Audit Reporting and Opinion

- A report from an auditor is to provide *reasonable assurance* as to the fairness of an audited client’s financial statements
  - Balance sheet, income statement, retained earnings, cash flows
- Must include notes to disclose all matters which will be necessary for the users to interpret the statements; supplemental information is unaudited
- Auditing services must conform to GAAS--financials to GAAP
- Standard Unqualified Report
  - Introductory paragraph: Responsibility of management and auditor
    - Client is primarily responsible
    - Auditors give opinion on financial statements, not records
  - Scope paragraph: nature of audit
    - GAAS in USA with reasonable assurance from procedures on a **test basis**
  - Opinion paragraph
    - Nothing more than an informed opinion
    - Types:
      - **Unqualified**: clean opinion- statements are fairly presented
        - Explanatory language is used for
          - Reliance on another auditor
            - No reference: full responsibility
            - Reference: divided responsibility
            - Duty to inquire into auditor’s reputation and independence
          - Inconsistencies in application of GAAP
          - Change in accounting principle
          - Doubt as to going concern
          - Justified departure from GAAP
          - Client changes accounting principle
      - **Qualified** because of scope limitation, one or more items not GAAP; significant but not overshadowing
        - Uses “except for ---“
          - For a material departure from GAAP
          - Limitation on scope
      - **Adverse**: statements are not fairly presented
      - **Disclaimer**: auditor is unable to make opinion