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American Institute of Accountants. Committee on Auditing Procedure

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Statements on Auditing Procedure

No. 23 (Revised)
December 1949

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Issued by the
Committee on Auditing Procedure,
American Institute of Accountants,
270 Madison Avenue, New York 16, N. Y.
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Clarification of Accountant's Report When Opinion Is Omitted

The committee on auditing procedure of the American Institute of Accountants in December, 1947, issued Statements on Auditing Procedure No. 23, Clarification of Accountant's Report When Opinion Is Omitted, in which it proposed an amendment to Extensions of Auditing Procedure designed to improve current reporting practices. Following the issuance of Statement No. 23, it became evident that there was considerable misunderstanding in the profession as to the objectives of the proposed amendment and its application in practice. Accordingly, the proposed amendment was revised in May, 1949, to explain more fully the committee's views on the subject. The amendment, as thus revised, was submitted to the annual meeting of the American Institute of Accountants in November, 1949, and was formally adopted.

This statement is a revision of Statements on Auditing Procedure No. 23, incorporating the amendment as adopted by the membership. It supersedes the original Statement No. 23.

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.

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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.

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

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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 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 state that he is not in a position to express an opinion on the financial statements taken as a whole and should indicate clearly his reasons therefor. To the extent the scope of his examination and the findings thereof justify, he may also comment further as to compliance of the statements with generally accepted accounting principles in respects other than those which require the denial of an opinion on the over-all fairness of the financial statements. The purpose of these assertions by the accountant is to indicate clearly the degree of responsibility he is taking.

"Whenever the accountant permits his name to be associated with financial statements, he should determine whether, in the particular circumstances, it is proper for him to (1) express an unqualified opinion, or (2) express a qualified opinion, or (3) disclaim an opinion on the

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statements taken as a whole. Thus, when an unqualified opinion cannot be expressed, the accountant must weigh the qualifications or exceptions to determine their significance. If they are not such as to negative the opinion, a properly qualified opinion would be satisfactory; if they are such as to negative an opinion on the statements taken as a whole he should clearly disclaim such an opinion. His conclusions in this respect should be stated in writing either in an informal manner, as in a letter of transmittal bound with the financial statements, or in the more conventional short-form or long-form report. However, when financial statements prepared without audit are presented on the accountant's stationery without comment by the accountant, a warning, such as *Prepared from the Books Without Audit*, appearing prominently on each page of the financial statements is considered sufficient.

"It is not contemplated that the disclaimer of an opinion should assume a standardized form. Any expression which clearly states that an opinion has been withheld and gives the reasons why would be suitable for this purpose. However, it is not considered sufficient to state merely that certain auditing procedures were omitted, or that certain departures from generally accepted accounting principles were noted, without explaining their effect upon the accountant's opinion regarding the statements taken as a whole. It is incumbent upon the accountant, not upon the reader of his report, to evaluate these matters as they affect the significance of his examination and the fairness of the financial statements."

7. It should be remembered that *Extensions of Auditing Procedure* for 10 years has precluded the expression of any opinion on the financial statements taken as a whole when the accountant's exceptions or qualifications were such as to negative the opinion. That provision is continued under the amendment. The change is concerned solely with improving current reporting practices by providing that, in such cases, the accountant should henceforth clearly indicate that he is not in a position to express an opinion on the financial statements taken as a whole, and give his reasons why.

COMMITTEE ON AUDITING PROCEDURE (1948-1949)

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