

Audit Report

Auditors Report



Meaning of Audit Report

Joseph Lancaster defines an audit report as-

“A statement of collected and considered facts, so drawn up as to give a clear and concise information to persons who are not already in possession of the full facts of the subject-matter of the report”

Characteristics of Audit report

- 1.It is the **medium through which an auditor expresses** his opinion on the financial statements and conditions of a business.
- 2.It is the **end product of audit**, as it summarizes the results of the audit work conducted by an auditor.
- 3.It is based on **factual information.so**, it is a statement of facts.
- 4.The audit report may be **short or long**.
- 5.The audit report may be in the **form of letter or mere statement**.
- 6.The report is **attached to the balance sheet**.



Qualification of good report

- It should be based on factual information
- It should be convincing
- It should be forceful
- It should be unbiased
- It should be point out mistakes
- It should be a constructive criticism and not be in reprimanding tone
- It should be brief. If it is lengthy , the object of the report is defeated even if it is well written.

Importance of Audit Report

1. An audit report is a **statutory requirement** in the case of company audit.
2. An audit report is an **important part of the audit process**. It is the end product of audit. **It summarizes the results** of the audit work done by the auditor.
3. It is **medium through which an auditor submits** his findings and expresses his opinions on the state of affairs of the client's business.
4. An audit report **gives satisfaction to the shareholders** that the accounts of the company are properly maintained and are showing a true and fair view of the financial position of the business.
5. It is **an evidence of the auditor's work**.
6. It is a **tangible proof of the financial state of affairs of the company**.

Classification of Audit Report

The auditor expresses his opinion about the financial information reported in annual statements of accounts. His opinion may be

- » Unqualified or clean report
- » Qualified report

1.Unqualified(Clean) Report

An unqualified opinion is issued when the auditor is satisfied in all material respects with the matters dealt with in paragraph 29 of objective & basic principles governing an audit as quoted in paragraph 1. The auditors report should express this satisfaction in a clear & affirmative manner.

.....Features

- a) He must examine the books of the accounts of the company as per the accepted accounting principles.
- b) He must observe all the audit procedures necessary under the circumstances.
- c) He must see the all the relevant provisions of the Companies Act and Other important laws are complied with.
- d) He must be satisfied with the truthfulness and fairness of the accounts and the financial statements of the company.

2. Qualified Report

When the auditor is not satisfied after auditing of the statement of the company and if he believe that the balance sheet of the company does not reflect the actual financial position or if he is not satisfied with some other causes he things perfect, he can qualify report.

....Features

1. When is not satisfied with the accounts
2. When proper books of accounts have not been maintained
3. When principles are not followed
4. When there is a material misstatements in Prospectus
5. Omission of material disclosure
6. When explanations are not available
7. Discrepancy
8. Assets are over valued or under valued
9. Stock valuation is not satisfactory
10. Investment valuation is not satisfactory
11. Inadequate provision for bad debts
12. When secret reserves are created

Cases

- **Liability for negligence:**
 - 1. Leeds Estate Building and Investment Company V/s Shepherd
 - 2. Indian Oil Storage Company V/s Seers Hasluck and Company
 - 3. Kingston Cotton Mills Ltd
- **Liability for Misfeasance**
 - 1. London and General Bank Limited
 - Union Bank of Allahabad