

“Disclaimer of opinion” – When the auditor cannot express an opinion

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Some companies are required to have their annual financial statements audited by a licensed auditor; others choose to do so voluntarily.

The auditor's report is more than a formal matter. During the audit, the auditor assesses whether the annual financial statements are properly presented in all material respects. Depending on the audit results, the auditor issues an unmodified or modified audit opinion – in some cases, however, the auditor issues a disclaimer of opinion.

What does it mean when the auditor issues a disclaimer of opinion and therefore does not express an audit opinion? This does not necessarily mean that the annual financial statements are incorrect. However, the auditor was unable to obtain sufficient and appropriate audit evidence to form an audit opinion. Thus, there is no sufficiently reliable basis for assessing whether the figures are accurate.

Disclaimer of opinion even for profitable companies

A practical example:

A company generates profits in the reporting year and has significantly increased its net assets (equity). Nevertheless, the auditor cannot express an audit opinion on the annual financial statements due to a lack of audit evidence, which leads to a disclaimer of opinion.

A disclaimer of opinion therefore does not mean that a company is insolvent, unprofitable, or involved in misconduct. However, it does call into question the reliability and auditability of the financial information. As a rule, it is not based on a single accounting error, but on a lack of audit evidence in several areas.

When supporting documents are just as important as figures

A recurring issue in annual financial statement audits is the provision of sufficient supporting documentation. In the present case, the auditor requested, among other things, contracts, acceptance records and work reports for certain expenses – however, these were not provided in full.

In accounting, the principle is “no entry without supporting documentation”. The auditor therefore examines not only the accounting entry, but also whether the amount was recorded correctly. Documents must demonstrate that the transaction was business-related, agreed upon, actually carried out, correctly valued and allocated to the correct period.

The year-end inventory count is also essential: It reconciles the accounting records with the assets actually on hand. In the present case, differences between inventory data and accounting records, as well as certain movements, were not adequately explained and reconciled.

Such deficiencies can affect not only the value of inventories and fixed assets, but also expenses, the financial result, profit and equity. If these items cannot be adequately audited, the uncertainty affects several areas of the annual financial statements.

The consequences can be significant. If the auditor cannot adequately assess the effects, they cannot answer the question that is central to stakeholders: Does the annual financial statement fairly present the financial position and financial performance?

When problems recur

If such deficiencies occur repeatedly, this may indicate weaknesses in internal controls, information flows in accounting processes, or management oversight, among other things.

The isolated absence of a document may be attributable to an administrative oversight. However, repeated difficulties in providing supporting documents, reconciling records, or documenting transactions indicate a need for process improvements.

Therefore, an audit report is more than a formal attestation. It can provide indications of the quality of a company's financial management and governance.

Significance of an audit report

Financial statements form a basis for decisions by shareholders or associates, banks, investors, business partners and authorities. Figures must not only be “good”, but also substantiated and independently verifiable.

A disclaimer of opinion indicates that the auditor was unable to obtain sufficient audit evidence for their report and may impair the reliability of the financial information. It triggers additional questions, information requests and reviews, as well as increased caution in business decisions.

Conclusion

The value of an audit lies in the trust it creates among users of financial information. A disclaimer of opinion, which is possible even when the financial position is sound, limits this trust.

It does not automatically mean that there were errors in the financial statements or misconduct, but rather signals weaknesses in internal processes.

For management and users of the financial statements, this raises questions and creates a need for action regarding the causes, risks and necessary measures. The lack of a basis for the audit can be just as relevant to decisions as an audit opinion that has been issued.

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