

What does an audit report contain?

Most audit reports on financial statements give the business a clean bill of health, or a clean opinion. At the other end of the spectrum, the auditor may state that the financial statements are misleading and should not be relied upon. This negative audit report is called an adverse opinion. That's the big stick that auditors carry. They have the power to give a company's financial statements an adverse opinion and no business wants that. The threat of an adverse opinion almost always motivates a business to give way to the auditor and change its accounting or disclosure in order to avoid getting the kiss of death of an adverse opinion. An adverse audit opinion says that the financial statements of the business are misleading. The SEC does not tolerate adverse opinions by auditors of public businesses; it would suspend trading in a company's stock share if the company received an adverse opinion from its CPA auditor.

One modification to an auditor's report is very serious - when the CPA firm says that it has substantial doubts about the capability of the business to continue as a going concern. A going concern is a business that has sufficient financial wherewithal and momentum to continue its normal operations into the foreseeable future and would be able to absorb a bad turn of events without having to default on its liabilities. A going concern does not face an imminent financial crisis or any pressing financial emergency. A business could be under some financial distress but overall still be judged a going concern. Unless there is evidence to the contrary, the CPA auditor assumes that the business is a going concern. If an auditor has serious concerns about whether the business is a going concern, these doubts are spelled out in the auditor's report.