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Statements on Auditing Procedure

No. 23
December 1947

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Issued by the
Committee on Auditing Procedure,
American Institute of Accountants,
13 East 41st Street, New York 17, N. Y.

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Clarification of Accountant's Report When Opinion Is Omitted

1. The presentation of financial statements on the stationery or in a report of an independent public accountant without a definitive expression clearly indicating the representations he is making as to their fairness tends to create uncertainties in the minds of those who do not have special information regarding the preparation of the financial statements. In such cases, these third parties have no basis for determining what inferences are warranted by the association of the accountant's name with the financial statements and may place undue reliance upon them.

2. Illustrative of the practices which frequently give rise to such uncertainties are the following:

- (a) The presentation of financial statements on the stationery of the accountant without comment, opinion, or signature; or with the assertion that the statements are "for management purposes only."
- (b) The omission of an expression of opinion or of a specific disclaimer of an opinion in a report of an accountant in which financial statements and comments on the scope of the audit are included.

3. In the first case it is not clear whether, by his silence, the accountant intends to express unequivocal satisfaction with the financial statements or whether he intends to disclaim any opinion at all. The assertion that the statements are "for management purposes only" leaves the reader in doubt as to whether it indicates a limitation on the scope of the audit examination, whether it merely designates the form in which fully-approved statements are presented, or whether it has some other significance. In the second case, there is a review of the accountant's procedures, but it is not clear whether those procedures were sufficient to permit the expression of an opinion.

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4. Since the accountant cannot effectively control the use to which financial statements accompanied by his name may be put, the adoption of practices which will minimize the possibilities of uncertainties and misinterpretations by third parties is obviously to the interest of all concerned and should aid in the avoidance of embarrassment and damage to the profession. The committee on auditing procedure, therefore, recommends that, whenever financial statements appear on the stationery or in a report of an independent certified public accountant, there should be a clear-cut indication of the character of the examination, if any, made by the accountant in relation to the statements, and either an expression of opinion regarding the statements, taken as a whole, or an assertion to the effect that such an opinion cannot be expressed. When the accountant is unable to express an over-all opinion, the reasons therefor should be stated. When the accountant considers it appropriate to comment further regarding compliance of the statements with generally accepted accounting principles in respects other than those which require the denial of an over-all opinion, he should be careful to indicate clearly the limitations of such comments.

* * * * *

5. On September 19, 1939, the membership of the American Institute of Accountants approved a report of this committee entitled "Extensions of Auditing Procedure" which stated, in part:

"The independent certified public accountant should not express the opinion that financial statements present fairly the position of the company and the results of its operations, in conformity with generally accepted accounting principles, when his exceptions are such as to negative the opinion, or when the examination has been less in scope than he considers necessary. In such circumstances, the independent certified public accountant should limit his report to a statement of his findings and, if appropriate, his reasons for omitting an expression of opinion."

6. The views now being enunciated by the committee entail the modification and extension of this position. It is, therefore, recommended that the above-quoted paragraph, which appears on page 5 of Statements on Auditing Procedure No. 1, "Extensions of Auditing Procedure," be amended to read as follows:

"The independent certified public accountant should not express the opinion that financial statements present fairly the position of

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the company and the results of its operations, in conformity with generally accepted accounting principles, when his exceptions are such as to negative the opinion, or when the examination has been less in scope than he considers necessary **to express an opinion on the statements taken as a whole.** In such circumstances, the independent certified public accountant should ~~(limit his report to a statement of his findings and, if appropriate, his reason for omitting an expression of opinion)~~ **state that he is not in a position to express an opinion on the financial statements and indicate clearly his reasons therefor. He may also, if appropriate, comment further as to compliance of the statements with generally accepted accounting principles in respects other than those which require the denial of an over-all opinion.**" (Bold face type indicates new wording; cross-out indicates old wording eliminated.)

* * * * *

7. In view of the formal adoption of the report, "Extensions of Auditing Procedure," it is believed appropriate that any modification thereof should likewise be placed before the membership for formal consideration. Accordingly, council has directed that this statement be placed on the agenda of the next annual meeting of the Institute for discussion and action by the membership, and has authorized its issuance as a committee statement so that the membership may have an opportunity to consider it prior to its presentation to the annual meeting for formal action.

COMMITTEE ON AUDITING PROCEDURE (1946-1947)

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