

Class: B.Com (Hons) Semester III

Subject : BCH 3.1 AUDITING AND CORPORATE GOVERNANCE

10.Topic: AUDIT REPORT – BASICS, FORMAT AND CONTENT

10.1: Introduction:

For any enterprise, the audit report is a key deliverable which shows the end results of the entire audit process. The users of financial statements like Investors, Lenders, Customers, and others base their decisions and plans on audit reports of any enterprise. An audit report is always critical to influencing the perceived value of any financial statement's audit.

The auditor should be careful in issuing the audit report as there is a large number of people placing reliance on such report and taking decisions accordingly. The report should be issued by being unbiased and objective in discharging the functions.

NOTE: The threshold limit of Rs 1 crore for a tax audit is proposed to be increased to Rs 5 crore with effect from AY 2021-22 (FY 2020-21) if the taxpayer's cash receipts are limited to 5% of the gross receipts or turnover, and if the taxpayer's cash payments are limited to 5% of the aggregate payments.

10.2: In the report

There are rules concerning what an auditor's report should include and the order in which various items should be reported. Auditor's reports must adhere to accepted standards established by governing bodies. Standards such as those set by the UK Generally Accepted Accounting Practice (UK GAAP) help to assure external users that the auditor's opinion on the fairness of financial statements is based on a commonly accepted framework.

A typical auditor's report will state:

1. The company that has been audited and what their accounting method is
2. The responsibility of the auditor and their report
3. Reservations (if any)
4. Conclusion
5. Any additional information*
6. A management report*
7. The date and auditor's signature

*Note: Items 5 and 6 are omitted if there is no additional information and/or if management has chosen not to prepare a management report. Management reports are not required, but if one is listed in the financial statements, the auditor should ensure that it is consistent with rest of the financial documentation.

10.3: Preparation of the report

An audit of a company's financial statements should result in a report wherein the accountant or auditor is free to share their opinion about the validity and reliability of a company's financial statements.

In this report, the auditor should provide an accurate picture of the company and their financial statements. The auditor should also state whether they are externally or internally connected to the company.

Within the report, the auditor can share any reservations about the condition of the company's finances or relevant additional information. Reservations could arise if the auditor disagrees with something found in the financial statements, e.g. if the auditor disagrees with management about the valuation of an asset because they believe that this has a more significant impact on the financial statements.

10.4: Contents of an Audit Report

The basic structure of an audit report as prescribed by the Standards on Auditing is as follows:

Heading	Brief of contents
Title	Title should mention that it is an 'Independent Auditor's Report'.
Addressee	Should mention clearly as to whom the report is being given to. For example Members oMentions that it is the Management's responsibility to Prepare the Financial Statements. f the company, Board of Directors
Management's Responsibility for Financial	

Statements	
Auditor's Responsibility	Mention that responsibility of the Auditor is to express an unbiased opinion on the financial statements and issue an audit report.
Opinion	Should mention the overall impression obtained from the audit of financial statements. For example Modified Opinion, Unmodified Opinion
Basis of the Opinion	State the basis on which the opinion as reported has been achieved. Facts of the basis should be mentioned.
Other Reporting Responsibility	If any other reporting responsibility exists, the same should be mentioned. For example Report on Legal or Regulatory requirements
Signature of the Auditor	The engagement partner (auditor) shall sign the audit report.

Place of Signature	The city in which audit report is signed.
Date of Audit Report	Date on which the audit report is signed.

Other headings being basic and self-explanatory in nature, we need to understand the about the opinion part precisely. This part forms the basic crux of an audit report.
