AUDIT REPORT

An auditor of a company is appointed to check the accounts of the company and to make a report to the shareholders of the company on the accounts audited by him. Section 227 (2) of the Companies Act 1956 imposes a duty on the auditor of a company to make a report to the shareholders on his findings. Thus, the auditor of a company has a statutory duty to make a report to the shareholders about the affairs of the company.

Meaning of audit report

The term ‘report’ has been defined by Lancaster as “statement of collected and considered facts so drawn up so as to give clear and concise information to persons who are not already in possession of a full facts of the subject matter of the report.” As such, and audit report is an important document in which the auditor has set forth the nature and scope of the audit and in which he gives his impartial opinion regarding his client’s financial statement.

Audit report is a statement through which an auditor submits his findings and expresses his opinion on the state of affairs of the company’s business. In other words, it is the medium through which and auditor expresses his opinion on the financial statements of a business.

Characteristics of an audit report:

1. it is a statement of facts collected and considered by the auditor in clear and concise words.
2. it is the medium through which the auditor expresses his opinion on the financial state of affairs of the company.
3. it is the end product of audit, as it summarizes the results of the audit conducted by the auditor.
4. The audit report may be long or short.
5. It may be a clean report or a qualified report.
6. It may be in the form of a letter or a mere statement.
7. It is duly signed by the auditor and attached to the balance sheet of the company.

Importance of audit report:

An audit report is a very important document. Importance of an audit report is due to the following reasons:

1. An audit report is a statutory requirement in the case of company audit.
2. An audit report is the end product of audit. It summarizes the results of the audit work done by the auditor.
3. It is the medium through which an auditor expresses his opinion on the state of affairs of the business.
4. It gives satisfaction to the shareholders that the accounts 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.

Contents of audit report:

As per section 227 (3) of the Companies Act of 1956, the audit report must contain the following matters:

1. Whether he has obtained all the information and the explanation which, to the best of his knowledge and belief, necessary for the purpose of Audit, and whether proper returns adequate for the purpose of his audit have been obtained from the branches not visited by him.
2. Whether proper books of accounts are required by law have been kept by the company.
3. Whether report on the accounts of any branch office audited by any other auditor has been forwarded to him and how he has dealt with the same in preparing his report.
4. Whether the company’s balance sheet and profit and loss account are in agreement with the books, accounts and returns.

5. Whether any other statements have been included as required by the central government.
6. 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 the Companies Act in the manners required and give a true and fair view:
    a) In the case of the balance sheet, of the state of the company's affairs at the end of its financial year and
    b) in the case of the profit and loss account, of the profit or loss for the financial year.

Types of audit report:

I. A clean, clear, unqualified or positive report
II. Qualified, adverse or negative report.

Clean or unqualified report:

If the auditor is completely satisfied with the truth and fairness of the books of account and the balance sheet and profit and loss account, he gives a clean or unqualified report. If the auditor is fully satisfied that there is nothing objectionable in the books of account and the balance sheet and profit and loss account exhibits a true and fair view of the state of the financial affairs of the company, he gives a clear report for. In other words, he gives his opinion without any reservations.

Qualified report or adverse report:

When an auditor finds some irregularities in the books of account or in the financial statements, he invites the attention of the directors to those irregularities and suggests to the directors the ways in which the accounts on the financial statements should be altered. If the directors refuse to alter the accounts of the financial statements as per suggestions of the auditor, the auditor gives a report mentioning the irregularities. Such report is called as qualified report. So, a qualified report is a report in which the auditor inserts any qualifications, modifications reservations.

An auditor gives a qualified report under the following circumstances:

1. When he is not satisfied with the accounts audited financial statements presented to him.
2. When proper books of accounts as required by law have not been maintained.
3. Where there is a material misstatement in the financial statements.
4. When the explanations sought by the auditor are not made available to him.
5. when the auditor is not satisfied with the information and acceleration is given to him.
6. When he finds some discrepancy in the treatment of certain items.
7. When the assets are overvalued or undervalued.
8. When he things that the balance sheet and profit and loss account do not exhibit a true and fair view of the state of company's affairs.
9. If the balance sheet and profit and loss account are not in agreement with the books of accounts and returns.
10. When the accounts do not disclose true and fair view.
11. When there is inadequate provision for bad and doubtful debts.
12. Where secret reserves have been created.

    When an auditor makes a qualified report, he must specify in his report on what points he is not satisfied or what legal provisions have not been complied with.