A Study of the Audit Opinions Issued by Certified Public Accountants

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A STUDY OF THE
AUDIT OPINIONS ISSUED
BY CERTIFIED PUBLIC ACCOUNTANTS

by

Thomas P. Klamer

A Thesis
Submitted to the
Faculty of the School of Graduate
Studies in partial fulfillment
of the
Degree of Master of
Business Administration

Western Michigan University
Kalamazoo, Michigan
July 1967
ACKNOWLEDGEMENTS

The author wishes to extend his grateful appreciation to Dr. John Burke, Head of the Accounting Department, for his recommendations concerning this thesis and to Dr. Robert Neubig, Professor of Accounting, and Mr. F. W. Schaeberle, Assistant Professor of Accounting, for their help and suggestions in reviewing the manuscript.

Thanks is also extended to Mr. Frederick Everett, Professor of Accounting, for his encouragement and help in locating and using reference sources for this thesis.

Deepest appreciation is expressed to Patricia Klammer, whose assistance and cooperation helped make this paper possible.

Thomas F. Klammer
MASTER'S THESIS M-1288

KLAMMER, Thomas P.
A STUDY OF THE AUDIT OPINIONS ISSUED BY CERTIFIED PUBLIC ACCOUNTANTS.

Western Michigan University, M.B.A., 1967
Accounting

University Microfilms, Inc., Ann Arbor, Michigan
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Summary
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CHAPTER I

INTRODUCTION

Statement of the Problem

The rapid growth of the investments by American citizens and business firms in businesses in foreign countries has resulted in an increasing demand for reliable business information. The major source of business information is found in the firm's annual financial report. The financial report includes an evaluation by a public accountant. This evaluation takes the form of what is referred to as an "audit certificate" or "opinion."

The purpose of this study is to examine and compare foreign audit certificates with the audit certificates recommended by the American Institute of Certified Public Accountants. The specific objectives of this study are to present the form and content of foreign audit certificates; to compare these certificates with the audit opinions recommended by the American Institute of Certified Public Accountants and to examine the limitations of foreign audit opinions.

Limitations of the Study

This study has been limited to the most widely accepted audit reports issued in the countries.
studied. The reports used are those specified by the government of the country, the local accounting profession, or the reports issued by one of the eight largest international\(^1\) accounting firms.

This study only concerns these few audit reports because the large number of opinions that are issued to governments, investors, and the public make a study of all audit certificates impractical. The reports studied are those with which the American investor is most concerned.

Definitions Used in the Study

The definitions of accounting terms used in the thesis are included in the glossary. In addition the following terms, which are often used in the study are defined as follows:

1. "Public accountant" is an accountant who serves the public rather than a business.\(^2\) "Auditor" is used interchangably to mean the same thing as public accountant.

2. "Audit report" is the written report given by


the public accountant on the results of his examination of the financial statements.¹ "Audit opinion" and "audit certificate" are used in the literature of accounting to mean the same as audit report.

3. "Investor" is a person who lays out capital with the view of obtaining income or profit.

4. "American Institute of Certified Public Accountants" (AICPA) is the professional organization of Certified Public Accountants in the United States.

5. "International auditing firm" is a firm of public accountants that maintains offices and conducts business in several countries.

6. "Scope of the audit" is the extent of the work performed by the auditor in completing his examination of the financial statements.

Sources of the Data

Much of the material for this study was obtained through the cooperation of public accounting firms. The Lybrand and Cooper International Reference Manual, portions of the "Arthur Andersen subject file," and publications of the AICPA were major sources of data. Accounting periodicals such as the Accounting Review, The Journal of Accountancy, and The Canadian Chartered

¹Stettler, op. cit., p. 3.
Accountant also were major sources of data.

Format of the Presentation

Audit reporting in the United States and the United Kingdom is reviewed in Chapter II. Data is introduced to show why they are considered to be the leading countries of the world in audit reporting.

In Chapters III, IV, and V audit reports from other countries are presented. Chapter III includes the Commonwealth countries, Chapter IV the South American and several other countries, and Chapter V the European countries. The reports issued in these countries are compared to the audit reports of the United States and the United Kingdom.

A summarization of the study and conclusions drawn are presented in Chapter VI. This chapter also includes the author's recommendations.
CHAPTER II

LEADING COUNTRIES IN AUDIT REPORTING

Early History of Auditing

The auditing profession had an early start in the United Kingdom. The public accountant received public recognition in 1720\(^1\) and several laws affecting the accountant's work were passed before 1850.

Accountants from the United Kingdom were sent to British colonies to help safeguard investments. Indications are that British accountants had come to the American colonies before the Revolutionary War.\(^2\) After the war the British accountants continued to work in the United States.\(^3\) Price Waterhouse & Co. accepted audit engagements in the United States as early as 1873\(^4\) and by 1890 had opened a New York office.\(^5\)

Near the end of the nineteenth century many privately owned businesses converted into public companies.


\(^2\) loc. cit., p. 43.

\(^3\) loc. cit., p. 50.

\(^4\) Ibid.

For investors and prospective investors a report by a known firm of accountants became indispensable.\(^1\) As a result, the influence of the United Kingdom auditors upon financial reporting was felt in many parts of the world.

Early American accountants were trained in England or by the English accountants.\(^2\) The activity of public accountants and public accounting firms in the United States received a considerable amount of publicity and recognition in the nineteenth century.\(^3\) The first legal recognition of the public accounting profession in the United States was in 1895 by the state of New York.\(^4\)

Development of the Large Firms

As public accounting moved more into the area of business operations accounting firms opened additional offices in order to serve their clients.\(^5\) Several firms operated on a nation wide scale before 1930.

Several developments helped the large accounting firms grow rapidly. The increased size of clients made

\(^1\)Edwards, op. cit., p. 50.
\(^2\)Ibid.
\(^3\)Loc. cit., p. 47.
\(^4\)Loc. cit., p. 68.
\(^5\)Loc. cit., p. 77.
the opening of branch offices necessary to serve the clients.\textsuperscript{1} The wider acceptance of the certificate issued by the larger firms attracted new clients\textsuperscript{2} and a greater usage by the public of the services offered by the public accountant caused the accounting firms to grow.

A recent \textit{International Commerce}\textsuperscript{3} article stated that sales by United States firms abroad were up 275\% compared to 40\% for domestic sales since 1950. To serve this growth of clients in the foreign field the national firms have expanded to many overseas offices. Some affects of the influence of these foreign offices will become apparent later in this study.

The United States and the United Kingdom have become leaders in the area of international audit reporting because the investors in each of these countries made many investments abroad and sent the public accountant to protect these investments.

\textbf{Standards of Audit Reporting in the United States}

\textbf{The American Institute of Certified Public Accountants}

\textsuperscript{1}Edwards, op. cit., p. 118.
\textsuperscript{2}loc. cit., p. 211.
\textsuperscript{3}\textit{International Commerce}, (December 2, 1963), 38.
Accountants has recommended the following standards of reporting:

1. The report shall state whether the financial statements are presented in accordance with generally accepted principles of accounting.

2. The report shall state whether such principles have been consistently observed in the current period in relation to the preceding period.

3. Information disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.

4. The report shall contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion can not be expressed. When an over-all opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with financial statements the report should contain a clearcut indication of the character of the auditor's examination if any, and the degree of responsibility he is taking.

The AICPA has suggested the use of the following report when an unqualified opinion is issued. The report should be directed to the client, the board of directors, the stockholders, or the people who appointed him.

We have examined the balance sheet of X Company as of June 30, 19 and the related statements of income and retained earnings for the year ended. Our examination was made in accordance with generally

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1AICPA, Auditing Standards and Procedures, AICPA, New York, 1963, 16.

2loc. cit., p. 57.
accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and retained earnings present fairly the financial position of X Company at June 30, 19__, and the results of its operations for the year ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The reporting standards of the United States are found in the Statements of Auditing Procedure, in particular Statements of Auditing Procedure No. 33, and in Regulation S-X of the Securities and Exchange Commission.

Not all United States accountants subscribe to the AICPA standards or to the recommended report. Because the AICPA report is the most widely followed it is used as the standard for the United States. There are many variations of the report used in the United States by public accountants and accounting firms. These variations are often only minor word changes and are not discussed in this study. Changes that are made in a prescribed report form of another country by American accounting firms are noted in several instances.

There were no generally accepted standard reports in the United States before the 1930's although several gained limited acceptance.¹ Early reports were worded

any way the auditor wished. In 1888 the auditors' report might have read, "Audited and found correct." Between that time and the 1930's the Federal Reserve Board suggested two reports. In 1917 it suggested:

I have audited the accounts of Blank and Co, for the period from ____ to ____ and I certify that the above balance sheet and statement of profit and loss have been made in accordance with the plan suggested and advised by the Federal Reserve Board and in my opinion set forth the financial condition of the firm at ____ and the results of its operations for the period.

(Signed) ABC

In 1929 the Federal Reserve Board suggested:

I have examined the accounts of Company for the period from ____ to ____.

I certify that the accompanying balance sheet and statement of profit and loss, in my opinion, set forth the financial condition of the company at ____ and the results of operations for the period.

These were not standard reports and were not widely used but they did influence audit reporting. These reports expressed an opinion on the results of operations and the financial position but there was little comment on the work done by the auditor.

1 Historical Note Prepared by the Research Department of the American Institute of Accountants, "Accountants' Reports or Certificates," Journal of Accountancy, (May 1941), 436.


The first standard report was adopted in the United States in 1933.\footnote{1} This report was proposed by an American Institute committee in co-operation with the New York Stock Exchange.

We have made an examination of the balance sheet of the XYZ Company as at December 31, 1933, and of the statement of income and surplus for the year 1933. In connection therewith, we examined or tested accounting records of the company and other supporting evidence and obtained information and explanations from officers and employees of the company; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examinations, the accompanying balance sheet and related statement of income and surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the company during the year under review, its position at December 31, 1933, and the results of its operations for the year.

This report like many mentioned in this study contained detailed comments on the accounting work performed. The opinion paragraph referred to accepted accounting principles and consistency which, as will be seen, many reports even now do not mention.

In 1939 the standard report was revised with the issuance of the American Institute's \textit{Statement of Auditing Procedure No. 1}.\footnote{2}

\footnotetext[1]{1} "Editorial," \textit{Journal of Accountancy}, (March 1934), 171.

We have examined the balance sheet of the XYZ Company as of April 30, 1939, and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of the XYZ Company at April 30, 1939, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The basic change made in this report was the dropping of some detail from the scope paragraph. The opinion paragraph is similar to that of the previous standard report.

Another revision in the standard report took place in 1941.1

We have examined the balance sheet of the XYZ Company as of February 28, 1941, and the statements of income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

1AICPA, Statements of Auditing Procedure No. 5, AICPA, New York, (1941), 2.
In our opinion, the accompanying balance sheet and related statements of income and surplus present fairly the position of the XYZ Company at February 28, 1941, and the results of its operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The AICPA issued the revision in response to changes in the reporting requirements of the Securities and Exchange Commission. Regulation S-X, rule 210.2-02 contains the formal requirements for certificates.¹

Reg. 210.2-02
(a) Technical requirements.—The accountant's certificate shall be dated, shall be signed manually, and shall identify without detailed enumeration the financial statements covered by the certificate.

(b) Representations as to the audit.—The accountant's certificate (i) shall state whether, the audit was made in accordance with generally accepted auditing standards; and (ii) shall designate any auditing procedures generally recognized as normal, or deemed necessary by the accountant under the circumstances of the particular case, which have been omitted, and the reasons for their omission.

Nothing in this rule shall be construed to imply authority for the omission of any procedure which independent accountants would ordinarily employ in the course of an audit made for the purpose of expressing the opinions required by paragraph (c) of this rule.

(c) Opinions to be expressed.—The accountant's certificate shall state clearly; (i) the opinion of the accountant in respect of the financial statements covered by the

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certificate and the accounting principles and practices reflected therein; (ii) the opinion of the accountant as to any material changes in accounting principles or practices, or method to be set forth by rule 210.3-07; and (iii) the nature of, and the opinion of the accountant as to, any material differences between the accounting principles and practices reflected in the financial statements and those reflected in the accounts after the entry of adjustments for the period under review.

(d) Exceptions.—Any matters to which the accountant takes exception shall be clearly identified, the exception thereto specifically and clearly stated, and to the extent practicable, the effect of each exception on the related financial statements given.

A change in the rules in 1941 caused the change in the standard report. The SEC added the requirement expressed in (b) (1) above, that the words "generally accepted auditing standard" be included in the auditors' reports submitted to it. A requirement change forced a change in the report issued by auditors. The change also left the United States accounting profession "in the uncomfortable position of being required to use language in each of its reports which was not adequately defined and about which a certain amount of disagreement existed."

This position caused the next revision in the standard report. In 1948 the AICPA issued a revised report and a list of auditing standards. This list plus an

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1Rosenfield, op. cit., p. 55.

2Ibid.
additional standard are the basis for Statements on Auditing Procedure No. 33. The report reads:

We have examined the balance sheet of X Company as of June 30, 19__, and the related statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and retained earnings present fairly the financial position of X Company at June 30, 19__, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

This is the present report form used in the United States. Additional changes are still being recommended. Rosenfield suggests the following revised report.

The Board of Directors
XYZ Corporation

In our opinion, based on an examination made in accordance with generally accepted auditing standards, the accompanying statements present fairly the financial position of XYZ Corporation at December 31, 1964 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ABL and Co. CPA's

This report omits the words "and accordingly included

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1AICPA, Auditing Standards and Procedures, op. cit., p. 57.
2Rosenfield, op. cit., p. 53.
such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances."

The scope paragraphs of these standard reports contain two separate elements. "1. A description in varying language of the work done in the examination. 2. An assertion as to the character of the work done in the examination." ¹

The first standard report has only the first element as no mention is made that the auditor did the work considered necessary. The other three standard reports contain both parts. Rosenfield² suggests that the first element is unnecessary and is undesirable. The revision he suggests contains only the second portion with its reference to auditing standards.

The opinion paragraphs of the different United States standard reports have a fairly definite form. It is a professional opinion that the statements present the financial position and the results of operations on a basis consistent with accounting principles. The important idea is that it is a professional opinion. Grinaker³

¹loc. cit., p. 56.
²ibid.
suggests that "a professional opinion implies that the judgement of an expert has been brought to bear on a problem, and that sufficient evidence has been examined by the expert to provide reasonable grounds for the expression of such an opinion."

Standards of Audit Reporting in the United Kingdom

The reporting requirements in the United Kingdom are generally governed by the Companies Act of 1948. The report must be directed to the shareholders and the content of the auditors' report is defined by the Ninth Schedule as follows:

Matters to be expressly stated in Auditor's Report-

1. Whether they have obtained all the information and explanations which to the best of their knowledge and belief were necessary for the purposes of their audit.

2. Whether, in their opinion, proper books of account have been kept by the company, so far as appears from their examination of those books, and proper returns adequate for the purposes of their audit have been received from branches not visited by them.

3. (1) Whether the company's balance sheet and (unless it is framed as a consolidated profit and loss account) profit and loss account dealt with by the report are in agreement with the books of account and returns.

1 "United Kingdom, Arthur Andersen subject file," 1966, 10.
(2) Whether, in their opinion and to the best of their information and according to the explanations given them, the said accounts give the information required and give a true and fair view-

(a) in the case of the balance sheet, of the state of the company's affairs as at the end of its financial year;

(b) in the case of the profit and loss account, of the profit or loss for its financial year;

or, as the case may be, give a true and fair view thereof subject to the non-disclosure of any matters (to be indicated in the report) which by virtue of Part III of the Eighth Schedule to this Act are not required to be disclosed.

The Eighth Schedule mentioned above concerns banking, discount companies and insurance companies.

The Companies Act does not specify the exact form or content of the auditor's report. The courts have held only that it is the auditor's duty to communicate clearly whether he is taking exception to the statements. The courts have also held that the auditor's report must have a full statement of opinion on the true financial position. This means he must do more than indicate the way the statement was obtained. These requirements led Duncan to state "(a) they should be drawn up in accordance with recognized principles of accounting consistent

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1 ibid.

with those applied in the immediately preceding financial year. (b) They should contain all the essential information for a right understanding of the financial position of the undertaking and the results of its operations; (c) the information should be set out in a manner which by its form, wording and emphasis facilitated this understanding and avoids ambiguity or the possibility of misconstruction."

There is no legally required form a report in the United Kingdom must take. In a 1965 Lybrand and Cooper publication it is indicated that a standard report form for a limited company is as follows:

The accounts set out on pages _____ to _____ are in agreement with the books which, in our opinion, have been properly kept, we obtained the information and explanation we required.

In our opinion the accounts comply with the Companies Act, 1948, and give a true and fair view of the state of affairs and the profit of the company.

There are other reports used in the United Kingdom. The Institute of Chartered Accountants in England and Wales has suggested that a report worded as follows will comply with the requirements of the Companies Act;²

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²"United Kingdom, Arthur Andersen subject file," op. cit., p. 11.

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We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purpose of our audit. In our opinion proper books of account have been kept by the company so far as appears from our examination of those books and proper returns adequate for the branches not visited by us (A). We have examined the above balance sheet and annexed profit and loss account which are in agreement with the books of account and returns (A). In our opinion and to the best of our information and according to the explanations given us the said accounts (B) give the information required by the Companies Act 1948 in the manner so required and the balance sheet gives a true and fair view of the state of the company's affairs as at ... and the profit and loss account gives a true and fair view of the profit (loss) for the year ended on that date.

Notes:

(A) Delete words underlined where applicable.

(B) Where the accounts are not self-contained because material information (necessary for their proper understanding or drawing attention to some feature which affects the validity of the accounts) is contained in paragraphs of the directors' report or in other documents annexed to the accounts (see Sections 149 (7) and 163 of the Companies Act 1948) reference to the specific documents to be read as part of the accounts should be introduced here in appropriate terms. These will vary according to the circumstances but should clearly identify the source to which the reference is made. Where matters relevant to the accounts are disclosed in the directors' report it is desirable for that report to be so set out as to ensure identification.*

* The words "proper returns" refer to trial balances, or other reports on the accounts of branches not visited. This reference is intended to be explanatory only, and not to represent a qualification. The Companies Act places upon the auditor the burden of examining whatever evidence is
required to be examined under the circumstances in order to express an opinion, and it does not permit the auditor to relieve himself of responsibility for branch accounts where he has placed reliance on returns. We believe this reference to returns in the report could be confusing to the reader, and as a general rule we should not include it.

It is stated in the Arthur Andersen subject file that this report with minor variations is generally used in the United Kingdom.

This report and the Eighth Schedule make no specific reference to consistency or generally accepted accounting or auditing principles. The above report does imply that some auditing standards have been met when it is stated, "We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purposes of our audit." The Eighth Schedule of the Companies Act, 1948 in paragraph 14(6) of Part I in effect covers consistency. The above mentioned paragraph "requires that the effect on any items in the statement of profit and loss of any change in the basis of accounting or any transactions of a sort no usually undertaken by the company or otherwise by circumstances of an exceptional or non-recurrent nature shall be disclosed in a footnote." If there is a deficiency in these disclosures then the auditor's report

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1 loc. cit., p. 12.

2 ibid.

3 ibid.
should explain. The opinion that the accounts give a fair view does not depend on "clearly defined standards of generally accepted accounting principles." The true and fair view is rather a subjective conclusion influenced by a small number of explicit guideposts.

The United States international firms have developed additional reports for use in the United Kingdom. Price Waterhouse & Co. will issue the following unqualified report for a company without subsidiaries.

In our opinion the above balance sheet and annexed profit and loss account give a true and fair view of the state of the company's affairs as at .... 19 and of its profit for the year ended on that date.

We have obtained all the information and explanations which we consider necessary. In our opinion the company has kept proper books and the said accounts, which are in agreement with them and with the said information and explanations, give in the prescribed manner the information required by the Companies Act, 1948.

The opinion paragraph is first rather than following the scope paragraph in this report as is the practice in the United States report.

Arthur Andersen & Co. has adopted the policy of using certain reports in the circumstances described. If the

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1 Ibid.

2 Duncan, op. cit., p. 7.

3 "United Kingdom, Arthur Andersen subject file," op. cit., p. 18.
report is not required to refer to compliance with the Companies Act requirements, the United States short form report with the following limited modifications may be acceptable.

To the Members of __________ Limited:

We have examined the balance sheet of __________ Limited as at _____, 19__, and the related profit and loss account for the year then ended, which are in agreement with the books of account. We have obtained all the information and explanations that we considered necessary for the purposes of our audit. So far as appears from our examination thereof, proper books of account have been kept by the Company.

In our opinion, the accompanying balance sheet and profit and loss account give a true and fair view of the state of the Company's affairs as at _____, 19__, and of the profit for the year then ended, and comply with the requirements of the Companies Act, 19__.

If the company is a holding company (parent company) the following is the report that personnel of Arthur Andersen & Co. use.

To the Members of __________ Limited:

We have examined the balance sheet of __________ Limited as at _____, 19__, which is in agreement with the books of account. We have obtained all the information and explanations that we considered necessary for the purposes of our audit. So far as appears from our examination thereof, proper books of account have been kept by the Company, and, in our opinion, the balance sheet gives

ibid.
a true and fair view of the state of affairs of the Company as at ____, 19__, and complies with the requirements of the Companies Act, 1948.

We have also examined the accompanying consolidated balance sheet and consolidated statement of profit and loss of the Company and its subsidiaries. In our opinion, such consolidated balance sheet and consolidated statement of profit and loss give a true and fair view of the state of affairs of the Company and its subsidiaries as at ____, 19__, comply with the requirements of the Companies Act, 1948.

Comparisons Between the United States and United Kingdom Audit Reports

The reports issued in the United Kingdom are different from the United States report in wording. As indicated the meaning of these reports has been generally reconciled. Certain items not mentioned in the British report but mentioned in the United States report are considered to be implied in the British report. The major differences seen to have developed because of the more legalistic development of the profession in the United Kingdom.

In the International Reference Manual\(^1\) it is stated that the auditor in the United Kingdom will usually give an opinion, no matter how qualified, and seldom disclaims an opinion. In the United Kingdom the company directors are thought to have the major responsibility for choosing

\(^1\)Lybrand and Cooper, op. cit., p. 28.
accounting practices and methods. \(^1\) There are often a wide variety of alternatives available. The auditors normally give unqualified opinions, based on the directors choice of accounting practices and methods, if the necessary disclosures are made.

Until recently the British Institute has not issued official pronouncements that provided much guidance as to when a qualification of opinion is needed. There has been nothing stated about the form the qualification should take. In 1965 the British Institute issued Statement on Auditing No. 5. \(^2\) This statement amplified the view earlier expressed by the British Institute that holding company auditors are responsible for subsidiary accounts examined by other auditors and cannot avoid liability by merely stating that the accounts were examined by another auditor. The other auditor's report must either be relied on or inquiries on subsidiary accounts must be made. In Statement on Auditing No. 5 \(^3\) the following comment is included, "If the auditors of the holding company are denied information or facilities which in their judgement are necessary to enable them to form their opinion on group accounts, their duty is to state

\(^1\) AICPA, Auditing Standards and Procedures, op. cit., p. 63.
\(^3\) ibid.

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the facts in their report and to make whatever reservations may be appropriate in their opinion."

This view is different from the United States view in similar circumstances. In Statement of Auditing Procedure No. 33 it is stated, "principle auditor may appropriately express an unqualified opinion on the fairness of the consolidated or combined statements without assuming responsibility for the report on work of the other independent auditor, provided the basis of his opinion is adequately described."

Research by Arthur Andersen & Co. personnel indicates that only a few qualified opinions have been issued in the United Kingdom. If the company does not meet the auditor's requirements, the auditor relies on notes to the accounts or report explanations rather than qualification of the opinion. "Wording such as 'with these remarks' or 'on this basis' frequently have been used where clear-cut exceptions appear to be appropriate. Even where clear qualifications are expressed there has generally been a reluctance to indicate the magnitude of misstatements." In the Arthur Andersen subject file it is indicated that outside Arthur Andersen & Co. practice

1AICPA, Auditing Standards and Procedures, op. cit., p. 63.
3Ibid.
they know of no auditor who has disclaimed an opinion.¹

In 1966 the Institute of Chartered Accountants of England and Wales issued Statement on Auditing No. 6 which is an attempt to clarify the problem of when the qualification of auditors' reports is necessary.

It is indicated in the pronouncement that the qualifying opinion should:²

(1) be as concise as is consistent with clarity;

(2) be specific as to the items and facts and as far as possible the amounts involved;

(3) within the limits of the information available to the auditors, make clear its effects on the accounts; and

(4) express the auditors' opinions without possibility of misinterpretation."

Immediately following these points Statement on Auditing No. 6 contains the following:³

The object should be to give in clear and unequivocal terms, so far as circumstances permit, such information in augmentation of that provided by the accounts and notes thereto as will, in the auditors' opinion, provide the information required by the Act, and ensure that the accounts will then give a true and fair view.

This sentence seems to reduce the meaning of number four above but later the case for clear qualification in strengthened. "If a note to the accounts or reference

¹loc. cit., p. 16.
²ibid.
³ibid.
in the directors' report is essentially a material qualification of the information the accounts themselves disclose, it will be necessary for the auditors to make a detailed reference to the substance thereof in their report."\(^1\) This might be indicated by the following: "The accounts make no provision for loss on the debt of £25,000 referred to in Note... With this exception, the accounts in our opinion give a true and fair view..."\(^2\)

The basic causes for qualification of an opinion are indicated in Statement of Auditing No. 6\(^3\) and includes, in greater detail, the following:

(a) When the auditor is unable to obtain all the information and explanations considered necessary for their audit;

(b) If the auditor does not feel that proper books were kept in accordance with section 147 of the Act;

(c) If the statements are not in agreement with the books;

(d) If the auditor feels the accounts do not give the information required by the Act;

(e) If the auditor feels that the accounts comply with the Act but fail to give a true and fair view;

(f) If with a group report this report is not properly prepared under the requirements of the Act;

\(^1\)ibid.

\(^2\)loc. cit., p. 17.

\(^3\)ibid.
(g) If anything that should have been disclosed is not disclosed.

These provisions for qualification help the United Kingdom auditor determine when a qualification of opinion is necessary and reduce the wide variance of opinion about when a qualification is needed.

When comparing the United States and United Kingdom audit opinions the biggest difference, other than the late development of the qualified opinion, is the greater development through statutory provisions in the United Kingdom.
CHAPTER III

AUDIT REPORTS IN THE COMMONWEALTH COUNTRIES

The commonwealth countries are countries that at one time were part of the British Empire. When these lands gained independence from England they joined with the United Kingdom in a federation of nations known as the British Commonwealth. Under the British Empire a substantial flow of trade and investment began between the countries of the Empire. One purpose of the British Commonwealth was to allow the continuance of this trade and investment.

Australia, Canada, Hong Kong, India, New Zealand and the Union of South Africa are the commonwealth countries included in this study. To facilitate the comparison between the audit reports of these countries and the audit reports used in the United Kingdom the discussion of audit reporting in the commonwealth countries follows.

Audit Reports in India and Hong Kong

In India, the basic laws affecting the accounting profession are the Companies Act of 1956 and the Chartered Accountants Act, 1949, (as amended). These laws

\[1\] Lybrand and Cooper, op. cit., India, C-1.
require the report to state;\textsuperscript{1} if all the information necessary for the audit has been obtained, if the proper books the law requires have been kept, and if the financial statements fairly present the financial position of the company. It also must be stated whether or not the balance sheet and profit and loss account give the information required by the 1956 Companies Act.

The laws of Hong Kong require that all incorporated companies must appoint an auditor.\textsuperscript{2} This auditor will issue an unqualified opinion that reads;\textsuperscript{3}

\begin{quote}
I have examined the above Balance Sheet with the books, vouchers and records, and obtained all information and explanations that I have required. I hereby certify that, in my opinion and to the best of the information and explanations given to me, the Balance Sheet is properly drawn up so as to exhibit a true and correct view of the state of affairs.
\end{quote}

The audit report issued by the Hong Kong auditor and the requirements for the audit report in India are similar to the audit reporting requirements in the United Kingdom. Sih\textsuperscript{4} comments that he feels that the United Kingdom use of "true and fair" is more meaningful to the investor than the Hong Kong usage of "true and

\textsuperscript{1}ibid.


\textsuperscript{3}ibid.

\textsuperscript{4}loc. cit., p. 711.
correct." This is because a report can be correct without being fair.

Audit Reporting in the Union of South Africa

The Companies Act of 1926, as amended is the basic accounting document of South Africa.\(^1\) The auditor is an agent of the shareholders. They rely on the auditor for opinions of whether the balance sheet reflects the affairs of the company. The usual wording is open to some dispute. In the *International Reference Manual*\(^2\) the report is worded:

We examined the books, accounts and vouchers to the extent we considered necessary. The accounts of the company set out on pages \ldots{} to \ldots{} agree with the books which, in our opinion, were properly kept. We obtained the information and explanations we required and satisfied ourselves of the existence of the securities.

In our opinion, the accounts set out on pages \ldots{} to \ldots{} comply with the Companies' Act, 1926, as amended, and give a true and fair view of the state of affairs and the profit of the group.

Publications of the AICPA indicates that the usual form of report is:\(^3\)

\(^1\) Lybrand and Cooper, op. cit., South Africa, C-1.
\(^2\) loc. cit., South Africa, C-4.
We have examined, to the extent to which we have considered necessary, the books and accounts and vouchers of the company and have satisfied ourselves of the existence of the securities. We have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purpose of our audit. In our opinion, proper books of account have been kept by the company so far as appears from our examination of these books.

The foregoing balance sheet and profit and loss account are in agreement with the books of account and in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1926 as amended, in the manner so required and the balance sheet gives a true and fair view of the state of the companies affairs at December 31, 19___ and the profit and loss account gives a true and fair view of the profit for the year ended on that date.

The first of these reports is typical of a report found in the commonwealth. The second report is marked by a more detailed scope paragraph than the United Kingdom audit reports.

Audit Reporting in New Zealand

New Zealand also has a Companies Act, passed in 1955.¹ This act provides that all financial statements must be audited by an independent public accountant, unless all the stockholders agree to forego the audit. If

¹Lybrand and Cooper, op. cit., New Zealand, C-1.
the independent audit is not performed then the state-
ments must include the statement that they are unaudited.
This protects the investor from unknowingly using un-
audited financial statements. The audit report reads:1

We have obtained all the information
and explanations that we have required. In
our opinion proper books of account have
been kept by the company so far as appears
from our examination of the books. In our
opinion, according to the best of our in-
formation and explanations given to us
and as shown by the said books, the balance
sheet and the profit and loss accounts are
properly drawn up as to give respectively
a true and fair view of the state of the
companies affairs as at ..date.. and the
results of its business for the year ended
on that date.

According to such information and ex-
planations of the accounts, the balance sheet
and the profit and loss account gives the in-
formation required by the Companies Act of
1955 in the manner so required.

The sentence structure in the scope paragraph of
the New Zealand auditor's report is different from that
of the British report, but in other respects the reports
are similar.

Audit Reporting in Canada

The reporting requirements of Canada are set by the
Federal Companies Act and the province Companies Acts.2

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1AICPA Committee on International Relations, op. cit., New Zealand, 17.
2Lybrand and Cooper, op. cit., Canada, C-1.
The Canadian Institute of Chartered Accountants also has issued numerous bulletins. The standards are similar to those of the United States. The Canadian Institute suggests the following report be used:

To the shareholders of XYZ Company Limited

I have examined the balance sheet of XYZ Company Limited as at October 31, 19__ and the statement of profit and loss and surplus for the year ended on that date. My examination included a general review of the accounting procedures and such other tests of accounting records and other supporting evidence as I considered necessary in the circumstances.

In my opinion the accompanying balance sheet and statement of profit and loss and surplus present fairly the financial position of the company as at October 31, 19__ and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year."

signed _________
Chartered Accountants

Before 1959 there was a big difference in the United States and Canadian standards of reporting. Much of this difference was due to the Canadian ties with Britain. The change in Canadian reporting has been in response to the close economic ties that the


2Lybrand and Cooper, op. cit., Canada, C-3.
Canadians have developed with the United States. The United States is now more involved in business with Canada than is the United Kingdom. The United States report is more familiar to the American investor and Canada has moved toward this report form and further from the British report than other commonwealth countries.

Audit Reports Used in Australia

The basic reporting requirements in Australia are prescribed by the Companies Act of 1961 and the Companies Act of the various provinces. The Uniform Companies Act includes: "... every company and the directors and managers thereof shall cause to be kept in the English language such accounting and other records as will sufficiently explain the transactions and financial position of the company and enable true and fair profit and loss accounts and balance sheets and any documents required to be attached thereto to be prepared from time to time, and shall cause these records to be kept in such manner as to enable them to be conveniently and properly audited."

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1 loc. cit., Canada, C-2.


3 AICPA Committee on International Relations, op. cit., Australia, 6.
The Companies Act\textsuperscript{1} requires the auditor to render an opinion on the financial statements. The audit report must be attached to the financial statements and the auditor's fee must be specifically shown in the profit and loss account. The Australian Companies Act enumerates several requirements of the auditors' report.\textsuperscript{2} The audit report must indicate if all the information and explanations required were obtained and if the branch returns were not adequate this must be indicated.

The Australian auditor may issue an audit report that reads:\textsuperscript{3}

\begin{quote}
In our opinion the balance sheet and profit and loss account set out on pages ... to ... are properly drawn up in accordance with the provisions of the Companies Act 1961 and so as to give a true and fair view of the state of affairs and the profit of the company.

The accounting and other records, including registers, examined by us have, in our opinion, been properly kept in accordance with the provisions of the Act."
\end{quote}

The Australian Institute of Chartered Accountants has recommended\textsuperscript{4} that "true and fair view also implies

\begin{itemize}
\item[\textsuperscript{1}]Lybrand and Cooper, op. cit., Australia, C-1.
\item[\textsuperscript{2}]AICPA Committee on International Relations, op. cit., Australia, 13.
\item[\textsuperscript{3}]Lybrand and Cooper, op. cit., Australia, C-3.
\item[\textsuperscript{4}]Lybrand and Cooper, op. cit., Australia, C-3, p. 41.
\end{itemize}
the consistent application of generally accepted principles."

In the Arthur Andersen subject file it is indicated that the audit report might read:

We have examined the balance sheet of .... Company Limited as at ... 19... and the related statement of profit and loss for the year then ended. Our examination included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of profit and loss give a true and fair view of the state of affairs of .... Company Limited at .... 19... and the results of its operations for the year then ended, and have been drawn up in accordance with the provisions of the Companies Act 19....

We are also of the opinion that the accounting and other records (including registers) examined by us were properly kept in accordance with the provisions of the Companies Act 19....

The Arthur Andersen subject file contains several items of interest on the Australian audit report. 2

(1) The scope paragraph refers to 'auditing procedures and such test... as we considered necessary in the circumstances' and makes no reference to generally accepted auditing standards. The reason for the omission of a reference to such standards is that the accounting profession in Australia has made no

1 ibid.
pronouncements on such standards similar to the pronouncements of the American Institute of Certified Public Accountants, "Generally Accepted Auditing Standards--Their Significance and Scope."

(2) Three separate opinions are in effect expressed; these are:

(a) That the statements are drawn up in accordance with the provisions of the Companies' Act 1961,

(b) That the statements have been drawn up so as to give a true and fair view of the state of affairs of the company and the results of its operations,

(c) And that the accounting and other records examined by us are properly kept in accordance with the provisions of the Companies' Act 1961.

Opinions on these matters are required by Section 167 (1) and (2) of the Act. There is no reference to any generally accepted accounting principles or their consistency of application.

The report is normally not signed until the directors sign their statements on the accounts.²

The large American auditing firms maintain offices and conduct business in Australia. The Arthur Andersen subject file includes:² "Our professional practice in any country must and should recognize the attitudes, customs and laws of that country." Because of this attitude Arthur Andersen & Co. auditors would use the

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¹Lybrand and Cooper, op. cit., Australia, C-3.
following reports under the indicated circumstances.

When there is only a single company:¹

To the shareholders of
ABC Company Limited:

We have examined the balance sheet of
ABC Company Limited at 30th June 1962, and
the related statement of profit and loss
for the year then ended. Our examination
included such auditing procedures and such
tests of the accounting and other records
as we considered necessary in the circum­
stances.

In our opinion, the accompanying
balance sheet and statement of profit
and loss are properly drawn up in
accordance with the provisions of the
Companies Act 1961 and so as to give a
true and fair view of the state of affairs
of the company and the results of its
operations for the year then ended.

We are also of the opinion that the
accounting and other records (including
registers) examined by us are properly
kept in accordance with the provisions

Chartered Accountants

Melbourne,
31st July 1962

If there are both parent and subsidiary companies
both audited by Arthur Andersen & Co, the following
report is used:²

To the shareholders of
ABC Company Limited

We have examined the balance sheet of ABC

¹ibid.

²loc. cit., p. 3.
Company Limited at 30th June 1962, and the related statement of profit and loss for the year then ended. Our examination included such auditing procedures and such tests of the accounting and other records as we considered necessary in the circumstances.

We have also examined the consolidated balance sheet and the consolidated statement of profit and loss of ABC Company Limited and its subsidiary companies in conjunction with the separate balance sheets and statements of profit and loss of the individual companies.

In our opinion:

1. The accompanying balance sheet and statement of profit and loss are properly drawn up in accordance with the provisions of the Companies Act 1961 and so as to give a true and fair view of the results of its operations for the year.

2. The consolidated balance sheet and consolidated statement of profit and loss are properly drawn up in accordance with the provisions of the Companies Act 1961 and so as to give a true and fair view of the state of affairs of the group and of the results of its operations for the year.

We are also of the opinion that the accounting and other records (including registers) of ABC Company Limited examined by us are properly kept in accordance with the provisions of the Companies Act 1961.

Chartered Accountants

Melbourne
31st July 1962

If the parent company is audited by Arthur Andersen & Co., but some of the subsidiary companies are audited by other auditors then the following report is used:

1 loc. cit., p. 5.
To the shareholders of
ABC Company Limited:

We have examined the balance sheet of
ABC Company Limited at 30th June 1962, and
the related statement of profit and loss for
the year then ended. Our examination in­
cluded such auditing procedures and such
tests of the accounting and other records
as we considered necessary in the circum­
stances.

We have also examined the consolidated
balance sheet and the consolidated state­
ment of profit and loss of ABC Company Lim­
it and its subsidiary companies, in con­
junction with the separate balance sheets
and statements of profit and loss of the in­
dividual companies, certain of which (repre­
senting __% of total net assets) were re­
ported upon by other auditors.

In our opinion:

1. The accompanying balance sheet and
statement of profit and loss are prop­
erly drawn up in accordance with the
provisions of the Companies Act 1961
and so as to give a true and fair view
of the state of the company and the re­
results of its operations for the year.

2. Based upon our examination and on
the reports of the other auditors re­
ferred to above, the consolidated bal­
ance sheet and consolidated statement
of profit and loss are properly drawn
up in accordance with the provisions
of the Companies Act 1961 and so as to
give a true and fair view of the state
of affairs of the group and the results
of its operations for the year.

We are also of the opinion that the
accounting and other records (including re­
gisters) of ABC Company Limited examined by
us are properly kept in accordance with the

Chartered Accountants
The audit reports issued in Australia by the public accountant are typical of the audit reports issued in the commonwealth countries. The use of an audit opinion that is similar to the United Kingdom audit certificate indicates the influence the British auditor has had on the development of the accounting profession in Australia and the other commonwealth countries. The audit reports used by Arthur Andersen & Co., an international firm, in Australia and the other commonwealth nations closely resemble the reports of the local auditor. The use of these reports, rather than the United States audit certificate, indicates that audit reporting in these countries is considered by the American accountant to be good enough to provide the investor with the assurance desired.
CHAPTER IV

COUNTRIES INFLUENCED BY THE REPORTING REQUIREMENTS OF THE AICPA

A Different Influence on Audit Reporting

Among the countries influenced by the reporting requirements of the AICPA are the South American countries and several Pacific countries. This influence has been carried to these countries by the American international accounting firms.

The audit reports and the reporting standards studied in this section show a sharp contrast to those studied in the section on the commonwealth countries. The different country that has been the chief influence on audit reporting and the different level of development that has been achieved by the accounting professions in the countries studied are reasons for this contrast.

Audit Reporting in Mexico

Mexican law requires that the financial statements of a company must be certified by a public accountant when the firm issues public obligations, such as bonds or debentures.¹ All foreign corporations conducting

¹Lybrand and Cooper, op. cit., Mexico, C-1.
business in Mexico must have their financial statements certified and published in the local newspapers. ¹ The Contador Publico is the Certified Public Accountant of Mexico. ² The Contador Publico follows the reporting requirements and auditing standards set up by the Instituto de Contadores Publicos. ³ These requirements are nearly identical to those of the United States, as issued by the AICPA. The AICPA short form report is used in Mexico.

Audit Reporting in Venezuela

The audit report of the Venezuelan auditor ⁴ is a "combination of a long-form report, an explanation of the work done, and comments on internal control." There is seldom any reference made to generally accepted accounting principles or auditing standards or to consistency. Presently the auditing standards of the Venezuelan auditor are still low. ⁵ The international auditing firms are exerting more influence in Venezuela and since they bring their own country's auditing standards

¹ ibid.
² ibid.
³ AICPA Committee on International Relations, op. cit., Mexico, 12.
⁴ Lybrand and Cooper, op. cit., Venezuela, C-2.
⁵ ibid.
and reports, the Venezuela profession should benefit.  

Audit Reporting in Chile

The Fifth National Congress of Accountants held in 1955 published a statement of auditing standards, Normas de Auditoria. It recommended "that the auditor state in his report his opinion on the fairness of presentation of the financial statements he has examined, and that they were prepared on the basis of generally accepted auditing standards and techniques, consistent with those applied in the preceding year." There is no legal requirement for an auditor's report in Chile. The auditing profession is not well developed in Chile and most of the real auditing is done by the British and American international firms. These firms have influenced the reporting requirements of the Chilean accounting profession and these requirements are similar to those of the United States profession.

\[\text{1 ibid.}\]
\[\text{2 loc. cit., Chile, C-3.}\]
\[\text{3 ibid.}\]
\[\text{4 Lybrand and Cooper, op. cit., Chile, C-3.}\]
Audit Reporting in Columbia

In Columbia the law requires the firm to have a statutory examiner, called Revisor Fiscal. An example of the report presented by the Revisor Fiscal is:\(^1\)

Stockholders of Company XXX S.A.
Location

Stockholders:

In accordance with statutory and legal requirements, I am pleased to inform you, as Revisor Fiscal of said Company, that I have examined all operations of the Company for the year ended..., having obtained the necessary information to execute the duties of Revisor Fiscal.

In the course of the examination, I followed recommended auditing techniques and procedures.

In my opinion, the accounting records are in accordance with legal standards and accounting practice, and the operations registered in the records are in accordance with the statues and decisions of the General Assembly and the Board of Directors.

The balance sheet and the statement of profit and loss mentioned above are in agreement with the books of the Company, and they present fairly the results of its operations for the period ended..., and in accordance with generally accepted principles.

Signed

Although this looks much like an independent audit report it does not give the same assurance as the report

\(^1\)AICPA Committee on International Relations, op. cit., Columbia, 6.
of an independent auditor because of the lack of training of the Revisor Fiscal.¹

The regulations for the Revisor Fiscal generally govern the independent auditor.² If the Revisor Fiscal were properly trained and independent the report he issues would appear to be fully adequate to protect the investor. It contains both a scope paragraph of some detail and a firm opinion on the fair presentation of the financial statements.

Audit Reporting in Brazil

Every corporation in Brazil must have a Conselho Fiscal.³ Three persons elected by the stockholders as a legal audit committee are the Conselho Fiscal. They are often not accountants and do not always take the job seriously. Nevertheless the Conselho Fiscal issues a report that reads as follows:⁴

The below signed members of the Fiscal Council of _______ Company, having proceeded with the required examination of the balance sheet and the profit and loss account as well as the other accounts and written accounting documents pertaining to

¹ibid.
²loc. cit., p. 9.
³Lybrand and Cooper, op. cit., Brazil, C-2.
the period ended (date) declare that all is in perfect order and are of the opinion that the statements are in full agreement with the (financial) situation of the company and should thus be approved by the stockholders in general assembly.

There are statements in the report which are different from the AICPA recommended audit form. One is the comment that "all is in perfect order" followed by an expression of an opinion. Second, the report is designed to ask the stockholders to approve the financial situation of the company.

Brazilian law is very complex and the independent public accountant in Brazil developed the attitude that if no law covered the situation, then that situation could not be audited. The certificate issued by the public accountant looked like this:

The (auditing company) through its director below signed as licensed accounting expert, certifies in his capacity as auditor, that the present balance sheet reflects the balance of the respective accounts on December 31, 19__ in accordance with the books examined.

Auditor.

The attitude of the public accounting profession and the issuance of the above report meant that the accounting profession was giving no more assurance than the statutory auditor. The report quoted above only

1ibid.
2ibid.
indicates that the books and statements agreed, there is 
no scope and no opinion as required by the AICPA.

The international accounting firms are a good in-
fluence on the profession in Brazil and the public ac-
countant in Brazil is developing the attitude that the 
examination of the financial statements should lead to  
an expression of opinion.\(^1\) Brazil provides an excellent 
example of what international cooperation on reporting 
standards can accomplish. The audit certificate now be-
ing used in Brazil follows the pattern of the United 
States certificate.\(^2\)

**Audit Reporting in the Philippines**

In the Philippines an annual report must be filed 
with the Philippine Securities and Exchange Commission.\(^3\) 
Those with capital stock of over $12,500 must be accom-
panied by an independent auditors' report. "Income tax returns of businesses with gross quarterly sales or re-
cceipts exceeding $6,250 also have to be accompanied by 
an independent Certified Public Accountant's short form report." The report form is the suggested form of the

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\(^1\) AICPA Committee on International Relations, *op.
cit.*, Brazil, 13.

\(^2\) Lybrand and Cooper, *op. cit.*, Brazil, C-2.

\(^3\) loc. cit., Philippines, C-1.
Audit Reporting in Peru

In Peru there is presently no requirement that financial statements be accompanied by an opinion of a public accountant and there is no standard opinion used when a public accountant does report on the statements. Recently however, an Auditing Committee of the Lima College of Public Accountants published auditing standards similar to those of the United States.

Audit Reports Used in Argentina

The most important influence on the reporting requirements and practices of the Argentinian accounting profession is the Commercial Code and supplementary decrees. This Code is based on the 1867 French Code but recent decrees reflect United States and United Kingdom influence on audit reporting in Argentina.

Presently there is no standard report suggested for use by the Contador Publico Nacional (National

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1 loc. cit., Philippines, C-2.
2 loc. cit., Peru, C-1.
3 loc. cit., Peru, C-2.
Public Accountant) although the Argentinian accountants are discussing developing a standard report.¹ Some present reports consist only of a signature, but a more representative form is:²

I have examined this balance sheet, the accompanying statement of profit and loss and corresponding annexes, and have found them to agree with the books and documents examined.

The General Law of Accounting Activities³ (Decree No. 5103 of 1945) and its regulation (Decree 4450 of 14) contains general provisions concerning auditors' reports and Decree 9795 of 1954 specifies certain details of the auditors' reports including an addition of a statement to the effect that the form of statements and instructions in the decree are complied with. These were set up for the statutory auditor but are now being applied to the public accountant.⁴

Section 75 of the Regulations to the General Law in Accounting Activities, is translated as follows:⁵

The certificate... shall be the consequence of analytical study of items forming

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¹ibid.
²Lybrand and Cooper, op. cit., Argentina, C-3.
³ibid., "Argentina, Arthur Andersen subject file," op. cit., p. 3.
⁴ibid.
⁵ibid.
the balance sheet and the statement of profit and loss. It must reflect the clear precise and objective opinion on the position being certified and shall at the same time state the source from which the data has been obtained—books, vouchers, contracts, etc.—the samples taken from the analysis of the various items requiring such analysis and the other means employed for performing the jobs.

The certificate shall state that the figures in the statements of assets, liabilities and profit and loss accounts, carried in accordance with the legal requirements and supported by the corresponding vouchers. It shall also assure that in determining the values of operating results a technically correct criterion has been followed.

This does not require an indication that accounting principles were consistently followed but Decree 9795 of 1954 requires a description of the changes and the effect of these changes.

For a prospectus a form of report is prescribed by Commission Securities. The first three paragraphs are:

We have verified that the figures contained in the preceding balance sheets and profit and loss accounts are in agreement with the corresponding entries in the principal books of account of the corporation and that the registration in these books agree with those in the auxiliary books and supporting vouchers.

On the basis of the analysis referred to in the preceding paragraph and from the information and explanations which have been

1 ibid.

2 ibid.
furnished to us at our request we certify that the figures reflect faithfully the assets and liabilities of the enterprise in each of the financial periods included in the period under review.

We are also of the opinion that the adjustment made to the profit and loss accounts published in the company's annual reports and corresponding to the financial periods under consideration, establish figures which are homogeneous and representative of the net profits obtained by the enterprise in the exploitation of their usual business during said financial period.

These legal requirements are indication that significant progress is being made in the reporting requirements in Argentina. It is a requirement that the auditors' certificate must be manually signed by an individual Contador Publico Nacional. This means the international accounting firms are not recognized for the purpose of signing the audit certificate and must appoint an individual who is a Contador Publico Nacional to sign for the firm.

Audit Reporting in Japan

The Ministry of Finance Ordinance Relating to Audit Certificate of Financial Statements and its corresponding regulation set forth the auditing standards followed in Japan. The short form report has three

2. Lybrand and Cooper, op. cit., Japan, C-1.
paragraphs covering; the scope of the examination, the opinion with a statement of compliance with principles and procedures, and disclosure of the auditors' independence. The report will look somewhat like the following: 1

To the President
XYZ Company

Date
Auditor

1) Scope of the Audit: I have examined the financial statements (balance sheet, income statement, surplus statement, statement of appropriation of surplus and schedules), consisting of a part of the registration statement for the period December 1, 19__, through November 31, 19__ in relation to the required audit under the Article 193-2 of the Securities Exchange Law.

My examination was made in accordance with the generally accepted auditing standards and accordingly included normal auditing procedures as I considered necessary in the circumstances.

2) Auditors Opinion: In my opinion, based upon my examination, the accounting principles and procedures of the company are in conformity with generally accepted accounting principles and were applied on a basis consistent with that of the preceding year, and the presentations of the financial statements are in conformity with the forms illustrated by the regulations.

Therefore in my opinion, the financial statements fairly present the financial position of XYZ Company as of May 31, 19... and the results of their operations for the period then ended.

3) Independence: I have no material interests in the company.

1AICPA Committee on International Relations, op. cit., Japan, 17.
The Japanese report makes reference to legal requirements and their fulfillments. It is different from the United States where none of the standard reports have included a reference to legal requirements although regulations of the SEC have influenced United States reporting.¹

The opinion paragraph of the certificate rendered by the Japanese auditor follows the United States opinion fairly closely and includes a reference to consistency. There is also a reference to legal requirements and there is a more detailed opinion.

The third section of the report is different. The reference to independence of the public accountant is made in the certificate. In the United States this reference to independence is not made in the audit report but it is a requirement that the public accountant must fulfill.²

CHAPTER V

AUDIT REPORTS IN THE EUROPEAN COUNTRIES

The study of audit reporting in Europe consists of European countries not under Communist control. The study will show sharp contrasts between the audit reports and the audit reporting requirements of the European countries and the audit reports and requirements of the countries previously studied. In Europe the audit reports and reporting requirements have been developed by the individual countries rather than primarily determined by the influence of another country. This study reveals the variety of audit reports and reporting standards that have developed in a small geographical area.

Audit Reporting in Denmark

The Danish in their audit report merely say, "The above profit and loss account and balance sheet are in accordance with books of the company which have been examined by the undersigned auditors." The report is not very informative and therefore is of little value to

1AICPA Committee on International Relations, op. cit., Denmark, 14.
the United States investor. It has a limited scope because of the limited scope of audit work performed and no opinion is given on the financial statements.

**Audit Reporting in Greece**

The certified public accountant in Greece must take the following oath,\(^1\) "I solemnly swear that I shall be faithful to my country, to the King of Greece, to the Constitution and to all the laws of the country and shall honestly and conscientiously fulfill my duty." The report of the Greek public accountant should state\(^2\) if the financial position of the company and the results of the period were fairly presented, and in conformity with accepted accounting principles; if the firm was consistent in the use of accounting methods; if the examination was made following good auditing procedure; if the books were kept as prescribed by law; if the books were in agreement with the statements; and if all material disclosures were made.

The form prescribed by the Certified Public Accountants of Greece for the audit report is:\(^3\)

To the Shareholders of XYZ Company, SA:

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1. *loc. cit.*, Greece, 1.
In my opinion, based upon my examination, the accompanying financial statements (with their notes), fairly present the financial position of XYZ Company, S.A., at December 31, 196_, and the results of its operations for the year then ended in conformity with legal requirements and accepted accounting principles applied on a basis consistent with that of the previous year.

My examination was made in accordance with the requirements of Article 37 of the Companies Act of Greece (No 2190) and also in conformity with the Standards of Auditing accepted by the Institute of Certified Public Accountants of Greece and accordingly included such tests of accounting records and other auditing procedures as I considered to be necessary in the circumstances. I obtained all the information and explanations (including statements of all branch operations) which I needed for the purpose of my audit.

I have found that the books of account (and production costs books) as required by existing laws have been kept by your Company, and that the accompanying financial statements are in agreement therewith.

Signed_________.

There is a reference to legal requirements both in the scope paragraph and in a separate paragraph. Except for these references the report closely resembles the United States audit report.

Audit Reporting in Switzerland

The Swiss have a statutory auditor elected by the shareholders. This statutory auditor submits a report to the stockholders and recommends acceptance or reject-
tion of the balance sheet.  

The independent public accountant also examines the books. His report must certify that the financial statements truly reflect the company's financial condition and that the books are properly kept. The acceptance or rejection of the statements must be recommended. There is no standard report but two examples of audit certificates follow.

To the General Meeting of the Shareholders of Company X:

As duly appointed statutory auditors of your company we have examined the Balance Sheet at December 31, 196_ and Profit and Loss account for the business year 196_ submitted to us and have found them to be in agreement with the company's books. As a result of our audit we confirm that the financial position at December 31, 196_ and the results of its operations in conformity with the principles of evaluation prescribed by the law and the company's articles of association.

Based on our findings, we recommend that the financial statements be adopted without reservation and that the director's proposal set out below for dealing with the available retained earnings be accepted:

Appropriation to a legal reserve
Distribution of dividends of %
To be carried forward

Yours

---

1 loc. cit., Switzerland, 10.
2 loc. cit., Switzerland, 14.
3 ibid.
In our capacity as statutory auditors of XYZ, S.A., we have examined the attached balance sheet as at December 31, 19__ and the related statements of earned surplus and profit and loss for the year ended.

The above mentioned balance sheet and statements of earned surplus and profit and loss are in agreement with the company's books of account which were properly kept, and in our opinion, present fairly the state of affairs of the company and the results of its operations in accordance with the principles of evaluation prescribed by the law and the company's by-laws.

The Board of Directors proposes that the available surplus of Sgrs. xxxx be disposed of as follows:

Transfer to legal reserve     xxxx
Dividend                     xxxx
Balance carried forward      xxxx

We recommend that the Board of Directors' proposal be accepted and the attached accounts adopted.1

In Switzerland the legal requirements that concern audit reporting affect both the statutory auditor and the independent public accountant. Thus both are statutory auditors. The reports quoted above may be used by both. The report must be submitted to the shareholders before they may make use of the financial statements.2

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1Lybrand and Cooper, op. cit., Switzerland, C-2.

2AICPA Committee on International Relations, op. cit., Switzerland, 15.
The first report contains both a scope and opinion section. The word "opinion" is never used in the opinion. The second report has a more conventional opinion. Both are very concerned with the appropriation of surplus. The audit certificates studied in the thesis indicate that most other countries do not consider this to be a requirement for the report of an independent public accountant.

Audit Reporting in Italy

In Italy there is a group called the **Collegia Sindacale** or The Board of Auditors. This group will issue a report such as:

> The balance sheet and income statement at ... which the Board of Directors presents to you, closes with a profit of Lire ... and appears to us, following a close examination prepared on the basis of the accounting results and in accordance with legal provisions, by which the criteria for the valuation of the assets have been observed.

> In view of the fact that the accounting, the records, the cash and the securities, on the basis of our periodic examination, have been found to be kept correctly, we conclude, recommending for your approval, the balance sheet, the income statement and the proposal of the Board of Directors to distribute the profit.

> We thank you for the faith with which you have honored us.

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1. *loc. cit.*, Italy, 6.
This impressive sounding report does not offer the same assurance as an independent audit because of the lack of training of the Board.¹

The report of the independent public accountant in Italy may read:²

The figures contained in the balance sheet and the section on business have been examined by us and we can attest that they are fully in order and correspond with the accounting books and records of the Company.

The principles followed by the Board in formulating the proposed balance sheet meet with our approval.

During the year we attended the meetings of the Board of Directors and made frequent inspections, always noting compliance with existing law and the by-laws, and we wish to call your attention to the intelligent performance of the Management and of all the persons who contribute their support to the progress of the Company so effectively.

The report indicates that the Italian public accounting profession has not achieved the level of development found in the audit reporting of the United States or the United Kingdom.³ The certificate includes a well enumerated scope section which basically confirms agreement between the financial statements and the books of the company and indicates that legal requirements were complied with. There is no opinion expressed by

¹ibid.
²Lybrand and Cooper, op. cit., Italy, C-3.
³loc. cit., C-1.
the auditor on the fairness of the statements. There is one item in the report not found in most reports. It is the calling of attention, in the report, to the "fine" job done by the management. The audit report issued in Italy is not one that will give extensive assurance to the investor.

Audit Reporting in Belgium

The public accounting profession in Belgium is in the infant stage. Generally the reporting requirements of the Belgian accountant are designed to tell the shareholder as little as possible. The report issued on the financial statements is generally a type of long form report and does not usually state an opinion on the statements.

Belgium does have a statutory examiner called Commisssaire Revisseur. His report will read as follows:

In accordance with clause ... of the statutes, we have examined the balance sheet at ..... as well as the profit and loss account for the year .... and confirm that they are in agreement with the books of account. We have satisfied ourselves as to the existence

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1loc. cit., Belgium, C-1.
2loc. cit., Belgium, C-2.
3AICPA Committee on International Relations, op. cit., Belgium, 13.
4loc. cit., Belgium, 6.
of cash at banks and investments, and received such information as we required concerning the other item in the account.

Our examination having been completed to our satisfaction, we propose that the balance sheet and profit and loss account as submitted by the Board of Directors be adopted by the stockholders.

The report is no real assurance of fairness.

Audit Reporting in Germany

In Germany the profession of Certified Public Accountant or Wirtschaftsprufer, was established legally in 1931, with an amendment to the Commercial Code. The reporting standards in Germany are set by the Instilat der Wirtschaftsprufer, an association in which membership is voluntary much like the AICPA in this country. The audit reports that have been used in Germany are more a statement of fact than opinion as illustrated by the unqualified certificate. Until the end of 1965 this certificate read:

According to the result of my/our statutory examination based on the books and record of the company, as well as on the information and explanations supplied

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1 Lybrand and Cooper, op. cit., Germany, C-1.
2 AICPA Committee on International Relations, op. cit., Germany, 5.
by the officers of the company, the books, accounting record, financial statements and the annual report of management to the shareholders, insofar as it explains the accounts, comply with legal requirements.

The corporation law was changed and since the beginning of 1966 a new unqualified certificate has been in use in Germany.¹

According to the final result of our audit, which was duly conducted, the accounting records, the annual accounts and the report of the management comply with legal requirements.

The auditor may qualify the certificate or issue a disclaimer under one of the following conditions:² if there is incorrect classification of major items, an overvaluation of assets or understatement of liabilities or risks, a failure to disclose significant post balance sheet events in narrative, or omission of comments required by law. The law specifically mentions qualified opinions and denials of opinion. The shareholders have no access to the detailed audit report although they do have a brief audit certificate.³

The audit opinion issued by the German public accountant to the shareholders is different from the report recommended by the AICPA. The German report does

¹Lybrand and Cooper, op. cit., Germany, C-4.
²AICPA Committee on International Relations, op. cit., Germany, 14.
³Dieterick, op. cit., p. 453.
not express an opinion on the financial statements but merely states that they comply with legal requirements. There is only limited scope in the certificate although the scope of the report could be determined by obtaining a translation of the German law governing audit reporting. The German audit report is one of the few quoted in this study that does not express an opinion on the financial statements. Despite the apparent statement of fact the audit report contains it is generally felt that it is self evident that the report is merely subjective. In fact, the addition of "in our opinion" would not limit the legal responsibility of the auditor under German law. Therefore in reality the lack of the words "in our opinion" is not considered important.

Audit Reporting in Sweden

The Swedish public accountant takes an oath, "I hereby promise on my faith and honor, as a public accountant authorized by the Chamber of Commerce, to carry out audits entrusted to me with honesty and zeal, carefully and to the best of my ability, im-

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1 Lybrand and Cooper, op. cit., Germany, C-1.
2 AICPA Committee on International Relations, op. cit., Germany, 14.
3 loc. cit., Sweden, 7.
plicitly to observe the secrecy incumbent upon an ac-
countant, and otherwise in every particular to comply
with the regulations laid down in respect to my office."

The Stock Corporation Act and the Bookkeeping Act
are the corporation laws that govern the accounting and
auditing profession in Sweden. The auditor must make
definite recommendations of approval or refusal by the
shareholders of; the proposed balance sheet, the dis-
charge of responsibility of board members for conduct
of business in the year, and the profit and loss shown
in the proposed balance sheet. There is no standard
form of the audit certificate but the following are ex-
amples of forms used.

Audit Certificate

for

AB XYZ

After having audited the accounts and
the administration of AB XYZ for the year
1961 we herewith render the following cer-
tificate:

We have examined the accounts of the
company and the annual report from the board
of directors and the managing director,
checked minutes and other documents giving
information about the company's financial
position and the board's administration
and furthermore taken such measures as we
deemed necessary for the performance of

1Lybrand and Cooper, op. cit., Sweden, C-1.
2loc. cit., Sweden, C-2.
the audit. The audit has not caused us to do any criticism of the financial statements, the accounts of the company, the verification of the company’s assets or otherwise concerning the management.

We, therefore, recommend:

* that the balance sheet as at December 31st, 1961, which is included in the board’s report and certified by us should be approved;

* that the board of directors and the managing director should be discharged from further responsibility as regards the management of 1961; and

* that the profit should be disposed in accordance with the board’s and managing director’s approval, which includes all prescribed legal reservations.

Statutory Audit Report upon the Accounts of ABC Company at December 31, 19__.

In our capacity as auditors to the ABC Company we hereby submit the following report for the year 19__.

We have examined the Annual Report, studied the accounts, the minutes and other documents containing information as to the financial position and the management of the corporation, and make such other inquiries as we considered necessary.

The detailed checking of the records has been carried out by the corporation internal audit department who have reported to us on their examination.

The provisions of the Companies Act concerning shareholders and group reporting have been complied with.

1ibid.
In the course of the audit there appeared no reason for remarks to be made upon the Annual Report, the bookkeeping or the verification of assets, or upon the management.

The Board of Directors and the Managing Director propose that the profits according to the balance sheet be appropriated as follows:

- Transfer to General Reserve
- Dividend to Shareholders
- Carried forward

This proposal does not conflict with the provisions of the Corporation Act concerning the appropriations to legal reserves or with sound business practice.

We recommend: that the balance sheet at 31st December 19..., included in the Annual Report and signed by us, be adopted, that the profits be appropriated as proposed above, and that the Board of Directors and the Managing Director be granted discharge from liability for their management for the period covered by the annual report.

Stockholm

It is required that in addition to giving the report that the auditor must sign the financial statements. The report contains fairly extensive coverage of the scope of the audit. There is also an implied opinion that the accounts are presented fairly when the auditor recommends approval of the financial statements by the shareholders. One portion of the report is constructed

1AICPA Committee on International Relations, op. cit., Sweden, 13.
2Ibid.
to recommend that certain important individuals of
the firm be relieved of liability for their management
of the firm. If this means that these managers and
directors are discharged from responsibility for any
wrongdoing later discovered then the investor would
have to be very confident of the auditor and his complete
examination of the firm.

Audit Reporting in France

The auditing profession in France is generally
poorly developed. 1 There is a system of Statutory
Examiners called Commissaire Aux Comptes. 2 They are
required to report to stockholders on the financial
statements. The report issued by them is theoretically
designed to give some assurance of fairness.

There is no requirement for a report by independent
auditors. 3 The development of the auditing profession
in France has been slow because of the small businesses
that are dominate in France. 4 The development of the

1 Lybrand and Cooper, op. cit., France, C-1.
2 __________ , International Tax Summaries, France,
3 ibid.
4 "France, Arthur Andersen subject
audit report is such that; "No single form of auditors' report for expression of an independent opinion as to financial position and results of operations is generally used in France. The majority of such auditors' reports covering financial statements of French companies to date have been issued primarily for the use of interests in other countries. The accounting firms are generally international firms having their origin in the United Kingdom or the United States, and the reports tend to follow the form that is customary in the accounting firm's country of origin."  

Dispite this La Revision-Theorie at Pratique du Controle des Comtes recommends the following report when the statements consist of Balance Sheet and General Operating Statements and the Profit and Loss Statement.  

We have examined the balance sheet as of ..., and the general operating and profit and loss statements for the fiscal year ended on that date, of ABC, S.A. (a French Corporation).  

Our examination, which was made in accordance with generally accepted auditing standards, included such verifications as we considered necessary in view of the rules of normal diligence.  

In our opinion, according to generally accepted accounting principles, the accompanying balance sheet and general operating

\[1\] loc. cit., p. 11.

\[2\] loc. cit., p. 12.
and profit and loss statements fairly reflect, on a basis consistent with that of the preceding year, the financial position of ABC, S.A., as of .......... and the results of its operations for the fiscal year then ended.

"Where the financial statements include only a Balance sheet and a Profit and Loss Statement, the information presented is considered in 'La Revision' to be insufficient to represent a fair presentation of 'results of operations,' although the 'net profit for the period' a term of more restricted meaning, may be fairly presented." ¹

The following is the recommended report.

In our opinion, according to generally accepted accounting principles, the accompanying balance sheet and profit and loss statement fairly reflect, on a basis consistent with that of the preceding year, the financial position of ABC, S.A., as of the fiscal year then ended, the provision for income tax thereon and the special items described as such.

The most comprehensive of these audit reports is similar in form to the United States recommended report.

Audit Reporting in the Netherlands

The Dutch developed their auditing and audit reporting in response to the needs of business and not because of public regulation. ² This is different from Germany

¹ibid.
or Sweden or even the United Kingdom where there have been and are many legal requirements. The laws of the Netherlands make no specifications about auditors' reports.\(^1\) The Rules of Professional Activities state:\(^2\)

As to reports in general, members shall state the results of their activities so that a true and fair view of such results is obtained; a report, even if it is a mere signature, implies unqualified concurrence with the document covered, unless the contrary is specifically stated in a proviso starting with the words 'subject to.' The proviso must state the matters to which exception is taken so that the import is clear. If the proviso is such as to negative the por­t­port of the report or to detract materially from the report, the member will not give a corroborative report.

If a member's report relates to a doc­­ument forming a part of a set of documents published together, his report will be deemed to cover statements, information and explana­­tions made in other documents in the set which relate to the document to which his report relates.

As to reports relating to annual ac­­counts, they will cover the balance sheet, profit and loss account and explanatory notes. Such reports corroborate that the annual accounts have been drawn up in accordance with sound business practice and affirm the existence and valuation of assets and liabilities and the description of the individual items. Corroborative reports shall not be issued on two consecutive an­­nual balance sheets without including the profit and loss account for the period ended at the date of the second balance sheet in the report on such balance sheet.

\(^1\)loc. cit., p. 4a.
\(^2\)loc. cit., p. 7a.

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As indicated by these Rules there is no standard report. Brevity is considered a virtue and the financial statements are sometimes only signed by the auditor or the auditor's signature is used with "audited and approved" or "approved." Often auditors will issue a written opinion as follows:

To the Shareholders of ABC Company, N.V.:  

We have audited the accompanying balance sheet of the ABC Company at December 31, 196 and the profit and loss account for the year 196, together with the explanatory notes.

In our opinion these accounts fairly present the financial position of ABC Company at December 31, 196 and the results for the year then ended.

Street Address  
City, Date  
Name of Firm

Even though the Rules of Professional Conduct show the explanatory notes as an integral part of the statements, the notes are specifically referred to in the audit report. There is generally no reference to generally accepted auditing or accounting principles and those reports which make such a reference are considered foreign.

1ibid.


3__________, "Netherlands, Arthur Andersen subject file," op. cit., p. 6.
The report of the Dutch auditor seems to offer considerable assurance despite its brevity. This may be because the meaning of the audit report is precisely laid out in the brief rules cited earlier. It is acknowledged that the auditors are legally responsible for the "content of their certificates" by the public.¹

¹Lybrand and Cooper, op. cit., Netherlands, C-3.
CHAPTER VI

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Summary

A knowledge of foreign audit reports has become necessary because of the growth of international business. Investment of capital into business enterprises throughout the world is influenced greatly by the confidence of capital investors in the management and financial performance of the business enterprise involved. In order to provide a basis for evaluation it is essential that the investors are able to obtain independent and objective financial information of proper accounting by management of the results of operations.

International accounting firms are presently providing much of the assurance being offered the international investor. They have carried a consistent set of auditing and reporting standards to other countries and have provided much of the information required by the investor. However, the international accounting firms are limited in the amount of assurance they can provide because they do not audit every possible investment and because there already exist different auditing standards in other countries that must be followed.
Because there is no uniformity in auditing standards that indicate exactly what the auditor did and what conclusions he reached, the person using the audit report is better protected by a careful presentation of the facts in a scope paragraph and a definite opinion in an opinion paragraph of the audit certificate. Numerous audit reports presented in this study contain both a scope and opinion paragraph. As was stated they all do not provide the assurance an investor desires.

Conclusions

The accounting professions of the United States and the United Kingdom are leaders in audit reporting. They are leaders because investors in these countries invested abroad and sent auditors to help protect their investments. The reporting standards of the United States and the United Kingdom have influenced the reporting standards of many countries, in particular the commonwealth countries and the South American countries.

The commonwealth countries generally follow the United Kingdom in audit reporting. Most of them have well developed accounting professions. Changes in the audit reports of the commonwealth countries have been made to meet the needs of each country by the members of the accounting professions in each country.
The South American countries are an example of the beginning development of the independent auditor and a useful audit report. These countries are just beginning to develop audit reporting that offers any assurance to the shareholder. Many of the changes taking place may be traced to the international auditing firms which have come to these countries to meet the demands of foreign investors. Since many of these firms are American firms these countries are beginning to use American auditing standards.

The European countries have many different reporting standards. In a small geographical area many sharp contrasts have developed. There are highly developed accounting professions and reporting requirements, such as those of the United Kingdom, and accounting professions of only limited development, such as Denmark's. There are sharp contrasts between the legalistic report of Germany and the brief signature report of the Dutch.

The adoption of a uniform standard report would provide the international investor with the assurance that he is able to obtain independent and objective financial information. As was indicated there is no agreement on universally accepted accounting principles and auditing standards. Because of this lack of agreement the achievement of uniformity in audit reporting will be difficult.
Recommendations

More assurance that the financial statements provide a fair presentation of the results of operations is necessary if the investor is to continue to risk capital in foreign lands. An international auditing firm which is aware of the economic conditions and potential of a country can encourage the flow of capital to that country. The auditing firm can supply the financial and economic information required by a potential foreign investor. The large auditing firms should make more information available on the foreign countries in which they conduct business.

If each audit opinion provided a basis for that opinion, better reporting on the financial statements would result. To achieve this improved reporting more development of specific auditing standards is needed. However, the ultimate goal in audit reporting is a simple uniform audit report that will carry the same meaning in all parts of the world. The growth and development of the public accounting profession should result in generally accepted accounting principles and auditing standards which will have universal application. At this time the simple uniform audit report is possible. The growth and development of the accounting profession should be speeded in all ways possible.
so that the ultimate goal in audit reporting is achieved as early as possible.

The uniform audit report is not presently a reality and the international investor needs assurance of the fairness of financial statements immediately. The full knowledge of the meaning and the legal implications of the audit certificate is incontestable as an aid to greater assurance. Better communication is necessary to achieve this full knowledge.

The immediate increase of communication and the improvement of communication between the accountants of different countries should be the first goal of all accountants and investors concerned with international capital movement.
GLOSSARY

Accounting Principles - Generally accepted concepts of accounting regarding the measurement and reporting of assets, liabilities, revenue, and expense so there will be some uniformity in the resulting statements.

Auditing - The process of examining the books and records of an enterprise so an opinion on the presentation of the financial position of the enterprise and the results of operations can be expressed.

Auditing Standards - Generally accepted standards that indicate the level of quality of work the auditor maintained in completing the audit examination.

Balance Sheet - One of the financial statements of the business. Its purpose is to present the financial position of the firm at a given point of time.

Income Statement - One of the financial statements of the business. Its purpose is to present the revenues and expenses of the business and to show the net profit as a result of operations over a given period of time.

Qualified Opinion - One type of audit report issued by a public accountant. The exceptions to the financial statements that are taken by the auditor are specified in the opinion.

Retained Earnings Statement - One of the financial statements of the business. Its purpose is to report the changes in accumulated income of the business.

Statutory Examiner - The legally required examiner of the financial statements. He may or may not be properly trained in auditing, depending upon the law.

Unqualified Opinion - One type of audit report issued by the public accountant. This opinion indicates that the auditor takes no exception to the financial statements of the enterprise.
CITATIONS

I. BOOKS


D. Ernst and Ernst, A History of the Firm, Cleveland, Ernst and Ernst, 1960.


II. PERIODICALS


III. BULLETINS AND MONOGRAPHS

A. AICPA, Statements of Auditing Procedure No. 1, AICPA, New York, 1939.

B. AICPA, Statements of Auditing Procedure No. 5, AICPA, New York, 1941.


IV. THESIS, PROJECTS, AND DISSERTATIONS