

## **Unit-V**

### **Valuation and verification**

**Context:**

This unit deals valuation and verification of Assets and liabilities.

### **Lesson 13**

### **Valuation and Verification**

This lesson deals the valuation and verification of Assets and liabilities.

**Objectives:**

The objective of this lesson is to know the –

1. Meaning of valuation and verification
2. Elements of valuation
3. Type of value
4. Difference between vouching and verification
5. Difference between valuation and verification

#### **Meaning of Valuation of Assets**

Valuation implies critical examination and the testing of determined values of assets by the auditor based on generally accepted accounting principles.

Some of the problems of valuations are as follows –

- Whether the assets should be valued of replacement or realizable value.
- How to value the assets during the inflationary period
- Break up value.

Valuation of Assets has been defined as follows –

**As per Lancaster**, “The valuation of assets is therefore an attempt to equitable distribution of the original outlay on the period of the assets usefulness.”

**As per Batliboy**, “ A company’s balance sheet is not drawn for the purpose of showing what the capital would be of worth if the assets were realized and liabilities paid off but rather to show how the capital stands invested.”

#### **Nature of Valuation**

1. Value is related to valuation
2. Valuation includes the critical examination and testing of the determined values of the assets by the auditor on the basis of generally accepted conventions and accepted principles.
3. The valuation of the assets is done by the proprietors or the official of the organization.
4. It is the duty of the auditor to use certain tests for the valuation of assets.
5. Valuation is a part of verification.

**Elements of valuation**

1. Critical examination
2. Valuation
3. Value
4. Assets and liabilities
5. Based on some principles.
6. Assessment
7. Accuracy
8. Testing
9. Cost measurement

**Objects of Valuation**

It includes –

1. To assess the correct financial position of the organization .
2. To assess the time position of the assets and liabilities at the date of the Balance sheet.
3. To enquire about the mode of investment.
4. To enquire about the type of assets.
5. To enquire about the nature of assets.
6. To assess the value of goodwill of the organization
7. To assess the rate of Cost/Depreciation.
8. To satisfy the auditor about the accuracy of the value of assets and liabilities.

**Self Check Question**

1. What is valuation?
2. Define verification.
3. State any two elements of valuation.
4. State any two objects of Valuation.
5. What is SAP?
6. Valuation is a part of .....
7. Valuation includes .....of the assets.
8. Valuation is done by .....
9. Value is related with .....
10. Valuation involves the .....of the assets.

**Verification of Assets**

1. “The verification of assets implies an enquiry into the value ownership and title, existence and possession, the presence of any charge on the assets.” - **Spicer and Pegler**

2. “ The verification of assets is a process by which the auditor substantiates the accuracy of the right hand side of the Balance Sheet, and must be considered as having three distinct objects –

- (i) The verification of existence of assets.
- (ii) The valuation of assets
- (iii) The authority of their acquisition.” - **Joshep Lancaster**

According to the ‘SAP’ issued by the ICAI, the auditors objective in regard to verification of assets generally is to satisfy himself that –

- They exist
- They belong to the client.
- They are in possession of the client or any person authorized by him.
- They are not subject to undisclosed encumbrances or him.
- They are stated in the balance sheet at proper amount in accordance with sound accounting principles, and
- They are recorded in the accounts.

### **Element of Verification**

It Includes –

- 1. Existence
- 2. Valuation
- 3. Ownership
- 4. Possession
- 5. Charge
- 6. Use
- 7. Verification

### **Objects of verification**

- 1. To verify the ownership of assets.
- 2. To verify the possession of the assets.
- 3. The auditor has to certify whether the balance sheet shows a true and fair financial position for this he has to verify the assets and liabilities.
- 4. To ensure the arithmetical accuracy of the books of accounts.
- 5. To certify the ownership and title of the assets appearing in the balance sheet.
- 6. To detect the frauds and irregularities, if any in the books of accounts of the concern.
- 7. To ascertain the existence of the particular assets appearing in the balance sheet.
- 8. To verify the fact whether the assets are free from charge or not.

### **Nature of Verification**

1. Verification means proving the truth or confirmation the value, possession and title of the assets and liabilities.
2. Verification is based on a physical inspection.
3. Verification is done at the end of the year when the balance sheet of the concern is prepared.

### **Types of Value**

#### **1. Cost Price:**

It is a price paid for the acquisition of an asset. As a matter of practice, the expenses incurred in the purchase of an asset and its installation are included in its cost price. The following assets are valued at Cost Price –

1. Land
2. Free hold land

#### **2. Replacement Value:**

It is a price at which a particular asset can be replaced. In such a value, the expenses, e.g. commission, freight etc. are also included.

#### **3. Market Value:**

If an asset has a market for it, a valuation which it will bring when sold in the market, it is termed as Market Value. Following assets are valued at market price –

- Tea
- Coffee
- Vegetables
- Fruits
- Work in Progress
- Raw Materials
- Gold

#### **4. Book Value:**

It is a value at which an asset appears in the books of accounts. It is usually the cost less depreciation written off so far.

$\text{Cost Price} - \text{Depreciation}$
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Some times following assets are valued at book value –

- (i) B/R
- (ii) B/P
- (iii) Creditors
- (iv) Debtors
- (v) Bank overdraft
- (vi) Bank credit

**5. Realizable Value:**

A value which will be realized in the market and received from the sale of an asset is known as its Realizable value. Usually, expenses such as commission, brokerage, etc. are deducted from it the releasable value is normally used in the valuation of existing assets.

$$\text{Market value} - \text{Marketing Exp.} = \text{Realisable value}$$

The following assets are valued at realizable value –

1. Unsold raw materials
2. Work in Progress
3. finished Product

**6. Scrap Value:**

A value which may be obtained from the asset if is sold as scrap and unserviceable is Break-up value.

**7. Going Concern Value:**

Value of the Business as a going concern. This is also know as conventional or token or Historical value. It is equivalent to the cost less a reasonable amount of depreciation written off.

The following assets are valued at going concern value –

- Motor car
- Land and Building
- Furniture
- Plant
- Machinery
- Fixtures
- Fittings
- Trucks
- Buses
- Railway bogies
- Helicopters
- Cinema building

The following Points have to be considered in the valuation of assets –

- (i) The original cost of assets
- (ii) The estimated working life of assets
- (iii) Wear and tear
- (iv) Break-up value
- (v) Use in shifts
- (vi) The chances of its being obsolete.

**Difference between vouching and verification**

<b>Basis of Difference</b>	<b>Vouching</b>	<b>Verification</b>
1. Meaning	Vouching consists of comparing entries in the books of accounts. with documentary evidence in support of thereof.	Verification of assets implies an enquiry into the value, ownership and title, existence and possession and presence of any charge on the assets.
2. Nature	Vouching examines the entries relating to different transactions recorded in the books of accounts.	Verification examines the assets and liabilities appearing in the balance sheet of the concern. It is based on physical inspection.
3. Based	It is based on the documentary evidence and examination.	It is done by the auditor.
4. Work performed	It is done by the audit clerk.	It is done at the end of the year.
5. Time	While vouching is done for the transaction of a whole year.	

**Difference between Valuation and Verification**

<b>Basis of Difference</b>	<b>Valuation</b>	<b>Verification</b>
1. Meaning	The valuation of assets is therefore an attempt to equitable distribution of the original outlay on period of the assets usefulness.	Verification is the proof of accuracy of extension, footings, posting, existence and ownership of assets.
2. Role	Valuation is done by manager of the concern.	Verification is done by auditor himself or his senior staff.
3. Part	Valuation is not liable for valuation.	Verification has a broader term it involves valuation.
4. Liability	An auditor is not liable for valuation.	An auditor is liable for verification.

5. Steps	Valuation involves only find the correct value of assets and liabilities.	Verification involves an Enquiry in to the: (i) Value (ii) ownership (iii) Title (iv) Existence, and (v) Possession
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**Self Check Questions**

1. What is verification?
2. What are the objectives of verification?
3. What is Cost Price?
4. Define market Price.
5. What is book value?
6. What is scrap value?
7. Give the name of any two fixed Assets.

## **Lesson -14**

### **Valuation and Verification of Assets and Liabilities**

#### **Context:**

This lesson deals types of Assets. Types of liabilities, application of valuation and verification.

#### **Objectives:**

After studying this lesson you should to know about –

- Types of Assets
- Types of liabilities
- Application of valuation and verification in case of Building, Contingent liabilities, Capital reserve and loss of Stock by theft.

#### **Types of Assets**

##### **I. Fixed Assets:**

A fixed asset may be defined as an asset which is held with the intention that it will be used for production or provision of goods and services and not for sale in the normal course of business.

It consists –

- (i) Land
- (ii) Plant
- (iii) Machinery
- (iv) Building
- (v) Land and Building
- (vi) Motor car
- (vii) Furniture
- (viii) Fixtures
- (ix) Fittings
- (x) Investment
- (xi) Mines
- (xii) Oil wells

##### **II. Current Assets:**

The assets which cannot be put to constant use are current assets. These assets are meant for resale or are processed or produced for the purpose of sale and converting them into cash.

The following are the items of current assets –



- (i) Cash
- (ii) Bank
- (iii) Stock
- (iv) Semi-manufactured goods
- (v) Debtors
- (vi) B/R
- (vii) Marketable securities

**III. Wasting Assets:**

There does not appear any necessity to provide depreciation on wasting assets like –

- (i) Mine
- (ii) Oil wells
- (iii) Quarries
- (iv) Forest
- (v) Ponds/ Pools

**IV. Intangible Assets:**

These assets do not have their form and existence, hence they are visible in their concrete form. These are –

- (i) Goodwill
- (ii) Brand
- (iii) Copyright
- (iv) Patents
- (v) Trademarks
- (vi) Moto
- (vii) Speach

**V. Fictitious Assets:**

Fictitious assets are different by their nature itself. Such assets are not physically visible, though, of course, money is spent in their case or are unrealizable assets.

The examples of such assets are –

- (i) Preliminary expenses
- (ii) Debenture issued at discount
- (iii) Share issued at discount
- (iv) Issue expenses
- (v) Others

**Types of Liabilities****I. Current Liabilities:**

The denote obligation the liquidation of which is expected to require the use of existing current assets or creation of other current liabilities –

- (i) Trade liabilities
- (ii) Creditors
- (iii) B/P
- (iv) Bank overdraft

**II. Long term Liabilities:**

They refer to obligation which are not expected to be discharged by –

- (a) Use of current assets
- (b) Creation of the other current liabilities
- (c) Within a relatively short period of time.

(Usually one year)

**Example –**

- (i) Share Capital
- (ii) Bonds
- (iii) Debenture
- (iv) Bank Loan
- (v) Interest Payment

**Self Check Questions**

1. What is current liability?
2. State any two examples of Long term liabilities.
3. What is Wasting Asset?
4. Define Fictitious Assets.
5. Fixed assets is purchased for .....in the business.
6. Fixtures are a .....assets.
7. Stock is a .....assets.
8. Mine is a .....assets.
9. Patent is a .....assets.
10. Bank overdraft is .....liabilities.

**Application of valuation and verification**

**I. Building:**

- (i) Verify the cost by reference to the architect's certificate as well as the contractor's receipts for amounts paid in case building is completed during the year. If the building has been constructed by the client's own organization. It will be necessary for the auditor to verify that the basis upon which cost of materials. Wages and the supervision charges have been allocated to the account and same are reasonable.
- (ii) Check whether depreciation has been provided on a consistent basis.
- (iii) Confirm the existence of building either through physical observation or other documentary evidence.
- (iv) Check the title deeds and verify that building is owned by the entity.
- (v) Ascertain whether any charge has been created on the building. If so, the same has been disclosed.
- (vi) Examine lease deed, if the building is leasehold, to ascertain the cost, amortization, etc. also ensure that all covenants in the lease deed have been fulfilled by the client.
- (vii) If revaluation has taken place, see the basis of revaluation and ensure that the disclosure of the same has been made.

(viii) In case of a company, check that presentation and disclosure has been as per the Part I of Schedule VI to the Companies Act, 1956.

## **II. Contingent Liabilities:**

- (i) inspect the minutes books of the company to ascertain all contingent liabilities known to the company.
- (ii) Examine the contracts entered in to by the company and the likelihood of contingent liabilities resulting.
- (iii) Examine bank letters in respect, of bills discounted and not matured.
- (iv) Examine bank letters to ascertain guarantees on behalf of other companies or individuals.
- (v) Discuss with various functional officers of the company about the possibility of contingent liabilities existing in their respective fields.
- (vi) Scrutinize correspondence with suppliers, customers, lawyers, etc., to ascertain the existence of contingent of contingent liabilities.
- (vii) Obtain a certificate from the management that all known contingent liabilities have been included in the account and they have been properly disclosed.

## **III. Verification of Sale Proceeds of Scrap:**

An auditor is required to review the production and cost records for the determination of the extent of scrap materials that may arise in a given period. Normally speaking, in the ordinary course of his duties the auditors would expect that scrap generated in the company, If any, are properly accounted for. The existence of an accounting and costing system would provide evidence about the adequacy and reliability of accounting records. The records should adequately show the details of sale of scrap. Besides the rates at which the scrap have been sold, correct billing of the same and their identification that good quality material has not been mixed up, are the other aspects to be examined by the auditor. As per MAOCARO, 1988, the auditor was required to report whether the company is maintaining reasonable records for the sale and disposal of scrap.

Therefore, just because the sale proceeds are not significant and the company has a good accounting and costing system, the auditor cannot overlook other aspects.

## **IV. Audit of Capital Reserve:**

A capital reserve is a reserve which is not available freely for distribution as dividend. The auditor should examine that the head 'capital reserves' does not include any amount as are regarded as free for distribution as dividend. In the case of a company, if there is a profit on reissues. The following are the duties for the Auditor in connection with the capital profits, which are not normally available for distribution to shareholders unless:

- (1) The Articles of the company permit such a distribution,
- (2) it has been realized in cash;
- (3) the assets value remaining after distribution of the profit will be not less than the book value so that share capital and reserve remaining after the distribution will be fully represented by the remaining assets.

Revaluation reserve is also not available for dividends. Further the bonus shares cannot be issued by so, the auditor should qualify his report. Further capital resources should be classified under the Reserve & Surplus head. This would also lead to violation of balance sheet guidance note issued by ICAI. A clear distinction should be made between capital profits and capital receipts. The latter cannot be distributed by way of dividend at all. Auditor should also ensure the presentation and disclosure requirement of Part I of schedule VI to the Companies Act, 1956 have been complied with.

**V. Loss of stock by Theft:**

- (i) The most important evidence for verification will be the First Information Report (FIR) filed with the Police for this theft.
- (ii) The contents of the FIR will be cross checked with the financial books and stock records.
- (iii) If no FIR is lodged, then deeper analysis will be required including satisfaction of the reasons for not filing FIR.
- (iv) The quantity and value of the stolen stock is not included in the closing stock will be ensured.
- (v) Verify whether such stock was insured and whether theft claim was lodged with the insurance company.

**VI. Stock lying with sub-contractors for fabrication:**

- (i) The stock lying with the sub contractor for processing should be confirmed by the confirmation letter obtained from the sub contractors.
- (ii) The necessity of holding stock by them should be vouched. If the stock is lying with them for long, the reason for the same should be ascertained, the condition of the stock should be confirmed by the management.
- (iii) The stock should be valued at cost or net realizable value whichever is less. The processing charges incurred should be added to the cost. The provision for the liability towards unpaid processing charges should be created.
- (iv) The stock should be disclosed under the head current assets under the sub head inventory.
- (v) Adjustment in accounts should be made for any discrepancies between stock confirmed and stock sent out as per memorandum records.

**VII. Intangible Assets:**

An intangible asset is that asset which does not have a physical identity but which is real and substantial in the commercial sense. Such assets does not have any physical existence but their presence in the business is indicated with a value placed thereon. These assets confer rights and benefits to owners subject to their being useful. Examples of intangible assets are goodwill, patents, copyright, etc. Normally, intangible assets are valued at cost less the expired value of their utility to the business. Some of the intangible assets tend there method of valuation as follows:

- (i) **Goodwill:** If goodwill has been purchased, the cost of purchase will be value of goodwill there is no compulsory condition to depreciate goodwill. However, it would be prudent to write-off goodwill over a reasonable period.

(ii) **Patents:** It is to be seen that the patent is valued at cost less depreciation. Cost is the acquisition cost which may be purchase cost or development cost. The cost of registration of patent should be included in the valuation amounts.

(iii) **Trademarks and copyrights:** the value has to be determined by capitalizing the cost incurred for the purpose of obtaining the trademarks and copyrights. The cost of these assets are amortised having regard to appropriate legal and commercial considerations.

#### **VIII. Trade Marks and Copyrights:**

(i) Obtain schedule of Trade Marks and Copyrights duly signed by the responsible officer and scrutinize the same and confirm that all of them are shown in the Balance Sheet.

(ii) Examine the written agreement in case of assignment of Copyright and Assignment Deed in case of transfer of trade marks. Also ensure that trade marks and copyrights have been duly registered.

(iii) Verify existence of copyright by reference to contract between the another and noting down the terms of payment of royalty.

(iv) See that the value has been determined properly and the cost incurred for the purpose of obtaining the trade marks and copyrights have been capitalized.

#### **IX. Inventories:**

(i) Examination of stock records with reference to relevant documents, e.g., goods received notes, inspection reports, material issue notes, bin cards, etc.

(ii) Examine the instructions and the programme of verification prepared by the management to satisfy that the work is properly organized to cover the different locations and types of stocks.

(iii) Review the original verification sheets and trace selected items including the more valuable items into the final inventories.

(iv) Attend at least part of the time, when the physical verification is done and also carry out a test check of the work performed.

(v) Examine confirmation from parties holding the stocks in respect of the stocks lying with others. Ensure that a proper cut-off procedure was followed.

(vi) Ascertain the existence of obsolete and slow-moving items and see whether proper adjustments have been carried out.

(vii) Ensure that normal basis of valuation is cost or net realizable value whichever is lower and same is followed on a consistent basis.

**X. Verification, valuation and Disclosure of fixed Assets:** Fixed assets are assets held for the purpose of providing or services and are not meant for sale in the normal course of business. Fixed assets normally constitute a significant portion of the total assets, particularly in a manufacturing enterprise. Verification of fixed assets therefore assumes considerable importance.

Verification of fixed assets consists of examination of related records and physical verification. The auditor should normally verify the records will reference to the documentary evidence and by evaluation of internal controls. Physical verification of fixed assets is primarily the responsibility of the management.

Verification of records embodies the following aspects/issues viz., (a) opening balances schedule of fixed assets – ledger/register balance, (b) acquisition of new fixed assets and improvements, (c) self-constructed fixed assets, improvements

and capital WIP. (d) scrutiny of expense accounts, (e) fully written off or depreciated fixed assets, (f) fixed assets retired i.e. destroyed, scrapped or sold, and (g) ascertainment of such omissions.

Physical verification is primary responsibility of the management to carry out verification of fixed assets at appropriate intervals in order to ensure that they are in existence. However, the auditor should satisfy himself that such verification was done by observing the verification being conducted by the management wherever possible and by examining the written instructions issued to the staff by the organization.

### **Self Check Questions**

- |                                       |                    |
|---------------------------------------|--------------------|
| 1. Building is a ..... assets.        |                    |
| (a) Fixed assets                      | (b) Current assets |
| (c) Intangible assets                 | (d) All of these   |
| 2. Plant and machinery is valued at – |                    |
| (a) Book value                        | (b) Going Concern  |
| (c) Cash Price                        | (d) All of these   |
| 3. Capital reserve is created with –  |                    |
| (a) Revenue Profit                    | (b) Capital Profit |
| (c) Loss                              | (d) Capital        |
| 4. Lease deed is related with –       |                    |
| (a) Building or Land and Building     | (b) Wages          |
| (c) Salary                            | (d) Tax            |

## **Lesson – 15**

### **Types of Report**

#### **Context:**

This lesson deals the types of Audit report, Audit Certificate and Forms of report.

#### **Objectives:**

The objective of this lesson is to know the –

- Type of report
- Difference between audit report and audit certificate.
- Formate of Audit report.

The auditor has the right as well as duty, to make a report to the member on the accounts examined by him, and to 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 the Companies Act in the manner as required, and whether the financial statements give a true and fair picture of the state of affairs of the business of the company and as to the results of its operations.

Types of Audit Report:

Audit report may be classified as follows:

1. Qualified Audit report
2. Clean report
3. Negative Audit report

### **1. Qualified Audit Report:**

Qualified audit report is one in which the auditor does not give clean report about the truthfulness and fairness of financial statement but makes certain reservations. Where an auditor fails to obtain sufficient information to warrant an expression of opinion then he is unable to form opinion and, thus, he makes a disclaimer of opinion.

Accordingly, the auditor may state that he is unable to express an opinion because he has not been able to obtain sufficient and appropriate audit evidence to form an opinion. The necessity of disclaimer of opinion may arise due to many reasons such as restriction on scope of examination or in certain circumstance the auditors may not have access to all the books of account for certain reasons, e.g., books are seized by excise authorities or destroyed if fire, etc. It is but natural that the auditor must case he is unable to obtain audit evidence even from alternative sources, then the auditors can only state that he is unable to form an opinion, therefore, an auditor is required to exercise judgement as to circumstances which may cause modification in the audit report. The following are some of the circumstance when qualified audit report is warranted –

- (a) If the auditor is unable to obtain all the information and explanations which he considers necessary for the purpose of his audit.
- (b) If proper books of accounts have been kept by the company in accordance with the law.
- (c) If the balance sheet and profit and loss account are not in agreement with the books of account and return.
- (d) If the profit and loss account and balance sheet do not comply with the accounting standards referred to in sub-section (3c) of section 211 of the Companies Act, 1956.
- (e) The financial information complies with relevant regulations and statutory requirements.

(f) There is adequate disclosure of all material matters relevant regulations and statutory requirement, where applicable.

The audit report should contain a clear written matters relevant to the proper presentation of the financial information and if the form of content of the report is laid down in or prescribed under any agreement of stature or regulation. The audit report should comply with such requirement. An unqualified opinion indicates the auditor's satisfaction in all material respects with the matter dealt.

## **2. Clean Audit Report:**

A clean audit report is one which is issued by the auditor when he does not have any reservation with regard to the matters in the financial statements. In such a case, the audit report may state that the financial statements give a true and fair view of the state of affairs and profit and loss account for the period. The audit reports should contain a clear expression of opinion on the financial information and if the form or content of the report is laid down in or prescribed under any agreement or statute of regulation. The audit report should comply with such requirement. An unqualified opinion indicates the auditor's satisfaction in all material respects with the matters dealt with below or as may be laid down or prescribed under the relevant agreement or statute of regulation, as the case may be. Under the following circumstances an auditors is justified in issuing a clean report:

- (i) The financial information has been prepared using acceptable accounting policies, which have been consistently applied.
- (ii) The financial information complies with relevant regulations and statutory requirements;
- (iii) There is adequate disclosure of all material matters relevant to the proper presentation of the financial information, subject to statutory requirements, where applicable.

### **Self Check Questions**

1. Define Audit Report.
2. State the type of Audit Report
3. What is qualified report?
4. What is clean report?

## **3. Adverse or Negative Report:**

The auditor issues an adverse or negative report when he is of the opinion that based on his examination, he does not agree with the affirmations made in the financial statement. In other words, in his opinion, the financial statement do not present a true and fair view of the sate of affairs and the working results of the organization. An adverse opinion is appropriate where the reservations of objections are so material that the auditor feels that the overall view of the accounts is materially distorted. Where the auditor gives an adverse opinion, he should disclose all material reasons therefore it has, however, been had been drawn so as to give effect to the facts of subsequent events. Accordingly, the auditor should



omit qualification as the debt is no more doubtful in view of its recovery in full. However, the auditor may check that it has in fact been received by a substantial vouching of the subsequent events which had been considered by him to make himself fully satisfied about his report in the matter.

### **Distinction between Audit Report and Certificates**

The term 'certificate', is a written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion. When an auditor certifies a financial statement, it implies that the auditor has certified accuracy of the data. The term certificate is, therefore, used where the auditor verifies certain exact facts. An auditor's may, thus certify the circulated figures of a newspaper or the value of imports or exports of a company. An auditor's certificate represents that he has verified certain precise figures and is in a position to certify their accuracy as per are examination of documents and books of account.

An auditor's report, on the other hand is an expression of opinion. The term report implies that the auditor has examined relevant records and that he is expressing an opinion whether or not the financial statements represent a true and fair view of the state of affairs and of the working results of an enterprise. Since an auditor cannot guarantee that the figures in the balance sheet and profit and loss account itself are product of observance of several accounting policies, the selection of which may vary from one professional to another and, thus, he can only have an overall view of the accounts through normal audit procedures. Therefore, the term certificate cannot be used in connection with these statements.

Thus, when a reporting auditor issues a certificate, he is responsible for the factual accuracy of what is stated therein. On the other hand, when a reporting auditor gives a report, he is responsible for ensuring that the report is based on factual data, that his opinion is in sue accordance with facts, and that it is arrived at by application of due care and skill.

### **Self Check Questions**

1. What is Negative report?
2. What is Adverse report?
3. State the difference between Audit report and certificate.
4. Give the specimen of an audit report.

### **Specimen of Auditor's Report**

#### **Auditors' report**

To the members of ICICI Bank Limited

1. we have audited the attached Balance Sheet of ICICI Bank Limited ( the Bank) as at March 31, 2007 and also the Profit and Loss Account and the Cash Flow Statement for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our auditor.

2. we conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to

obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3. We did not audit the financial statements of the Singapore branch of the Bank, whose financial statements reflect total assets of Rs. 2,04,336 million as at March 31, 2007, total revenues of Rs. 12,610 million and cashflows amounting to Rs. 36,085 million for the year then ended. These financial statements have been audited by another auditor, duly qualified to act as auditors in the country of incorporation of the branch. Whose report has been furnished to us, and was relied upon by us for our opinion on the financial statements of the Bank.

4. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211(1) and (2) of the Companies Act, 1956.

5. We report that:

(iv) 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 and have found them to be satisfactory;

(v) The transactions of the Bank, which have come to our notice, have been within the powers of the Bank.

(vi) The returns received from the offices and branches of the Bank have been found adequate for the purposes of our audit.

6. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards issued by the Institute of Chartered Accountants of India referred to in sub-section (3C) of Section 211 of the Companies Act, 1956, to the extent they are not inconsistent with the accounting policies prescribed by the Reserve Bank of India.

7. We further report that:

(v) the Balance Sheet, Profit and Loss Account dealt with by this report are in agreement with the books of account and the returns;

(vi) in our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books;

(vii) the reports on the accounts of the Singapore branch audited by another auditor have been dealt with in preparing our report in the manner considered necessary by us;

(viii) as per information and explanation given to us the Central Government has, till date, not prescribed any cess payable under Section 441A of the Companies Act, 1956;

(ix) on the basis of written representations received from the directors, as on March 31, 2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

8. In our opinion and to the best of our information and according to the explanations given to us and on consideration of report submitted by the Singapore branch auditor, the said accounts together with the notes thereon give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 1956, in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (i) in the case of the Balance sheet, of the state of affairs of the Bank as at March 31, 2007;
- (ii) in the case of the Profit and Loss Account, of the profit of the Bank for the year ended on that date; and
- (iii) in the case of the Cash Flow Statement, of the cash flows of the Bank for the year ended on that date.

For BSR & Co.

Chartered Accountants

Akeel Master

Partner

Membership No. 046768

Mumbai

**Self Check Questions**

- |     |                                    |                      |
|-----|------------------------------------|----------------------|
| 1.  | Audit report is given by the –     |                      |
| (a) | Auditor                            | (b) Manager          |
| (C) | Staff                              | (d) All of these     |
| 2.  | Which is the type of Audit report? |                      |
| (a) | Clean report                       | (b) Qualified report |
| (C) | Agreement                          | (d) A and B          |