company.

Meaning of Audit Report:

"The auditor is required to 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 the Act, to be annexed to the balance sheet or profit and loss account which are laid before the company in the general meeting during his term of office. Such a report is known as the auditor's report." (Section 227(2) of the Companies Act of 1956).

Joseph Lancaster defines an audit report as "a statement of collected and considered facts, so drawn up as to give a clear and concise information to persons who are not already in possession of the full facts of the subject-matter of the report".

From these definitions, it is clear that an audit report is a statement through which an auditor submits his findings and expresses his opinion on the state of affairs of the company's business. In other words, it is a statement through which an auditor summarises the results of his audit work. In short, it is the medium through which an auditor expresses his opinion on the financial statements of a business.

Characteristics of Audit Report:

The important characteristics of an audit report are:

1. It is the medium through which an auditor expresses his opinion on the financial statements and conditions of a business.

2. It is the end product of audit, as it summarises the results of the audit work conducted by an auditor.

3. It is based on factual information. So, it is a statement of facts. The facts stated in the audit report are those which have not only been collected but also considered at the same time.

4. The audit report may be short or long.

5. The audit report may be in the form of a letter or mere statement.

6. The report is attached to the balance sheet.

13. The report must be attached to the balance sheet.

TYPES OF AUDIT REPORT

An audit report may be **(1) a clean, clear, unqualified, conventional or positive report or (2) a qualified, adverse or negative report.**

1. Clean or Unqualified Report :

When an auditor is satisfied with the affairs of the company and the fairness of the balance sheet and profit and loss account of the concern, he gives in his report the various matters without any reservations, qualifications or modications. **Such a report is called a clean report or unqualified report.**

A clean report is given by an auditor when he is satisfied as to the truthfulness and fairness of the accounts and the financial statements of the company.

Usually, an auditor gives a clean report.

Before giving a clean report, an auditor must observe the following :

(a) He must examine the books of accounts of the company as per the accepted accounting principles.

(b) He must observe all the audit procedures necessary under the circumstances.

(c) He must see that all the relevant provisions of the Companies Act and other important laws are complied with.

(d) He must be satisfied with the truthfulness and fairness of the accounts and the financial statements of the company.

2. Qualified Report or Adverse Report :

When an auditor finds some irregularities in the books of account or in the financial statements, he invites the attention of the directors to those irregularities and suggests to the directors the ways in which the accounts or the financial statements should be altered. If the directors refuse to alter the accounts or the financial statements as per the suggestions of the auditor, the auditor gives a report mentioning the irregularities (i.e., the points on whether he is not satisfied). **Such a report is called a qualified report.** So, **a qualified report is a report in which the auditor inserts any qualifications, modifications or reservations.**

A qualified report is given by an auditor when there is sufficient information for him to form an opinion that the accounts and the financial statements do not present a true and fair view of the financial condition and results of operations. That means, a qualified report is given by an auditor only when there are certain reasons for the giving of a qualified report. In other words, a qualified report is given by an auditor only under certain circumstances. They are :

1. When he is not satisfied with the accounts or the financial statements presented to him.

2. When proper books of accounts as required by law have not been maintained.

3. When there is a violation of the Companies Act and any other important laws.

4. Where there is a substantial departure from the generally accepted accounting principles.

5. Where there is a material mis-statement in the financial statements.

6. Where there is an omission of a material disclosure.

7. When the explanations sought by the auditor are not made available to him.

8. When the auditor is not satisfied with the information and explanations given to him.

9. When he finds some discrepancy in the treatement of certain items.

10. When the assets are over-valued or under-valued.

11. When stock in trade has been valued at the market price which is more than the cost price.

12. When investments have been valued at cost price which is in excess of the market price.

13. Where there is insufficient provision for depreciation on fixed assets.

14. When there is inadequate provision for bad and doubtful debts.

15. Where secret reserves have been created.

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