

AUDIT REPORT

After the completion of the audit work, every auditor is required to give a brief description of the work done by him, which is known as audit report. This is signed by the auditor. This is the most important part of the audit procedure. It is the summary of the work done by the auditor in which the auditor expresses his views about the audited accounts. Final product of every audit work is the audit report. It can also be called as a measure of the truth of the audited accounts.

According to section 227(2) of the Companies Act, 1956, the auditor, after the completion of his audit work, gives a report relating to the accounts, Balance sheet, Profit and Loss Account and relevant documents, which is presented by the company in the General Meeting. If this report is prepared in the middle of the financial year, it is known as Interim Report.

According to Joseph Lancaster, "An Audit Report is a statement of collective and considered facts, so drawn up as to give clear and concise information to persons who are not already in possession of the full facts of the subject matter of the report".

The auditor presents his report to the shareholders because he is the agent of the shareholders and is appointed for their benefit (not for the benefit of the directors and the managing agents). The shareholders do not possess any knowledge about the working of the company. So, the auditor, after in-depth examination of books of accounts, gives his report and makes the shareholders aware of the activities and other necessary facts about the company.

According to section 215(3) of the Companies Act, it is important that the Balance Sheet and the Profit and Loss Account of the company are approved by the Board of Directors before these are handed over to the auditor. It is the duty of the directors that they should get the books of accounts prepared for audit.

According to section 216, it is necessary that a separate Auditor's report, special or supplementary, must be attached with every Balance Sheet. In practice, the auditor's report is attached above the Balance Sheet. Below the Balance Sheet and Profit and Loss Account are written the following words in the form of a note:

"As per our Report of even date attached" or "Vide our annexed Report of even date" or "In terms of our attached Report of even date"

The auditor puts his signature under this note.

AUDITOR'S REPORT AND ITS RELIABILITY

It is not expected from an auditor that he will be able to find the truth about everything contained in the books of the company and that he will recommend punishing the culprits after detecting every error and fraud. He cannot work on this presumption that he has to detect hidden errors and frauds. He is a watch dog, not a blood hound. He is appointed to say before the shareholders that in his view the financial position of the company is true and fair.

An Ideal Report: The following are the characteristics of an ideal or a good audit report:

- (i) It should be in a simple language, which can be understood easily.
- (ii) It should be divided into separate paragraphs.
- (iii) The audit report must bear date on it.
- (iv) It should be addressed to them for whom it is. written, as
 - (a) Audit report of a company should be addressed to the shareholders.
 - (b) In case of special audit, the report should be addressed to the Central Government.
- (v) The report should be fully clear, not illusory.
- (vi) It should be impartial.
- (vii) The auditor should write it in his office only.
- (viii) It must be brief but no fact should be left out.
- (ix) At the end of the report, the auditor should put his signature on the right-side. He should write 'Chartered Account' below the signatures.

IMPORTANCE OF AUDITOR'S REPORT

The auditor's report is important for all those persons and parties who are concerned with the organization. It is specially important for the following:

(1) For Shareholders: Shareholders are the real owners of the company, but they do not directly take part in the management of the company. It is managed by a group of representatives selected by them. This group of representatives is known as Board of Directors. So, the shareholders do not have knowledge about the activities of the company.

They can get correct information about the working of the company from the auditor's report. He audits the accounts and gives his report about the completeness, correctness, accuracy and adherence to principles, etc. Thus, the audit report is an important document for the shareholders.

(2) For Directors: All the affairs of the company are managed by the directors. But in practice it is not so. They do not themselves do all the work. To a large extent they have to depend on their employees. They also want to know whether the employees are working sincerely and honestly. Such information can be provided to them by the auditor's report. Hence, the report is also important for the directors.

(3) For Creditors: The creditors of a company are always eager to know the real position of the company and whether their money is safe or not. They can get all such information from the auditor's report only.

(4) For Investors: It is human nature that the investor, while making an investment, wants safety for his money and also maximum income from his investment. The audit report creates confidence in the investors about the company. It is on the basis of the audit report that they decide to invest their money in the organization.

(5) For the Government: The government also relies on the audited accounts. So, it can take decisions about the affairs of the company on the basis of the report without any investigation.

TYPES OF AUDIT REPORTS

Classification according to work	Other Classification
(1) Partial Report	Clean Report
(2) Interim Report	Qualified Report
(3) Final Report	

Classification according to Work

1. Partial Report: If all the accounts and books of accounts are not got audited, but only a part of the accounts are audited, and the auditor gives his report about that part, this report is known as Partial Report. Such an audit is undertaken in big companies having several departments.

2. Interim Report: When an auditor is asked to audit the accounts in the middle of the year and the auditor gives his report about this audit, it is called Interim Report. Such a report is usually presented at the time of declaration of Interim dividend or when the Central Government orders an audit under section 271.

3. Final Report: Audit report issued by the auditor after completion of audit at the end of the financial year is known as Final Report.

Other Classifications

1. Clean or Unqualified Report: An auditor audits the accounts. He finds that there is no irregularity in the accounts. The accounts are properly maintained. There are no errors and frauds. The Balance Sheet tells the actual position of the business. The Profit and Loss Account gives correct profit or loss. In short, he has no complaints and he is satisfied. Then he gives his report. Such a report is known as **Clean or Unqualified Report**. Issuing a clean report means that:

- (i) The auditor has adequately examined the books of accounts.
- (ii) He has fully complied with the universally accepted principles of auditing.
- (iii) He has adopted procedures for audit keeping in mind the circumstances,
- (iv) He has used proper care and skill in his work.

2. Qualified Report: If after conducting the audit, the-auditor is not fully satisfied about the accuracy of the Balance Sheet and the Profit and Loss Account of the company, he should write in his report the various points which make the accounts of the organization inaccurate. This writing by the auditor is a qualification in itself, and the report which contains such qualifications is known as **Qualified Report**. The auditor issues a qualified report in the following cases:

1. When the examination of books of accounts is not possible according to the generally accepted principles of the auditing, e.g.,

- (a) The client has put restrictions on the scope of audit as restriction on the examination of accounts of debtors, restrictions on verification of stock, restrictions on reaching the far away branch of the company where most of assets are maintained, etc.
- (b) Reasons beyond the control of both the client and the auditor, as difficulty in tallying the amount received from the government or verification of stock in the absence of proper record.
- (c) When the internal control system is so inadequate that a satisfactory audit is not possible in a specified period.
- (d) When financial statements are not prepared according to accounting principles, e.g., unfair valuation of assets and leaving out liabilities, etc. in such situations, the auditor should get the statement amended. If they fail to do so, the auditor should give a qualified report.

2. When the accounting principles have not been followed on a consistent basis, e.g., making changes in the method of depreciation.

3. When the financial statement does not show true financial position of the organization.

4. Other reasons like:

- (a) Inadequate provision of depreciation on fixed assets.
- (b) Inadequate reserves for bad and doubtful debts.

- (c) Unsatisfactory valuation of assets.
- (d) Not providing information and clarification required by the auditor.
- (e) Violation of provisions of Companies Act.

Difference between Clean and Qualified Report

1. A clean report shows that there are no discrepancies and frauds in the books of accounts while a qualified report shows that the books of accounts have discrepancies and frauds in them.
2. A clean report shows that the Balance Sheet and the Profit and Loss Account presents a true and fair picture of the business while a qualified report shows that the Balance Sheet and the profit and Loss Accounts do not present a true and fair state of affairs of the business.
3. A clean report does not contain any qualification while a qualified report contains details of all qualifications.
4. A clean report shows that the auditor is fully satisfied about the correctness of the audited books of accounts, but in a qualified report, the auditor is not satisfied with the accounts.
5. A clean report enhances the good will of the business, but a qualified report harms it.

SPECIMENS OF AUDIT REPORTS

The audit report of a company with branches is different from a company without branches. The audit report for both the companies are given in the next page:

1. Clean Report of a Company with Branches

The members

Mahajan Limited

Dharwad.

We have audited the attached Balance Sheet of Mahajan Limited as at 30th June, 2017 and the annexed Profit and Loss Account for the year ended on that date and report that:

1. We have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purpose of our audit.
2. In our opinion, proper books of accounts as required by law have been kept by the company so far as it appears from the examination of books and proper returns, adequate for the purposes of our audit have been received from branches not inspected by us.
3. The accounts of the Branches have been audited by their respective auditors under section 228(3)C. The reports of audited accounts have been received by us. They have been dealt with by us in the manner we considered necessary, while preparing this report.

4. The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of accounts.

5. In our opinion and to the best of our information and explanations given to us, the said accounts provide the information required by the Companies Act, in the manner so required and give a 'true and fair' view:

- (a) In the case of Balance sheet of the state of affairs of the company as at 30th June, 2017 and
- (b) In the case of the Profit & Loss Account, of the profit for the year ended on that date.

Dharwad,

14 August, 2017

For BSN & Co.

(Chartered Accountants)

2. Clean Report of a company without Branches

The Members

Mahajan Limited

Dharwad.

We have audited the above Balance sheet of Mahajan Ltd., Dharwad as at 31st Dec., 2016 and also the annexed Profit & Loss Account of the company for the year ended on that date and report that:

- 1. We have obtained all the informations and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit.
- 2. In our opinion proper books of accounts as required by law have been kept by the company so far as it appears from our examination of the books.
- 3. The Balance Sheet and Profit & Loss Account dealt with by this report are in agreement with the books of accounts.
- 4. In our opinion and to the best of our information and according to the explanations given to us the accounts give the information required by the Companies 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 affairs of the Company as at 31st Dec., 2016, and
- (ii) In the case of Profit & Loss Account, of the profit for the year ended on that date.

Panipat

31 January, 2017

For BSN & Co.

(Chartered Accountants)

3. Qualified Report

The Members

Suresh Mills Ltd.

Dharwad

We have audited the Balance Sheet of Suresh Mills Limited, Dharwad as at 30th June, 2017 and also the annexed Profit & Loss Account of the company for the year ended on that date and we report that:

1. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.
2. In our opinion, proper books of accounts as required by law have been kept by the company so far as it appears from our examination of the books.
3. The Balance sheet and Profit & Loss Account dealt with in this report are in agreement with the books of accounts.
4. Subject to the qualifications given below in our opinion and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act, in the manner so required and give a true and fair view:
 - (a) In the case of the Balance Sheet, of the state of affairs of the Company as at 30th June, 2017 and
 - (b) In the case of the Profit & Loss Account of the profit for the year ended on the date.
 - (i) Depreciation charged on buildings is insufficient in our opinion:
 - (ii) Included in the list of debtors is a sum of ₹ 15,000 due from M/s Shyam & Sons who have been adjudged insolvent by the court;
 - (iii) In the stock sheet of the company certain damaged items have been shown at the cost price of ₹ 30,000.

Panipat,
15th August, 2017

For BSN. & Co.
(Chartered Accountants)

Reports v/s Certificates

Reports	Certificates
It is an expression of opinion about the account	It is confirmation of correctness and accuracy about some matters
The report is based on assumptions and estimations	It is based on actual facts and figures
The report may be criticised	No scope for criticism of certificate
The scope of report is large	It is very limited
Constructive advice can be included in the reports.	No scope for giving constructive advices in certificates.
Report is compulsorily prepared at the end of the year	No need to give certificate at the end of every year
Report is merely an opinion, if it is not correct, the auditor may not be held responsible	Auditor is held responsible for the wrong certification

CONTENTS OF AUDIT REPORT

According to sections 227(2) and 227(3) of the Companies Act, 1956, the auditor should clearly specify the following points in the audit report:

1. Whether, in his opinion and according to the information available to him and the clarification given, the accounts of the company provide all the information as required by the Companies Act, and (i) the Balance Sheet at the close of the financial year and (ii) Profit and Loss Account of the year present a true and fair view of the financial position and the profit or loss of the company?

According to section 227, two main duties of the auditor are:

- (i) To mention in his report that accounts have been prepared in accordance with the method prescribed in the Companies Act, or not.
- (ii) To clarify that the accounts present a true and fair picture, or not.

2. Whether he has received all such information and clarification as are necessary for conducting the audit work according to his information and belief?

The auditor has a right not only to reach the books of accounts and vouchers of the company, but he can also obtain, from the directors or high officials, all such information and clarification as he considers necessary for performing his duties as an auditor.

3. Whether, in his opinion, the company has maintained proper books of accounts according to Companies Act, or not, and whether adequate details, have been obtained from branches not examined by him?

4. Whether, or not, he has received report of branch accounts audited by an auditor other than him under section 228 and how he has utilized that report while preparing his own audit report ?
5. Whether, or not, the Balance Sheet and the Profit and Loss Account of the company mentioned in his report are according to the books of accounts of the company?
6. Until and unless the answers to the above five are positive, the company auditor cannot say that the Balance Sheet and Profit and Loss Account of the company, and the books and accounts of the company are according to the Companies Act, or not.
7. If the auditor wants to qualify his report, he will have to state reasons for it and will have to examine the weakness in the accounts.
8. Special information in regard to companies to be included in the audit report: