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## **Special Report : Revision of Statements on Auditing Procedure No. 23, "Clarification of Accountant's Report When Opinion is Omitted"**

American Institute of Accountants. Committee on Auditing Procedure

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# American Institute of Accountants

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THE NATIONAL ORGANIZATION OF CERTIFIED PUBLIC ACCOUNTANTS

13 EAST 41ST STREET, NEW YORK 17, N. Y.

June 16, 1949.

TO THE MEMBERS OF THE

AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN:

At its spring meeting on May 3rd, council of the American Institute of Accountants passed the resolution contained in the special report which is reproduced herewith. Your attention is called to the fact that this resolution approved a substitute for the amendment to "Extensions of Auditing Procedure" proposed in Statements on Auditing Procedure No. 23, and directed that the revised wording be presented to the membership for formal action at the next annual meeting of the American Institute of Accountants with the council's recommendation that it be adopted.

This notice is being sent for the purpose of directing your attention particularly to the matter so that it may be given careful consideration before the proposal is taken up for final ballot at the annual meeting in Los Angeles this fall.

Very truly yours,

JOHN L. CAREY

*Executive Director*

# Special Report

## **Revision of Statements on Auditing Procedure No. 23, "Clarification of Accountant's Report When Opinion Is Omitted"**

TO THE COUNCIL OF THE  
AMERICAN INSTITUTE OF ACCOUNTANTS:

GENTLEMEN: At the fall meeting of council in 1947, the committee on auditing procedure submitted a special report recommending an amendment to "Extensions of Auditing Procedure" designed to clarify reports submitted by accountants when an opinion is omitted. Because "Extensions of Auditing Procedure" had been formally adopted by the membership of the Institute, it was believed appropriate that any modification thereof should likewise be placed before the membership for formal consideration. Accordingly, council directed that the committee's special report be placed on the agenda of the next annual meeting of the Institute for discussion and action by the membership, and authorized its issuance as a committee statement so that the membership might have an opportunity to consider it prior to its presentation to the annual meeting for formal action. The special report was issued in December, 1947, as Statements on Auditing Procedure No. 23, "Clarification of Accountant's Report When Opinion Is Omitted."

Following issuance of this statement it became evident that there was considerable misunderstanding in the profession as to the objectives of the proposed amendment and its application in practice. Many practitioners have indicated their unwillingness to approve the proposed amendment because they believe it requires a lengthy statement regarding the omission of an opinion, and the reasons why, even in cases where all they do is prepare financial statements without audit and present them on their stationery. Others have been in doubt as to whether they could issue long-form reports when they could not express an opinion on the over-all fairness

of the financial statements; and still others as to whether they could issue a qualified report.

In view of this apparent confusion, formal consideration of the amendment by the profession was postponed until the 1949 annual meeting of the Institute.

The committee believes that many of the objections to the amendment proposed in Statements on Auditing Procedure No. 23 can be met by revising it to explain more fully the committee's views on the subject. Accordingly, the committee has prepared a revised amendment which it recommends for submission to the membership for formal action in place of the one previously recommended in paragraph 6 of Statement No. 23. Although some changes in the wording have been made for the purpose of greater clarity, the principles expressed in the amendment remain unchanged. Some additional wording has also been included to explain more fully the objective of the proposed amendment and its application in practice. The wording of the proposed amendment as revised is contained in the following resolution which we recommend for passage by the council:

### RESOLUTION

WHEREAS, "Extensions of Auditing Procedure" (Statements on Auditing Procedure No. 1) contains the following paragraph:

"The independent certified public accountant should not express the opinion that financial statements present fairly the position of the company and the results of its operations, in conformity with generally accepted accounting principles, when his exceptions are such as to negative the opinion, or when the examination has been less in scope than

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he considers necessary. In such circumstances, the independent certified public accountant should limit his report to a statement of his findings and, if appropriate, his reasons for omitting an expression of opinion."

AND, WHEREAS, Council of the American Institute of Accountants has heretofore directed that there be presented to the membership for formal action an amendment to the foregoing paragraph, which amendment was recommended by the committee on auditing procedure in paragraph 6 of a special report to council, subsequently issued by that committee as Statements on Auditing Procedure No. 23, "Clarification of Accountant's Report When Opinion Is Omitted," and

WHEREAS, The committee on auditing procedure, in the interests of greater clarity of expression and fuller explanation of the objective of the proposed amendment and its application in practice, has recommended that the proposed amendment be restated to read as follows:

### *Restatement*

"The independent certified public accountant should not express the opinion that financial statements present fairly the position of the company and the results of its operations, in conformity with generally accepted accounting principles, when his exceptions are such as to negative the opinion, or when the examination has been less in scope than he considers necessary to express an opinion on the statements taken as a whole. In such circumstances, the independent certified public accountant should state that he is not in a position to express an opinion on the financial statements taken as a whole and should indicate clearly his reasons therefor. To the extent the scope of his examination and the findings thereof justify, he may also comment further as to compliance of the statements with generally accepted accounting principles in respects other than those which require the denial of an opinion on the over-all fair-

ness of the financial statements. The purpose of these assertions by the accountant is to indicate clearly the degree of responsibility he is taking.

"Whenever the accountant permits his name to be associated with financial statements, he should determine whether, in the particular circumstances, it is proper for him to (1) express an unqualified opinion, or (2) express a qualified opinion, or (3) disclaim an opinion on the statements taken as a whole. Thus, when an unqualified opinion cannot be expressed, the accountant must weigh the qualifications or exceptions to determine their significance. If they are not such as to negative the opinion, a properly qualified opinion would be satisfactory; if they are such as to negative an opinion on the statements taken as a whole he should clearly disclaim such an opinion. His conclusions in this respect should be stated in writing either in an informal manner, as in a letter of transmittal bound with the financial statements, or in the more conventional short-form or long-form report. However, when financial statements prepared without audit are presented on the accountant's stationery without comment by the accountant, a warning, such as 'Prepared from the Books Without Audit,' appearing prominently on each page of the financial statements is considered sufficient.

"It is not contemplated that the disclaimer of an opinion should assume a standardized form. Any expression which clearly states that an opinion has been withheld and gives the reasons why would be suitable for this purpose. However, it is not considered sufficient to state merely that certain auditing procedures were omitted, or that certain departures from generally accepted accounting principles were noted, without explaining their effect upon the accountant's opinion regarding the statements taken as a whole. It is incumbent upon the accountant, not upon the reader of his report, to evaluate these matters as they affect the significance of his exam-

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ination and the fairness of the financial statements.”

NOW THEREFORE BE IT RESOLVED THAT:

(a) Council approves the above restatement of the proposed amendment to “Extensions of Auditing Procedure” and directs that, in lieu of the wording previously recommended by the committee on auditing procedure, this revised wording be presented to the membership for formal action at the next annual meeting of the American Institute of Accountants with the recommendation that it be adopted, and

(b) Notice of this action, together with a copy of the committee’s special report presented to this meeting, shall be distributed to the membership as soon as possible.

\* \* \*

In considering this recommendation, it should be remembered that “Extensions of Auditing Procedure” for 10 years has precluded the expression of any opinion on the financial statements taken as a whole when the accountant’s exceptions or qualifications were such as to negative the opinion. This provision is continued under the committee’s recommendations. The

proposed change is concerned solely with improving current reporting practices by providing that, in such cases, the accountant should henceforth clearly indicate that he is not in a position to express an opinion on the financial statements taken as a whole, and give his reasons why.

Respectfully submitted,  
Committee on Auditing Procedure

ALVIN R. JENNINGS, *Chairman*  
J. A. BOULAY  
GARRETT T. BURNS  
CHARLES F. COATES  
WILLIAM D. CRANSTOUN  
RALPH H. GALPIN  
HENRY I. HAMM  
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GORDON M. HILL  
C. ALVIN KOCH  
MALCOLM LAMONT  
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IRA B. MCGGLADREY  
HARRY M. PREVO  
A. FRANK STEWART  
ALBERT J. WILEY  
M. M. WINKLER  
FREDERICK W. WULFING

April 14, 1949