

Industry Insights – Investment Companies Expert Panel

Illustrative Auditor’s Report on the Financial Statements of a Nonregistered Investment Company—Unmodified Opinion



This illustrative auditor’s report will be included in the 2013 edition of [Audit and Accounting Guide Investment Companies](#) and is presented here as a member benefit.

The online practice tool [The Auditor’s Report: Comprehensive Guidance and Examples](#) contains this report as well as other general illustrative reports and additional industries’ specific illustrative reports. For additional guidance like this, visit the [AICPA Store](#) for a 30 day free trial of our Online Professional Library today.

This illustrative unmodified opinion on an audit of a nonregistered investment company has been conformed to AU-C section 700, *Forming an Opinion and Reporting on Audited Financial Statements* (AICPA, *Professional Standards*), which was issued as part of the Auditing Standards Board’s Clarity Project (referred to as the clarified SASs). The clarified SASs are effective for audits of financial statements for periods ending on or after December 15, 2012. The illustration within is intended to assist users in revising the auditor’s report of a nonregistered investment company for periods ending on or after December 15, 2012. For further detail on the auditor’s responsibility to form an opinion on the financial statements and the form and content of the auditor’s report issued as a result of an audit of financial statements, users should refer to the full text of AU-C sections 700–706.

Additional illustrative auditor’s reports on financial statements and interim reviews of nonregistered investment companies have been conformed to clarified SASs and are currently available through the AICPA’s online tool [The Auditor’s Report: Comprehensive Guidance and Examples](#) at the AICPA Store. Additional illustrative reports available within the online tool include the following:

- *Qualified Opinion Due to Material, But Not Pervasive, Misstatement of the Financial Statements.* An illustration of a report that expresses a qualified opinion because the schedule of investments in securities fails to disclose investments constituting more than 5 percent of net assets but, in all other respects, conforms to the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 946, *Financial Services—Investment Companies*.
- *Adverse Opinion Due to Material and Pervasive Misstatement of the Financial Statements.* An illustration of an adverse opinion relating to failure to present the entire schedule of investments in securities and all the related required information. The illustration assumes the auditor, having obtained sufficient appropriate audit evidence, concluded that an adverse opinion is necessary because the inadequate disclosure individually or in the aggregate is both material and pervasive to the financial statements.
- *Qualified Opinion Due to Inability to Obtain Sufficient Appropriate Audit Evidence; Effect Could Be Material But Not Pervasive.* An illustration of a qualified opinion where the financial statements contain securities whose fair values were estimated under procedures established by the board of directors or trustees, and the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion (for example, the valuation procedures are inadequate or unreasonable or the underlying documentation does not support the valuation), but the auditor concludes

that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

- *Review Report on Interim Financial Information*. An illustration of a report issued in connection with a review of semiannual financial statements of a nonregistered investment company pursuant to AU-C section 930, *Interim Financial Information* (AICPA, *Professional Standards*)

All illustrative auditor's reports mentioned previously will also be available in the 2013 edition of the [AICPA Audit and Accounting Guide Investment Companies](#), which is currently under revision to conform with the clarified SASs. The guide is expected to be available in July 2013 in the AICPA Store.

Consideration for audits performed in accordance with Public Company Accounting Oversight Board (PCAOB) standards. In April 2003, the PCAOB adopted as interim standards certain preexisting auditing and related standards via PCAOB Rules 3200T, 3300T, 3400T, 3500T and 3600T. Although the PCAOB has subsequently issued standards that supersede or amend those interim standards, the reporting guidance that was adopted by the PCAOB remains largely consistent with the reporting guidance applicable to audits conducted in accordance with generally accepted auditing standards (GAAS) as they existed prior to adoption of the clarified SASs.¹ As a consequence, differences will exist between audit reports for audits conducted in accordance with GAAS as compared to those conducted in accordance with PCAOB standards. The PCAOB has its own project to consider changes to the auditor's reporting model. The illustrations provided within address audit reports applicable to audits conducted in accordance with GAAS, and do not include illustrative audit reports for audits conducted in accordance with PCAOB standards.

¹ Differences in reporting guidance prior to the Clarity Project were the result of the Public Company Accounting Oversight Board's (PCAOB's) issuance of Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board* (AICPA, *PCAOB Standards and Related Rules*, Auditing Standards), and Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Auditing Standards).

Unmodified Opinion

The following form of the auditor's report may be used to express an unmodified opinion on the financial statements of a nonregistered investment company:

Independent Auditor's Report

To the Shareholders and
Board of Directors/Trustees of
XYZ Investment Company

Report on the Financial Statements²

We have audited the accompanying financial statements of XYZ Investment Company, which comprise the statement of assets and liabilities, including the schedule of investments in securities, as of December 31, 20X2, and the related statements of operations, changes in net assets, and cash flows³ for the year then ended,⁴ and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.⁵ Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.⁶ Accordingly, we express no such opinion. An audit also includes evaluating the

² The subtitle "Report on the Financial Statements" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

³ Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 230-10-15-4 exempts certain companies that meet specified conditions from the requirements to provide a statement of cash flows. See chapter 7, "Financial Statements of Investment Companies," of the AICPA Audit and Accounting Guide *Investment Companies* for further discussion.

⁴ If the financial highlights are presented in a separate schedule (as opposed to in a footnote), the schedule of financial highlights should be mentioned, along with the financial statements, throughout the independent auditor's report.

⁵ Paragraph .31 of AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*), requires that the auditor's report state that the audit was conducted in accordance with generally accepted auditing standards (GAAS) and identify the United States of America as the country of origin of those standards. However, paragraphs .42–.43 of AU-C section 700 state that an auditor may indicate that the audit was also conducted in accordance with another set of auditing standards (for example, International Standards on Auditing, the standards of the PCAOB, or *Government Auditing Standards*). The auditor should not refer to having conducted an audit in accordance with another set of auditing standards in addition to GAAS, unless the audit was conducted in accordance with both sets of standards in their entirety. When the auditor's report refers to both GAAS and another set of auditing standards, the auditor's report should identify the other set of auditing standards, as well as their origin. This can be done by modifying this sentence as follows (new language is shown in italics):

We conducted our audit in accordance with auditing standards generally accepted in the United States of America *and in accordance with International Standards on Auditing.*

⁶ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows:

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XYZ Investment Company as of December 31, 20X2, and the results of its operations, changes in its net assets, and its cash flows⁷ for the year then ended in accordance with accounting principles generally accepted in the United States of America.⁸

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

Independent Auditor

Anytown, USA

February 21, 20X3

⁷ See footnote 3.

⁸ In accordance with paragraph .A31 of AU-C section 700, the identification of the applicable financial reporting framework in the auditor's opinion is intended to advise users of the auditor's report of the context in which the auditor's opinion is expressed. For example, the applicable financial reporting framework may be identified as accounting principles generally accepted in the United States of America or U.S. generally accepted accounting principles or International Financial Reporting Standards (IFRSs) promulgated by the International Accounting Standards Board (IASB) or *International Financial Reporting Standard for Small and Medium Sized Entities* promulgated by the IASB. In that scenario, in the auditor's report, the auditor would refer to IFRSs, rather than U.S. generally accepted accounting principles. An example opinion paragraph would be as follows (new language is shown in italics):

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XYZ Investment Company as of December 31, 20X2, and the results of its operations, changes in its net assets, and its cash flows for the year then ended, in accordance with *International Financial Reporting Standards [or International Financial Reporting Standard for Small and Medium Sized Entities]* as issued by the International Accounting Standards Board.

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