

Qualified opinion should be cause for concern

It means some issues need to be addressed by the company

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PETALING JAYA: Are qualified opinions issued by auditors on the financial statements of certain companies a matter of concern for investors?

This issue has been hogging the limelight of late, as April 30 was the last day for companies with the financial year ending Dec 31 to submit their audited accounts to Bursa Malaysia.

Recently, a number of companies, namely Leader Steel Holdings Bhd, Lebar Daun Bhd, Vastalux Energy Bhd, ARK Resources Bhd, Metronic Global Bhd and Ho Hup Construction Co, had their financial statements qualified by auditors.

For investors, a PricewaterhouseCoopers (PwC) spokesman said a qualified opinion should be a cause for concern.

"A qualified opinion tells you there are some issues which need to be addressed before the financial statements can be said to give a true and fair view," he told *StarBiz* yesterday.

Meanwhile, Salihin Consulting Group partner Salihin Abang warned that the rising number of public-listed companies whose financial statements were being qualified had triggered an "emergency button" to all stakeholders and users of financial statements especially investors.

"This in the light of corporate scandal cases like Enron and recently Lehman Brothers had caused 'financial trauma' to the investors and

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SALIHIN ABANG



public whose life savings and investment suddenly disappeared," he said.

"This is because for investors, the financial statement is the main point of reference, a point for them to determine whether the financial statements have been faithfully prepared and presented.

"They rely on audited financial statements to facilitate their decision-making process because they do not take part in the day-to-day management of the company they have invested in."

For those who are new to the subject, it is also vital to have a clear understanding of a qualified or unqualified opinion by auditors.

When the financial statements give a true and fair view in all materials respects and in accordance with the applicable financial reporting framework, an unqualified opinion should be expressed.

On the other hand, a qualified

opinion reflects that the auditors have incomplete information in doing their work, or they may disagree with the company's management on certain assumptions.

According to the PwC spokesman citing International Standards on Auditing (ISA), there were two circumstances where an auditor might not be able to express an unqualified opinion.

"First, there is a limitation on the scope of the auditor's work that could lead to a qualified opinion or a disclaimer of opinion.

"Secondly, there is a disagreement with management regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of financial statement disclosures could also lead to an adverse opinion," he said, adding that PwC used ISA as a guide for its work.

He said a disclaimer of opinion should be expressed when the possi-

ble effect of a limitation on scope was so material and pervasive that the auditor was not able to obtain sufficient appropriate audit evidence and, accordingly, unable to express an opinion on the financial statements.

"Meanwhile, an adverse opinion should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements," he said.

Salihin further explained that when the auditor couldn't form an opinion on a financial statement, he meant that the auditor disclaimed on opinion. "This is because the possible effect of the limitation on the audit scope is so material and pervasive. Under such circumstance, the auditor has not been able to obtain sufficient evidence to form an audit opinion."

He said the auditor, in this regard, would normally withdraw from the engagement or not seek re-election for the ensuing year.

"However, if the auditor continues with the engagement, the company has to ensure it is able to provide appropriate and sufficient evidence to form an audit opinion.

"If the auditor is satisfied that there has been non-observance or breach of any provision of laws and accounting standards it should highlight or report the matter to the appropriate regulatory body," he said.

