

## Part II. Audit process by phase – 4. Reporting (incl. types of auditor's reports)

Quiz 1: Which paragraphs of an auditor's standard report on financial statements should refer to International Standards on Auditing (ISAs) and International Financial Reporting Standards (IFRS)?

ISA	IFRS
a) Opening	Scope
b) Scope	Scope
c) Scope	Opinion
d) Opening	Opinion

Quiz 2: When financial statements contain a departure from IFRS because, due to unusual circumstances, the statements would otherwise be misleading, the auditor should explain the unusual circumstances in a separate paragraph and express an opinion that is:

- a) Unqualified.
- b) Qualified.
- c) Adverse.
- d) Qualified or adverse, depending on materiality.

Quiz 3: An auditor concludes that a client's illegal act, which has a material effect on the financial statement, has not been properly accounted for or disclosed. Depending on the materiality of the effect on the financial statements, the auditor should express either:

- a) An adverse opinion or a disclaimer of opinion.
- b) A qualified opinion or an adverse opinion.
- c) A disclaimer of opinion or an unqualified opinion with a separate explanatory paragraph.
- d) An unqualified opinion with a separate explanatory paragraph or a qualified opinion.

Quiz 4: For which of the following events would an auditor issue a report that does not make any reference to consistency?

- a) A change in the method of accounting for inventories.
- b) A change from an accounting principle that is not generally accepted to one that is generally accepted.
- c) A change in the useful life used to calculate the provision for depreciation expense.
- d) Management's lack of reasonable justification for a change in accounting principle.

Quiz 5: An auditor would least likely initiate a discussion with a client's audit committee concerning

- a) The methods used to account for significant unusual transactions.
- b) The maximum dollar amount of misstatements that could exist without causing the financial statements to be materially misstated.
- c) Indications of fraud and illegal acts committed by a corporate officer that were discovered by the auditor.
- d) Disagreements with management as to accounting principles that were resolved during the current year's audit.

Quiz 6: Which of the following statements best describes an auditor's responsibility to detect errors and fraud?

- a) An auditor should design an audit to provide reasonable assurance of detecting errors and fraud that are material to the financial statements.
- b) An auditor is responsible to detect material errors, but has no responsibility to detect fraud that is concealed through employee collusion or management override of internal control.
- c) An auditor has no responsibility to detect errors and fraud unless analytical procedures or tests of transactions identify conditions causing a reasonably prudent auditor to suspect that the financial statements were materially misstated.
- d) An auditor has no responsibility to detect errors and fraud because an auditor is not an insurer and an audit does not constitute a guarantee.

## Types of auditor's reports

Decide which of the following reports are examples of: unqualified standard report, unqualified extended report (i.e. with explanatory notes), unqualified modified report (i.e. with modified wording), qualified report (if any, indicate type of limitation), adverse report (if any, indicate type of limitation), disclaimer (if any, indicate type of limitation).

### Example 1:

ANDERSON and ZINDER, P.C.  
Certified Public Accountants  
Suite 100  
Park Plaza East  
Denver, Colorado 80110  
303/359-0800

### Independent Auditor's Report

To the Stockholders  
General Ring Corporation

We have audited the accompanying balance sheets of General Ring Corporation as of December 31, 2011 and 2010, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of General Ring Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

ANDERSON AND ZINDER, P.C., CPAs

February 15, 2012

**Example 2:**

ANDERSON and ZINDER, P.C.  
Certified Public Accountants  
Suite 100  
Park Plaza East  
Denver, Colorado 80110  
303/359-0800

Independent Auditor's Report

To the Stockholders  
General Ring Corporation

We have audited the accompanying balance sheets of General Ring Corporation as of December 31, 2011 and 2010, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of General Ring Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the financial statements, the Company changed its method of computing depreciation in 2011.

ANDERSON AND ZINDER, P.C., CPAs

February 15, 2012

**Example 3:**

ANDERSON and ZINDER, P.C.  
Certified Public Accountants  
Suite 100  
Park Plaza East  
Denver, Colorado 80110  
303/359-0800

Independent Auditor's Report

To the Stockholders  
General Ring Corporation

We have audited the accompanying balance sheets of General Ring Corporation as of December 31, 2011 and 2010, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of General Ring Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that General Ring Corporation will continue as a going concern. As discussed in Note 11 to the financial statements, General Ring Corporation has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about the company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ANDERSON AND ZINDER, P.C., CPAs

February 15, 2012

**Example 4:**

INDEPENDENT AUDITOR'S REPORT

Stockholders and Board of Directors  
Washington Felp  
Midland, Texas

We have audited the accompanying consolidated balance sheets of Washington Felp as of July 31, 2011 and 2010, and the related consolidated statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Stewart Pane and Lighting, a consolidated subsidiary in which the Company had an equity interest of 84% as of July 31, 2011, which statements reflect total assets of \$2,420,000 and \$2,237,000 as of July 31, 2011 and 2010, respectively, and total revenues of \$3,458,000 and \$3,121,000 for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Stewart Pane and Lighting, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Washington Felp as of July 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

September 16, 2011  
Farn, Ross, & Co.  
Certified Public Accountants  
Dallas, Texas

**Example 5:**

ANDERSON and ZINDER, P.C.  
Certified Public Accountants  
Suite 100  
Park Plaza East  
Denver, Colorado 80110  
303/359-0800

Independent Auditor's Report

To the Stockholders  
General Ring Corporation

We have audited the accompanying balance sheets of General Ring Corporation as of December 31, 2011 and 2010, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were unable to obtain audited financial statements supporting the Company's investment in a foreign affiliate stated at \$475,000 or its equity in earnings of that affiliate of \$365,000, which is included in net income, as described in Note X to the financial statements. Because of the nature of the Company's records, we were unable to satisfy ourselves as to the carrying value of the investment or the equity in its earnings by means of other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the foreign affiliate investment and earnings, the financial statements referred to above present fairly, in all material respects, the financial position of Laughlin Corporation as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ANDERSON AND ZINDER, P.C., CPAs

February 15, 2012

**Example 6:**

ANDERSON and ZINDER, P.C.  
Certified Public Accountants  
Suite 100  
Park Plaza East  
Denver, Colorado 80110  
303/359-0800

Independent Auditor's Report

To the Stockholders  
General Ring Corporation

We were engaged to audit the accompanying balance sheets of General Ring Corporation as of December 31, 2011 and 2010, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We were unable to obtain audited financial statements supporting the Company's investment in a foreign affiliate stated at \$475,000 or its equity in earnings of that affiliate of \$365,000, which is included in net income, as described in Note X to the financial statements. Because of the nature of the Company's records, we were unable to satisfy ourselves as to the carrying value of the investment or the equity in its earnings by means of other auditing procedures.

Because we were unable to obtain audited financial statements supporting the Company's investment in a foreign affiliate and we were unable to satisfy ourselves as to the carrying value of the investment or the equity in its earnings by means of other auditing procedures, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

ANDERSON AND ZINDER, P.C., CPAs

February 15, 2012



**Example 7:**

ANDERSON and ZINDER, P.C.  
Certified Public Accountants  
Suite 100  
Park Plaza East  
Denver, Colorado 80110  
303/359-0800

Independent Auditor's Report

To the Stockholders  
General Ring Corporation

We have audited the accompanying balance sheets of General Ring Corporation as of December 31, 2011 and 2010, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company has excluded from property and debt in the accompanying balance sheet certain lease obligations that, in our opinion, should be capitalized to conform with U.S. generally accepted accounting principles. If these lease obligations were capitalized, property would be increased by \$4,600,000, long-term debt by \$4,200,000, and retained earnings by \$400,000 as of December 31, 2011, and net income and earnings per share would be increased by \$400,000 and \$1.75, respectively, for the year then ended.

In our opinion, except for the effects of not capitalizing lease obligations, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Ajax Company as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ANDERSON AND ZINDER, P.C., CPAs

February 15, 2012

**Example 8:**

ANDERSON and ZINDER, P.C.  
Certified Public Accountants  
Suite 100  
Park Plaza East  
Denver, Colorado 80110  
303/359-0800

Independent Auditor's Report

To the Stockholders  
General Ring Corporation

We have audited the accompanying balance sheets of General Ring Corporation as of December 31, 2011 and 2010, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Company has excluded from property and debt in the accompanying balance sheet certain lease obligations that, in our opinion, should be capitalized to conform with U.S. generally accepted accounting principles. If these lease obligations were capitalized, property would be increased by \$4,600,000, long-term debt by \$4,200,000, and retained earnings by \$400,000 as of December 31, 2011, and net income and earnings per share would be increased by \$400,000 and \$1.75, respectively, for the year then ended.

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Ajax Company as of December 31, 2011, or the results of its operations and its cash flows for the year then ended.

ANDERSON AND ZINDER, P.C., CPAs

February 15, 2012

**Example 9:**

ANDERSON and ZINDER, P.C.  
Certified Public Accountants  
Suite 100  
Park Plaza East  
Denver, Colorado 80110  
303/359-0800

Independent Auditor's Report

To the Stockholders  
General Ring Corporation

We were engaged to audit the accompanying balance sheets of General Ring Corporation as of December 31, 2011 and 2010, and the related statements of income, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We are not independent with respect to General Ring Corporation, and the accompanying balance sheet as of December 31, 2011, and the related statements of income, retained earnings, and cash flows for the year then ended were not audited by us. Accordingly, we do not express an opinion on them.

ANDERSON AND ZINDER, P.C., CPAs

February 15, 2012