

Class: B.Com (Hons) Semester III

Subject : BCH 3.1 AUDITING AND CORPORATE GOVERNANCE

11.Topic: TYPES OF AUDIT REPORT

Opinion in an Audit Report

There are primarily two kinds of opinions issued by an auditor in his / her audit report:

1. Unmodified Opinion (also called Unqualified report)
2. Modified Opinion (also called Qualified report)

11.1 Unmodified Opinion

Issued for any audit where the auditor is satisfied that the financial statements present a true and fair view of the operations and transactions in an enterprise during the period.

An audit report with an Unmodified Opinion is also known as a 'Clean Report'. An Unmodified report develops confidence among users of Financial statements and annual reports of an enterprise.

It provides an impression that the financial statements are reasonably free from any misstatements and results as appearing there are true and fair.

11.2. Modified Opinion

Whenever the auditor has specific findings during his / her audit and concludes that an Unmodified Opinion cannot be issued due to the nature of findings, a Modified Opinion is issued in the audit report.

There are two basic reasons due to which an auditor concludes on issuing a Modified Opinion:

- Based on the audit and evidence, finds out that the financial statements contain a certain degree of material misstatements.
- Unable to obtain sufficient and appropriate evidences to conclude that the financial statements are free from material misstatements.

There are three kinds of modified opinions which are issued according to the findings and circumstances:

A. Adverse Opinion

B. Qualified Opinion

C. Disclaimer of Opinion

A. Qualified Opinion

A Qualified Opinion is given in a situation where:

- The auditor concludes that misstatements are material but the impact is not so high that it would render the whole financial statements unacceptable; or
- The auditor is unable to obtain sufficient or appropriate audit evidence but concludes that there are indications of misstatements in the financial statements (but the degree is not high).

Example of a Qualified Opinion paragraph in audit report:

In our opinion, except for the incomplete disclosure of the information referred to in the Basis for Qualified Opinion paragraph, the financial statements give the information required by the

Companies Act, 2013, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

1. In case of the Balance Sheet, of the state of affairs of the company as at March 31, XXXX;
2. In case of Profit and Loss Account, of the profit/loss for the year ended on that date; and
3. In case of the Cash Flow Statement, of the cash flows for the year ended on that date.

B. Adverse Opinion

An Adverse opinion shall be issued by the auditor where he concludes that on the basis of evidence obtained and procedures performed, there are material misstatements in the financial statements and the impact of the same is high.

Example of a Qualified Opinion paragraph in audit report:

In our opinion, because of the omission of the information in the Basis for Adverse Opinion paragraph, the financial statements do not give the information required by the Companies Act, 2013, in the manner so required and also, do not give a true and fair view in conformity with the accounting principles generally accepted in India:

1. In case of the Balance Sheet, of the state of affairs of the company as at March 31, XXXX;
2. In case of Profit and Loss Account, of the profit/loss for the year ended on that date; and
3. In case of the Cash Flow Statement, of the cash flows for the year ended on that date.

C. Disclaimer of Opinion

A Disclaimer of Opinion is to be issued by an auditor in cases where the auditor concludes that he / she is not able to obtain sufficient and appropriate evidences. In such scenario, the auditor is not able to form an opinion and thus, disclaims form providing an opinion on the financial statements. The impact of material misstatements and degree of the same is high enough.

Example of a Draft Disclaimer of Opinion:

We were engaged to audit the financial statements of ABC Private Limited (“the entity”) which comprises the Balance Sheet as at March 31, XXXX, the statement of Profit and Loss, (the statement of changes in equity) and statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the entity. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

11.3: Emphasis of Matter paragraph in an Audit Report

In a situation where the auditor concludes that it is important to draw the attention of users of the financial statement to a particular reported item, he/she may include an Emphasis of Matter paragraph in his / her audit report. In this case, the auditor is not required to modify his / her opinion. The paragraph is added when the issue is not a key audit matter and only requires disclosure for a better understanding of the financial statements.

Example of circumstances where the auditor shall include Emphasis of Matter paragraph in audit report:

- To inform users of financial statements that the same has been prepared under a special purpose framework;
- The auditor discovers some facts after the date of an audit report and the auditor issues new or amended audit report.

Uncertainty about the future outcome of an ongoing litigation.
