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# Reporting when a certified public accountant is not independent; Statement on auditing procedure, No. 42

American Institute of Accountants. Committee on Auditing Procedure

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## *Reporting When a Certified Public Accountant Is Not Independent*

1. The purpose of this Statement is to clarify the position of the certified public accountant when he is considered not independent with respect to a client with whose financial statements he is associated (See Rule 1.01 of Article I of the *Code of Professional Ethics*) and to specify the type of disclaimer of opinion which the accountant should express in such circumstances. This type of disclaimer applies whenever the certified public accountant is not independent, regardless of the extent of services performed. Thus it is applicable when the type of disclaimer illustrated in *Statement on Auditing Procedure No. 38* would otherwise apply.

2. The second general standard of generally accepted auditing standards, as approved and adopted by the membership of the American Institute of Certified Public Accountants, requires that "In all matters relating to the assignment an independence in mental attitude is to be maintained by the auditor or auditors." (See paragraph 2, Chapter 2 of *Statement on Auditing Procedure No. 33.*) The independent auditor "must be without bias with respect to the client under audit, since otherwise he would lack that impartiality necessary for the dependability of his find-

*Issued by the Committee on Auditing Procedure  
American Institute of Certified Public Accountants*

ings. . . .” (See paragraphs 6-11, Chapter 3 of *Statement on Auditing Procedure No. 33*.) When a certified public accountant who is not independent is associated with financial statements (as “associated” is defined in paragraph 3 of *Statement on Auditing Procedure No. 38*), any procedures he might perform would not be in accordance with generally accepted auditing standards, and accordingly he would be precluded from expressing an opinion on such statements.

3. Under these circumstances the accountant should disclaim an opinion with respect to the financial statements and should state specifically that he is not independent. However, the reason for lack of independence should not be described; including the reason might confuse the reader concerning the importance of the impairment of independence. Whether or not the accountant is independent is something he must decide as a matter of professional judgment.

4. The recommended disclaimer of opinion, regardless of the extent of services performed, is as follows:

We are not independent with respect to XYZ Company, and the accompanying balance sheet as of December 31, 19—and the related statement(s) of income and retained earnings for the year then ended were not audited by us; accordingly, we do not express an opinion on them.

(Signature and Date)

Each page of the financial statements should clearly and conspicuously be marked “Unaudited—see accompanying disclaimer of opinion,” unless the disclaimer of opinion appears thereon.

5. Any procedures that may have been performed by the accountant in connection with such financial statements should not be described in his report; to do so might cause the reader to believe that the financial statements have been audited.

6. If the accountant concludes on the basis of facts known to him that financial statements with which he is associated are not in conformity with generally accepted accounting principles,

which include adequate disclosure, he should insist upon appropriate revision; failing that, he should set forth clearly his reservations in his disclaimer of opinion. The disclaimer should refer specifically to the nature of his reservations and to the effect, if known to him, on the financial statements. If the client will not agree to the appropriate revision or will not accept the accountant's disclaimer of opinion with the reservations clearly set forth, the accountant should refuse to be associated with the financial statements and, if necessary, withdraw from the engagement.

*The Statement entitled "Reporting When a Certified Public Accountant Is Not Independent" was adopted unanimously by the twenty-one members of the Committee on Auditing Procedure.*

#### **NOTES**

*Statements on Auditing Procedure present the considered opinion of the Committee on Auditing Procedure, which is the senior technical committee of the Institute designated to issue pronouncements on auditing matters. Departures from the Committee's recommendations must be justified by those who do not follow them.*

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