

AUDIT REPORT

Draft an illustrative Audit Report u/s 227 of the Companies Act, 1956, with a few qualifications. Annexure u/s 227(4A) is not required.

In this situation, we depict a case where the auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign affiliate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial statement.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Financial Statements: We have audited the accompanying financial statements of ABC Company Limited ("the Company"), which comprise the Balance Sheet as at March 31, 20XX, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements: Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility: Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion:

ABC Company Limited's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at Rs. XXX in the Balance Sheet as at March 31, 20XX, and ABC's share of XYZ Company's net income of Rs. XXX is included in ABC Company Limited's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC Company Limited's investment in XYZ Company as at March 31, 20XX and ABC Company Limited's share of XYZ Company's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion:

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 20XX;*
- (b) in the case of the Profit and Loss Account, of the profit/ loss for the year ended on that date; and*
- (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.*

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
2. As required by section 227(3) of the Companies Act, 1956, we report that:
 - a. 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 except for the matter described in the Basis for Qualified Opinion paragraph;
 - b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from branches not visited by us]
 - c. the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account [and with the returns received from branches not visited by us]
 - d. *except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, in our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the accounting standards referred to in subsection (3C) of section 211 of the Act;*
 - e. on the basis of written representations received from the directors as on March 31, 20XX, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 20XX, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.

- f. Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For XYZ and Co

Chartered Accountants

Firm's Registration Number

Signature

(Name of the Member Signing the Audit Report)

(Designation)

Membership Number

Place of Signature

Date

TYPES OF MODIFIED OPINIONS(M'98)(N'99)

Qualified Audit report

Auditor has some reservation about the t&f view of financial statements

Subject matter of qualification = material but not so much as to affect the overall t&f view of accounts

Situations where qualified audit report is warranted:

- (a) Auditor unable to obtain information/explanations considered necessary for his audit.
- (b) Proper books of account not kept by the company in accordance with the law.
- (c) P&L and B/S not in agreement with the books of account and returns.
- (d) Information required by law not furnished.
- (e) P&L and B/S do not comply, with the accounting standards u/s 211(3C)
- (f) Violation of provisions of the Companies Act, 1956 having a bearing on the accounts and transactions of the company

Disclaimer of Opinion

Auditor fails to obtain sufficient/appropriate audit evidence for expression of opinion, and, thus, unable to form an opinion, issues a disclaimer of opinion.

Necessity of a disclaimer of opinion may arise due to

- a) Scope of examination is restricted or in certain circumstances
- b) Auditor may not have access to all the books of account for certain reasons, e.g., books are seized by excise authorities or destroyed in fire, etc.

Auditor must verify and substantiate the events. In case he is unable to obtain audit evidence even from alternative sources, then state that he is unable to form an opinion.

Difference between Clean Audit Report and Qualified Audit Report(M'02)(M'01)

Clean Report-> unconditional opinion -> No reservation w.r.t. matters contained in the financial statements

Financial information= complies with regulations and statutory requirements; prepared using acceptable accounting policies, adequate disclosure of all material matters etc

Qualified Report-> Conditional opinion -> Certain reservation w.r.t. matters contained in the financial statements

Reservation creates uncertainty about a particular item but does not vitiate true & fair view of accounts as a whole

State "subject to the above, we report that balance sheet shows a true and fair view....."

Auditor must clearly express the nature of qualification, reasons for qualification.

'Statement on Qualifications in Auditor's Report' issued by the ICAI -> All qualifications should be contained in the auditor's report.

The auditor of a limited company has given a clean report on the financial statement on the basis of Xerox copies of the books of accounts, Vouchers and other records which were taken away by the Income-tax Department in search under section 132 of the I.T. Act, 1961

Degree of reliability of Xerox copies = high if account books and vouchers are certified to be true copies by the Income Tax Department

If tax authorities refuse to certify the same, certificate from the management

Obtain confirmation of balances from third parties, inspection of tangible assets, etc. and obtain evidence to corroborate the documentary evidence available

If failed to establish the reliability of evidence available, issue disclaimer of opinion.

Unqualified Report

Financial statements give a true and fair view in accordance with the financial reporting framework used for preparation and presentation of the financial statements.

An unqualified opinion indicates that financial statements are:

- (i) Prepared using generally accepted accounting principles and being constantly followed.
- (ii) Comply with relevant statutory requirements and regulations.
- (iii) Disclosing all material matters relevant to proper presentation of the financial information, subject to statutory requirement, if applicable.

SIGNING OF THE AUDIT REPORT

Mr. Rajendra, a fellow member of the Institute of Chartered Accountants of India, working as Manager of Shrivastav and Co., a Chartered Accountant firm, signed the audit report of Om Ltd. on behalf of Shrivastav & Co.

Section 229

Only a person appointed as auditor or where a firm is appointed, a partner in the firm practicing in India

Therefore, Mr. Rajendra, a fellow member of the Institute and a manager of M/s Shrivastav & Co., Chartered Accountants, cannot sign on behalf of the firm

Both the auditor concerned and the person who signs the report = punishable with a fine

Distinguish between Reports and Certificates(M'01)

Certificate

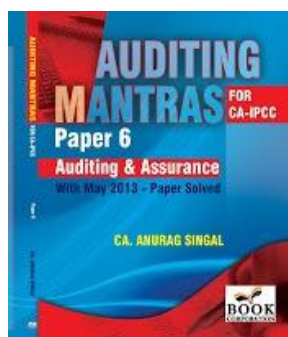
Written confirmation of factual accuracy, no estimate or opinion

E.g. certify the circulation figures of a newspaper or the value of imports or exports of a company

Report

Expression of an opinion on financial statements; represent a t&f view of state of affairs and working results

Auditor cannot guarantee the figures in the P&L and B/S since they are an output of multiple accounting policies, subjective in nature. Thus, he can only have an overall view of the accounts through normal audit procedures



Profile

CA. Anurag Singal secured All India Ranks 25 and 22 in CA inter and Final. He has authored the book "Auditing Mantras" for CA IPCC.

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Auditing Mantras for CA IPCC is a Smart Learning Solution, showing concepts of auditing in a lucid & diagrammatic manner. This book is an exhaustive coverage of ICAI's Study Material as the Practice Manual and also contains the chapter-wise Questions Bank for the past 15 years. It also has the key contents of all the Standards on Auditing applicable to CA IPCC

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