Modified Auditor's Reports on Financial Statements, Illustrations and Content

Members' Information & Education Series MIES-7
Modified Auditor's Reports on Financial Statements, Illustrations and Contents
Acknowledgement

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Foreword

I am pleased to present the seventh booklet under the Members’ Information and Education Series (MIES-7) on the subject of “Modified Auditor’s Reports on Financial Statements, Illustrations and Contents”.

The booklet is an extract from the publication of the Auditing Practices Board (APB) of United Kingdom, containing different illustrative samples for the auditor’s reports on financial statements, published with the aim to update the members about the international practices on different types of opinions given in audit reports on financial statements and describe the circumstances that may result in modifications of an audit report on financial statements containing emphasis of matter, qualified, adverse and disclaimer opinions.

We in the Institute always endeavor to update our members with professional developments in other countries. It is considered that this publication will assist the members in practice in proper communication with the shareholders.

At the end, I would like to thank Syed Mohammad Shabbar Zaidi and Mr. Muhammad Asif Iqbal, Director, Professional Standards Compliance and Evaluation for their efforts in compiling the booklet and the editorial team at ICAP for their assistance and support in publishing it.

Nasim Hyder
President

October 31, 2006
Introduction

The auditors of a company, almost all over the world appointed under the statutory law, are required to report to the shareholders. Format of audit reports vary from country to country, but in most countries their relevant corporate regulations provide the format of an audit report.

In Pakistan, the Companies (General Form & Provision) Rules, 1985 has prescribed the format of an audit report.

The matters contained in an audit report could be classified into two parts, namely:

i) Statement of fact
ii) Opinion (clean, emphasis of matter, qualified, adverse, disclaimer, etc.)

The audit report is the final step in an audit process and the ‘only’ communication between the auditor and the shareholders.

An audit would not serve its purpose unless the auditor’s opinion is properly communicated to the shareholders. Auditors are the agent of shareholders and it is their responsibility to provide an independent view in a clear and unambiguous manner. Though considered an ordinary and routine matter, drafting a correct qualified/modified opinion is a difficult task that requires expertise and education. This is exactly the purpose of this booklet.

The basic elements and form of the auditor’s report accordingly as laid down in the International Standards on Auditing are substantially complied with by the United Kingdom, Canada, United States, Netherlands, Mexico, Japan and some other countries’ report formats. In France, there is no standard format of audit report. In Switzerland, there is a reference to auditing standards but usually no reference to a “true and fair view”. The German and Swiss reports refer to professional standards and state that the annual financial statements conform to the German or Swiss laws and the company’s accounting policies.

In many countries it is customary for the auditor to prepare a long-form report to the entity’s board of directors in addition to the publicly published short-form report.

Auditors are also required to communicate non-compliance with laws and regulations to the company’s audit committee or board of directors besides inviting shareholders’ attention on such non compliance in their audit report.

The purpose of this publication is to provide members in practice and, where relevant, accountants, with guidance on important and relevant issues. They are persuasive rather prescriptive in nature with the objective to improve awareness about the international practices amongst the members.
It is hoped that you will find the subject matter constructive and informative.

Muhammad Asif Iqbal, ACA
Director
Professional Standards Compliance & Evaluation

Karachi
October 31, 2006
MODIFIED AUDITOR’S REPORTS
ON FINANCIAL STATEMENTS
(EXCLUDING GOING CONCERN ISSUES)

This Component gives illustrative examples of modified auditor’s reports on financial statements and includes:

- Examples of auditor’s reports where the matter does not affect the auditor’s opinion for example, emphasis of matter paragraphs; and
- Examples of auditor’s reports where the matter does affect the auditor’s opinion for example:
  - Qualified opinions;
  - Disclaimers of opinion; or
  - Adverse opinions.

The example auditor’s reports are designed to illustrate the modified auditor’s reports that might be issued for the different reporting situations and do not depend on the accounting framework adopted.
EXTRACTS FROM MODIFIED AUDITOR’S REPORTS

MATTERS THAT DO NOT AFFECT THE AUDITOR’S OPINION

1. Emphasis of matter — Possible outcome of a lawsuit, unable to quantify effect on financial statements.

MATTERS THAT DO AFFECT THE AUDITOR’S OPINION

Qualified opinion — Disagreement


3. Disagreement — Prior period qualification unresolved and results in a modification of the auditor’s report regarding the current period.

Qualified opinion — Limitation on scope

4. Limitation on scope — Auditor not appointed at the time of the stocktake.

Disclaimer of opinion

5. Disclaimer — Unable to observe all physical stock and confirm trade debtors.

6. Disclaimer — Multiple material/significant uncertainties.

Adverse opinion

7. Adverse opinion — No provision made for losses expected to arise on certain long-term contracts.
Example 1 — Unqualified opinion — Emphasis of matter. Possible outcome of a lawsuit, unable to quantify effect on financial statements.

- UK non-publicly traded company prepares UK GAAP financial statements.

- A lawsuit alleges that the company has infringed certain patent rights and claims royalties and punitive damages. The company has filed a counter action, and preliminary hearings and discovery proceedings on both actions are in progress.

- The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

- The company makes relevant disclosures in the financial statements.

- The auditor issues an unqualified auditor’s report with an emphasis of matter paragraph describing the situation giving rise to the emphasis of matter and its possible effects on the financial statements, including that the effect on the financial statements of the resolution of the uncertainty cannot be quantified.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company’s affairs as at ........ and of its profit [loss] for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors’ Report is consistent with the financial statements.
Emphasis of matter - possible outcome of a lawsuit

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note x to the financial statements concerning the possible outcome of a lawsuit, alleging infringement of certain patent rights and claiming royalties and punitive damages, where the company is the defendant. The company has filed a counter action, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Registered auditors
Address
Date

- UK non-publicly traded company prepares UK GAAP financial statements.
- The debtors shown on the balance sheet include an amount of £Y due from a company which has ceased trading. XYZ plc has no security for this debt.
- The auditor’s opinion is that the company is unlikely to receive any payment and full provision of £Y should have been made.
- The auditor does not believe that the effect of the disagreement is so material and pervasive that the financial statements as a whole are misleading and issues a qualified opinion — except for disagreement about the accounting treatment of debtors.

Qualified opinion arising from disagreement about accounting treatment

Included in the debtors shown on the balance sheet is an amount of £Y due from a company which has ceased trading. XYZ plc has no security for this debt. In our opinion the company is unlikely to receive any payment and full provision of £Y should have been made. Accordingly, debtors should be reduced by £Y, deferred taxes should be reduced by £X and profit for the year and retained earnings should be reduced by £Z.

Except for the financial effect of not making the provision referred to in the preceding paragraph, in our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company’s affairs as at ... and of its profit [loss] for the year then ended; and

- have been properly prepared in accordance with the Companies Act 1985.

In our opinion the information given in the Directors’ Report is consistent with the financial statements.

Registered auditors
Address
Date
Example 3 — Qualified opinion — Disagreement. Prior period qualification unresolved and results in a modification of the auditor’s report regarding the current period figures.

- UK non-publicly traded company prepares UK GAAP financial statements.

- Included in the debtors shown on the balance sheet of 31 December 20X4 and 31 December 20X5 is an amount of £Y which is the subject of litigation and against which no provision has been made. The auditor considers that a full provision of £Y should have been made in the year ended 31 December 20X4.

Qualified opinion arising from disagreement over accounting treatment

Included in the debtors shown on the balance sheets of 31 December 20X4 and 31 December 20X5 is an amount of £Y which is the subject of litigation and against which no provision has been made. In our opinion, full provision of £Y should have been made in the year ended 31 December 20X4. Accordingly, debtors at 31 December 20X4 and 20X5 should be reduced by £Y, deferred taxes at 31 December 20X4 and 20X5 should be reduced by £X, and profit for the year ended 31 December 20X4 and retained earnings at 31 December 20X4 and 20X5 should be reduced by £Z.

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the company’s profit [loss] for the year ended 31 December 20X5.

Except for the financial effect of not making the provision referred to in the preceding paragraph, in our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company’s affairs as at 31 December 20X5; and

- have been properly prepared in accordance with the Companies Act 1985.

In our opinion the information given in the Directors’ Report is consistent with the financial statements.

Registered auditor
Address
Date
Example 4 — Qualified opinion — Limitation on scope. Auditor not appointed at the
time of the stocktake.

- UK non-publicly traded company prepares UK GAAP financial statements.

- The evidence available to the auditor was limited because they did not observe
  the counting of the physical stock as of 31 December 20X1, since that date was
  prior to the time the auditor was initially engaged as auditor for the company.
  Owing to the nature of the company’s records, the auditor was unable to satisfy
  themselves as to stock quantities by other audit procedures.

- The limitation in audit scope causes the auditor to issue a qualified opinion —
  except for any adjustments that might have been found to be necessary had they
  been able to obtain sufficient evidence concerning stock.

- The limitation of scope was determined by the auditor not to be so material and
  pervasive as to require a disclaimer of opinion.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and
Ireland) issued by the Auditing Practices Board, except that the scope of our work was
limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and
disclosures in the financial statements. It also includes an assessment of the significant
estimates and judgments made by the directors in the preparation of the financial statements,
and of whether the accounting policies are appropriate to the company’s circumstances,
consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we
considered necessary in order to provide us with sufficient evidence to give reasonable
assurance that the financial statements are free from material misstatement, whether caused
by fraud or other irregularity or error. However, with respect to stock having a carrying
amount of £X the evidence available to us was limited because we did not observe the
counting of the physical stock as of 31 December 20X1, since that date was prior to our
appointment as auditor of the company. Owing to the nature of the company’s records,
we were unable to obtain sufficient appropriate audit evidence regarding the stock quantities
by using other audit procedures.

In forming our opinion we also evaluated the overall adequacy of the presentation of
information in the financial statements.

Qualified opinion arising from limitation in audit scope

Except for the financial effects of such adjustments, if any, as might have been determined
to be necessary had we been able to satisfy ourselves as to physical stock quantities, in
our opinion the financial statements:
• give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company’s affairs as at 31 December 20X1 and of its profit [loss] for the year then ended; and

• have been properly prepared in accordance with the Companies Act, 1985.

In respect solely of the limitation on our work relating to stocks:

• we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

• we were unable to determine whether proper accounting records had been maintained.

In our opinion the information given in the Directors’ Report is consistent with the financial statements.

Registered auditors
Address
Date
Example 5 — Disclaimer of opinion. Unable to observe all physical stock and confirm trade debtors.

- UK non-publicly traded company prepares UK GAAP financial statements.

- The evidence available to the auditor was limited because the auditor was not able to observe all physical stock and confirm trade debtors due to limitations placed on the scope of the auditor’s work by the directors of the Company.

- As a result, the auditor has been unable to form a view on the financial statements and issues a modified opinion disclaiming the view given by the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, the evidence available to us was limited because we were unable to observe the counting of physical stock having a carrying amount of £X and send confirmation letters to trade debtors having a carrying amount of £Y due to limitations placed on the scope of our work by the directors of the company. As a result of this we have been unable to obtain sufficient appropriate audit evidence concerning both stock and trade debtors. Because of the significance of these items, we have been unable to form a view on the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion: disclaimer on view given by the financial statements

Because of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company’s affairs as at ... and of its profit [loss] for the year then ended; and

- have been properly prepared in accordance with the Companies Act 1985.
In respect solely of the limitation of our work referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether proper accounting records have been maintained.

Notwithstanding our disclaimer on the view given by the financial statements, in our opinion the information given in the Directors’ Report is consistent with the financial statements.

Registered auditors
Address
Date
Example 6 — Disclaimer of opinion. Multiple material/significant uncertainties.

As discussed in ISA (UK and Ireland) 700 paragraph 34 the addition of a paragraph emphasising a going concern problem or significant uncertainty is ordinarily adequate to meet the auditor’s reporting responsibilities regarding such matters. However, in extreme cases, such as situations involving multiple uncertainties that are significant to the financial statements, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph.

This example does not include a description of the multiple material/significant uncertainties that might lead to a disclaimer of opinion because circumstances will vary and auditors will have to use their judgment when deciding whether it is an extreme case involving multiple uncertainties that are significant to the financial statements. Often, if such matters were considered individually, because the company makes relevant disclosures in the financial statements, the auditor would normally issue an unqualified auditor’s report with an emphasis of matter paragraph setting out the basis of the auditor’s opinion, describing the situation giving rise to the emphasis of matter and its possible effects on the financial statements, including (where practicable) quantification but the audit opinion would be unqualified.

Opinion: disclaimer on view given by the financial statements

In forming our opinion on the financial statements, we have considered the adequacy of the disclosures made in the financial statements concerning the following matters:

- [Significant uncertainty 1]
- [Significant uncertainty 2]
- [Significant uncertainty 3]

Because of the potential significance, to the financial statements, of the combined effect of the three matters referred to in the paragraph above, we are unable to form an opinion as to whether the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company’s affairs as at ... and of its profit [loss] for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

Notwithstanding our disclaimer on the view given by the financial statements, in our opinion the information given in the Directors’ Report is consistent with the financial statements.

Registered auditors
Address
Date
Example 7 — Adverse opinion. No provision made for losses expected to arise on certain long-term contracts.

- **UK non-publicly traded company prepares UK GAAP financial statements.**
- **No provision has been made for losses expected to arise on certain long-term contracts currently in progress, as the directors consider that such losses should be off-set against amounts recoverable on other long-term contracts.**
- **In the auditor’s opinion, provision should be made for foreseeable losses on individual contracts as required by [specify accounting standards].**
- **The auditor issues an adverse opinion due to the failure to provide for the losses and quantifies the impact on the profit for the year the contract work in progress and deferred taxes payable at the year end.**

**Adverse opinion on the financial statements**

As more fully explained in note x to the financial statements no provision has been made for losses expected to arise on certain long-term contracts currently in progress, as the directors consider that such losses should be off-set against amounts recoverable on other long-term contracts. In our opinion, provision should be made for foreseeable losses on individual contracts as required by [specify accounting standards]…………… If losses had been so recognised the effect would have been to reduce the carrying amount of contract work in progress by £X, deferred taxes payable by £Y, and the profit for the year and retained earnings at 31 December 20X1 by £Z.

In view of the effect of the failure to provide for the losses referred to above, in our opinion the financial statements do not give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company’s affairs as at 31 December 20X1 and of its profit [loss] for the year then ended.

In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Companies Act 1985.

Notwithstanding our adverse opinion on the financial statements, in our opinion the information given in the Directors’ Report is consistent with the financial statements.

Registered auditors
Address
Date
The auditor’s reports included in Component 2 are illustrative examples only and it has not been possible to describe all of the facts that the auditors would have to consider when forming their opinion. Auditors use their professional judgment when deciding what form of modified auditor’s report to give, taking into account the particular circumstances of the reporting entity.

The Component gives illustrative examples of modified auditor’s reports on financial statements arising from the going concern issues.
EXTRACTS FROM MODIFIED AUDITOR’S REPORTS
ARISING FROM GOING CONCERN ISSUES

MATTERS THAT DO NOT AFFECT THE AUDITOR’S OPINION

1. Emphasis of matter — Material uncertainty about the company’s ability to continue as a going concern.

2. Emphasis of matter — IFRSs as adopted by the European Union financial statements where the going concern period considered by directors complies with IAS 1 but not ISA (UK and Ireland) 570 and this fact is not disclosed.

MATTERS THAT DO AFFECT THE AUDITOR’S OPINION

Qualified opinion — Disagreement

3. Disagreement — UK GAAP financial statements where the going concern period considered by directors does not comply with FRS 18 and this fact is not disclosed.

4. Disagreement — IFRSs as adopted by the European Union financial statements where the going concern period considered by directors is less than one year from the balance sheet date and so does not comply with IAS 1.

5. Disagreement — Non-disclosure of going concern problems.

Qualified opinion — Limitation on scope

6. Limitation on scope — Evidence available to auditor regarding going concern status was limited because cash flow forecasts were only prepared for a period of nine months from approval of financial statements.

Disclaimer of opinion

7. Disclaimer — The company has not prepared profit or cash flow projections for an appropriate period subsequent to the balance sheet date.

Adverse opinion

8. Adverse opinion — Significant level of concern about the company’s ability to continue as a going concern that is not disclosed in the financial statements and the financial statements have been prepared on a going concern basis.
Example 1 — Unqualified opinion — Emphasis of matter. Material uncertainty about the company’s ability to continue as a going concern.

- UK non-publicly traded company prepares UK GAAP financial statements.
- The Company incurred a net loss of £X during the year ended 31 December 20X1 and, as of that date, the Company’s current liabilities exceeded its total assets by £Y.
- These conditions, along with other matters set forth in the notes to the financial statements, indicate the existence of a material uncertainty, which may cast significant doubt about the Company’s ability to continue as a going concern.
- The Company makes relevant disclosures in the financial statements including that referred to in paragraphs 32 and 33 of ISA (UK and Ireland) 570 “Going Concern”.
- The auditor issues an unqualified auditor’s report with an emphasis of matter paragraph describing the situation giving rise to the emphasis of matter and its possible effects on the financial statements, including (where practicable) quantification.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company’s affairs as at 31 December 20X1 and of its profit [loss] for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act, 1985; and
• the information given in the Directors’ Report is consistent with the financial statements.

**Emphasis of matter - Going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note x to the financial statements concerning the company’s ability to continue as a going concern. The company incurred a net loss of £X during the year ended 31 December 20X1 and, at that date, the company’s current liabilities exceeded its total assets by £Y. These conditions, along with the other matters explained in note x to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company’s ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Registered auditors
Address
Date
Example 2 — Unqualified opinion — Emphasis of matter. Financial statements where the going concern period considered by directors complies with IAS 1 but not ISA (UK and Ireland) 570 and this fact is not disclosed.

- UK publicly traded company uses IFRSs as adopted by the European Union for financial statements.

- The balance sheet date being audited is 31 December 20X1.

- The date of approval of the financial statements was 31 May 20X2.

- In assessing whether the going concern assumption is appropriate the directors have taken into account the period up to 31 March 20X3 which is:
  - 15 months from the balance sheet date i.e. more than the 12 months from the balance sheet date required by IAS 1; but only
  - 10 months from the date of approval of the financial statements i.e. less than the 12 months from the date of approval of the financial statements required by ISA (UK and Ireland) 570.

- The directors have refused to either extend their assessment period to twelve months from the date of approval of the financial statements or to disclose the fact that the period they have used for their assessment is less than twelve months from the date of approval of the financial statements.

- The auditor issues an unqualified auditor’s report with an emphasis of matter paragraph disclosing the fact that the going concern period considered by the directors is less than one year from the date of approval of the financial statements and that this fact has not been disclosed.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors’ Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors’ Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors’ Remuneration Report to be audited.

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company’s affairs as at 31 December 20X1 and of its profit [loss] for the year then ended;

- the financial statements and the part of the Directors’ Remuneration Report to be audited have been properly prepared in accordance with the Companies Act, 1985 and Article 4 of the IAS Regulation; and

- the information given in the Directors’ Report is consistent with the financial statements.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note x to the financial statements concerning the period used by the directors in assessing whether the going concern assumption is appropriate. In making their assessment the directors have considered the period up to 31 March 20X3 which is less than twelve months from the date of approval of the financial statements and the directors have not disclosed this fact. International Standards on Auditing (UK and Ireland) require the auditor to draw this fact to the attention of readers of the financial statements.

Registered auditors
Address
31 May 20X2
Example 3 — Qualified opinion — Disagreement. Financial statements where the going concern period considered by directors does not comply with FRS 18 and this fact is not disclosed.

- UK non-publicly traded company prepares UK GAAP financial statements.

- In assessing whether it is appropriate to prepare the financial statements on a going concern basis, the directors have paid particular attention to a period ending on 30 September 20X3 which is less than one year from the date of approval of the financial statements on 31 October 20X2.

- The directors have not disclosed this fact in the financial statements breaching the requirements of paragraph 61(b) of Financial Reporting Standard 18 “Accounting Policies”. FRS 18 requires the disclosure of the fact that “the foreseeable future considered by the directors has been limited to a period of less than one year from the date of approval of the financial statements”.

- Although the auditor has concluded that there is no significant level of concern about going concern, the failure to disclose the fact that the foreseeable future considered by the directors has been limited to a period of less than one year from the date of approval of the financial statements is a breach of FRS 18 and the auditor issues a qualified “except for’ opinion describing the disagreement over the departure from FRS 18.

Qualified opinion arising from departure from FRS 18 ‘Accounting Policies’

In assessing whether it is appropriate to prepare the financial statements on a going concern basis the directors have paid particular attention to a period ending on 30 September 20X3 which is less than twelve months from the date of approval of the financial statements. This fact has not been disclosed in the financial statements, contrary to the requirements of Financial Reporting Standard 18 ‘Accounting Policies’.

Except for the absence of the disclosure referred to above in our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company’s affairs as at 31 December 20X1 and of its profit [loss] for the year then ended; and

- have been properly prepared in accordance with the Companies Act, 1985.

In our opinion the information given in the Directors’ Report is consistent with the financial statements.

Registered auditors
Address
31 October 20X2
Example 4 — Qualified opinion — Disagreement. Financial statements where the going concern period considered by directors does not comply with IAS 1.

- UK publicly traded company uses IFRSs as adopted by the European Union for financial statements.
- The balance sheet date being audited is 31 December 20X1.
- The date of approval of the financial statements was 31 May 20X2.
- In assessing whether the going concern assumption is appropriate the directors have taken into account the period up to 30 November 20X2 which is:
  - only 11 months from the balance sheet date i.e. less than the 12 months from the balance sheet date required by IAS 1; and
  - only 6 months from the date of approval of the financial statements i.e. less than the 12 months from the date of approval of the financial statements required by ISA (UK and Ireland) 510.
- The directors have refused to either extend their assessment period to a period of more than twelve months from the balance sheet date (to comply with IAS 1) or twelve months from the date of approval of the financial statements (to comply with ISA (UK and Ireland) 570) or to disclose the fact that the period they have used for their assessment is less than twelve months from the date of approval of the financial statements (to comply with ISA (UK and Ireland) 570).
- The auditor:
  - includes an emphasis of matter paragraph explaining that in making their going concern assessment the directors have considered a period which is less than twelve months from the date of approval of the financial statements and the directors have not disclosed this fact; and
  - issues a qualified “except for” opinion describing the disagreement over the disclosing the fact that the going concern period considered by the directors is less than the twelve months from the balance sheet date required by IAS 1.

Qualified opinion arising from departure from IAS 1 ‘Presentation of Financial Statements’

In assessing whether it is appropriate to prepare the financial statements on a going concern basis the directors have paid particular attention to a period ending on 30 November 20X2 which is less than twelve months from the balance sheet date. This is contrary to the requirements of International Accounting Standard 1 ‘Presentation of Financial Statements’.

Except for the non-compliance with IAS 1 referred to above in our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company’s affairs as at 31 December 20X1 and of its profit [loss] for the year then ended; and
• the financial statements and the part of the Directors’ Remuneration Report to be audited have been properly prepared in accordance with the Companies Act, 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation.

In our opinion the information given in the Directors’ Report is consistent with the financial statements.

**Emphasis of matter - Going concern**

In forming our opinion on the financial statements, we have considered the adequacy of the disclosures made in note x to the financial statements concerning the period used by the directors in assessing whether the going concern assumption is appropriate, in making their assessment the directors have considered the period up to 30 November 20X2 which is less than twelve months from the date of approval of the financial statements and the directors have not disclosed this fact. International Standards on Auditing (UK and Ireland) require the auditor to draw this fact to the attention of readers of the financial statements. Our opinion is not further qualified in respect of this matter.

Registered auditors
Address
31 May 20X2
Example 5 — Qualified opinion — Disagreement. Non-disclosure of going concern problems.

- UK non-publicly traded company prepares UK GAAP financial statements.

- Neither the financial statements nor the directors’ report disclose that the Company’s financing arrangements expire and amounts outstanding are payable on 19 July 20X2 and that the Company has been unable to re-negotiate or obtain replacement financing.

- This situation indicates the existence of a material uncertainty which may cast significant doubt on the Company’s ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

- The auditor concludes that there is a significant level of concern about going concern and disagrees with the failure to disclose this information in the financial statements. The auditor issues a qualified except for opinion describing the disagreement.

Qualified opinion arising from omission of information concerning going concern

The company’s financing arrangements expire and amounts outstanding are payable on 19 July 20X2. The company has been unable to re-negotiate or obtain replacement financing. This situation indicates the existence of a material uncertainty which may cast significant doubt on the company’s ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact.

Except for the omission of the information included in the preceding paragraph, in our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company’s affairs as at 31 December 20X1 and of its profit [loss] for the year then ended; and

- have been properly prepared in accordance with the Companies Act, 1985.

In our opinion the information given in the Directors’ Report is consistent with the financial statements.

Registered auditors

Address

Date
Example 6 — Qualified opinion — Limitation of scope. Evidence available to auditor regarding going concern status was limited because cash flow forecasts were only prepared for a period of nine months from approval of financial statements.

• UK non-publicly traded company prepares UK GAAP financial statements.

• The evidence available to the auditor was limited because the company had prepared cash flow forecasts and other information needed for the assessment of the appropriateness of the going concern basis of preparation of the financial statements only for a period of nine months from the date of approval of the financial statements.

• Although this fact is disclosed in the financial statements had the information been available the auditor might have formed a different opinion. The auditor considers that those charged with governance have not taken adequate steps to satisfy themselves that it is appropriate for them to adopt the going concern basis.

• The auditor does not consider that the future period to which those charged with governance have paid particular attention in assessing going concern is reasonable in the entity’s circumstances. The auditor considers that the particular circumstances of the company and the nature of the company’s business require that such information be prepared, and reviewed by the directors and auditor for a period of at least twelve months from the date of approval of the financial statements.

• The auditor issues an ‘except for’ qualified opinion referring to the adjustments that might have been found to be necessary had they obtained sufficient evidence concerning the appropriateness of the going concern basis of preparation of the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, the evidence available to us was limited because the company has prepared cash flow forecasts and other information needed for the assessment of the appropriateness of the going concern basis of preparation of the financial statements for a period of only nine months from the date of approval of these financial statements. We consider that the directors have not taken adequate steps to satisfy
themselves that it is appropriate for them to adopt the going concern basis because the circumstances of the company and the nature of the business require that such information be prepared, and reviewed by the directors and ourselves, for a period of at least twelve months from the date of approval of the financial statements. Had this information been available to us we might have formed a different opinion.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from limitation in audit scope

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the appropriateness of the going concern basis of preparation of the financial statements, in our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company’s affairs as at 31 December 20X1 and of its profit [loss] for the year then ended; and

- have been properly prepared in accordance with the Companies Act, 1985.

In respect solely of the limitation on our work relating to the assessment of the appropriateness of the going concern basis of preparation of the financial statements, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

In our opinion the information given in the Directors’ Report is consistent with the financial statements.

Registered auditors
Address
Date
Example 7 — Disclaimer of opinion. Going concern — company has not prepared profit or cash flow projections for an appropriate period subsequent to the balance sheet date.

- UK non-publicly traded company prepares UK GAAP financial statements.
- The evidence available to the auditor to confirm the appropriateness of preparing the financial statements on the going concern basis was limited because the company has not prepared profit or cash flow projections for an appropriate period subsequent to the balance sheet date.
- The auditor considers that the circumstances of the company and the nature of the company’s business requires that such information be prepared, and reviewed by the directors and the auditor, for a period of at least twelve months from the date of approval of the financial statements.
- The auditor concludes that the possible effect of this limitation on scope is so material and pervasive that the auditor has been unable to obtain sufficient appropriate audit evidence and accordingly is unable to form an opinion on whether or not it is appropriate to prepare the financial statements on a going concern basis. As a result, the auditor issues an opinion disclaiming the view given by the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company’s circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. However, the evidence available to us to confirm the appropriateness of preparing the financial statements on the going concern basis was limited because the company has not prepared any profit or cash flow projections for an appropriate period subsequent to the balance sheet date. As a result, and in the absence of any alternative evidence available to us, we have been unable to form a view as to the applicability of the going concern basis, the circumstances of which, together with the effect on the financial statements should this basis be inappropriate, are set out in note x to the financial statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.
Opinion: disclaimer on view given by the financial statements

Because of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 20.. and of its profit [loss] for the year then ended; and

- have been properly prepared in accordance with the Companies Act, 1985.

In respect solely of the limitation of our work referred to above we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Notwithstanding our disclaimer on the view given by the financial statements, in our opinion the information given in the Directors' Report is consistent with the financial statements.

Registered auditors
Address
Date
Example 8 — Adverse opinion. Significant level of concern about the company’s ability to continue as a going concern that is not disclosed in the financial statements.

- UK non-publicly traded company prepares UK GAAP financial statements.
- Although there is a significant level of concern about the company’s ability to continue as a going concern the financial statements and notes do not disclose this fact and the directors have prepared the financial statements on the going concern basis.
- The auditor considers that the financial statements should disclose that there is a material uncertainty, which may cast significant doubt on the company’s ability to continue as a going concern.
- The effect of this disagreement is so material and pervasive to the amounts included within the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.
- The auditor issues an adverse audit opinion stating that, because the material uncertainty regarding going concern is not disclosed, the financial statements do not give a true and fair view.

Adverse opinion on financial statements

As explained in note x to the financial statements the company’s financing arrangements expired and the amount outstanding was payable on 31 December 20X1. The company has been unable to re-negotiate or obtain replacement financing and is considering entering insolvency proceedings. These events indicate a material uncertainty which may cast significant doubt on the company’s ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact and have been prepared on the going concern basis.

In our opinion, because of the omission of the information referred to above, the financial statements do not give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company’s affairs as at 31 December 20X1 and of its profit [loss] for the year then ended.

In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Companies Act, 1985.

Notwithstanding our adverse opinion on the financial statements, in our opinion the information given in the Directors’ Report is consistent with the financial statements.

Registered auditors
Address
Date
EXTRACT FROM AN AUDITOR’S REPORT WITH A MODIFIED OPINION ON THE DIRECTORS’ REPORT
(FINANCIAL STATEMENTS PREPARED UNDER UK GAAP)

Respective responsibilities of directors and auditors
[Details of directors and the auditor’s other responsibilities as are applicable]

We also report to you whether in our opinion the information given in the Directors’ Report is consistent with the financial statements. [The information given in the Directors’ Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the Directors’ Report.]

Basis of audit opinion
...

Opinion

In our opinion:

• [Opinion on the financial statements and other opinions, if any, that are required.]

Emphasis of matter - ... [include if applicable]

Material inconsistency between the financial statements and the directors’ report

In our opinion, the information given in the seventh paragraph of the Business Review in the Directors’ Report is not consistent with the financial statements. That paragraph states without amplification that “the company’s trading for the period resulted in a 10% increase in profit over the previous period’s profit”. The profit and loss account, however, shows that the company’s profit for the period includes a profit of £Z which did not arise from trading but arose from the disposal of assets of a discontinued operation. Without this profit on the disposal of assets the company would have reported a profit for the year of £Y, representing a reduction in profit of 25% over the previous period’s profit on a like for like basis. Except for this matter, in our opinion the information given in the Directors’ Report is consistent with the financial statements.

Registered auditors
Address
Date
Head Office: Chartered Accountants Avenue, Clifton, Karachi.

Lahore Office: 155-156, West Wood Colony, Thokar Niaz Baig, Raiwand Road, Lahore.

Islamabad Office: Sector G-10/4, Mauve Area, Islamabad.

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