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GUIDANCE NOTE ON AUDIT REPORTS AND CERTIFICATES FOR SPECIAL PURPOSES

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Foreword

A noteworthy development in recent years is the increasing involvement of our members in giving audit reports or certificates on special purpose statements or other information prepared by an enterprise. The nature of such assignments in terms of objectives and scope of work, duties of the auditor and contents of audit report or certificate is different from a general purpose audit of financial statements. In view of this, the Research Committee of the Institute decided to bring out this Guidance Note on Audit Reports and Certificates for Special Purposes.

The Guidance Note emphasises that the auditor should have a clear understanding of the scope and nature of his assignment. It provides guidance to the auditor regarding various facets of such assignments including the extent of reliance on the general purpose audit report and the form and contents of audit reports and certificates for special purposes. The Guidance Note specifically deals with the special reports based on a limited review of accounts, which is a relatively new development in our country. The two appendices to the note give illustrations of the formats of audit reports and certificates required for special statutory or non-statutory purposes.

On behalf of the Research Committee, I wish to express my gratitude to Shri. P. M. Narielvala who supervised the preparation of the basic draft of this Note.

I trust this Guidance Note would be of help to the those who are engaged in the preparation of special purpose audit reports and certificates.

New Delhi
March 12, 1984

P.A. Nair
Chairman
Research Committee

1. Introduction

1.1 Government authorities may under various statutes or notifications, require reports or certificates from auditors in support of statements or other information prepared by an enterprise. Reports or certificates on specific matters may also be required from auditors by an enterprise, for its own special purposes. These reports or certificates cater, to specific requirements of the individual users unlike a 'general purpose report' e.g., an auditor's report on financial statements which is intended for general use. An audit report or certificate for special purpose is one to which the format of general purpose audit report is not applicable.

1.2 This note is intended to provide guidance to members who may be called upon to give audit reports or certificates for special purposes (herein referred to as 'reporting auditors'). Reports on profit and/or financial forecasts and on tax audit do not fall within the scope of this Guidance Note.*

2. Scope of Special Purpose Audit Reports and Certificates

2.1 Audit reports or certificates for special purposes may be issued in connection with:

- (a) financial statements which are prepared in addition to general purpose financial statements;
- (b) specified elements, accounts or items of a financial statement;
- (c) compliance with requirements of any agreement or statute or regulation;
- (d) financial information given in special purpose formats or schedules; or
- (e) compilation of statistics or ascertainment of basic figures e.g., for the purpose of fixing quotas or levies.

2.2 A reporting auditor should appreciate the difference between the terms 'certificate' and 'report'. A certificate is a written confirmation of the accuracy of the facts stated therein and does not involve any estimate or opinion. A report, on the other hand, is a formal statement usually made after an

* These subjects have been dealt with in separate publications of the Institute, viz. 'Guidance Note on Accountants' Report on Profit Forecast and/or Financial Forecasts' and 'Guidance Note on Tax Audit under Section 44AB of the Income Tax Act, 1961'.

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enquiry, examination or review of specified matters under report and includes the reporting auditor's opinion thereon. 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 due accordance with facts, and that it is arrived at by the application of due care and skill.

3. Responsibility for Preparation of Special Purpose Statements

The primary responsibility for the contents of a special purpose statement rests with the enterprise and this would be evidenced by a suitable declaration or authentication by the management on the face of the statement.

4. Scope of a Reporting Auditor's Function

4.1 A reporting auditor should have a clear understanding of the scope and nature of the terms of his assignment. It is desirable for him to obtain the terms in writing to avoid any misunderstanding.

4.2 A reporting auditor is not an expert on purely technical matters and as such, when he is required to report on or certify such matters (e.g., composition or quality of a product) which are of paramount importance and constitute the very basis of the figures contained in the statement, he should state his limitations clearly in the report or certificate. At the same time, he should indicate the extent to which he has been able to exercise his own professional skill and judgement with regard to the matter being reported upon. For instance, he may state that, for the purpose of forming his opinion, he has relied upon a certificate from technical experts. He should, of course, satisfy himself about the technical qualifications of the expert, and subject the expert's certificate to a reasonable review.

5. Contents of Reports and Certificates for Special Purposes

5.1 In many cases, a reporting auditor can choose the form and contents of his report or certificate. In other cases, the form and contents of the report or

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certificate are specified by statute or notification and cannot be changed.

5.2 Where a reporting auditor is free to draft his report or certificate, he should consider the following:

- (a) Specific elements, accounts or items covered by the report or certificate should be clearly identified and indicated.
- (b) The report or certificate should indicate the manner in which the audit was conducted, e.g., by the application of generally accepted auditing practices, or any other specific tests.
- (c) If the report or certificate is subject to any limitations in scope, such limitations should be clearly mentioned.
- (d) Assumptions on which the special purpose statement is based should be clearly indicated if they are fundamental to the appreciation of the statement.
- (e) Reference to the information and explanations obtained should be included in the report or certificate. In certain cases apart from a general reference to information and explanations obtained, a reporting auditor may also find it necessary to refer in his report or certificate to specific information or explanations on which he has relied.
- (f) The title of the report or certificate should clearly indicate its nature, i.e., whether it is a report or a certificate. Similarly, the language should be unambiguous, i.e., it should clearly bring out whether the reporting auditor is expressing an opinion (as in the case of a report) or whether he is only confirming the accuracy of certain facts (as in the case of a certificate). For this, the choice of appropriate words and phrases is important.
- (g) If the special purpose statement is based on general purpose financial statements, the report or certificate should contain a reference to such statements. However, the report or certificate should not contain a reference to any other statement unless the same is attached therewith. It should be clearly indicated whether or not the statutory audit of the general purpose financial statements has been completed and also, whether such audit has been conducted by the reporting auditor or by another auditor. In case the general purpose financial statements have been audited by another auditor, the reporting auditor should specify the extent to which he has relied on them. He may communicate with the statutory auditor for securing his cooperation and in appropriate

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circumstances, discuss relevant matters with him, if possible.

- (h) Where a report requires the interpretation of a statute, the reporting auditor should clearly indicate the fact that he is merely expressing his opinion in the matter. He should take sufficient care to ensure that in respect of matters which are capable of more than one interpretation, his report is not misconstrued as representing a settled legal position.
- (i) An audit report or certificate should ordinarily be a self-contained document. It should not confine itself to a mere reference to another report or certificate issued by the reporting auditor but should include all relevant information contained in such report or certificate.
- (j) The reporting auditor should clearly indicate in his report or certificate, the extent of responsibility which he assumes. Where the statement on which he is required to give his report or certificate, includes some information which has not been audited, he should clearly indicate in his report or certificate the particulars of such information.

5.3 In certain cases, the form and/or contents of the report or certificate, as prescribed by a statute or a notification, may not be appropriate or adequate. In such situations, the reporting auditor may consider modifying the report or certificate on the basis of the suggestions made in para 5.2 supra, to the extent applicable. In case this is not possible, he should clearly indicate the limitations in his report or certificate itself.

6. Extent of Reliance on General Purpose Audit Report

6.1 Where a special purpose engagement is undertaken after the statutory audit has been completed, a reporting auditor should invariably review the statutory audit report to ascertain whether there are any matters which have a bearing on his report or certificate.

6.2 In cases, where a reporting auditor is required to report or certify certain specific matters arising from the financial statements taken as a whole, he should not normally issue his report or certificate until the statutory audit has been completed. For instance, a reporting auditor may be required to state whether, in the case of an Indian branch of a foreign company, the profit shown in the accounts represents the remittable surplus of the branch, or he may be asked to report on the computation of 'gross profit' for the purpose of bonus under the Payment of Bonus Act, 1965. In such cases, it would normally not be proper for him to give his report or certificate until the statutory audit has

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been completed, since he would not really be in a position to state whether the profit shown in the accounts itself has been properly computed.

6.3 Where an audit report or certificate is required before the statutory audit is completed, a reporting auditor should clearly state in his audit report or certificate that he is reporting on or certifying specific matters arising out of the financial statements of the enterprise, the statutory audit of which has not been completed.

6.4 Where the reporting auditor prepares his report or certificate on the basis of duly audited general purpose financial statements he may take the following precautions:

- (i) He may clearly state in his report or certificate that the figures from the audited general purpose financial statements have been used and relied upon.
- (ii) He may include in his report or certificate a statement showing the reconciliation between the figures in the general purpose financial statements and the figures appearing in his report or certificate.

7. Limited Review Report

Section 7, "Limited Review Report" has been withdrawn pursuant to issuance of the Guidance Note on Engagements to Review Financial Statements.

8. Reports and Certificates on Specified Accounts or Items of Financial Statements

8.1 The test of materiality which a reporting auditor uses in connection with special purpose reports may be different, depending upon the circumstances, from the test he would use in connection with a general purpose report. For example, where he is required to express an opinion on specified accounts or items of financial statements, he may judge the materiality of an item solely in relation to such individual accounts or items rather than to the aggregate thereof or to the financial statements as a whole. A reporting auditor's examination of certain records for an audit report or certificate for special purpose may also be more intensive than the examination of the same records by the statutory auditor for the purpose of expressing an opinion on the general purpose financial statements as a whole.

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8.2 Certain accounts or items of financial statements are inter-related, e.g., sales and debtors, purchases and creditors, fixed assets and depreciation, etc. Therefore, where reporting auditor is required to examine and report upon or certify a specified account or items of financial statements, he may also need to examine the related accounts or items to discover the inconsistencies, if any, between these inter-related accounts or items.

9. Other Engagements

Section 9, "Other Engagements" has been withdrawn pursuant to the issuance of the Guidance Note on Members' Duties regarding Engagements involving Compilation of Financial Statements.

10. Communication of Report or Certificate

10.1 The reporting auditor may address his report or certificate to the client or to the public authority or person requiring it, as the case may be. In appropriate circumstances, a certificate may be issued without reference to any particular person or authority by using the words, 'To Whomsoever It May Concern'.

10.2 The report or certificate should normally be issued to the client who should be responsible for forwarding the same to the concerned authority, where so required.

11. Communication with the Previous Reporting Auditor

It would be a healthy tradition if the practice of communicating with the member who had done the work previously is followed in every case where a member is required to give a report or certificate for a special purpose.

12. Illustrations

The appendices to this Note give certain illustrations of audit reports and certificates for special purposes. Appendix I contains certain statutory certificates while Appendix II comprises of specimen certificates of non-statutory nature. It may be noted that there are a large number of other certificates-statutory and non-statutory-which a Chartered Accountant may be called upon to issue under specific circumstances.

Appendix-I

Illustrations of Statutory Audit Reports and Certificates for Special Purposes

(1) Auditor's certificate in the application for consent to the issue of bonus shares made to the Controller of Capital Issues¹:

"We have verified the information furnished by the company for issue of bonus shares and find the same as correct. We also certify that we have received all the information required by us for the verification.

We hereby certify that the proposal contained in the application for the issue of bonus shares meets all the requirements of the bonus issue guidelines, including the guidelines contained in paragraphs 8, 9, 11 and 13 in force issued by the Government in this regard according to the information furnished to us and to the best of our knowledge."

(2) Auditors' certificate in the application form² for issue of securities other than bonus shares under the Capital Issues Control Act, 1947.

"We have verified the information furnished in the above application of the company for issue of fresh capital and find the same as correct. We also certify that we have received all the information required by us for the verification.

We hereby certify that the requirements of clause 5 of the Capital Issues (Exemption) Order, 1969, have been fully met by the company for the issue of acknowledgment/consent by the Controller of Capital Issues according to the information furnished to us and to the best of our knowledge."

(3) Chartered Accountant's Certificate³ on Exports

Ref No.....

Date

Place

¹ Part E of Schedule B to the Capital Issues (Application for Consent) Rules, 1966, Notification No. G.S.R. 600 dated 29th March 1966, Government of India, Ministry of Finance.

² Part G of Schedule A to the Capital Issues (Application for Consent) Rules, 1966, Notification No. G.S.R. 600 dated 29th March 1966, Government of India, Ministry of Finance.

³ Annexure XI of Appendix 10 to The Hand Book of Import-Export Procedures, 1983-84, Vol. II, Government of India, Ministry of Commerce, page 162.

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Chartered Accountant's Certificate

"This is to certify that we have checked and verified the above particulars of exports from the books / documents of M/s.....and found the same to be correct."

(Signature of the Chartered Accountant)
Official Stamp

Full Address.....

Regn. No.....

(4) Chartered Accountant's certificate⁴ on certain matters in the application for grant/renewal of 'Export House' certificate under Import- Export Policy 1983-84

Certificate of the Chartered Accountant

"We.....(name and address of the Chartered Accountant) hereby certify that we have checked and verified the above particulars of exports from the books / documents of M/s.....and found the same to be correct. We also certify that the exports mentioned in this statement, excluding those exports which were made as associates of the STC/MMTC are direct exports of M/s. and the export documents viz, export order/contract, bank certificate and invoice were in the name of M/s. We have verified that each export invoice is properly supported by a purchase voucher."

Signature of the Chartered Accountant
Official Stamp

Full Address

Registration No

Dated

⁴ Annexure XX of Appendix 10 to the Hand Book of Import-Export Procedures, 1983-84, Vol. II, Government of India, Ministry of Finance, page 171.

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(5) *Chartered Accountant's Certificate⁵ on the statement showing consumption of imported raw materials, Components and Consumables under Import-Export Policy 1983-84.*

1. "I/We have verified that the applicant unit has duly furnished to the D.G.T.D, Department of Electronics, Textile Commissioner or other sponsoring authorities concerned, its production returns for the year 1982-83 and other prescribed returns/statements for the same year, as it was required to furnish under the provisions of Imports and Exports Control Rules, Industrial (Development and Regulation) Act, Textile Control Order, etc.
2. I/We do hereby certify that consumption as certified in the statement has been verified from the books maintained by M/s. and found the same as correct. I/We have also put my/our office seal and signature on the books from which the information has been verified.
3. I/We also certify that the applicant unit has been maintaining proper account of consumption in the prescribed form as indicated in the Hand Book of Import-Export Procedures, 1983-84.
4. I am not a partner, a Director or an employee of the applicant firm or its associates.
5. I have been duly appointed for the purpose by the Board of Directors of the Company or management as the case may be (In the case of Chartered Accountants/Cost Accountant)"

Signature and Seal of Chartered Accountant

Name of the Signatory

Full address.....

Date

(Seal)

⁵ Appendix 11 of the Import and Export Policy, 1983-84, Vol. I, Government of India, Ministry of Finance, page 182.

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(6) *Chartered Accountant's certificate⁶ regarding certain matters in the Application for Grant of Export Performance Certificate under Import-Export Policy 1983-84.*

"I/We do hereby certify that the information given in this statement has been verified from the books maintained by M/s,and found the same as correct. I/We have also put my/our office seal and signature on the books from which the information has been verified.

I/We am/are neither a partner, a Director nor an employee of the applicant or its associates."

Place

Date

Signature and seal of Chartered Accountant

Name of the signatory

Full address

Membership No

(Seal)

Residential Address

⁶ Appendix 13 of the Import & Export Policy, 1983-84, Vol. I, Government of India, Ministry of Finance, page 185.

Appendix-II

Illustration of non-statutory audit reports and certificates for special purposes

(1) Chartered Accountant's certificate⁷ regarding employers' bonus computation

"We have reviewed the figure in the above computation, in comparison with the books and records of X Company Limited, produced to us, the audit of which has already been completed by us and/or another firm of chartered accountants and report that, subject to the notes given on the face of computation, in our opinion, and to the best of our knowledge and belief and according to the information and explanations given to us, the above computation is in due accordance therewith and has been made on a basis reasonably consistent with the provisions of the Payment of Bonus Act, 1965."

(2) Auditor's certificate⁸ pursuant to Companies (Acceptance of Deposits) Rules, 1975.

"We have examined the books of account and records maintained by Company Ltd. in respect of the particulars furnished in the Return of Deposits as on 31st March 19..... and certify that to the best of our knowledge and according to the information and explanations given to us and as shown by the records examined by us, the figures of deposits and interest rates under Parts A, B and C of the Return are correct.

We further certify the correctness of the particulars of the paid up capital and free reserves, etc. given in the Manager's Certificate."

(3) Chartered Accountant's Report on the basis of a limited review of interim financial statements.*

*(4) Accountants' Report on Unaudited Statements***

⁷ The Payment of Bonus Act, 1965 – An Accountant's Study, The Institute of Chartered Accountants of India, page 7.

⁸ A Note on the Companies (Acceptance of Deposits) Rules, 1975, The Institute of Chartered Accountants of India, page 77.

* Refer to the Guidance Note on Engagements to Review Financial Statements.

** Refer to the Guidance Note on Members' Duties regarding Engagements involving Compilation of Financial Statements.