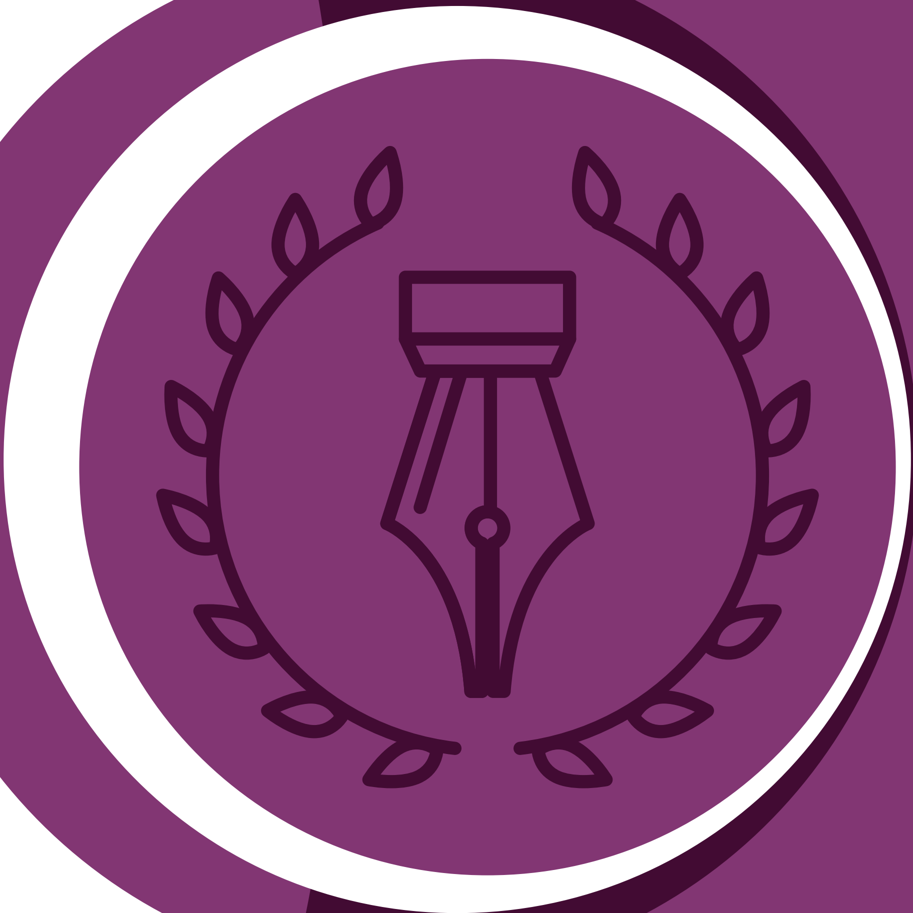
Auditors

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

Contents

About this guide

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

What is an audit?

An audit is an examination of a company's financial statements by a professional called an auditor. The auditor aims to give the company's owners (also known as members or shareholders) an independent opinion on whether the financial statements:

- are true and fair or fairly stated; and
- comply with certain requirements in the Companies Act.

What is an auditor?

Under the Companies Act, an auditor is an independent individual or firm who is qualified to carry out audits.

Who can be a company auditor?

A company auditor can be an individual or firm who holds the relevant qualification to do an audit. A full list of auditors qualified to carry out company audits is available on the Companies Registration Office website at: *https://search.cro.ie/auditors/*

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.

What does an audit involve?

In carrying out an audit, an auditor will examine the financial statements of the company and ensure they comply with the requirements of the Companies Act and Auditing Standards. The audit process usually involves the three tasks set out below.

1. Learn about the company

The auditor would gain an understanding of the company's business and identify the areas:

- where there is most risk to the business; and
- of the financial statements that are most likely to be wrong.

2. Check and decide

They would also:

- check the accuracy of a sample of transactions, account balances and disclosures (things about the company that must be included in the financial statements). Disclosures might include the number of employees and directors' remuneration (pay);
- decide if the company's accounting policies are reasonable (this involves checking the method used to calculate items and totals in the balance sheet and profit and loss account);
- identify and assess the company's internal controls and report to the company directors on any weaknesses in those controls which could lead to loss or fraud.

3. Assess, evaluate and report

The auditor would:

- 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 or errors discovered during the audit and advise on how to deal with them; and
- issue their auditor's report to the members of the company.

When is an audit needed?

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

Small Company

- a turnover (income) of €12 million or less;
- a balance sheet total of €6 million or less (the balance sheet gives the company's assets and liabilities at a particular time);
- 50 or fewer employees, on average.

The company also must have filed its annual return with the Companies Registration Office (CRO) on time for the previous two years. A company that fails to file its annual return on time loses the right to avail of audit exemption for the following two years.

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) based on a recommendation of the company directors.

What are the duties of auditors?

The main duty of an auditor is to report to the members on the "truth and fairness" or accuracy and reliability of the company's financial statements. The auditors' report must be given to every member and be presented 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 directors of 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 fact that adequate accounting records were not kept and notify the Office of the Director of Corporate Enforcement (ODCE) who may take action against the company directors for this failure.

Duty to report category 1 and 2 offences

A category 1 or 2 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 may have committed a category 1 or 2 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.

During their audit work, an auditor may also discover category 3 or 4 offences under Companies Acts. These are lesser offences that the auditor will inform the company directors about but will not normally report to the ODCE. Categories 3 and 4 offences apply to less serious offences under the Act:

- Category 3 offences include non-filing of annual returns, failure to hold an AGM; and
- Category 4 offences include routine filings such as failure to notify the CRO of the registered office of a 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 are governed by a set of standards set out in the Companies Act. A Professional Body of Accountants or the Irish Audit and Accounting Supervisory Authority (IAASA) supervise auditors' audits.

The auditor's professional body is listed beside the auditor's name on the CRO website. If you wish to make a complaint about the conduct of an auditor, you should first bring the matter to the attention of the auditor's professional body.

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
- explain the circumstances around any proposal to remove them as auditors 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' duties 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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Tá leagan Gaeilge den leabhrán seo ar fáil
An Irish version of this booklet is available