The auditor's report is the tangible outgrowth of technical procedures. It is primarily a communication process by which the auditor communicates his findings and opinion to his client and other users of financial statements. It expresses auditor's professional judgement on fairness of the client's statements.

A clear understanding of the word 'report' and 'certificate' is necessary to appreciate the evolutionary process of reporting. These words are fundamentally distinct from each other. Etymologically, the word 'certificate' is derived from Latin words certus (certain) and facere (to make). So, the certificate connotes verification of certain and exact facts. However, the rendition of this type of statement is an impossible task and the auditor's duty indeed becomes onerous. The dictionary meaning of the word 'report' refers to formal account of results of an investigator given by a person or group authorised or delegated to make an investigation, particularly in the context of the audit. So, it refers to give an account of work done and expression of an opinion. The 'opinion' is a personal belief which is stronger than mere impression but is not as definite as the expression. The report states whether or not accounts reflect "true and fair" view of company's state of affairs at a particular date and its profits for the year. The phrase "true and fair" is also amenable to different interpretations.** However,


it should be interpreted cumulatively within the context of "relevance and objectivity." Here it is worthy to note that an independent auditor is not an insurer or guarantor nor is he infallible.

This chapter and the next one are devoted to a comparative study of the development of present standard short-form report in the United States, U.K. and India. This chapter deals with evolution of the auditor's report with emphasis on its form and contents. The next chapter primarily deals with qualifications in the auditor's report.

THE U.S. EXPERIENCE: HISTORICAL RETROSPECT**

The accounting profession in the United States had rich inheritance of European traditions. But, in the beginning of the twentieth century some rapid developments like mergers etc. took place which swept whole of the economy. Since 1900, the meticulous British statutory audit proved to be inept.***

Till 1929, the auditor's work was essentially confined to balance sheet audit. The opinion paragraph included such phrases as

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* The idea for interpretation of "true and fair" has been borrowed from "A Statement of Basic Accounting Theory", American Accounting Association, 1966.


"exhibit a true and correct view", "accurate record conditions", "represent the true financial position". These phrases implied a condition of exactness.

After the stock market crash of October, 1929, the atmosphere was full of economic confusion and financial disruption. It brought about far reaching economic and social changes. Following all this, the words "certify", "true and correct" and words indicating "agreement with the books" were taken out of the general report format. With necessary changes in the wording of the report, the accountants endeavoured to make clear that the report was an "opinion" and not a "guarantee".

In 1933, the New York Stock Exchange (NYSE) required that all listing applications should be accompanied by the certificate of an independent public accountant as to the fairness of financial statements from this year onwards and for each fiscal year in the future.

In 1939, the McKesson-Robbins case, shook the profession and served to remind that their evidence gathering techniques were somewhat obsolete. Pending the enquiries made by the Securities Exchange Commission (SEC) the Committee on Auditing Procedure issued "Statement on Auditing Procedure No.1" entitled 'Extensions of Auditing Procedure'.

*Statements on Auditing Procedure were issued by the Committee on Auditing Procedure formed under the aegis of the AICPA. In all, 74 statements have been issued from 1938 to 1973.
In 1940 the SEC completed its enquiry and was very critical of the scope of the audit procedures followed by the entire profession. Although, it declined to exercise the full authority granted by the Congress, the SEC made several suggestions as given below:

(i) in the two important areas of accounts receivable and inventory, the SEC recommended that evidence of validity should be obtained from external and independent sources;

(ii) the stockholders should appoint the auditor;

(iii) the audit report should be addressed to the stockholders;

(iv) the auditor should attend stockholders' meetings and answer questions from this group."

On these counts, the report is considered to be a significant milestone in the development of auditing standards.

In 1941, the American Institute changed the form of report pursuant to Rule 2.02 of Regulation S-X of the SEC, with the following addition in scope paragraph:

"Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which are considered necessary."

In 1944, the report was simplified which consisted of elimination of reference to review of the system of internal control and elimination of the statement, by methods and to the extent we deemed appropriate."

* Cochrane, op. cit.

CURRENT PRACTICE

The conventional standard short-form report issued in 1979 is given below:

To the Stockholders,
ABC Corporation.

We have examined the balance sheet of ABC Corporation as at December 31, 1979, and the related statement of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements mentioned above present fairly the financial position of ABC Corporation as on December 31, 1979 and the result of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

XYZ & Co., CPAs
March 5, 1979

MEANING AND SIGNIFICANCE

The report consists of two basic parts, normally, scope section and an opinion section. Following are the key elements which have a special significance: (i) **The salutation**: Generally the report is addressed to the stockholders of the company, the Board of Directors.

or both. It reflects the auditor's awareness that his primary obligation is to that group, namely, owners and elected representative (ii) Identification of the statements examined: The opening statement of the scope paragraph affirmatively states that he has examined specified statements of the company. (iii) Scope of the Examination: The second sentence in the scope section indicates character of the auditor's examination. It is of factual nature and highlights the work performed by an auditor in general terms. The reader is informed that the audit procedures and sample sizes were limited to the type considered necessary for this particular client, based upon the professional judgement of the Certified Public Account (CPA). There is also specific reference to the adherence to Generally Accepted Auditing Standards (GAAS).* (iv) The Opinion: The introductory phrase in second paragraph of the report normally begins, "In our opinion....". The term "opinion" indicates that it is an expression of professional judgement based upon reasonable examination of the financial statements and underlying records.

"So, the unqualified opinion is not a stamp of approval from a credit or investment viewpoint & should never be mistaken for one."**

* Standards applying to the conduct of the field work of an audit by a public accountant and the unqualified report based thereon. In September 1948, at the annual meeting of the American Institute of Accountants a resolution was adopted containing an interpretation of the phrase, "GAAS". Nine basic standards were issued and later in 1949, one more standard was added. For details refer to Annexure 2.

** Auditor's report : Meaning and Significance, op. cit.
(v) Conformity with GAAP and Consistency: The opinion paragraph further states that statements are said to be "present fairly in conformity with GAAP." So mere preparation of financial statements in accordance with GAAP leads to fair financial statements. The last phrase requires a statement to the effect that whether GAAP is applied on a consistent basis or not.

(vi) Signature: The auditor's report is generally signed with the partnership name rather than with the name of individual. This is so primarily because that it is the responsibility of the partnership firm and thus, of all partners for the expressed opinion and ensuring that quality of the audit meet its standards.

(vii) The Date: The appropriate date for the auditor's report is one on which auditor completed his field work. The auditor, while expressing opinion on the fairness of presentation also considers the effect of any significant event or transaction which he finds has occurred after the date of the financial statements but before the completion of his examination.

THE U.K. EXPERIENCE: HISTORICAL RETROSPECT

In the world of accounting, the U.K. is the originator of the profession of the independent auditor and occupied the supreme position until the outbreak of World War I (1914).

* According to the Cohen Commission, this phrase is vague and ambiguous not only to layman but also to many independent auditors. Refer to the survey conducted by it, pp. 183-84. The phrase is the subject of widely varying interpretations in the accounting literature as evidenced by the Statement on Auditing Standards No. 5. The meaning of "present fairly in conformity with GAAP" in the Independent Auditor's Report (July 1975) AICPA, Professional Standards, Vol. 1.
The Joint Stock Companies Act, 1844 required all incorporate companies to have the audited financial statements. The audit report was to state whether or not the company's balance-sheet gave a "full and fair view" of its state of affairs. This phrase generally meant that the company is solvent for the benefit of bankers and creditors. The Act of 1856 did not envisage much change except that audit requirements were made voluntary. The Companies Act, 1864 required the auditor to make a report to the shareholders which should be read at the ordinary meeting. The bare word "audited" or "certified" on the balance sheet, followed by the auditor's signature sufficed to meet this requirement.

The judgement of following leading cases set the tone for the shape of things to come in future:

**Leeds Estate Building and Investment Company Vs. Shepherd:** "It was held that it was the duty of the auditor not to confine himself merely to the task of ascertaining the arithmetical accuracy of the balance sheet but to see that it was a true and accurate representation of the company's affairs."

**Re: The London and General Bank Ltd.**: "Regarding disclosure in the auditor's report, held "A person whose duty is to convey information to others, does not discharge that duty by simply giving them so much information as is calculated to induce them, or some of them, to ask for more. Information and means of information are by no means equivalent terms."

* (1895) 2 Ch. 166; The Accountant L.R. (1895) 173.
Re: The Kingston Cotton Mill Company Ltd. : "Held, that it is not the duty of the auditor to take stock; and that he is not guilty of negligence if he accepts the certificate of a responsible official in the absence of suspicious circumstances."*

The Act of 1900 required every company registered under it to get its accounts audited. The auditors were now required to sign a certificate at the foot of the balance sheet whether or not all their requirements as auditor had been complied with and to make a report to the shareholders stating whether in their opinion the balance sheet exhibited a true and correct view of the state of company's affairs. The Companies (Consolidation) Act, 1908 contained provision that the auditor's report must either be attached to or referred to in the balance sheet, read in the annual general meeting and open to inspection of any shareholders. The Companies Act, 1929 made no real change with regard to the auditor's report.

The Companies Act, 1948 gave formal recognition to changes like increased volume of business, increasing need for information disclosure etc. It strengthened the general position of the auditors (as there was shift from "true and correct" to "true and fair") and their duties were extended to report on the profit and loss account as well.

Over the years there has been an increasing movement for the British auditors to reduce length and to simplify the language of the reports so far as possible within the requirements imposed by law. This trend, it is believed, has the advantage of making audit reports

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* (1896) 1 Ch. 6: The Accountant L.R. (1896) 77.
more intelligible for laymen who are not necessarily familiar with legal and accounting terminology. Moreover, the use of the short-form of the auditor's report draws immediate attention to any reservation or departure from normal. Following recommendations of Jenkins Report on Company Law (Cmd. 1749, published in 1952), the Act of 1967 stipulated that the auditor is not required to indicate the scope of his audit.

CURRENT PRACTICE

The unqualified report is given below:--

The Company Audit Report to the Members of XYZ and Co., Ltd.

In our opinion, the financial statements set out on pages....to......together give a true and fair view of the state of affairs of the company as at 31 December 19.... and of its profit for the year ended on that date and comply with the Companies Acts 1948 and 1967.

ABC AND COMPANY
CHARTERED ACCOUNTANTS
Edinburgh
31 March 19...-

MEANING AND SIGNIFICANCE*

1. The Salutation: The report is addressed to members reminding its interested readers that the audit is designed primarily to satisfy and protect the interests of shareholders before those of anyone else.

2. The Opinion Paragraph: (a) It begins with "In our opinion......" emphasising at the outset that it is neither a hard and fast guarantee nor a certificate of insurance. It is simply a statement of belief.

based on series of judgements made after an expert examination of
the available evidence rather than of fact. (b) It continues with
"the financial statements......together give....a true and fair
view". The phrase, "true and fair view", in fact, is the crux of the
report and has not been defined in the statutes. However, generally,
it refers to relevance of accounting information and disclosed
objectively so as to satisfy the informational needs of shareholders
and various users without prejudice to their interests in the
company. (c) Further, it continues,"......of the state of affairs...
and of its profit......." This refers to the identification of
financial statements. It also reminds its readers to the fact that
the auditor's opinion is an expert judgement on the way in which the
profitability and financial position of the company have been
quantified. (d) Finally, it refers to,"........and comply with the
Companies Acts 1948 and 1967". This informs that the financial
statements have been disclosed and presented in accordance with the
detailed provisions of these governing acts.

(i) The Signatures : The date of the auditor's report closely follows
the date upon which the directors approve and sign the statements.

INDIAN EXPERIENCE : HISTORICAL RETROSPECT

The accountancy profession in India has been strongly
influenced by the developments in England. During early days, to
bring uniformity of law in the Empire, all Acts were modelled on the
British pattern. The Indian Companies Act of 1857 did not contain

* For lively and authoritative discussion, refer G.P.Kapadia,
"History of the Accountancy Profession in India", Institute of
Chartered Accountants of India, New Delhi, 1973.
any elaborate provisions for the annual audit of company accounts. The Table A, however, contained regulations, the adoption of which was entirely optional to companies. Under regulation 83 of Table B, the auditors were to state:

"...make a report to the shareholders upon the balance sheet and accounts and in every such report they shall state whether in their opinion the balance-sheet is a full and fair balance sheet containing the particulars required by these Regulations and properly drawn up so as to exhibit true and correct view of the state of the company’s affairs."

The Companies Act of 1860 did not introduce any change in respect of form of auditor’s report. The audit of accounts was not compulsory nor were there any provisions relating to qualification of auditors up to 1913.

However, in the beginning of twentieth century, an impressive growth took place in industrial and commercial activities with an emerging new class of investors, a break-away from traditional resourceful business class, viz., public at large. So, in order to safeguard public interests, the Companies Act of 1913 incorporated certain fundamental changes regarding appointment, qualifications, powers and duties of the auditor. The auditing of company accounts was made compulsory. Section 145 (2) provided for the auditors to make a report on the accounts examined by them and report on every balance sheet was to state inter-alia whether such balance-sheet exhibited a "true and correct" view of the state of company’s affairs.
Around the year 1930, in order to secure better and uniform control over the audit of public companies, the control over the registration of accountants shifted from Provincial Governments to the Central Government on an all-India basis. The Central Government constituted the Indian Accountancy Board to advise the Government on matters relating to professional accounting.

With the growth of public accounting profession, demand for an autonomous body to regulate and control the profession was gaining momentum in all quarters. In 1949, Chartered Accountants Act was passed. The responsibility for managing its affairs devolved upon the profession itself. Since its inception, the Institute has issued various statements, guidelines and recommendations on specific matters of importance to members. The basic objective is to improve overall audit function and bring uniformity over reporting matters.

In October 1950, the Government of India appointed Company Law Committee under the Chairmanship of Mr. C.H. Bhabha to consider the entire question of revision of the Act of 1913. The special attention was to be drawn to its bearing on the development of trade and industry in the country. The report of the Bhabha Committee was accepted after certain modifications and eventually emerged as the Companies Act of 1956.

Under the present Act, the auditor is required to make a report (not certify) under Section 227* to the members and express an opinion whether the company’s balance-sheet and profit and loss account

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* This section deals comprehensively with the reporting requirement. For details refer to Annexure 2-2.
exhibit a "true and fair" view. So, the report made by the auditor is not a mere formality. The council of the ICAI also expressed its views on the form of report and recommended, "the standard form of reports should not be departed from unless the special circumstances of a particular case so required."

The 1956 enactment was considered self-contained, complete and exhaustive exposition of the law governing Joint Stock Companies. However, number of loopholes and defects in its provisions were discovered during the short span of about two years of the working of the Act. The Company Law Committee headed by Mr. A.V. Visvanatha Sastri as its Chairman submitted its report in 1958 and Companies (Amendment) Act of 1960 was enacted.

During the late fifties, Vivian Bose Commission ** was appointed by the Government of India to inquire into the overall administration and frauds perpetrated by a group of persons. The Commission submitted its report in 1963, which made startling revelations about the functioning of the Joint Stock Companies in India. The scathing attack was launched against conduct of the auditors in these particular companies. The Daphtary-Sastry Committee went into whole of the report and a Bill was introduced in the Parliament in 1964. The result was insertion of section 227(1A) regarding certain enquiries to be made and section 227 (4A) granted power to the Central Government to direct by a general or special order, that in the case of specified companies, the auditor’s report shall include a statement on such

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matters as may be specified in the order. This is probably to enable the Government to deal with corporate abuses and malpractices that may be coming to notice from time to time. The Central Government may consult the Institute, if it finds necessary or expedient to do so before issuing any such order.

Section 227 (4A) ** of the Act deals with the certain specified matters to be enquired by the auditor and report only in a case he is not satisfied with the results of his enquiry.

The Central Government in consultation with Institute issued the "Manufacturing and other Companies (Auditor's Report) Order, 1975" ** (hereinafter referred as the Order) under the provisions of Section 227 (4A). There is not much legislative history behind this Order. It has been pointed out that "it probably stems from the observations in the Government files on weaknesses, abuses and irregularities noticed in the corporate sector since 1965." ***

The ICAI considers it reporting requirement and comments:

"Government's principal purpose in formulating the additional audit requirements is to improve the overall corporate

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** Refer Annexure 2-2. The Institute issued a clarification in this regard. Refer, Statement No. 20, "Institute of Chartered Accountants of India, New Delhi, 1965."

responsibility in the matter of financial reporting. Notification presents a recognition of the better auditing practices which have already been emerging within the profession. 1

The issuance of this Order was hailed as "Social Audit Order". However, this is a misplaced notion and this contention has been disputed by professional organisations and academicians alike. The Institute contends, that "...how inaptly the existing reporting requirements under section 227 (4A) have been described as 'social audit'. The real concept of the social audit may be appreciated if one analyses the various questions posed for our consideration by the Expert Committee." 2 It is beyond doubt that it introduces a different orientation to a company audit. There is a subtle change from "verificatory audit" to a "proprietary or diagnostic audit." 3

However, the effectiveness of the Order has been challenged right from its inception. It is contended that "this order does not seek a report on operational efficiency or management capability to run the business...the Order suffers from a lack of comprehensiveness; it reflects a sort of random listing of matters." 4

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* Majumdar, op. cit., p. 474.
However, frequent amendments in the Act, for more than thirteen times since it came into force from April 1, 1956, has led to a very complex piece of legislation. In view of this, the Government appointed a Committee* to consider and report on what changes are necessary in the form and structure of the Act, "so as to simplify them and make them more effective whenever necessary."

The Committee has made various recommendations regarding accounts and audit, shareholders' protection, professionalisation of management and social responsibilities of the companies being the central framework for overall recommendations. However, there is no specific recommendation about the form and contents of the auditor's report.

**Current Practice**

The evolution of the auditor's report clearly reflects that gradually it is being made more explicit so as to safeguard the rights of shareholders vis-a-vis the activities of the directors in the purported exercise of their powers in dealing with the assets of the company. The present standard short-form of unqualified report is given below:

To The Shareholders

XY Ltd.

We have audited the attached Balance Sheet of XY Ltd. as at 31st December 1980 and the Profit and Loss Account for the year ended on that date annexed thereto and report that:

1. As required by the Manufacturing and Other Companies (Auditor Report) Order, 1975 issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, we enclose in the Annexure a statement of the matter specified in paragraphs 4 & 5 of the said order.

* Report of the High Powered Expert Committee on Companies & MHTP
2. Further to our comments in the Annexure referred to in paragraph 1 above:
   (a) We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purposes of our audit.
   (b) In our opinion proper books of accounts as required by law have been kept by the company so far as appears from our examination of such books.
   (c) The Balance Sheet and Profit and Loss account referred to in this report are in agreement with the books of accounts.
   (d) In our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and the Profit and Loss Account read together with the notes thereon give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view:
   (i) in so far as it related to the Balance Sheet, the state of affairs of the company as at December 31, 1980 and
   (ii) in so far as it relates to the Profit and Loss Account, of the profit of the company for the year ended on that date.

For AB & Co.
Chartered Accountants

March 15, 1981

Partner

ANNEXURE: Re: XY Ltd.
Referred to in paragraph 1 of our report of even date.

1. The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. All the assets have not been physically verified by the
management during the year but there is a regular programme of verification which in our opinion is reasonable having regard to the size of the company and the nature of the assets. No serious discrepancies have been noticed on verification.

2. None of the fixed assets have been revalued during the year.

3. The stock of finished goods, stores, spare parts and raw materials have been physically verified during the year by the management. In our opinion, the frequency of verification is reasonable. The discrepancies noticed on verification between the physical stocks and the book records were not significant. In our opinion, the valuation of the above mentioned stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in earlier years.

4. In our opinion the rate of interest and the terms and conditions on which loans have been obtained from companies, firms, or other parties listed in the registers maintained under Sections 301 and 370 (1-C) and from companies under the same management are not prima facie prejudicial to the interests of the company.

5. In respect of loans and advances in the nature of loans given by the company, parties have repaid the principal amounts as stipulated and have also been regular in the payment of interest.

6. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchases of stores, raw materials including components, plant and machinery, equipment and other assets.
7. In our opinion and according to the information and explanations given to us, the prices paid for purchases of stores, raw materials or components in excess of Rs. 10,000 in value for each type from subsidiaries or from firms or companies or other parties in which directors are interested as listed in the register maintained under Section 301 are reasonable as compared to the prices of similar items supplied by other parties or as available with the company.

8. As explained to us the company has a regular procedure for the determination of unserviceable or damaged stores and raw material. Adequate provisions have been made in the accounts for the loss arising on the items so determined.

9. In our opinion and according to the information and explanations given to us, the company has complied with the provisions of Section 58A of the Companies Act 1956 and the Companies (Acceptance of Deposits) Rules 1975 with regard to the deposits accepted from the public.

10. In our opinion, reasonable records have been maintained by the company for sale and disposal of realisable by-products & scrap.

11. In our opinion the company has an internal audit system commensurate with the size and nature of its business.

12. We have broadly reviewed the books of account maintained by the company pursuant to the Order made by the Central Government for the maintenance of cost records under Section 209 (1) (d) of the Companies Act 1956 and are of the opinion that prima facie the prescribed accounts and records have been maintained. We have not, however, made a detailed examination of the records.

13. According to the records of the company provident fund dues have been regularly deposited during the year with the appropriate authorities.

For AS & Co.,
Chartered Accountants

March 16, 1984
MEANING AND SIGNIFICANCE

(1) The Salutation: The sub-section (2) of Section 227 requires that auditor is required to make a report to the members of the company on the accounts examined by him. This signifies that auditor is primarily responsible to the members.

(2) Identification of the Statements examined: The opening sentence of the report asserts that report deals with the Balance Sheet of a particular company at a particular date along with the Profit and Loss account annexed to it. It also covers every other document declared to be a part of or annexed to such balance sheet and profit and loss account.

(3) The Scope Section: (i) The item (a) of paragraph 2. "We have obtained..... of our audit" is in accordance with Section 227(3)(a) of the Act. In case the auditor has not obtained such material information and explanations, he should report this fact to members and take it into account while expressing his opinion. The right to obtain information has been granted under Section 227(1) of the Act. Section 221 of the Act also make it obligatory for the officers of a company to furnish information to the auditor without delay. It is irrespective of the fact whether or not such information is available from the accounts of the company. (ii) The item (c) of paragraph (2) is in correspondence with the requirements of Section 227 (3) (c). The phrase "are in agreement with the books of account and returns".

* The documents annexed to the balance sheet include the list of investments and particulars required by Sec. 372(a) and any information given in a schedule where permitted to be so done. While the Director's Report, Auditor's Report and Statements relating to subsidiary companies under Sec. 242 are "attached" to the balance-sheet.
limits the auditor's liability to certain extent as he cannot be 
held responsible for transactions which are omitted from books unless 
by the exercise of reasonable skill and diligence, he would have 
discovered them. (iii) Paragraph 1 of the report deals with extension 
of scope paragraph.

(4) The Opinion Section : (i) The item (b) of the paragraph 2 is in 
consonance with Section 227 (3)(b). The auditor is required to state 
whether in his opinion proper books of accounts as required by law 
have been maintained by the company. The phrase "as required by law" 
will include the requirement of Sec. 209 (3). So the books should 
be so kept as to give a true and fair view of the state of affairs 
of the company and explain its transactions. (ii) Item (d) of para-
graph 2 states "In our opinion......required by the Companies Act, 
1956". The statutory requirement under Section 227 (2) makes it 
mandatory for the auditor to ensure that the accounts give the 
information in accordance with the requirements of schedule VI of the 
Act and all other governing provisions of the Act. (iii) Finally, the 
auditor is required to report whether "in his opinion.....the said 
accounts.....give a true and fair view....." The word "true and fair" 
signifies that accounts represent fairly state of affairs of company. 
Apart from the legal disclosure requirements under Section 209, 
schedule VI of the Act : the auditor should also ensure that all 
material unusual, exceptional or non-recurring type of information 
has been disclosed.

(5) Signature of Audit Report : The Section 229 of the Act requires 
that a person appointed as auditor of the company or a partner in the 
firm so appointed, practicing in India, may sign the auditor's report 
or sign or authenticate any other document of the company as required
by law. Previously, the auditor used to sign in the firm's name and identity of the partner responsible for audit was intimated to the Registrar. But now the partner concerned should sign in his own hand for and on behalf of the firm appointed to audit the company's accounts.

LOOKING AHEAD

In view of the developments in financial reporting environment and persistent criticism,* revision in the present standard short-form is contemplated. The proposed directions for change are towards either brevity or expansion. However, there is more serious effort in the direction of expansion. In order to achieve uniformity at international plane, the International Auditing Practices Committee proposes the following form: **

"(a) the financial information to which it relates;
(b) any restriction in the scope of the audit;
(c) the date of the report; and
(d) the location of the auditor's office."

However, any serious effort to revise the report should consider the following issues:

"(a) Comment that financial statements are those of management;
(b) Explanation that amounts in the financial statement are reasonable approximations and are not precise calculations;
(c) Reference to the fact that audit was made in accordance with audit standards;"

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2. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.

3. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

4. The report shall either contain an expression of opinion regarding the financial statements taken as a whole or an assertion to the effect that an opinion can not be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clearcut indication of the character of the auditor's examination, if any, and the degree of responsibility he is taking.
ANNEXURE 2-2: POWERS AND DUTIES OF AUDITORS

Section 227 of the Companies Act, 1956 as applicable to India.

1. Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, whether kept at the head office of the company or elsewhere, and shall be entitled to require from the officers of the company such information and explanations as the auditor may think necessary for the performance of his duties as auditor.

1-A. Without prejudice to the provisions of sub-section (1) the auditor shall require:

(a) whether loans and advances made by the company on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interest of the company or its members;

(b) whether transactions of the company which are represented merely by book entries are not prejudicial to the interests of the company;

(c) whether the company is not an investment company within the meaning of section 372 or a banking company; whether so much of the assets of the company as consists of shares, debentures and other securities have been sold at a price less than that at which they were purchased by the company;

(d) whether loans and advances made by the company have been shown as deposits;

(e) whether personal expenses have been charged to revenue account;

(f) where it is stated in the books and papers of the company that any shares have been allotted for cash, whether cash has
actually been received in respect of such allotment, and if no cash has actually been received, whether the position as stated in the accounts books and the balance-sheet is correct, regular and not misleading.

2. The auditor shall make a report to the members of the company on the accounts examined by him, and on every balance sheet and profit and loss account and on every other document declared by this Act to be part of or annexed to the balance sheet or profit and loss account, which are laid before the company in general meeting during his tenure of office, and the report shall state 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 this Act in the manner so require and give a true and fair view;

1) in the case of the balance-sheet, of the state of the company affairs as at the end of its financial year; and

2) in the case of profit and loss account, of the profit or loss for its financial year.

3. The auditor's report shall also state:

(a) whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;

(b) whether in his opinion proper books of accounts as required by law have been kept by the company so far as appears from his examination of those books, and proper returns adequate for the purposes of his audit have been received from branches not visited by him;
(bb) whether the report on the accounts of any branch audited under Section 228 by a person other than the company auditor has been forwarded to him as required by clause (c) of sub-section (3) of that section and he has dealt with the same in preparing the auditor's report.

(c) whether the company's balance-sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns.

4. Whether any of the matters referred to in clauses (1) and (11) of sub-section (2) or in clauses (a), (bb) and (c) of sub-section (3) is answered in the negative or with a qualifications, the auditor's report shall state the reason for the answer.

4-A. The Central Government may, by general or special order, direct that, in the case of such class or description of companies as may be specified in the order, the auditor's report shall also include a statement on such matters as may be specified therein.

Provided that before making any such order the Central Government may consult the Institute of Chartered Accountants of India constituted under the Chartered Accountants Act, 1949, in regard to the class or description of companies and other ancillary matters proposed to be specified therein unless the Government decides that such consultation is not necessary or expedient in the circumstances of the case.