2018 AUD Book Update

Page numbers refer to 2018 AUD textbook pages. When new/edited text is shown along with old text, the new/edited text is highlighted in gray, unless noted otherwise.

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Lecture 6.02

PCAOB AUDIT REPORTS (AS 3101/3105)

Audit reports prepared for a company that reports to the SEC (i.e., public companies/issuers) are subject to the requirements of the Public Company Accounting Oversight Board (PCAOB), and thus must be prepared differently. For example, a “clean,” unmodified report under the PCAOB standards is instead called an “unqualified report,” and the basis for the opinion must refer to “the standards of the Public Company Accounting Oversight Board (United States),” instead of generally accepted auditing standards.

Overview of Revised PCAOB Report

In an effort to make the audit report easier to read and more helpful to investors, the PCAOB issued PCAOB 2017-001 in June 2017 with major changes to the requirements for audit reports of public companies. These revisions also apply to reviews of interim financial information performed under PCAOB standards. Among the changes in standardized language in the auditor’s report, are the following significant revisions:

- **Addressees**—The report must be addressed to shareholders and the board of directors, or their equivalents.

- **Clarification of Auditor’s Roles and Responsibilities (“Basis For” Section)**—The report now requires:
  - A statement that the auditor is required to be independent.
  - Identification of F/S, including the related notes and, if applicable, schedules, as part of audited F/S.
  - A description of the auditor’s responsibility to plan and perform the audit to obtain reasonable assurance about whether the F/S are free of material misstatements, whether due to error or fraud.
  - A description of the nature of the audit reflecting the auditor’s responsibilities in a risk-based audit.

- **Auditor Tenure**—The auditor must disclose the year that consecutive service as the company’s auditor began.

- **Critical Audit Matters (CAM) Paragraph**—CAMs must be communicated or state that no CAMs were present.
A CAM is a matter that:

- Was communicated (or required to be communicated) to the audit committee,
- Relates to accounts or disclosures that are *material* to the F/S, and
- Involves especially challenging, subjective, or complex auditor judgment.

When determining whether a matter involves *especially challenging, subjective, or complex auditor judgment*, the auditor considers:

- The auditor’s assessment of the risk of material misstatement
- The degree of auditor judgment related to areas in the F/S that involved the application of significant judgment or estimate by management
- The nature and timing of significant unusual transactions and the extent of audit effort and judgment related to these transactions
- The degree of auditor subjectivity in applying audit procedures to address a matter or in evaluating the results of those procedures
- The nature and extent of audit effort required to address a matter, including specialized skill or knowledge needed to do so
- The nature of audit evidence obtained regarding a matter

In the CAM paragraph, the auditor must:

- Identify the CAM.
- Describe the principal considerations that led the auditor to determining that the matter was a CAM.
- Describe how the CAM was addressed in the audit.
- Reference the relevant F/S accounts or disclosures.

Communication of critical audit matters is **NOT required for** audits of:

- Brokers and dealers
- Investment companies other than business development companies
- Employee stock purchase, savings, and similar plans
- Emerging growth companies

Note: Since the CAM paragraph is not required to be implemented by auditors until June 30, 2019 for large accelerated filers and December 15, 2020 for all other companies, the CAM paragraph is **not eligible to be tested until July of 2019**.

**Order of Sections and Required Section Titles**

- Opinion on the Financial Statements (required to be 1st section and title is specified for consistency purposes)
- Basis for Opinion (required to be 2nd section and title is specified for consistency purposes)
- Critical Audit Matters (if applicable and order/title is flexible)
- Explanatory paragraph (if applicable and order/title is flexible)

**Basic Elements of PCAOB Report**

- **Title**—"Report of Independent Registered Public Accounting Firm"
- **Addressees**—Shareholders and the board of directors, or their equivalents. Additional addressees are permitted.
- **Opinion**—First section is titled “Opinion on the Financial Statements” and includes the following:
  - Name of the company whose F/S were audited.
  - A statement identifying each F/S and any related schedule(s) audited.
- The date of, or period covered by, each F/S and related schedule identified in the report.
- A statement indicating that the F/S, including the related notes and any related schedule(s), identified and collectively referred to in the report as the F/S, were audited.
- An opinion that the F/S present fairly, in all material respects, the financial position of the company as of the B/S date and the results of its operations and its cash flows for the period then ended in conformity with the AFRF. The opinion should also include an identification of the AFRF.

- **Basis for Opinion**—Second section is titled “Basis for Opinion” and includes the following:
  - A statement that the F/S are the responsibility of the company’s management.
  - A statement that the auditor’s responsibility is to express an opinion on the F/S based on the audit.
  - A statement that the audit was conducted in accordance with the standards of the PCAOB.
  - A statement that PCAOB standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the F/S are free of material misstatement, *whether due to error or fraud*.
  - A statement that the audit included:
    - Performing procedures to assess the risks of material misstatement of the F/S, whether due to error or fraud, and performing procedures that respond to those risks;
    - Examining, on a test basis, evidence regarding the amounts and disclosures in the F/S;
    - Evaluating the accounting principles used and significant estimates made by management; and
    - Evaluating the overall presentation of the F/S.
  - A statement that the auditor believes that the audit provides a reasonable basis for the auditor’s opinion.
  - A statement that the auditor is a public accounting firm registered with the PCAOB (United States) and is required to be independent with respect to the company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB.

- **Signature, Tenure, Location, and Date**
  - Signature of auditor’s firm
  - A statement containing the year the auditor began serving consecutively as the company’s auditor. If uncertain (due to audit firm merger, etc.), the earliest year of which the auditor has knowledge.
  - The city and state (or city and country, if non-U.S. auditor)
  - Date of the report

**Explanatory Language**

In addition to these basic elements and a CAM paragraph, an unqualified report may also require *explanatory language* in certain circumstances, such as:

- There is substantial doubt about the company’s ability to continue as a going concern.
- The auditor refers to the report of other auditors as the basis, in part, for their own report.
- There is a change between periods in accounting principles or in the method of application that has a material effect on the F/S.
• There has been a change in a reporting entity. (Except when the change results from the creation, cessation, or purchase/disposition of a subsidiary or other business unit.)
• A material misstatement in previously issued F/S has been corrected.
• The auditor performs an integrated audit and issues separate reports on the company's F/S and internal control over financial reporting.
• Supplementary information required by the AFRF has been omitted; the presentation of such info departs materially from the AFRF requirements; the auditor is unable to complete prescribed procedures with respect to such info; or the auditor is unable to remove substantial doubts about whether the supplementary information conforms to the requirements of the AFRF.
• Other information in a document containing audited F/S is materially inconsistent with information appearing in the F/S.

The auditor may also decide to emphasize certain matters even though they are not required, such as:
• Significant transactions (e.g., related party transactions)
• Important subsequent events
• Accounting matters, other than changes in accounting principle, affecting the comparability of the F/S with those of the preceding period
• Uncertainties (e.g., regarding significant litigation or regulatory actions)
• The entity’s status as a component of a larger business enterprise.

Standard Unqualified PCAOB Report without Critical Audit Matters

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of X Company

Opinion on the Financial Statements
We have audited the accompanying balance sheets of X Company (the “Company”) as of December 31, 20X2 and 20X1, the related statements of [titles of the financial statements, e.g., income, comprehensive income, stockholders’ equity, and cash flows], for each of the three years in the period ended December 31, 20X2, and the related notes [and schedules] (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of [at] December 31, 20X2 and 20X1, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20X2, in conformity with [the applicable financial reporting framework - AFRF].

Basis for Opinion
These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters
Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the
Alternative paragraph for report with Critical Audit Matters

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Departures from Unqualified Opinions (AS 3105)

The revisions to the PCAOB audit report in PCAOB 2017-001 did not change the circumstances in which an auditor should depart from an unqualified opinion. It merely moved such standards to AS 3105, clarified the language, and modified the illustrative reports to be consistent with the revisions already discussed; thus, we will only cover some minor differences here as well as some example reports.

- **Qualified Opinion**—The same basic elements are required in an auditor’s report expressing a qualified opinion as in an auditor’s report expressing an unqualified opinion, including the communication of critical audit matters (CAM), if applicable. The auditor should consider whether matters for which the auditor qualified the opinion are also CAMs.
  - The opinion paragraph must include the words “except” or “exception” in phrases such as “except for” or “with the exception of.”
  - One or more paragraphs immediately following (After) the opinion paragraph should disclose all of the substantive reasons for the qualified opinion.
  - **Scope Limitation**—Where a qualified opinion results from a scope limitation or an insufficiency of evidence, the auditor’s report should describe the basis for departure from an unqualified opinion in a separate paragraph immediately following the opinion paragraph and refer to that description in both the Basis for Opinion section and Opinion on the Financial Statements section of the report.
Qualified PCAOB Report Example

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of X Company

Opinion on the Financial Statements
We have audited the accompanying balance sheets of X Company (the “Company”) as of December 31, 20X2 and 20X1, the related statements of [titles of the financial statements, e.g., income, comprehensive income, stockholders’ equity, and cash flows] for each of the years then ended, and the related notes [and schedules] (collectively referred to as the “financial statements”). In our opinion, except for the effects of the 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, as described below, the financial statements present fairly, in all material respects, the financial position of X the Company as of December 31, 20X2 and 20X1, 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.

We were unable to obtain audited financial statements supporting the Company’s investment in a foreign affiliate stated at $_____ and $_____ at December 31, 20X2 and 20X1, respectively, or its equity in earnings of that affiliate of $_____ and $_____, which is included in net income for the years then ended as described in Note X to the financial statements; nor were we able to satisfy ourselves as to the carrying value of the investment in the foreign affiliate or the equity in its earnings by other auditing procedures.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

Except as discussed above, we conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

[Paragraph explaining CAM, if applicable, and list of critical audit matters or statement that there were no such matters.]

[Signature]
We have served as the Company’s auditor since [year].
[City and State or Country]
[Date]

• Adverse Opinion
  o When the auditor expresses an adverse opinion, the auditor’s report must include the same basic elements as a report for an unqualified opinion, modified appropriately. However, a report containing an adverse opinion does NOT include the CAM paragraph since readers are more interested in knowing why an adverse opinion is expressed.
The auditor’s report must describe in a separate paragraph(s) all the substantive reasons for the adverse opinion and the principal effects of the subject matter of the adverse opinion on financial position, results of operations, and cash flows, if practicable. If not reasonably determinable, the report should say so. If disclosed in a note to the F/S, the explanatory paragraph (After) should refer to the applicable note. The auditor’s report also should refer to that description in the Opinion on the Financial Statements section of the report.

Adverse PCAOB Report Example

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of X Company

Opinion on the Financial Statements

We have audited the accompanying balance sheets of X Company (the “Company”) as of December 31, 20X2 and 20X1, the related statements of [titles of the financial statements, e.g., income, comprehensive income, stockholders’ equity, and cash flows] for each of the years then ended, and the related notes [and schedules] (collectively referred to as the “financial statements”). In our opinion, because of the effects of the matters discussed in the following paragraphs, the financial statements do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 20X2 and 20X1, or the results of its operations or its cash flows for the years then ended.

As discussed in Note X to the financial statements, the Company carries its property, plant and equipment accounts at appraisal values, and provides depreciation on the basis of such values. Further, the Company does not provide for income taxes with respect to differences between financial income and taxable income arising because of the use, for income tax purposes, of the installment method of reporting gross profit from certain types of sales. Accounting principles generally accepted in the United States of America require that property, plant and equipment be stated at an amount not in excess of cost, reduced by depreciation based on such amount, and that deferred income taxes be provided.

Because of the departures from accounting principles generally accepted in the United States of America identified above, as of December 31, 20X2 and 20X1, inventories have been increased $_______ and $_______ by inclusion in manufacturing overhead of depreciation in excess of that based on cost; property, plant and equipment, less accumulated depreciation, is carried at $_______ and $_______ in excess of an amount based on the cost to the Company; and deferred income taxes of $_______ and $_______ have not been recorded; resulting in an increase of $_______ and $_______ in retained earnings and in appraisal surplus of $_______ and $_______, respectively. For the years ended December 31, 20X2 and 20X1, cost of goods sold has been increased $_______ and $_______, respectively, because of the effects of the depreciation accounting referred to above and deferred income taxes of $_______ and $_______ have not been provided, resulting in an increase in net income of $_______ and $_______, respectively.

Basis for Opinion

[Same basic elements as the Basis for Opinion section of the auditor’s unqualified report]

[Signature]

We have served as the Company’s auditor since [year].

[City and State or Country]

[Date]

• Disclaimer of Opinion—When an auditor has not performed sufficient procedures to form an opinion, the auditor must disclaim an opinion. In this case, the report must include the same basic elements of the unqualified option, modified as follows.

  o The title of the first section is changed to, “Disclaimer of Opinion on the Financial Statements” and contains the following:
The name of the company whose financial statement the auditor was engaged to audit.
Identification of each financial statement and any related schedules that the auditor was engaged to audit.
The first sentence states, “we were engaged to audit,” rather than “we have audited.” The sentence that references the auditor’s responsibility to express an opinion is omitted.
- The title of the second section of the report is changed to, “Basis for Disclaimer of Opinion.”
- Omit the CAM section. CAM requirements do not apply to disclaimer of opinions.

**Disclaimer of Opinion Example - PCAOB Report**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of X Company

*Disclaimer of Opinion on the Financial Statements*

We were engaged to audit the accompanying balance sheets of X Company (the “Company”) as of December 31, 20X2 and 20X1, and the related statements of [titles of the financial statements, e.g., income, comprehensive income, stockholders’ equity, and cash flows], and the related notes [and schedules] (collectively referred to as the “financial statements”). As described in the following paragraph, because the Company did not take physical inventories and we were not able to apply other auditing procedures to satisfy ourselves as to inventory quantities and the cost of property and equipment, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements, and we do not express, an opinion on these financial statements.

The Company did not make a count of its physical inventory in 20X2 or 20X1, stated in the accompanying financial statements at $____ as of December 31, 20X2, and at $____ as of December 31, 20X1. Further, evidence supporting the cost of property and equipment acquired prior to December 31, 20X1, is no longer available. The Company’s records do not permit the application of other auditing procedures to inventories or property and equipment.

*Basis for Disclaimer of Opinion*

These financial statements are the responsibility of the Company’s management. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

[Signature]
We have served as the Company’s auditor since [year].
[City and State or Country]
[Date]

- **Departure from a Generally Accepted Accounting Principle**
  - The auditor’s report should express a qualified or adverse opinion in the “Opinion on the Financial Statements” section and the basis for the opinion in the “Basis for Opinion” section.
  - For a qualified opinion, the auditor’s report should describe the basis for departure from an unqualified opinion in a separate paragraph immediately following the opinion paragraph and refer to that description in the Basis for Opinion section of the report. Such paragraph should also disclose the effects of the subject matter of the qualification on financial position, results of operations, and cash flows, if practicable.
If not reasonably determinable, the report should say so. If disclosed in a note to the financial statements, the explanatory paragraph should refer to the applicable note.

- The omission of the statement of cash flows or other inadequate disclosures generally result in a qualified or adverse opinion.

- **Reference to the Use of a Specialist**—An audit report may refer to the use of a specialist if such a reference will facilitate an understanding of a CAM (i.e., the matter itself, the principal considerations that led the auditor to determine that the matter was a CAM, or how the CAM was addressed in the audit) or the reason for explanatory language or a departure from an unqualified opinion. Otherwise, no reference should be made to the work of a specialist in the auditor’s report.

**AUDITS PERFORMED IN ACCORDANCE WITH GAAS AS WELL AS A DIFFERENT SET OF STANDARDS**

An auditor may be engaged to perform an audit in accordance with some set of standards, other than PCAOB standards, but in addition to auditing standards generally accepted in the United States of America (GAAS). The auditor may accept such an engagement but would be required to perform the engagement in accordance with GAAS as well as the other set of standards.

- If the audit was conducted applying both sets of standards in their entirety, the audit report would indicate that the audit was conducted in accordance with GAAS and the other set of standards, naming the source of the standards.
- On the other hand, if the second set of standards was not applied in its entirety, the report will indicate compliance with GAAS, excluding any mention of the other standards.

If the second set of standards is PCAOB standards, the content of the report will depend on whether the audit was within the jurisdiction of the PCAOB. If the audit is not within the jurisdiction of the PCAOB, the report will refer to the PCAOB standards in addition to GAAS. The report will follow the guidelines of one prepared in accordance with the PCAOB standards and indicate that it was also performed in accordance with GAAS.
### Summary of Non-Standard PCAOB Reports

<table>
<thead>
<tr>
<th>Situation</th>
<th>Opinion</th>
<th>Basis for Opinion</th>
<th>CAM*</th>
<th>Additional Paragraph</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material Departure</td>
<td>Qualified</td>
<td>Adeq basis for qualified opinion</td>
<td>Standard</td>
<td>Immediately after opinion paragraph</td>
</tr>
<tr>
<td></td>
<td>Adverse</td>
<td>Adeq basis for adverse opinion</td>
<td>None</td>
<td>Immediately after opinion paragraph</td>
</tr>
<tr>
<td>Justified Departure</td>
<td>Standard</td>
<td>Standard</td>
<td>Standard</td>
<td>Emphasis of matter - after CAM</td>
</tr>
<tr>
<td>Inconsistent - Properly rep &amp; justifiable (concur)</td>
<td>Standard</td>
<td>Standard</td>
<td>Standard</td>
<td>Emphasis of matter - after CAM</td>
</tr>
<tr>
<td>Inconsistent - Not properly rep or not justifiable</td>
<td>Qualified</td>
<td>Adeq basis for qualified opinion</td>
<td>Standard</td>
<td>Immediately after opinion paragraph</td>
</tr>
<tr>
<td></td>
<td>Adverse</td>
<td>Adeq basis for adverse opinion</td>
<td>None</td>
<td>Immediately after opinion paragraph</td>
</tr>
<tr>
<td>Inadequate Disclosure (Omitted Disclosure)</td>
<td>Qualified</td>
<td>Adeq basis for qualified opinion</td>
<td>Standard</td>
<td>Immediately after opinion paragraph</td>
</tr>
<tr>
<td></td>
<td>Adverse</td>
<td>Adeq basis for adverse opinion</td>
<td>None</td>
<td>Immediately after opinion paragraph</td>
</tr>
<tr>
<td>No statement of cash flows</td>
<td>Qualified</td>
<td>Adeq basis for qualified opinion</td>
<td>Standard</td>
<td>Immediately after opinion paragraph</td>
</tr>
<tr>
<td></td>
<td>Adverse</td>
<td>Adeq basis for adverse opinion</td>
<td>None</td>
<td>Immediately after opinion paragraph</td>
</tr>
<tr>
<td>Other Audit Participants</td>
<td>Unmodified</td>
<td>Standard</td>
<td>Standard</td>
<td>Not required, location unspecified</td>
</tr>
<tr>
<td>Contingent liability</td>
<td>Standard</td>
<td>Standard</td>
<td>Standard</td>
<td>Emphasis of matter - after CAM Not Required</td>
</tr>
<tr>
<td>Going concern doubts</td>
<td>Standard</td>
<td>Standard</td>
<td>Standard</td>
<td>Emphasis of matter - after CAM</td>
</tr>
<tr>
<td>Scope limit - Mat &amp; Not pervasive</td>
<td>Qualified</td>
<td>Standard</td>
<td>Standard</td>
<td>Immediately after opinion paragraph</td>
</tr>
<tr>
<td>Scope limit - Mat &amp; pervasive</td>
<td>Disclaimer</td>
<td>Inability to obtain evid</td>
<td>None</td>
<td>Immediately after disclaimer paragraph</td>
</tr>
<tr>
<td>Scope limit - imposed by mgmt</td>
<td>Disclaimer</td>
<td>Inability to obtain evid</td>
<td>None</td>
<td>Immediately after disclaimer paragraph</td>
</tr>
<tr>
<td>Balance sheet only</td>
<td>Amended</td>
<td>Amended</td>
<td>Standard</td>
<td>Emphasis of matter - after CAM Not Required</td>
</tr>
</tbody>
</table>

*Note, as applied in this chart, "Standard" does not differentiate between a CAM paragraph that states there are no CAM and a CAM paragraph that lists CAM; that is, they are both considered “Standard.”
8. When an auditor qualifies an opinion in an audit of an issuer under PCAOB because of inadequate disclosure, the auditor should describe the nature of the omission in the

<table>
<thead>
<tr>
<th>Opinion on the Financial Statements Section</th>
<th>Basis for Opinion Section</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. No</td>
<td>No</td>
</tr>
<tr>
<td>b. No</td>
<td>Yes</td>
</tr>
<tr>
<td>c. Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>d. Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
8. **(d)** Inadequate disclosure represents a departure from GAAP, which would require the auditor to issue either a qualified or adverse opinion depending on the circumstances. When the auditor expresses a qualified opinion, the substantive reasons for the qualification should be disclosed in a separate paragraph(s) immediately following the opinion paragraph within the Opinion on the Financial Statements section. There is no impact on the information in the Basis for Opinion paragraph, which primarily indicates the role and responsibilities of the auditor.