(g) Whether the cess payable under Section 441A has been paid and if not, the details of amount of cess not so paid]

(4) Where any of the matters referred to in clauses (i) and (ii) of sub-section (2) or in clauses (a), (b), 2 [(bb)] 6 [(c) and (d)] of sub-section (3) is answered in the negative or with a qualification, the auditor's report shall state the reason for the answer.

1 [(4A) The Central Government may, by general or special order, direct that, in the case of such class or description of companies as may be specified in the order, the auditor's report shall also include a statement on such matters as may be specified therein:

Provided that before making any such order the Central Government may consult the Institute of Chartered Accountants of India constituted under the Chartered Accountants Act, 1949 (38 of 1949), in regard to the class or description of companies and other ancillary matters proposed to be specified therein unless the Government decides that such consultation is not necessary or expedient in the circumstances of the case.]

7 [(5) The accounts of a company shall not be deemed as not having been, and the auditors report shall not state that those accounts have not been properly drawn up on the ground merely that the company had not disclosed certain matters if-

(a) those matters are such as the company is not required to disclose by virtue of any provisions contained in this or any other Act, and

(b) those provisions are specified in the balance-sheet and profit and loss account of the company.]

1. Inserted by Act 31 of 1965, Section 1 (w.e.f. 15-10-1965).

2. Inserted by Act 65 of 1960, Section 69 (w.e.f. 28-12-1960).

3. Inserted by Act 21 of 1999, Section 16 (w.r.e.f. 31-10-1998).

4. Inserted by Act 53 of 2000, Section 109 (w.e.f. 13-12-2000).

5. Inserted by Act 11 of 2003, Section 28.

6. Substituted by Act 21 of 1999, Section 16, for "and (c)" (w.r.e.f. 31-10-1988).

7. Substituted by Act 65 of 1960, Section 69, for sub-section (5) (w.e.f. 28-12-1960).
