Terms and Phrases to Identify Potential Red Flags in Annual Audit Reports

Term/Phrase	Implication	Example Phrases to Look For
Going Concern	Doubt about the company’s ability to continue operating for the foreseeable future.	"Substantial doubt about the entity’s ability to continue as a going concern."
		"Going concern assumption."
Material Weakness	Deficiencies in internal controls over financial reporting that could lead to material misstatements.	"Material weaknesses in internal controls."
		"Significant deficiencies."
Restatement	Revision of previously issued financial statements due to errors or misstatements.	"Restatement of financial statements."
		"Revised financials."
Impairment	Reduction in the value of assets, such as goodwill or fixed assets, suggesting potential overvaluation.	"Impairment of assets."
		"Goodwill impairment."
Contingent Liabilities	Potential liabilities depending on future events, such as lawsuits or regulatory actions.	"Contingent liabilities."
		"Litigation risk."
Unqualified Opinion with Explanatory Paragraph	Auditor’s opinion that is generally clean but includes comments on uncertainties or risks.	"Unqualified opinion with emphasis of matter."
		"Explanatory paragraph."
Qualified Opinion	Limitations in the audit scope or non-compliance with accounting standards, raising concerns.	"Qualified opinion."
		"Except for the following matters."
Adverse Opinion	Financial statements do not fairly represent the company’s financial position.	"Adverse opinion."
		"Material misstatements."
Emphasis of Matter	Highlights important issues in the financial statements without modifying the audit opinion.	"Emphasis of matter."
		"Significant uncertainties."

Term/Phrase	Implication	Example Phrases to Look For
Uncertainty or Risk	Discusses uncertainties related to economic conditions, market trends, or specific events.	"Uncertainty related to..."
		"Significant risk factors."
Debt Covenant Breach	Failure to comply with debt agreements, which could lead to default.	"Breach of covenants."
		"Non-compliance with covenants."
Subsequent Events	Events occurring after the balance sheet date that could impact the financial statements.	"Subsequent events."
		"Post-balance-sheet events."
Unrealized Losses	Losses that have not yet been realized but are recognized in the financial statements.	"Unrealized losses."
		"Fair value adjustments."
Liquidity Issues	Problems with cash flow or the ability to meet short-term obligations.	"Liquidity constraints."
		"Cash flow difficulties."
Off-Balance-Sheet Arrangements	Potential hidden liabilities or risks not fully captured in the financial statements.	"Off-balance-sheet liabilities."
		"Special purpose entities."