

University of Mississippi

eGrove

American Institute of Accountants

Deloitte Collection

1967

Unaudited financial statements; Statement on auditing procedure, No. 38

American Institute of Accountants. Committee on Auditing Procedure

Follow this and additional works at: https://egrove.olemiss.edu/dl_aia



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Accountants. Committee on Auditing Procedure, "Unaudited financial statements; Statement on auditing procedure, No. 38" (1967). *American Institute of Accountants*. 264.
https://egrove.olemiss.edu/dl_aia/264

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in American Institute of Accountants by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

Unaudited Financial Statements

(Supersedes paragraphs 17 and 18 of Chapter 10
of Statements on Auditing Procedure No. 33)

1. A certified public accountant may be engaged to prepare, or to assist his client in preparing, unaudited financial statements. This type of engagement is an accounting service as distinguished from an examination of financial statements in accordance with generally accepted auditing standards. This accounting service, which may include assistance in adjusting and closing the general books, frequently is rendered as an adjunct to the preparation of tax returns. Although the certified public accountant may have prepared, or assisted in preparing, unaudited financial statements, the statements are representations of management, and the fairness of their representation is management's responsibility.

2. For purposes of this Statement, financial statements are unaudited if the certified public accountant (a) has not applied any auditing procedures to them or (b) has not applied auditing

*Issued by the Committee on Auditing Procedure
American Institute of Certified Public Accountants*

procedures which are sufficient to permit him to express an opinion concerning them as described in paragraphs 8 through 16 and 22 through 25 of Chapter 10 of Statements on Auditing Procedure No. 33. The certified public accountant has no responsibility to apply any auditing procedures to unaudited financial statements.

3. A certified public accountant is associated with unaudited financial statements when he has consented to the use of his name in a report, document or written communication setting forth or containing the statements. Further, when a certified public accountant submits to his client or others, with or without a covering letter, unaudited financial statements which he has prepared or assisted in preparing, he is deemed to be associated with such statements. This association is deemed to exist even though the certified public accountant does not append his name to the financial statements or uses "plain paper" rather than his own stationery. However, association does not arise if the accountant, as an accommodation to his client, merely types on "plain paper" or reproduces unaudited financial statements so long as he has not prepared or otherwise assisted in preparing the statements and so long as he submits them only to his client.

4. The committee believes that a disclaimer of opinion should accompany unaudited financial statements with which the certified public accountant is associated. The disclaimer of opinion is the means by which the certified public accountant clearly indicates the fact that he has not audited the financial statements and accordingly does not express an opinion on them.

An example of such a disclaimer of opinion is as follows:

Disclaimer of Opinion

The accompanying balance sheet of X Company as of December 31, 19__ and the related statement(s) of income and retained earnings for the year then ended were not audited by us and accordingly we do not express an opinion on them.

(Signature and date)

The disclaimer of opinion may accompany the unaudited financial statements, or it may be placed directly on them. In addition,

each page of the financial statements should be clearly and conspicuously marked as unaudited.

5. A certified public accountant may be retained by his client to perform routine bookkeeping services or to prepare financial statements for the client's internal use only, possibly on a monthly or quarterly basis. For such statements, it might not be necessary to include all footnotes or other disclosures that might otherwise be desirable. Under these circumstances, the accountant should add to the disclaimer of opinion a sentence to the effect that the financial statements are restricted to internal use by the client and therefore do not necessarily include all disclosures that might be required for a fair presentation.

6. Because unaudited financial statements, by definition, have not been audited by the certified public accountant, he cannot be expected to have an opinion as to whether such statements have been prepared in conformity with generally accepted accounting principles. However, if the certified public accountant concludes on the basis of facts known to him that unaudited financial statements with which he may become associated are not in conformity with generally accepted accounting principles, which includes adequate disclosure, he should insist (except under the conditions described in paragraph 5) upon appropriate revision; failing that, he should set forth clearly his reservations in his disclaimer of opinion. The disclaimer should refer specifically to the nature of his reservations and to the effect, if known to him, on the financial statements.

7. If, under circumstances such as those described in paragraph 6, the client will not agree to the appropriate revision or will not accept the accountant's disclaimer of opinion with the reservations clearly set forth, the accountant should refuse to be associated with the financial statements and, if necessary, withdraw from the engagement. Further, a certified public accountant should refuse to provide typing or reproduction services or to be associated in any way with unaudited financial statements which, on the basis of facts known to him, he concludes are false or intended to mislead.

8. Any auditing procedures that may have been performed in connection with unaudited financial statements ordinarily should

not be described in the accountant's report; to do so might cause the reader to believe that the financial statements have been audited. However, in connection with letters for underwriters (see Statements on Auditing Procedure No. 35), or letters pursuant to agreements between a prospective buyer and seller of a business, or in similar circumstances, it may be appropriate for an accountant to describe the limited procedures applied with respect to the unaudited financial statements. The accountant should specify in such letters or reports that their distribution is to be restricted solely to the parties involved.

9. Normally the certified public accountant's name would not appear in client-prepared reports setting forth unaudited financial statements. If the accountant is aware that his name is to be included he should request (a) that his name not be included in the report, or (b) that the financial statements be marked as unaudited and that there be a notation that he does not express an opinion on them. If the client does not comply, the accountant should advise him that he has not consented to the use of his name.

10. Published annual reports of companies customarily include financial statements for the prior year for comparative purposes. Paragraph 48 of Chapter 10 of Statements on Auditing Procedure No. 33 states that where the independent auditor "has not made an examination of the prior year's statements, there should be appropriate disclosure in the statement or in the auditor's report." If the prior year's statements have not been audited by anyone, they should be clearly and conspicuously marked on each page as unaudited, or the auditor should insert in his report a disclaimer such as the following:

We did not examine the financial statements for the year
_____ and accordingly do not express an opinion on them.

If the prior year's statements are appropriately marked as unaudited, the disclaimer above is not necessary because the report of the independent auditor limits his opinion to the current year's financial statements. It should be noted that paragraph 48 of Chapter 10 of Statements on Auditing Procedure No. 33 also

states that the auditor should make appropriate disclosure in his report where he has significant exceptions or reservations as to the prior year's statements.

11. A similar situation exists in documents filed with the Securities and Exchange Commission, wherein financial statements covering a number of years and possibly interim periods may be required. Under the rules and regulations of the Commission, certain of these financial statements must be audited by independent public accountants, whereas others may be included in the filings without audit. In such cases, it is not necessary that a disclaimer of opinion accompany the unaudited financial statements. For a discussion of certain responsibilities of accountants resulting from inclusion of their reports in documents filed with the Commission, see paragraphs 10 through 16 of Chapter 1 of Statements on Auditing Procedure No. 33.

12. This Statement does not apply to tax returns and other data prepared solely for submission to taxing authorities.

The statement entitled "Unaudited Financial Statements" was adopted by the assenting votes of twenty members of the committee, of whom one, Mr. Walters, assented with qualification. One member, Mr. Bruch, dissented.

Mr. Walters qualifies his assent on the following specific points in paragraphs 3 and 4. The concept that deems the accountant to be associated with all financial statements submitted which he has prepared or assisted in preparing embraces a wide range of situations, including some in which his participation is so limited or indirect that Mr. Walters does not believe it is realistic or productive to require the disclaimer. Further, he is not convinced that the recommended disclaimer conveys the degree of the accountant's participation in and responsibility for unaudited financial statements more effectively than the simple and forthright designation "unaudited."

Mr. Bruch dissents to publication as he disagrees with the requirement that a disclaimer of opinion accompany unaudited financial statements without comments. He is of the opinion that a disclaimer is unnecessary, because conspicuously marking each page of such financial statements "unaudited", pursuant to para-

graph 17 of Chapter 10 of Statements on Auditing Procedure No. 33, constitutes a clear-cut indication (a) of the degree of responsibility as required by the Fourth Standard of Reporting and (b) that the certified public accountant is not expressing an opinion. Mr. Bruch also disagrees with the requirements of paragraph 6 of this Statement with respect to the revision of financial statements or the disclosure of known non-conformity with generally accepted accounting principles, as he is of the opinion that these requirements are unwarranted and inappropriate when applied to "unaudited" financial statements.

Further, in Mr. Bruch's opinion, if a disclaimer is to be required with respect to unaudited financial statements, (1) it should apply only to those cases where the certified public accountant appends his name to, or sanctions the use thereof with, such financial statements, and (2) the certified public accountant should be permitted (a) to confine his reasons for the disclaimer to the fact that the financial statements are "unaudited" and (b) to limit disclosures only to matters which he concludes, on the basis of facts known to him, would be false or misleading in any material respect if not disclosed.

NOTES

Unless otherwise indicated, Statements on Auditing Procedure present the considered opinion of the twenty-one members of the Committee on Auditing Procedure, reached on a formal vote after examination of the subject matter by the Committee and the Technical Services Division. Except where formal adoption by the Council or the membership of the Institute has been asked and secured, the authority of the statements rests upon the general acceptability of the opinions so reached.

The Committee on Auditing Procedure is the senior technical committee of the Institute designated to express opinions on auditing matters. While it is recognized that general rules may be subject to exception, the burden of justifying departures from the Committee's recommendations must be assumed by those who adopt other practices.

COMMITTEE ON AUDITING PROCEDURE (1966-67)

JOSEPH L. ROTH, *Chairman*
MARLIN P. ALT
A. JAY BRUCH
LEO E. BURGER
CHARLES CHAZEN
NORMAN COGLIATI
FRANK H. EISEMAN
ROBERT ELLYSON
OSCAR S. GELLEIN
CHARLES B. HELLERSON
ERNEST L. HICKS
ROBERT C. HOLSEN
JOHN W. NICHOLSON

NORMAN O. OLSON
LLOYD O. PARKER
IRWIN F. SENTILLES
CARL J. SIMON
GLENN W. SMITH
RALPH E. WALTERS
NOLAN E. WILLIAMS
HOWARD G. WOMSLEY

RICHARD A. NEST, *Director*
of Technical Services
IRA M. LANDIS, *Manager,*
Auditing Procedure