

How to Read an Auditor's Report and What It Means for Your Business

Let's talk about something every business owner, investor and board member should understand: the opinion in the independent auditor's report. These reports come at the end of a financial audit and deliver one powerful message: how much confidence an auditor has in your financial statements. Let's walk through the different types of opinions and what they mean for your business.

An auditor's report is part of the formal audit process. After reviewing audit evidence and evaluating your financial statements, the independent auditor forms an opinion on the audited financial statements and issues a report.

The opinion included in the report reflects whether your financials are presented fairly and in line with accounting standards, like generally accepted accounting principles, commonly called GAAP. Think of this as a trust signal for banks investors and anyone relying on your statements.

Let's start with the best-case scenario, the unqualified opinion, sometimes called a clean opinion. This means the auditor found no material issues, and your financial statements are presented fairly in accordance with applicable accounting framework like GAAP. It's what every business hopes to receive

A qualified opinion means the auditor identified a scope limitation or a material misstatement that is not pervasive to the financial statements. Scope limitations occur when there is an inability for the auditor to obtain sufficient audit evidence. A material misstatement can result from accounting techniques for presentation and disclosures that don't comply with the applicable accounting framework. In these instances, the opinion will be qualified to alert the users of the financial statements of the issue identified.

An adverse opinion is more serious. This tells users the financial statements are materially misstated and not reliable overall. It's rare, but if issued, it can have major consequences for a company's credibility, lending ability, and investor trust.

A disclaimer of opinion means the auditor wasn't able to form an opinion at all. That might be because they didn't get access to enough information or something prevented a full audit. In this case, the auditor is saying we can't vouch for these numbers, sometimes even issuing an unqualified opinion. The auditor includes an Emphasis of Matter paragraph. This highlights something important,

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like a concerning issue or a significant accounting change that doesn't affect the opinion but is still worth calling out.

To recap, unqualified means everything looks good. Qualified means mostly good but highlights specific issues. Adverse equals major problems. Disclaimer is not enough information, and emphasis of matter is an important side note.

Understanding these opinions helps you gage the reliability of financial information, whether it's for your business or any business you're planning to work with.

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