

Dr Peter Mintah



Theme 07: Reports on Audited Financial Statements

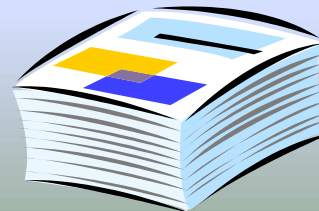
Chapter 18

Reporting on the Financial Statement Audit: The Standard Unqualified Report

Eight Elements

1. Report title
2. Addressee
3. Introductory paragraph
4. Scope paragraph
5. Opinion paragraph
6. Explanatory paragraph referring to the audit of ICFR
7. Name of auditor
8. Audit report date

The standard unqualified report is issued when the auditor has gathered sufficient evidence, the audit has been performed in accordance with PCAOB standards, and the financial statements conform to GAAP.



Standard Unqualified Audit Report (PCAOB)

EXHIBIT 18-1

The Auditor's Standard Unqualified Report for a Public Company (PCAOB Standards)—Comparative Financial Statements (with explanatory paragraph referring to audit of ICFR)

Title:	REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
Addressee:	<i>To the Stockholders of EarthWear Clothiers:</i>
Introductory paragraph:	We have audited the consolidated balance sheets of EarthWear Clothiers as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
Scope paragraph:	We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
Opinion paragraph:	In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.
Explanatory paragraph referring to the audit of internal control:	We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of EarthWear Clothiers' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 15, 2012, expressed an unqualified opinion that EarthWear Clothiers maintained, in all material respects, effective internal control over financial reporting.
Name of auditor:	<i>Willis & Adams Boise, Idaho</i>
Date of report:	<i>February 15, 2012</i>

Reporting on the Financial Statement Audit: The Standard Unmodified Report

Nine Elements

1. Report title
2. Addressee
3. Introductory paragraph
4. Management's responsibility
5. Auditor's responsibility
6. Scope paragraph
7. Opinion paragraph
8. Name of Auditor
9. Audit report date

The standard unmodified report is issued when the auditor has gathered sufficient evidence, the audit has been performed in accordance with GAAS, and the financial statements conform to GAAP.



Standard Unmodified Audit Report (ASB)

EXHIBIT 18-2

The Auditor's Standard Unmodified Report for a Non-Public Company (ASB Standards)—Comparative Financial Statements

Title:	INDEPENDENT AUDITOR'S REPORT
Addressee:	<i>To the Shareholders of Ekins Cycling:</i>
Introductory paragraph:	We have audited the accompanying consolidated financial statements of Ekins Cycling, which comprise the consolidated balance sheets as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.
Management's responsibility paragraph:	<p>Management's Responsibility for the Financial Statements</p> <p>Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.</p>
Auditor's responsibility paragraph:	<p>Auditor's Responsibility</p> <p>Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.</p>
Scope paragraph:	<p>An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.</p> <p>We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.</p>
Opinion paragraph:	<p>Opinion</p> <p>In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ekins Cycling as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.</p>
Name:	Willis & Adams Boise, Idaho
Date:	February 15, 2012

Adjustments to the Standard Unqualified/Unmodified Financial Statement Audit Report

**Explanatory Paragraph:
Reference to report on
audit of ICFR**

**Explanatory Paragraph:
Going concern**

**Modified Wording:
Opinion based in part on
the report of another
auditor**

**Explanatory Paragraph:
Lack of consistency**

**Explanatory Paragraph:
Additional emphasis**

Reference to Other Auditors

Opinion Based in Part on the Report of Another Auditor

[Standard title, addressee, introductory, and management's responsibility paragraphs wording.]

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. *We did not audit the financial statements of Furillo Company, a wholly owned subsidiary, whose statements reflect total assets of \$25,450,000 and \$23,750,000 as of December 31, 2011 and 2010, respectively, and total revenues of \$42,781,000 and \$40,553,000 for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Furillo Company, is based solely on the report of the other auditors.*

[Remainder of the standard scope/auditor's responsibility paragraphs]

Opinion

In our opinion, *based on our audits and the report of the other auditors*, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

[Name of auditor and date of report]

Going Concern

Unqualified/Unmodified Financial Statement Audit Report with an Emphasis-of-Matter Paragraph for Going-Concern Problems

[Standard introductory, management's responsibility, auditor responsibility, scope, and opinion paragraphs]

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 6 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 6. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Lack of Consistency

Changes Affecting Consistency

Change in
accounting
principle

Correction
of an error
in principle

Changes Not Affecting Consistency

Change in
accounting
estimate

Correction of
an error that does
not involve an
accounting
principle

Change
in classification
and
reclassification

Additional Emphasis

Under certain circumstances an auditor may want to emphasize a specific matter regarding the financial statements even though he or she intends to express an unqualified/unmodified opinion.

This information should be presented in an explanatory paragraph.

Emphasis of Matter

- ◆ An emphasis of matter paragraph is the case where **matter presented or disclosed in the financial statements** that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.
- ◆ An emphasis of matter paragraph is included **within a separate section of the auditor's report** with an appropriate heading that includes the term “*Emphasis of Matter*”. The heading may be expanded to include further context of the matter being referred to, eg, 'Emphasis of Matter – subsequent event COVID-19 pandemic'.

Conditions for Departure from Unqualified/Unmodified Report

**Scope
Limitation**

**Departure
from GAAP**

**Lack of Auditor
Independence**

Departures from an Unqualified/Unmodified Financial Statement Audit Report

Qualified
“except for”

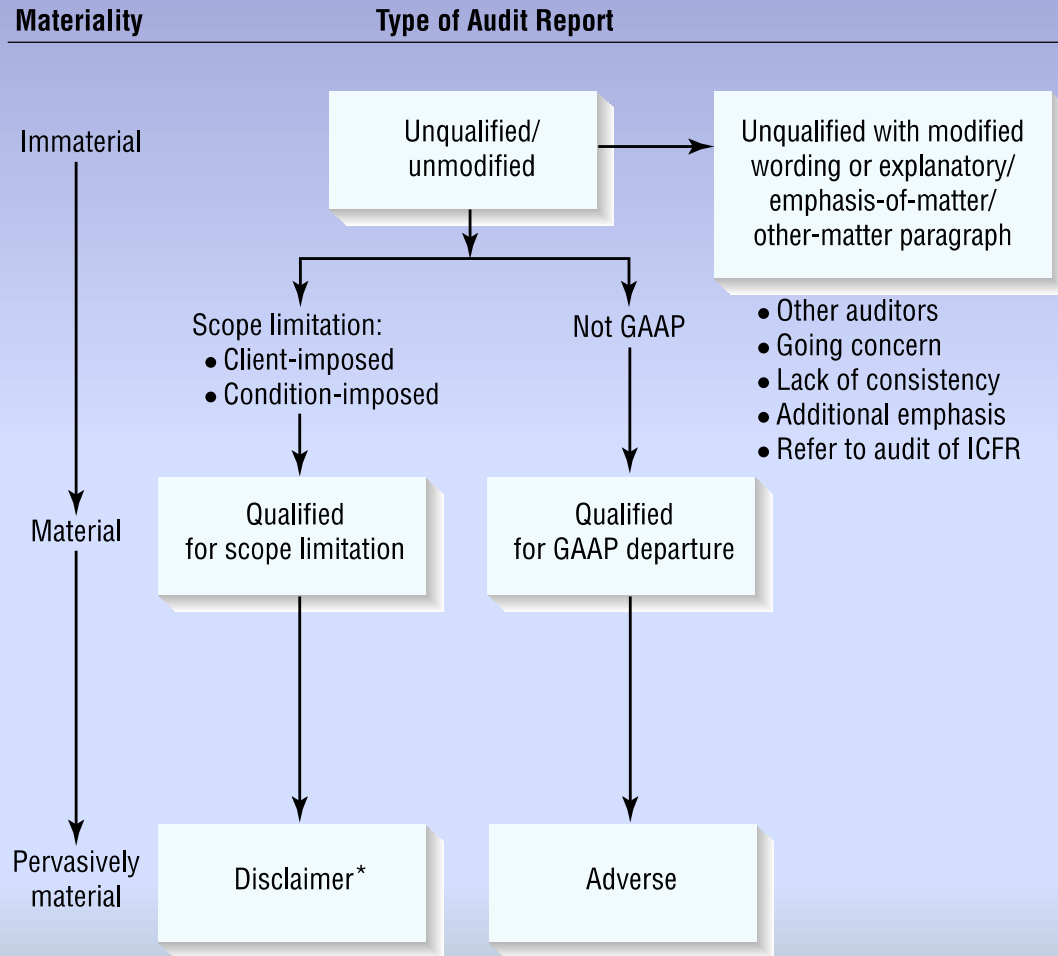
Disclaimer

Adverse

Effect of Materiality

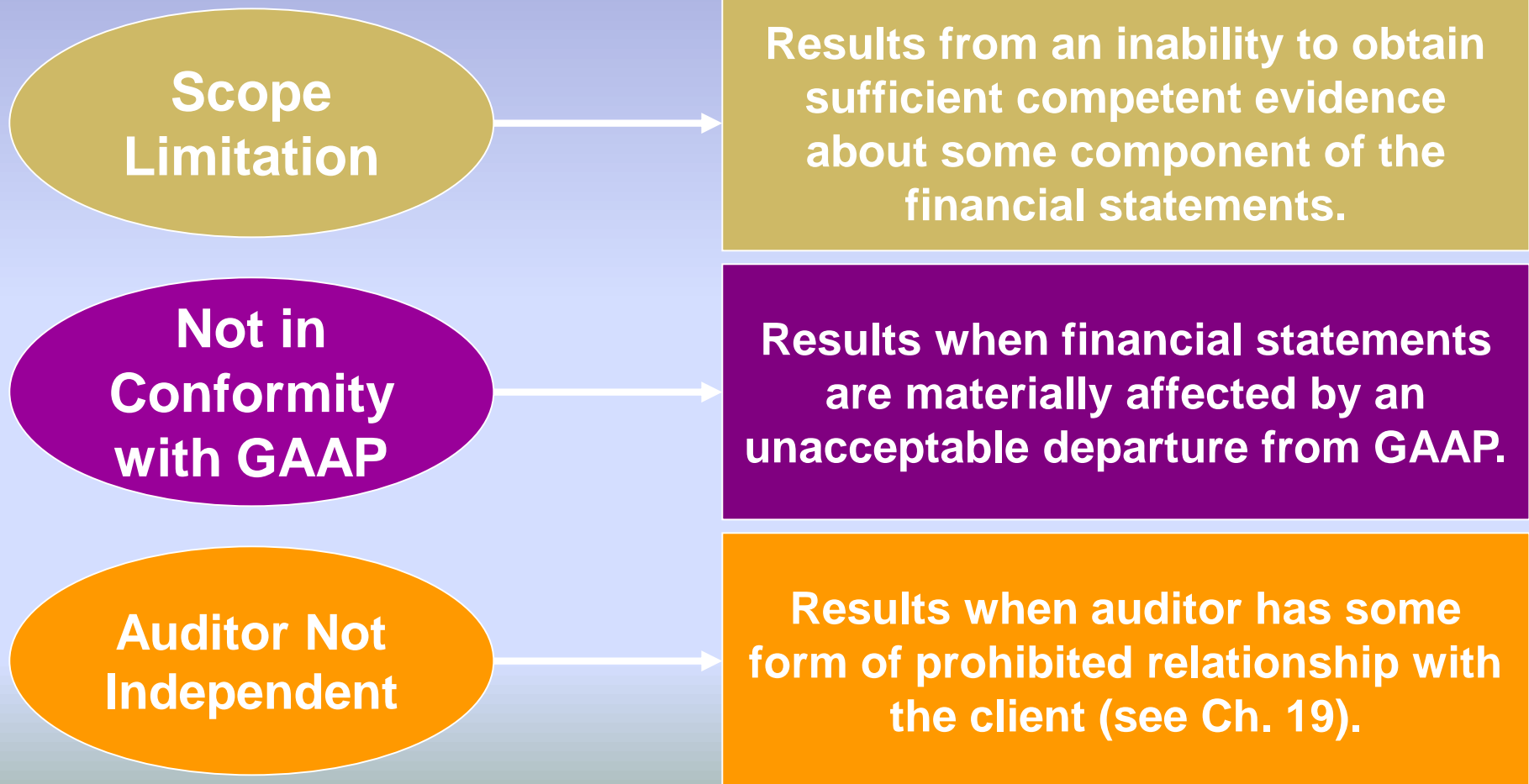
FIGURE 18-1

An Overview of Financial Statement Audit Reporting

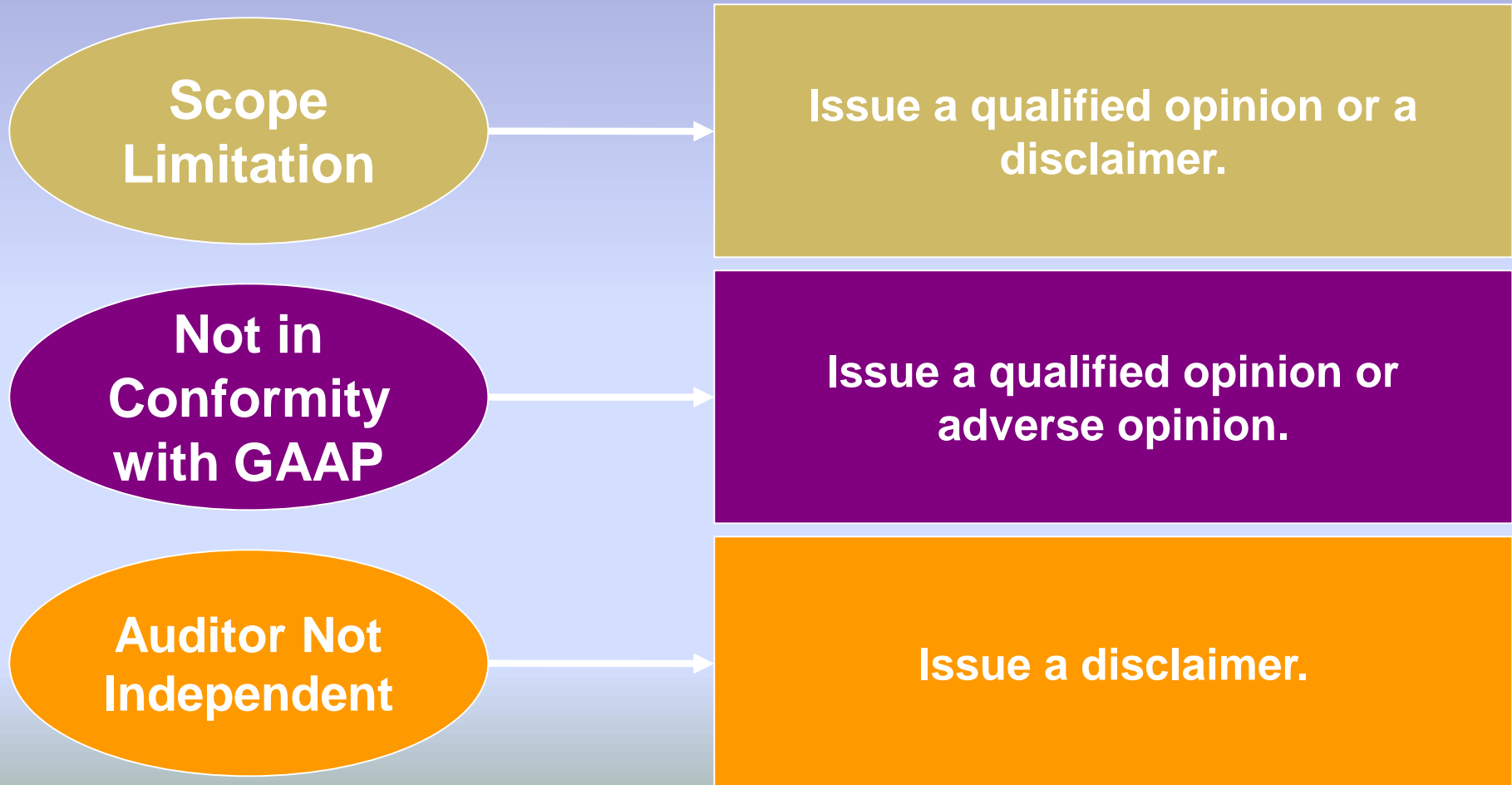


*An auditor will also issue a disclaimer for a lack of independence and, in some rare and extreme cases, for substantial doubt about the entity's ability to continue as a going concern.

Discussion of Conditions Requiring Other Types of Financial Statement Audit Reports



Discussion of Conditions Requiring Other Types of Financial Statement Audit Reports



Scope Limitation: Disclaimer

EXHIBIT 18-5**Disclaimer of Financial Statement Audit Opinion—Scope Limitation**

[Standard wording for introductory and management's responsibility paragraphs.]

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

[Scope paragraph of standard report is omitted]

Scope Limitation: Qualified

EXHIBIT 18-6

Qualified Financial Statement Audit Report—Scope Limitation

[*Standard wording for the introductory, management's responsibility, auditor's responsibility, and scope paragraphs, except that the following italicized words are added to the scope paragraph: "Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America."*]

Basis for Qualified Opinion

We were unable to obtain audited financial statements supporting the Company's investment in a foreign affiliate stated at \$12,500,000 and \$11,700,000 at December 31, 2011 and 2010, respectively, or its equity in earnings of that affiliate of \$1,200,000 and \$1,050,000, which is included in net income for the years then ended as described in Note 10 to the financial statements; nor were we able to satisfy ourselves as to the carrying value of the investment in the foreign affiliate or the equity in its earnings by other auditing procedures.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the foreign affiliate and earnings, the financial statements referred to . . . [*same wording as for the remainder of the standard opinion paragraph*].

Not GAAP: Qualified

Qualified Financial Statement Audit Report—Not in Conformity with Generally Accepted Accounting Principles

[Standard wording for the introductory, management's responsibility, auditor's responsibility, and scope paragraphs]

Basis for Qualified Opinion

The Company has excluded, from property and debt in the accompanying balance sheets, certain lease obligations that, in our opinion, should be capitalized in order to conform with generally accepted accounting principles. If these lease obligations were capitalized, property would be increased by \$7,500,000 and \$7,200,000, long-term debt by \$6,900,000 and \$6,600,000, and retained earnings by \$1,420,000 and \$1,290,000 as of December 31, 2011 and 2010, respectively. Additionally, net income would be increased by \$250,000 and \$220,000 and earnings per share would be increased by \$.25 and \$.22, respectively, for the years then ended.

Qualified Opinion

In our opinion, except for the effects of not capitalizing certain lease obligations as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with the U.S. generally accepted accounting principles.

Not GAAP: Adverse

Adverse Financial Statement Audit Opinion—Not in Conformity with Generally Accepted Accounting Principles

[Standard wording for the introductory, management's responsibility, auditor's responsibility, and scope paragraphs]

Basis for Adverse Opinion

As discussed in Note 6 to the financial statements, the Company carries its property, plant, and equipment accounts at appraisal values and determines depreciation on the basis of such values. Generally accepted accounting principles require that property, plant, and equipment be stated at an amount not in excess of cost, reduced by depreciation based on such amount. Because of the departures from generally accepted accounting principles identified above, as of December 31, 2011 and 2010, respectively, inventories have been increased \$1,500,000 and \$1,340,000 by inclusion in manufacturing overhead of depreciation in excess of that based on cost; property, plant, and equipment, less accumulated depreciation, is carried at \$13,475,000 and \$12,950,000 in excess of an amount based on the cost to the Company. For the years ended December 31, 2011 and 2010, cost of goods sold has been increased \$4,200,000 and \$3,600,000, respectively, because of the effects of the depreciation accounting referred to above, resulting in a decrease in net income of \$2,520,000 and \$2,160,000, respectively.

Adverse Opinion

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Morton Company as of December 31, 2011 and 2010, or the results of its operation or its cash flows for the years then ended.

Special Reporting Issues

Different reports on
comparative
financial statements

Change in report on
prior-period
financial statements

Report by a
predecessor
auditor

Different Reports on Comparative Financial Statements

Comparative Report When the Prior Year Was Disclaimed for a Scope Limitation and the Current Year Received an Unmodified Opinion

[Standard wording for the introductory, management's responsibility, and auditor's responsibility paragraphs]

Except as explained in the following paragraph, we conducted our audits in accordance with . . . *[same wording as for the remainder of the standard scope paragraph]*.

Basis for Disclaimer of Opinion on 2010 Operations and Cash Flows

We did not observe the taking of the physical inventory as of December 31, 2009, since that date was prior to our appointment as auditors for the Company, and we were unable to satisfy ourselves regarding inventory quantities by means of other auditing procedures. Inventory amounts as of December 31, 2009, enter into the determination of net income and cash flows for the year ended December 31, 2010.

Disclaimer of Opinion on 2010 Operations and Cash Flows

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of operations and cash flows for the year ended December 31, 2010.

Opinion

In our opinion, the balance sheets of RUUD Rubber Company as of December 31, 2011 and 2010, and the related statements of income, retained earnings, and cash flows for the year ended December 31, 2011, present fairly, in all material respects, the financial position of RUUD Rubber Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Restated Prior-Period

Change in the Report on the Prior-Period Financial Statements

[Standard wording for the introductory, management's responsibility, auditor's responsibility, scope, and opinion paragraphs]

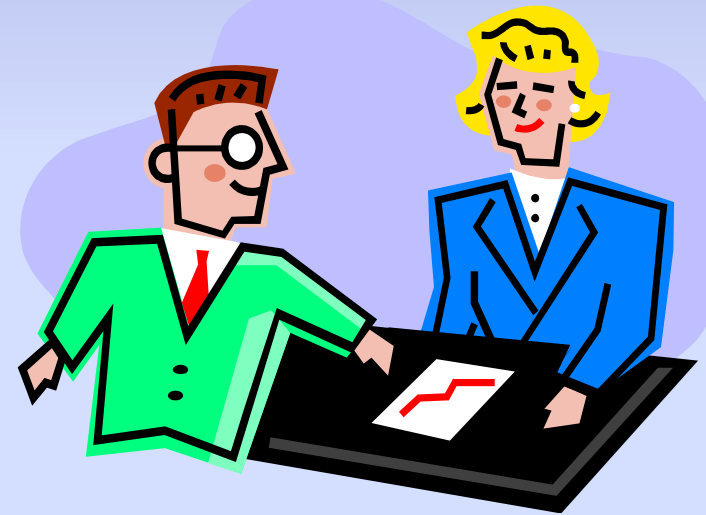
Other Matter

In our report dated March 1, 2011, we expressed an opinion that the 2010 financial statements did not fairly present financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America because of two departures from such principles: (1) the Company carried its property, plant, and equipment at appraisal values and provided for depreciation on the basis of such values; and (2) the Company did not provide for deferred income taxes with respect to differences between income for financial reporting purposes and taxable income. As described in Note 8, the Company has changed its method of accounting for these items and restated its 2010 financial statements to conform with accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the 2010 financial statements, as presented herein, is different from that expressed in our previous report.

Report by a Predecessor Auditor

The predecessor auditor should do the following **before** reissuing a report on prior-year financial statements published for comparative purposes:

1. Read the financial statements of the current period.
2. Compare the prior-period financial statements reported on with the current-year financial statements.
3. Obtain a letter of representation from the current-year or successor auditor.



Other Information in Documents Containing Audited Financial Statements

The auditor has no responsibility beyond the financial information contained in the report, and he or she has no obligation to perform any audit procedures to corroborate the other information. However, the auditor is required to read the other information and consider whether it is consistent with the information contained in the audited financial statements.

Annual
Reports

Registration
Statements

End of Chapter 18

