

About the Author



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Understanding Financial Statements

Complete Set Includes

- Balance sheet
- Statement of income (comprehensive income)
- Statement of changes in equity
- Cash flow statement
- Related disclosures (footnotes)



Financial statements represent the complete set of general-purpose financial information that provides a comprehensive view of an entity's financial position and performance.

Financial Reporting Framework Selection

Management has the authority to select the financial reporting framework used to prepare their financial statements. This choice significantly impacts how transactions and events are recorded and presented.

Cash Basis

Records transactions when cash changes hands

Tax Basis

Follows tax code requirements for reporting

GAAP

Generally Accepted Accounting Principles for comprehensive reporting

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Forming an Audit Opinion

Auditors must carefully evaluate whether they've obtained sufficient appropriate evidence and whether financial statements are fairly presented in accordance with the applicable reporting framework. This foundational assessment drives every audit opinion issued.

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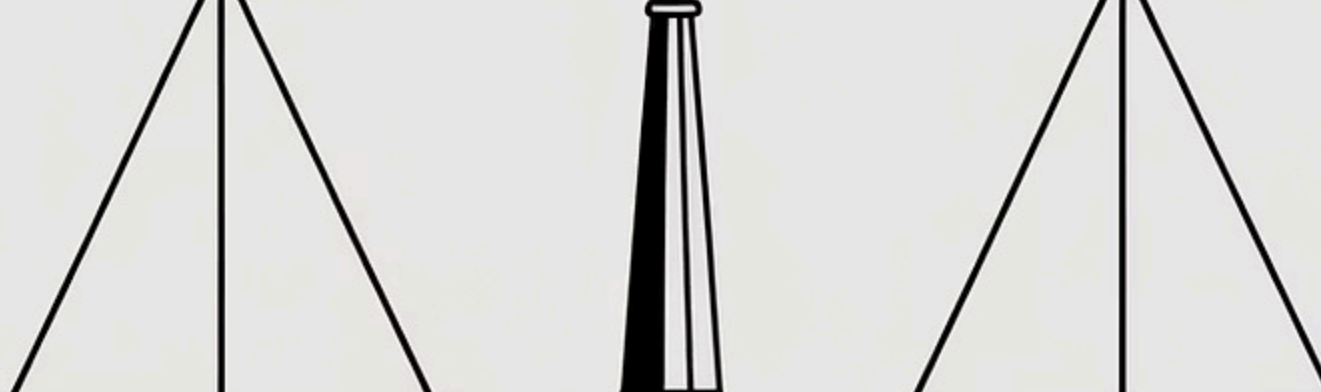
Framework Impact on Asset Valuation

Equipment Account Example

When management selects GAAP as their framework, the auditor expects specific treatment of long-term assets. For instance, an equipment account should be stated as original cost minus accumulated depreciation.

This expectation flows directly from the framework choice. Different frameworks would require different valuation approaches for the same asset.





Key Considerations for Opinion Formation

Evidence Sufficiency

Did the auditor obtain sufficient appropriate audit evidence as required by Generally Accepted Auditing Standards (GAAS)?

Fair Presentation

Are the financial statements fairly stated in all material respects according to the applicable financial reporting framework?

Framework Compliance

Do the statements comply with GAAP or the selected reporting framework requirements?

Framework Guidance and Evaluation

The selected financial reporting framework provides comprehensive guidance on recording transactions and events. Auditors must evaluate multiple dimensions of financial statement preparation.

01

Disclosure Adequacy

Evaluate whether significant accounting policies are adequately disclosed

03

Estimate Reasonableness

Evaluate whether management's accounting estimates are reasonable

02

Policy Consistency

Evaluate whether accounting policies align with the applicable framework

04

Fair Presentation

Evaluate whether statements and disclosures achieve fair presentation

The Unmodified Opinion

An unmodified opinion (called "unqualified" for issuers) states that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

This represents the auditor's highest level of assurance and indicates no material issues were identified during the audit process.

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Requirements for Unmodified Opinion



Sufficient Evidence

The auditor obtained sufficient appropriate audit evidence to support conclusions



Immaterial Misstatements

Any uncorrected misstatements are immaterial, individually or in aggregate



Framework Compliance

Financial statements are prepared in accordance with the applicable framework



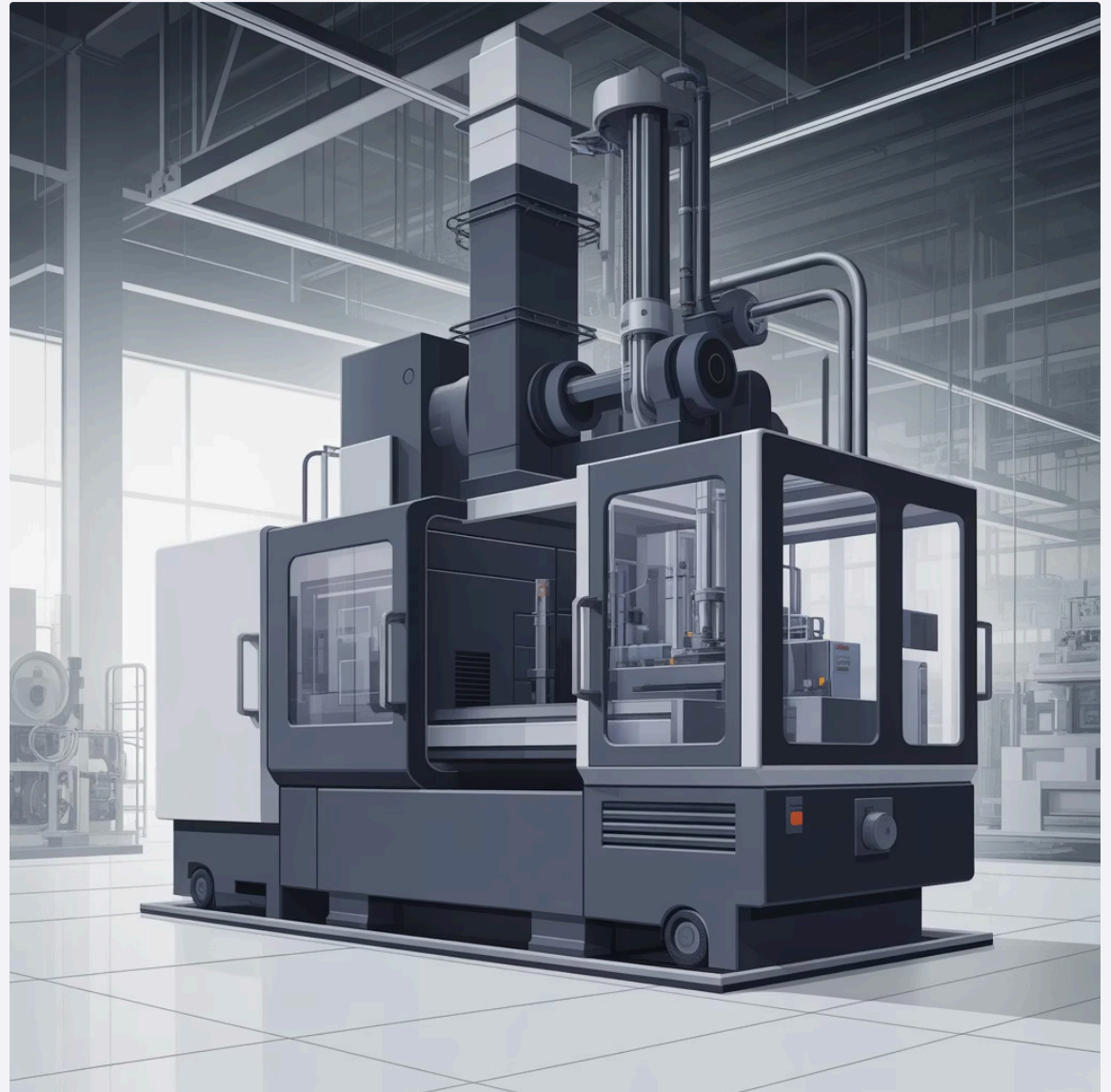
Unmodified Opinion Example

Machinery Account Scenario

Auditors issue an unmodified opinion when they find that the company:

- Uses GAAP as their framework
- Records machinery at cost minus accumulated depreciation
- Provides sufficient evidence supporting the valuation

All elements align with expectations, resulting in a clean opinion.



When Modifications Become Necessary

The auditor's report must be modified when specific circumstances arise that prevent issuing an unmodified opinion. These situations fall into two primary categories.

Audit Issues

Auditor is unable to obtain sufficient appropriate audit evidence to conclude the financial statements are free from material misstatement

Financial Statement Issues

Auditor concludes that the financial statements contain material misstatements, such as inaccurate numbers or missing disclosures





Three Types of Modified Opinions

1

Qualified Opinion

Material but not pervasive issues identified

2

Adverse Opinion

Material and pervasive financial statement misstatements

3

Disclaimer of Opinion

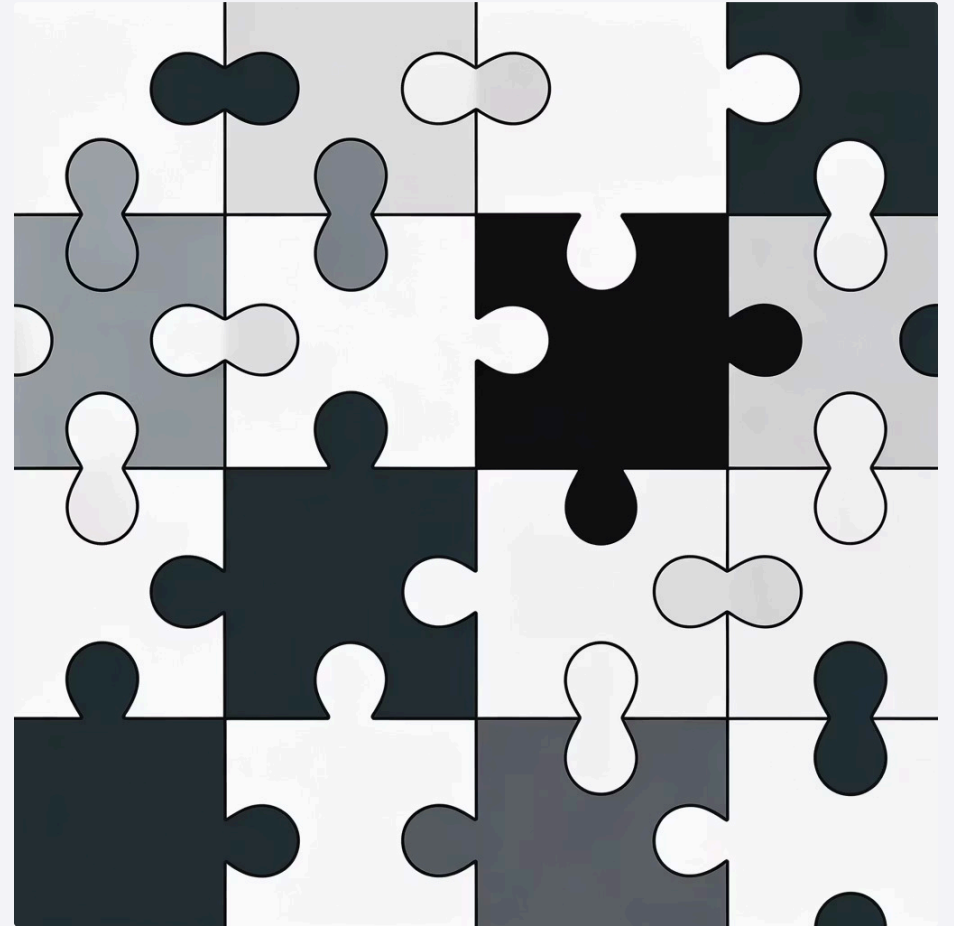
Unable to obtain sufficient evidence, material and pervasive

Qualified Opinion: Audit Issues

When to Issue

Auditors issue a qualified opinion when they are unable to gather sufficient appropriate audit evidence AND conclude that the possible effect of the matter is material, but not pervasive.

This represents a middle ground where issues exist but don't completely undermine the financial statements.



Disclaimer of Opinion

When auditors conclude that the possible effect is material AND pervasive, they must disclaim an opinion entirely.

In this situation, auditors are unable to gather sufficient appropriate audit evidence. They essentially deny rendering an opinion because the scope limitations are too severe to provide any assurance.

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Qualified Opinion: Financial Statement Issues

Evidence Obtained

The auditor was able to gather sufficient appropriate audit evidence

Misstatements Found

The financial statements contain material, but not pervasive, misstatements

Opinion Result

A qualified opinion is issued to alert users to the specific issue

Qualified Opinion Scenario

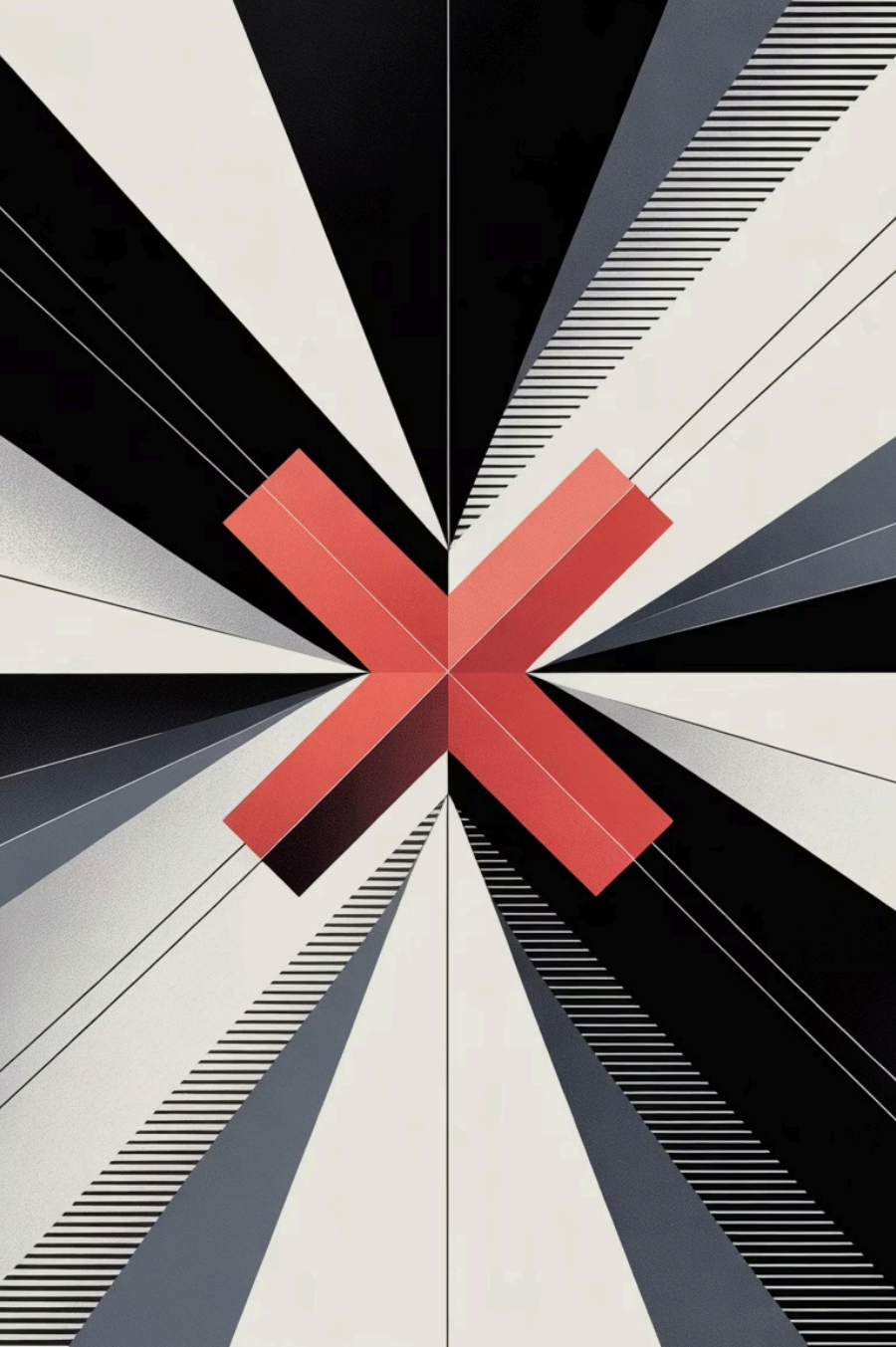
Vehicle Valuation Example

Consider this situation:

- Client chooses GAAP as framework
- Reports company vehicles at current market value rather than cost minus accumulated depreciation
- Client refuses to correct the report despite auditor's request

The auditor would issue a qualified opinion as the issue is material but not pervasive to the entire financial statements.





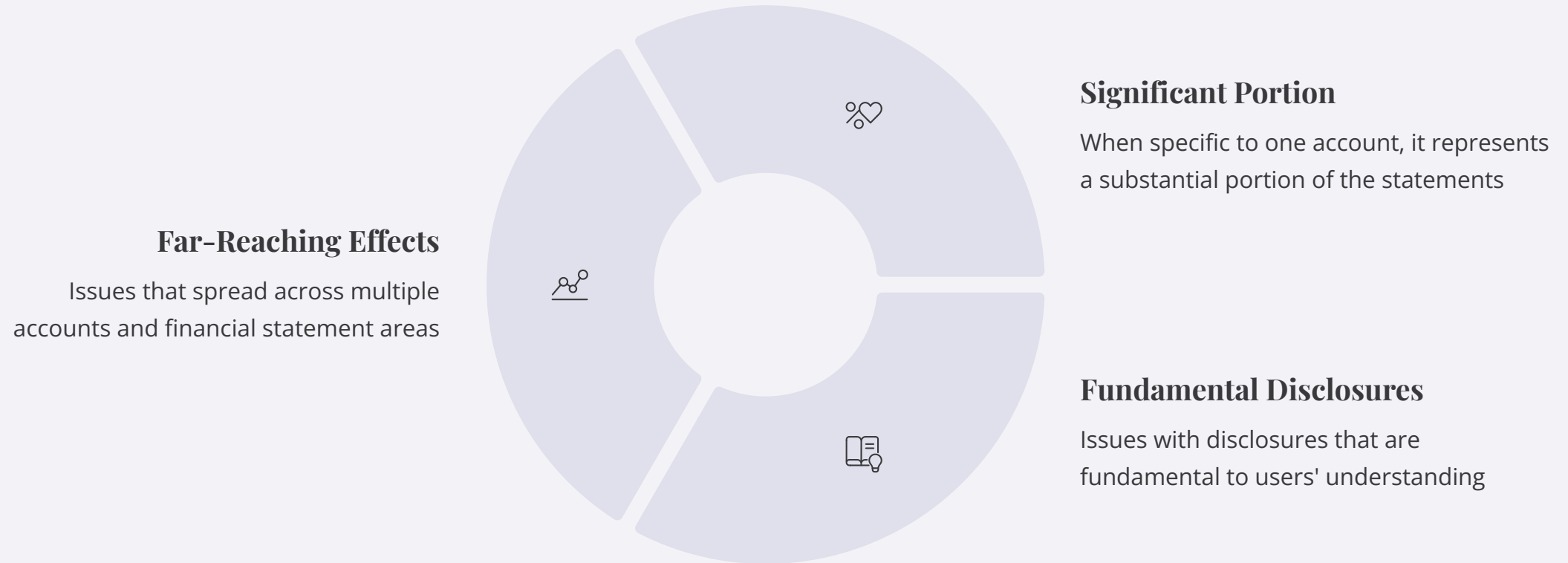
Adverse Opinion

Auditors issue an adverse opinion when they conclude that the financial statements have misstatements that are material AND pervasive. This is the most severe opinion, indicating the statements do not present fairly.

An adverse opinion essentially tells users that the financial statements cannot be relied upon for decision-making purposes.

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Understanding "Pervasive"



Standard Unmodified Opinion Overview

An unmodified opinion is issued by an auditor of a nonissuer when sufficient appropriate audit evidence has been obtained and financial statements are fairly stated in all material respects according to the applicable framework.

1

Report Wording

Specific language required in the auditor's report

2

Report Format

Structured sections in prescribed order

3

Section Ordering

Opinion, Basis, Responsibilities, and Auditor's Responsibilities



Required Report Sections

Opinion

The auditor's conclusion on the financial statements

Basis for Opinion

Standards followed and ethical responsibilities

Responsibilities of Management

Management's role in preparing financial statements

Auditor's Responsibilities

The auditor's obligations during the audit

Standard Unmodified Opinion Example

Independent Auditor's Report

Opinion

We have audited the financial statements of [Company Name], which comprise the statement of financial position as of [Date], and the related statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of [Company Name] as of [Date], and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in [Country].

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in [Country]. ... We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in [Country]...

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. ...

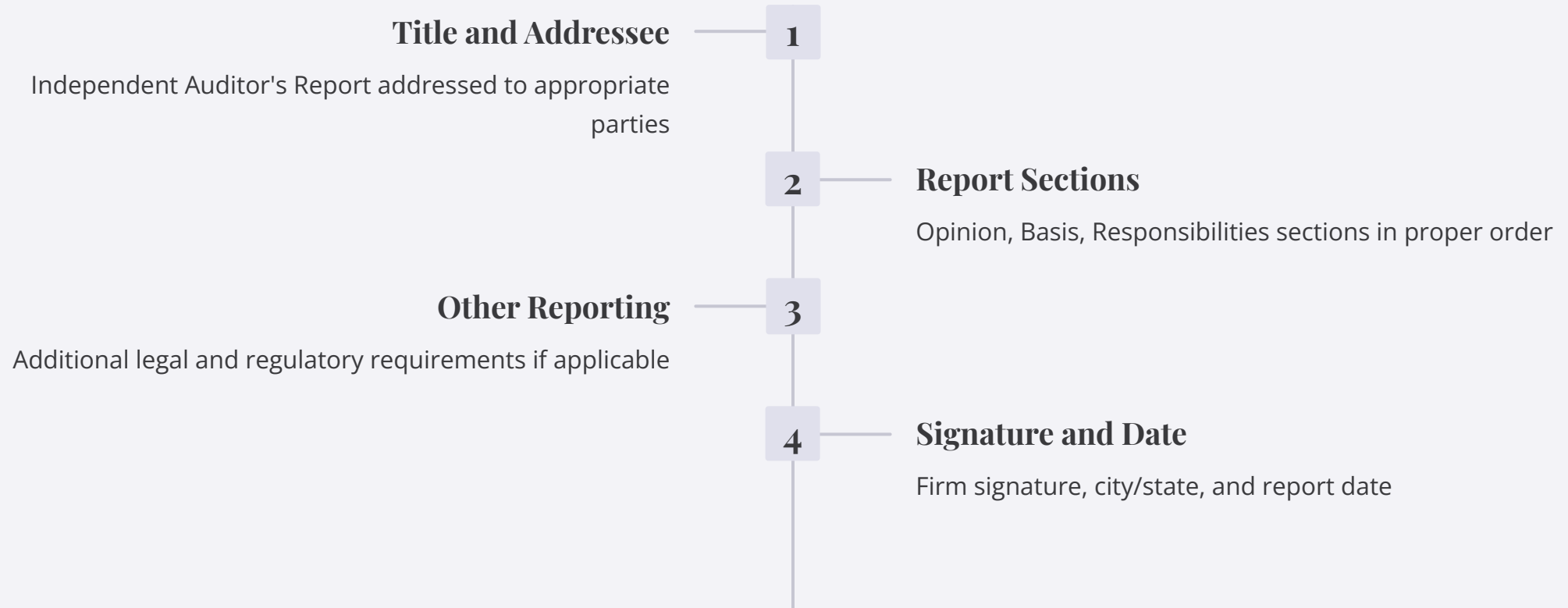
[Auditor's Firm Signature]

[City, State]

[Date of Report]

This example illustrates the essential elements of an unmodified opinion report, providing a clear template for audit documentation.

Report Structure and Dating



Basis for Opinion Section

Key Elements

This section discusses the auditing standards followed and ethical responsibilities. It states that audits were conducted in accordance with GAAS and describes independence requirements.

The auditor affirms they are independent and have met ethical responsibilities, and that sufficient appropriate evidence was obtained to provide a basis for the opinion.





Management's Responsibilities

Management is responsible for the preparation and fair presentation of financial statements in accordance with the applicable framework. They must also design, implement, and maintain internal control relevant to financial statement preparation.

Preparation

Creating financial statements following the chosen framework

Fair Presentation

Ensuring statements are free from material misstatement

Internal Control

Maintaining controls to prevent fraud or error

Going Concern Evaluation

When the framework requires it, management must evaluate whether conditions or events raise substantial doubt about the entity's ability to continue as a going concern.

Note: GAAP requires this evaluation, so it appears in most audits of U.S. companies.



Auditor's Responsibilities Overview

The auditor's objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes their opinion.



Reasonable Assurance

A high level of assurance, but not absolute assurance or a guarantee



Fraud vs. Error

The risk of not detecting fraud is higher than error due to collusion and concealment



Materiality

Misstatements are material if they would influence a reasonable user's judgment

Audit Performance Requirements

In performing an audit in accordance with GAAS, auditors must:

- Exercise professional judgment and maintain professional skepticism throughout
- Identify and assess risks of material misstatement, whether due to fraud or error
- Design and perform audit procedures responsive to those risks
- Obtain understanding of internal control to design appropriate procedures
- Evaluate appropriateness of accounting policies and reasonableness of estimates
- Evaluate overall presentation of the financial statements

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Going Concern Conclusion

GAAS requires the auditor to evaluate whether the entity is a going concern, even if the accounting framework does not require this evaluation for management.

The auditor must conclude whether there are conditions or events that raise substantial doubt about the company's ability to continue as a going concern for a reasonable period of time.

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Communication Requirements

Required Communications

Auditors are required to communicate with those charged with governance regarding:

- Planned scope and timing of the audit
- Significant audit findings
- Certain internal control-related matters identified during the audit



Audits Using Two Sets of Standards

Auditors may use two sets of standards when it is required (such as governmental entity audits using both GAAS and governmental auditing standards) or when engaged by the client to do so.

Basis for Opinion

References both auditing standards used

Auditor's Responsibilities

Describes obligations under both sets of standards

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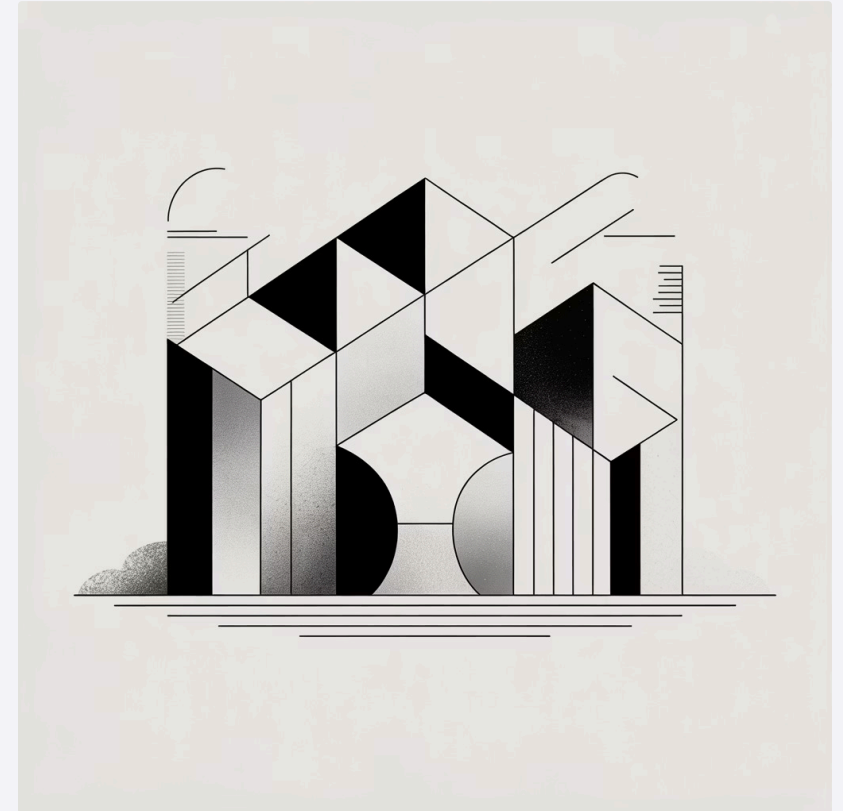


Dual Standards Example

Basis for Opinion Language

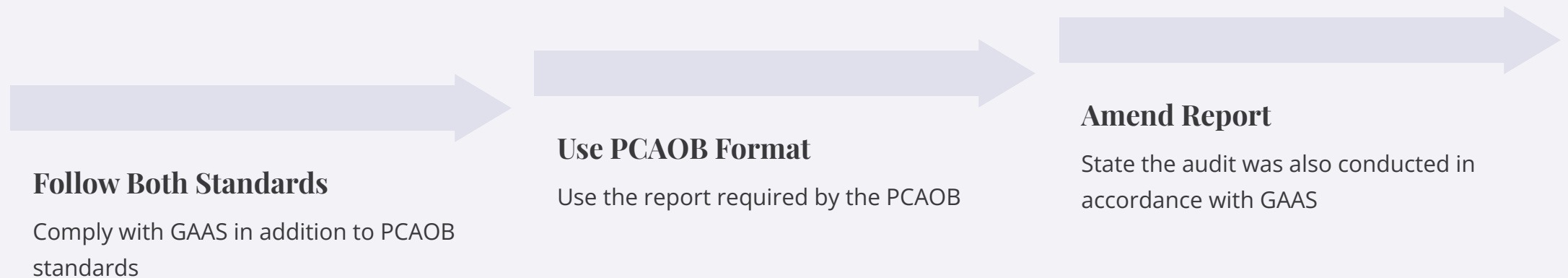
"We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with International Standards on Auditing (ISAs)."

The report clearly identifies both frameworks and confirms compliance with ethical requirements under both standards.



GAAS and PCAOB Standards Combined

When an auditor follows PCAOB standards voluntarily (when not required), they must also follow GAAS and use the PCAOB report format with amendments.





Key Audit Matters (KAMs) Section

The KAMs section may be added to the nonissuer report when the client engages the auditor to communicate Key Audit Matters. This optional section provides visibility into the more complex areas or areas requiring significant judgment in the audit.

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Selecting Key Audit Matters

The auditor selects KAMs from matters communicated with those charged with governance. When deciding which matters to communicate as KAMs, auditors should consider:



Higher Risk Areas

Areas with higher assessed risk of material misstatement



Significant Judgment

Areas requiring significant auditor and management judgment, including estimates with high uncertainty



Significant Events

Significant events or transactions during the period

Reporting KAMs in the Report

KAM Section Content

The section begins with a definition of Key Audit Matters, explaining they were communicated with governance and were of most significance in the audit.

Each KAM is then described individually, addressing the matter in context of the audit as a whole without providing a separate opinion on individual matters.





KAMs Reporting Restrictions

Qualified Opinion Matters

Should be referenced in "Basis for Opinion" section instead

Going Concern Doubt

Should be referenced elsewhere in the report, not as a KAM

Adverse/Disclaimer

KAMs are prohibited when expressing adverse opinion or disclaimer

Issuer Report Requirements

For issuers (public companies), the auditor's report has three required sections when issuing an unqualified or qualified opinion:



Opinion on Financial Statements

The auditor's conclusion, appearing first in the report



Basis for Opinion

Standards followed and evidence obtained



Critical Audit Matters

Required disclosure of challenging audit areas

Issuer Report Example

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of [Company Name]

Opinion on the Financial Statements

We have audited the accompanying consolidated financial statements of [Company Name] and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 20XX and 20XY, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 20XX, and the related notes (collectively referred to as the "financial statements").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of [Company Name] as of December 31, 20XX and 20XY, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20XX, in conformity with accounting principles generally accepted in the United States of America.

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. ... 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 financial statements and (2) involved our especially challenging, subjective, or complex judgments.

We determined that the following critical audit matter was significant to the audit of the consolidated financial statements:

Valuation of Goodwill and Intangible Assets: We identified the valuation of goodwill and intangible assets as a critical audit matter due to the significant judgments involved in management's impairment assessment ... Our audit procedures included ...

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. ...

[Name of Audit Firm]

[City, State]

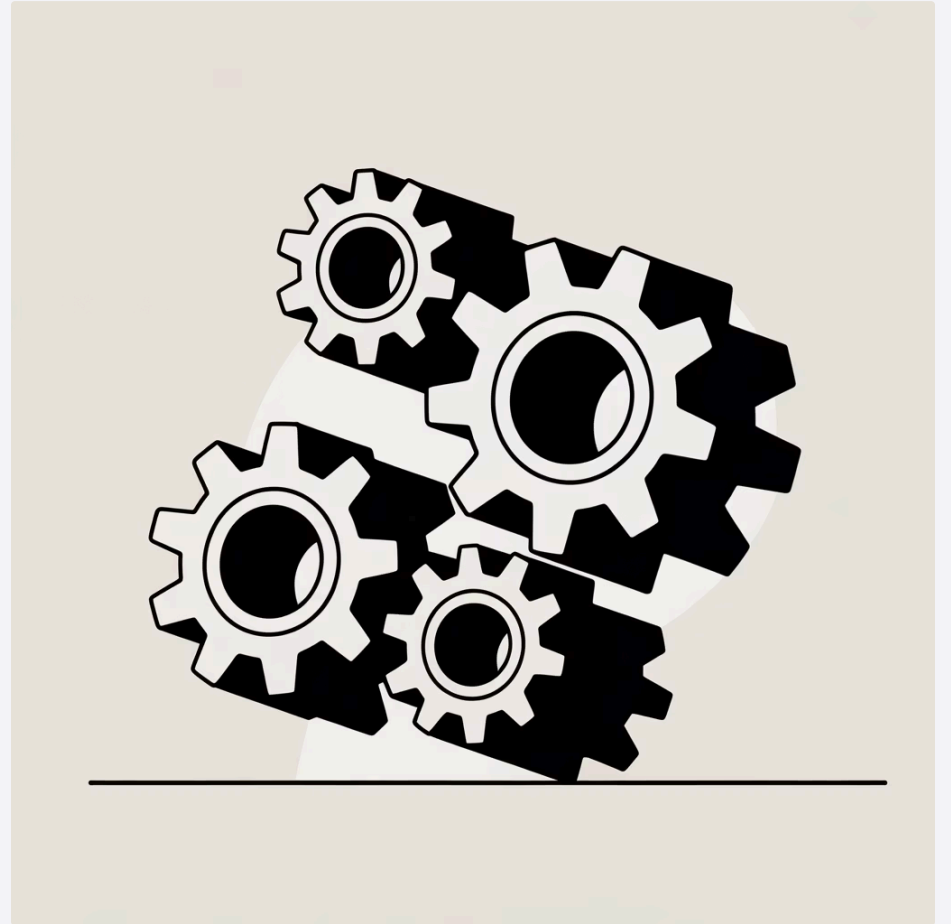
[Date of Report]

Critical Audit Matters Definition

Three Required Criteria

To be considered a CAM, a matter must meet all three criteria:

1. Be communicated or required to be communicated to the audit committee
2. Relate to accounts or disclosures material to the financial statements
3. Involve challenging, subjective, or complex auditor judgment



Describing Critical Audit Matters



Principal Considerations

Describe what led the auditor to determine it was a CAM



Addressed in Audit

Describe how the CAM was addressed during the audit



Disclosures Reference

Refer to relevant financial statement accounts and disclosures

CAM Reporting Example

Revenue Recognition Assessment

The company recognizes revenue from software licenses over multiple years based on contract terms. Total software revenue for the year was \$12 million.

We identified revenue recognition as a critical audit matter due to the complexity of determining the appropriate timing and amount of revenue recognition across different contract types and performance obligations.



Smaller Reporting Companies

\$100M

Revenue Threshold

Companies with less than \$100 million in annual revenue

1

Opinion Required

Only financial statement audit opinion needed, not internal control opinion

The Basis for Opinion section is updated to clarify that the company is not required to have an audit of internal control, and the auditor was not engaged to perform one. The auditor obtains understanding of internal control but not for expressing an opinion on its effectiveness.

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Form AP: Audit Participants

Registered public accounting firms must report information about certain audit participants to the PCAOB by completing Form AP. This form identifies the engagement partner and other accounting firms participating in the audit.

1

Firm Information

Legal name and reporting details of the audit firm

2

Engagement Partner

Name of the partner responsible for the engagement

3

Other Firms

Details of other accounting firms participating in the audit

4

Audit Hours

Percentage of total audit hours by participating firms



Form AP: Purpose and Users

Form AP is a critical filing that provides essential information about audit engagements. It was implemented to bring greater clarity and accountability to the audit process.



Enhanced Transparency & Oversight

Form AP was established to enhance transparency and oversight in public company audits, providing a clearer view into the audit process.



Importance of Transparency

Transparency in public company audits is crucial for maintaining public trust and confidence in financial reporting and the integrity of capital markets.



Information for Key Users

Key users of Form AP information include the PCAOB, investors, audit committees, and other regulators, who rely on it for various insights.



Informed Decision-Making

By providing detailed insights, Form AP helps stakeholders make more informed decisions regarding audit quality and auditor independence.



Monitoring Audit Quality

It serves multiple purposes, such as monitoring audit quality, understanding the composition of audit teams, and facilitating regulatory oversight.

Modified Audit Opinions: Nonissuer and Issuer Reports

Understanding when and how to modify audit opinions is critical for auditors. We will explore the framework for issuing qualified, adverse, and disclaimer opinions for both nonissuer and issuer entities.

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Overview

Understanding Modified Opinions

Auditors must modify their opinions when circumstances prevent them from issuing an unmodified opinion. These modifications fall into two primary categories: financial statement issues and audit issues. The materiality and pervasiveness of these issues determine the type of modified opinion required.

Financial Statement Issues

Material misstatements in the financial statements due to departures from the applicable framework

Audit Issues

Inability to obtain sufficient appropriate audit evidence due to scope limitations

Materiality Assessment

Determining whether issues are material but not pervasive, or material and pervasive

The Opinion Matrix

The type of opinion issued depends on both the nature of the problem and its materiality. Understanding this matrix is fundamental to audit reporting.

Materiality Level

- None or immaterial
- Material but not pervasive
- Material and pervasive

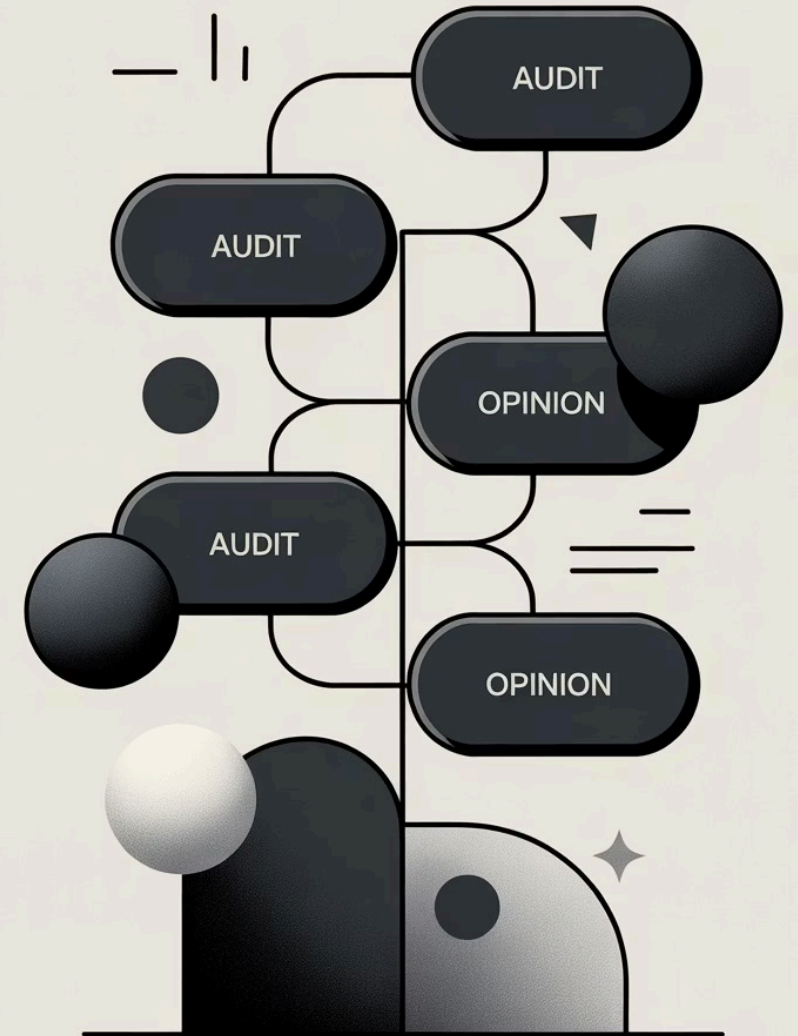
Financial Statement Issues

- Unmodified
- Qualified opinion
- Adverse opinion

Audit Issues

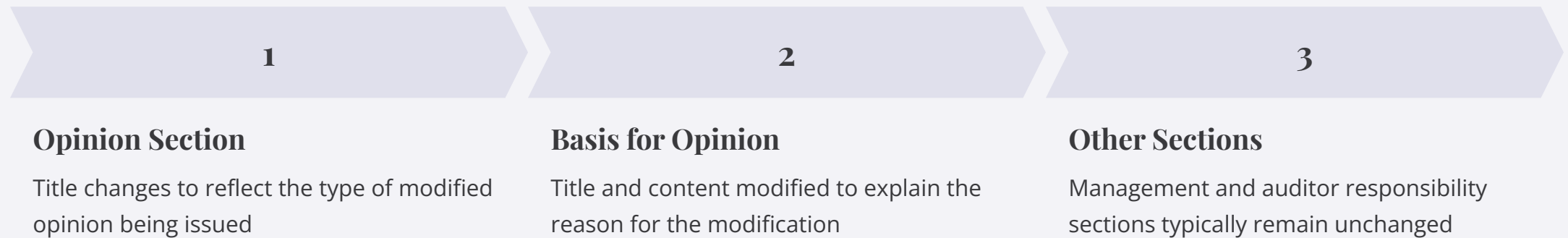
- Unmodified
- Qualified opinion
- Disclaimer of opinion

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Nonissuer Report Modifications

When modified opinions are issued for nonissuer entities, specific sections of the audit report must be updated to reflect the nature and basis of the modification.



A magnifying glass is positioned over a financial statement. The statement features a bar chart and a line graph. The magnifying glass is focused on the line graph, which shows a downward trend. The background is a light blue and white color scheme.

Qualified Opinion: Financial Statement Issues

A qualified opinion is issued when misstatements are material but not pervasive. The opinion states that except for the effects of the matter described, the financial statements present fairly.

Opinion Language

"Except for the effects of the matter described in the Basis for Qualified Opinion section..."

Additional Paragraph

Describes the departure from the framework and quantifies effects when possible

Cross-Reference

Opinion section refers to the Basis for Qualified Opinion section for details

Example: Inventory Valuation Issue

Consider a company that values inventory at cost when GAAP requires the lower of cost or market. This represents a material departure from the accounting framework.

The Company has stated inventories at cost in the accompanying balance sheets. Generally accepted accounting principles require inventories to be stated at the lower of cost or market.

\$850K

Required Write-Down

Amount inventory should be reduced in
current year

\$720K

Prior Year Impact

Adjustment needed for comparative period

\$1.57M

Equity Reduction

Total impact on stockholders' equity

Qualified Opinion Structure

Opinion Section

Opens with standard audit scope paragraph, then provides qualified opinion using "except for" language that references the basis section.

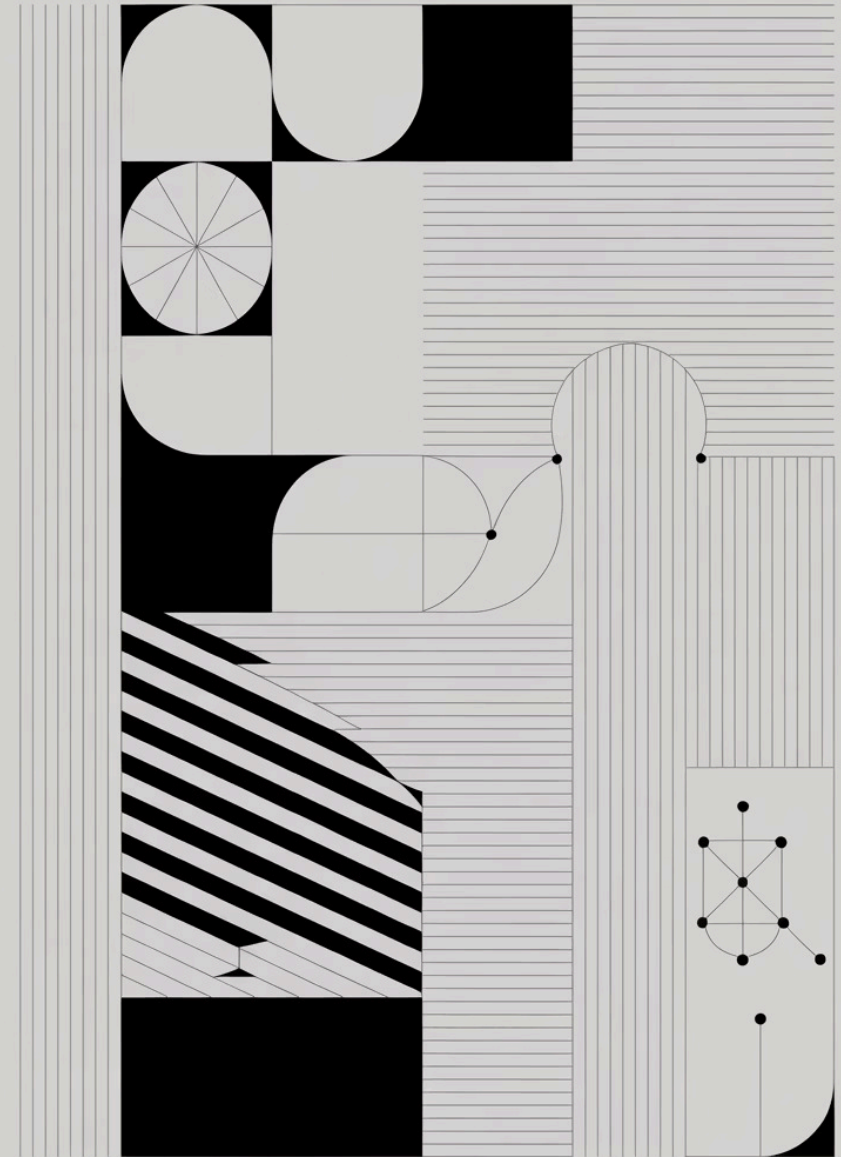
The opinion still concludes that financial statements present fairly in all material respects, with the noted exception.

Basis Section

Begins with detailed explanation of the departure from GAAP, including specific amounts and accounts affected.

Concludes with standard independence and evidence statements, noting sufficient basis for the qualified opinion.

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Key Elements of Basis Paragraph

01

Identify the Issue

Clearly state which accounting principle was not followed and where in the financial statements

03

Quantify the Impact

Provide specific dollar amounts showing the effect on various financial statement elements

02

State the Requirement

Explain what the applicable framework (GAAP) requires for this situation

04

Describe Consequences

Explain how income, expenses, assets, liabilities, and equity would change if properly stated

Nonissuer Report: Qualified Opinion Example

This example illustrates a nonissuer audit report with a qualified opinion due to a material misstatement in the financial statements related to inventory valuation.

Qualified Opinion on the Financial Statements

We have audited the accompanying financial statements of Meridian Industries, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, **except for the effects of the matter described in the Basis for Qualified Opinion on the Financial Statements section of our report**, the financial statements referred to above present fairly, in all material respects, the financial position of Meridian Industries as of December 31, 20X2 and 20X1, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the Financial Statements

The Company has stated inventories at cost in the accompanying balance sheets. Generally accepted accounting principles require inventories to be stated at the lower of cost or market.

At December 31, 20X2, inventories are overstated by \$850,000, retained earnings are overstated by \$850,000, and net income for the year then ended is overstated by \$850,000. At December 31, 20X1, inventories are overstated by \$720,000 and retained earnings are overstated by \$720,000.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). ...

All other sections of the report would remain consistent with an unmodified opinion, indicating no other material issues or scope limitations.



Adverse Opinion: When Issues Are Pervasive

An adverse opinion is issued when financial statement misstatements are both material and pervasive, meaning they are not confined to specific elements and represent a substantial portion of the financial statements.

- ❏ **Critical Distinction:** While a qualified opinion says "except for" certain matters, an adverse opinion states the financial statements "do not present fairly" due to the significance of the departures from GAAP.

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Adverse Opinion Language

Opening Statement

Standard scope paragraph describing the financial statements audited remains unchanged

Opinion Paragraph

"Because of the significance of the matter discussed in the Basis for Adverse Opinion section, the financial statements do not present fairly..."

Basis Paragraph

Detailed explanation of the departures from GAAP and their pervasive effects on the financial statements

Standard Sections

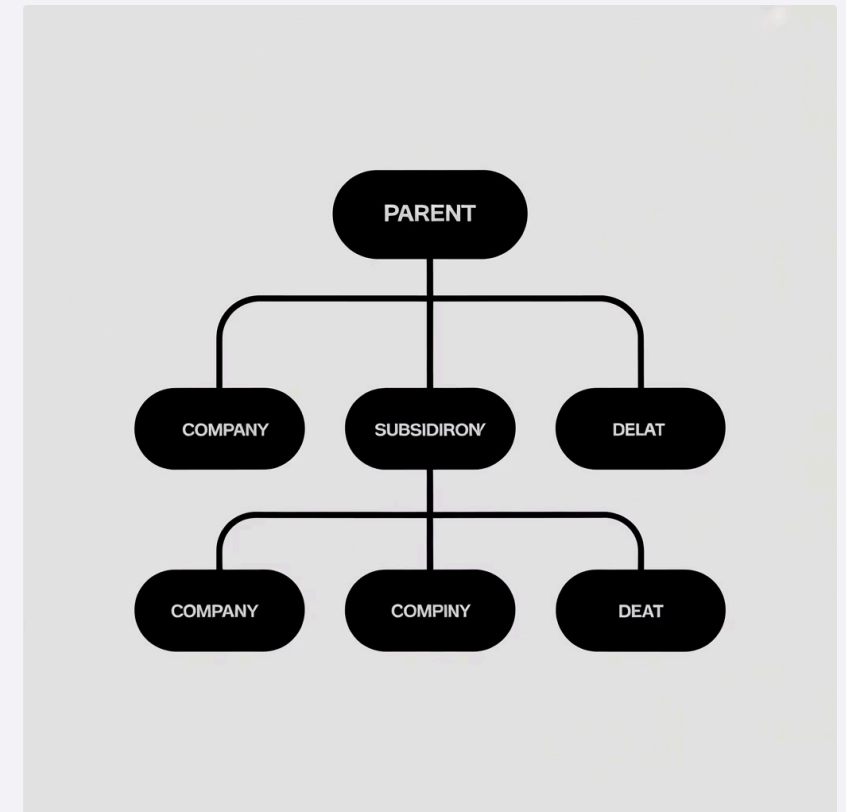
Management and auditor responsibility sections remain the same as unmodified reports

Example: Failure to Consolidate Subsidiary

A company acquired a subsidiary but failed to consolidate it due to uncertainty about fair values. This represents a pervasive departure from GAAP because consolidation affects numerous financial statement elements.

The investment is incorrectly accounted for on a cost basis when GAAP requires consolidation of controlled subsidiaries. The effects are pervasive because consolidation would materially affect:

- Total assets and liabilities
- Revenue and expenses
- Net income and equity
- Cash flows from all activities
- Numerous note disclosures



Adverse Opinion Impact

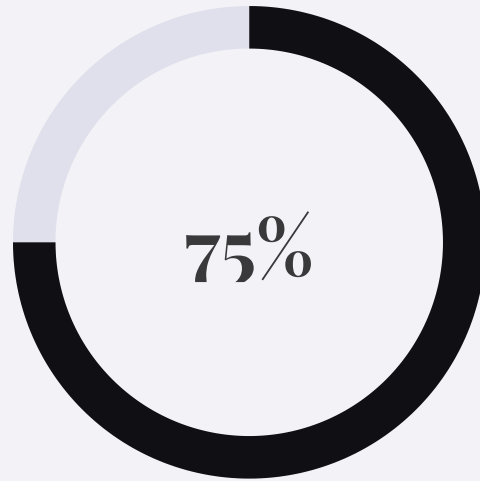
The basis paragraph must clearly articulate why the issue is pervasive and acknowledge when effects cannot be fully determined.

Had the subsidiary been consolidated, many elements in the accompanying financial statements would have been materially affected. The effects on the financial statements of the failure to consolidate have not been determined.



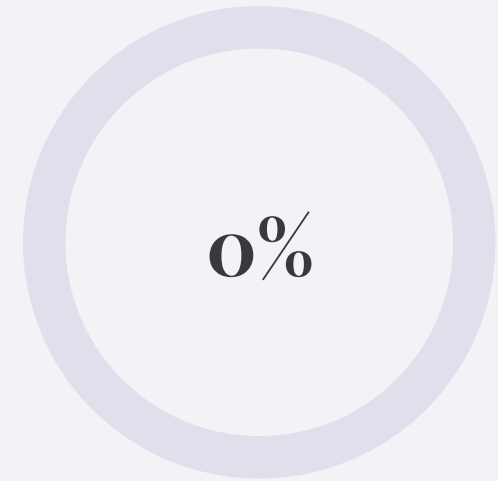
Statement Impact

All major financial statements affected by the departure



Note Disclosures

Significant portion of notes would require revision



Reliability

Financial statements cannot be relied upon for decision-making

Nonissuer Report: Adverse Opinion Example

This example illustrates a nonissuer audit report with an adverse opinion due to a pervasive material misstatement in the financial statements related to a failure to consolidate a subsidiary.

Adverse Opinion on the Financial Statements

We have audited the accompanying financial statements of TechFlow Corporation, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on the Financial Statements section of our report, the financial statements referred to above **do not present fairly** the financial position of TechFlow Corporation as of December 31, 20X2 and 20X1, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

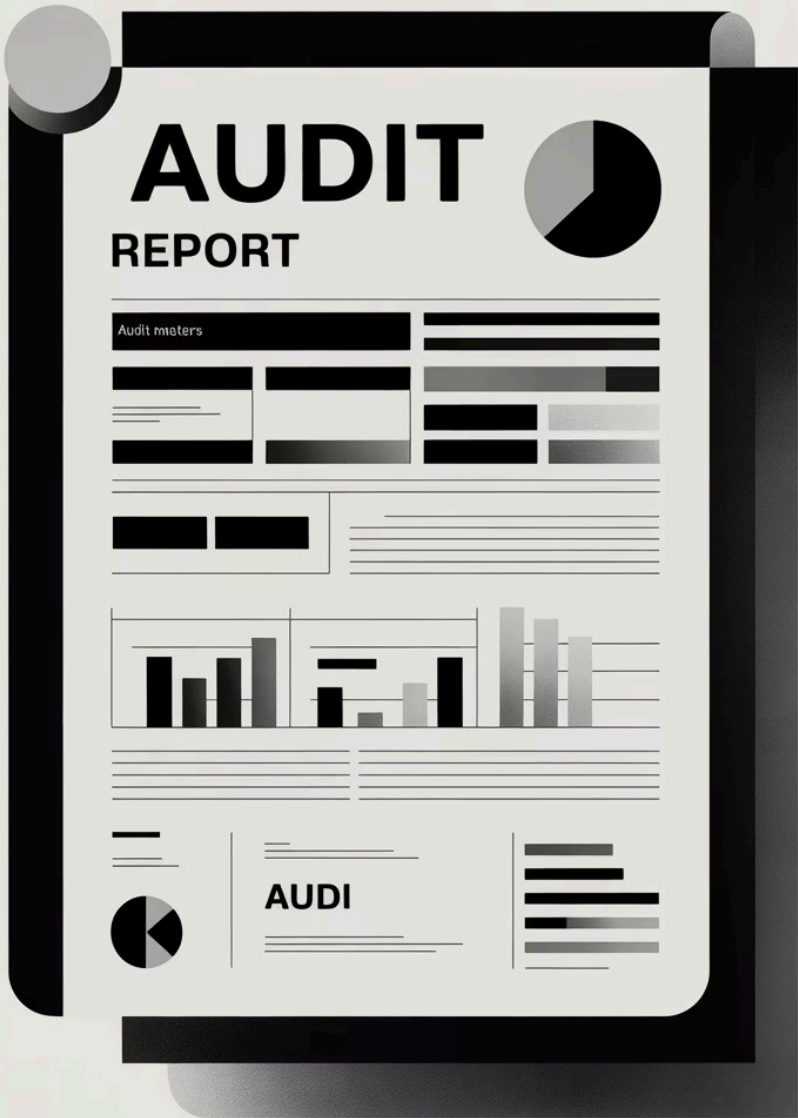
Basis for Adverse Opinion on the Financial Statements

As discussed in Note X to the financial statements, the Company acquired Subsidiary Z in a business combination during 20X2 and has not consolidated the financial statements of Subsidiary Z in its accompanying financial statements. Generally accepted accounting principles require that the financial statements of a controlled subsidiary be consolidated with those of the parent.

Had Subsidiary Z been consolidated, many elements in the accompanying financial statements would have been materially affected. The effects on the financial statements of the failure to consolidate have not been determined, but are considered pervasive.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). ...

This pervasive issue leads to the conclusion that the financial statements as a whole are materially misstated and therefore cannot be relied upon.



Key Audit Matters Consideration

When an auditor is engaged to report on Key Audit Matters (KAM), special rules apply for modified opinions. KAMs are optional for non-issuers.

Qualified Opinion

KAM section is included when engaged to report on key audit matters

Adverse Opinion

KAM section is omitted because it may overshadow the adverse opinion

Disclaimer Opinion

KAM section is omitted because no opinion is being expressed



Transitioning to Audit Issues

Scope Limitations

We now shift from financial statement issues to audit issues—situations where the auditor cannot obtain sufficient appropriate audit evidence to support an opinion.

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Understanding Scope Limitations

Scope limitations prevent auditors from gathering the evidence needed to form an opinion. These limitations can arise from circumstances or be imposed by management.

Timing Issues

Auditor engaged after year-end, missing key observation opportunities like inventory counts

Access Restrictions

Unable to obtain necessary documentation, confirmations, or access to subsidiary records

Record Inadequacy

Accounting records are incomplete, destroyed, or insufficient to support audit procedures

Common Scope Limitation Examples

Circumstance-Imposed

- Inability to observe physical inventory counts
- Inability to confirm accounts receivable
- Records destroyed by fire or natural disaster
- Foreign subsidiary refuses access to auditors
- Timing of engagement prevents certain procedures

Management-Imposed

- Refusal to allow confirmation of receivables
- Restrictions on access to personnel or records
- Refusal to provide written representations
- Limitations on scope of audit procedures
- Client attorney refuses to respond to inquiries

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Auditor's Response to Scope Limitations

Assess Alternative Procedures

Determine whether alternative audit procedures can provide sufficient appropriate evidence to overcome the limitation

Consider Management Intent

If management-imposed, request removal of limitation and communicate with those charged with governance

Evaluate Materiality

Consider whether the potential effects of undetected misstatements are material but not pervasive, or material and pervasive

Determine Opinion Type

Issue qualified opinion if material but not pervasive, or disclaim opinion if material and pervasive

Qualified Opinion: Scope Limitation

When scope limitations are material but not pervasive, a qualified opinion is appropriate. The key difference from financial statement issues is the use of "possible effects" language.



Opinion Language

"Except for the possible effects of the matter described in the Basis for Qualified Opinion section..."



Basis Explanation

Describes what evidence could not be obtained and why alternative procedures were insufficient



Uncertainty Emphasis

Acknowledges that adjustments might be necessary if evidence had been obtained

Example: Foreign Affiliate Investment

An auditor is unable to obtain audited financial statements for a foreign affiliate or perform alternative procedures to verify the investment balance and equity earnings.

We were unable to obtain sufficient appropriate audit evidence about the carrying amount of the investment in the foreign affiliate or the equity in its earnings because we were denied access to financial information, management, and the auditors of the affiliate.

\$2.4M

Investment Balance

Carrying amount that could not be verified through audit procedures

\$380K

Equity Earnings

Share of affiliate income included in net income without verification

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Qualified vs. Unmodified: Key Differences

Unmodified Opinion

Opinion: "Present fairly, in all material respects"

Basis: Standard language about independence, GAAS compliance, and sufficient evidence

Additional Paragraphs: None required for the opinion itself

Qualified Opinion (Scope)

Opinion: "Except for the possible effects...present fairly"

Basis: Additional paragraph describing the scope limitation and its consequences

Additional Paragraphs: Detailed explanation of what could not be audited and why

Qualified Opinion: Scope Limitation (Nonissuer)

Qualified Opinion on the Financial Statements

...

In our opinion, **except for the possible effects** of the matter described in the Basis for Qualified Opinion on the Financial Statements section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of Global Ventures Inc. as of December 31, 20X2, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

...

Basis for Qualified Opinion on the Financial Statements

...

As discussed in Note X to the financial statements, we were unable to obtain sufficient appropriate audit evidence about the carrying amount of the investment in the foreign affiliate or the equity in its earnings because we were denied access to financial information, management, and the auditors of the affiliate. Global Ventures Inc.'s investment in Foreign Affiliate, as of December 31, 20X2, is stated at \$2,400,000, and Global Ventures Inc.'s equity in the net earnings of Foreign Affiliate for the year then ended is stated at \$380,000. The **possible effects** of this matter on the financial statements are material and have not been determined.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). ...

This example clearly demonstrates the use of "**possible effects**" language when a qualified opinion arises from an audit issue (scope limitation), distinguishing it from the "**effects**" language used for financial statement issues.



Disclaimer of Opinion: The Ultimate Limitation

No Opinion Expressed

A disclaimer of opinion is issued when scope limitations are so material and pervasive that the auditor cannot obtain sufficient appropriate evidence to form an opinion on the financial statements.

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When to Disclaim an Opinion

Pervasive Scope Limitations

Multiple significant limitations affecting numerous accounts and financial statement areas

Lack of Independence

Auditor is not independent with respect to the entity being audited

Unaudited Statements

Financial statements are unaudited and the accountant is associated with them

Management Refusal

Management refuses to provide written representations or acknowledge responsibility for financial statements

Disclaimer Opinion Structure (Nonissuer)

The structure of a disclaimer opinion differs significantly from other opinion types, with modified headings and condensed content.





Heading Changes for Disclaimer

Unlike qualified and adverse opinions, disclaimer opinions require specific heading modifications to avoid misleading readers.

Opinion Section

Opinion on the Financial Statements

Disclaimer of Opinion on the Financial Statements

Basis Section

Basis for Opinion

Basis for Disclaimer of Opinion

KAM Section

Key Audit Matters

Section Omitted

Example: Multiple Scope Limitations

Consider an auditor engaged after year-end who cannot observe inventory counts and faces a deficient accounts receivable system with uncorrected misstatements.

1

Inventory Issue

Unable to observe physical counts at beginning or end of year, with no alternative procedures available

2

Receivables Issue

New computerized system has numerous errors that management is still correcting, preventing confirmation

3

Pervasive Impact

Combined effect prevents determination of whether adjustments are needed across multiple financial statement elements

Disclaimer Language: Critical Phrases

We were engaged to audit the financial statements... As described in the following paragraph, because of the significance of the matters described, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion, and we do not express an opinion on these financial statements.

Engagement Language

Uses "engaged to audit" rather than "have audited" to clarify the incomplete nature of the work

No Opinion Statement

Explicitly states that no opinion is expressed, leaving no ambiguity for readers

Reference to Basis

Directs readers to the detailed explanation in the Basis for Disclaimer section

Auditor Responsibilities in Disclaimer

The Auditor's Responsibilities section is significantly condensed when disclaiming an opinion, reflecting the limited scope of work performed.

Standard Report Includes:

- Detailed description of audit procedures
- Risk assessment responsibilities
- Evidence examination approach
- Internal control understanding
- Evaluation of estimates and policies
- Overall presentation assessment

Disclaimer Report States:

Our responsibility is to conduct an audit in accordance with GAAS and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer section, we were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion.

We are required to be independent and to meet our other ethical responsibilities.

Example: Disclaimer of Opinion (Nonissuer)

Disclaimer of Opinion on the Financial Statements

We were engaged to audit the financial statements of Summit Enterprises, which comprise the balance sheet as of December 31, 20X2, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

As described in the Basis for Disclaimer of Opinion section, because of the significance of the matters described, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion, and **we do not express an opinion** on these financial statements.

Basis for Disclaimer of Opinion on the Financial Statements

We were not able to observe the counting of physical inventory at December 31, 20X2, or at the beginning of the year. Accordingly, we were unable to satisfy ourselves by other auditing procedures concerning inventory quantities. Inventory amounts included in the financial statements represent **XX%** of total assets.

The Company implemented a new computerized accounts receivable system during the year, and management is still in the process of correcting numerous errors. As a result, we were not able to confirm accounts receivable and the Company's accounting records do not permit us to apply other auditing procedures to satisfy ourselves about the accounts receivable balance. Accounts receivable amounts included in the financial statements represent **YY%** of total assets.

Because of the significance of the matters described above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements as a whole.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section, we were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion.

We are required to be independent with respect to Summit Enterprises and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

This example highlights the specific language used to indicate that the auditor was **"engaged to audit"** but could not complete the work due to severe scope limitations, leading to the explicit statement: **"we do not express an opinion"**.

Lack of Independence Disclaimer

When an accountant is not independent but is associated with financial statements, a brief disclaimer must be issued.

📄 **Simple Statement Required:** "We are not independent with respect to XYZ Company, and the accompanying financial statements were not audited by us and, accordingly, we do not express an opinion on them."

If the accountant chooses to provide reasons for the lack of independence, all reasons must be included. The accountant must also ensure "unaudited" is clearly marked on each page of the financial statements.

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Issuer Reports: Key Differences

PCAOB Standards

Issuer reports follow PCAOB auditing standards and have distinct requirements for modified opinions compared to nonissuer reports.

Heading Consistency

No heading changes for qualified and adverse opinions—only for disclaimer opinions

Critical Audit Matters

CAM section included for qualified opinions but omitted for adverse and disclaimer opinions

PCAOB Registration

Reports must state the firm is registered with the PCAOB and follows PCAOB standards

Issuer Qualified Opinion: Financial Statement Issue

For issuers, qualified opinions due to financial statement issues maintain standard section headings but add explanatory paragraphs.

Opinion Section

Standard heading maintained; opinion paragraph uses "except for" language with reference to following paragraph

Basis for Opinion

Standard heading and content maintained, including PCAOB registration and standards followed

Additional Paragraph

Inserted immediately after opinion paragraph, describing the departure from GAAP and quantifying effects

Critical Audit Matters

Standard CAM section included when required, identifying and describing critical matters

Example: Lease Capitalization Issue (Issuer)

A company excludes certain lease obligations from property and debt that should be capitalized under GAAP.

\$4.2M

Property Understatement

Amount property should be increased if leases were properly capitalized

\$4.2M

Debt Understatement

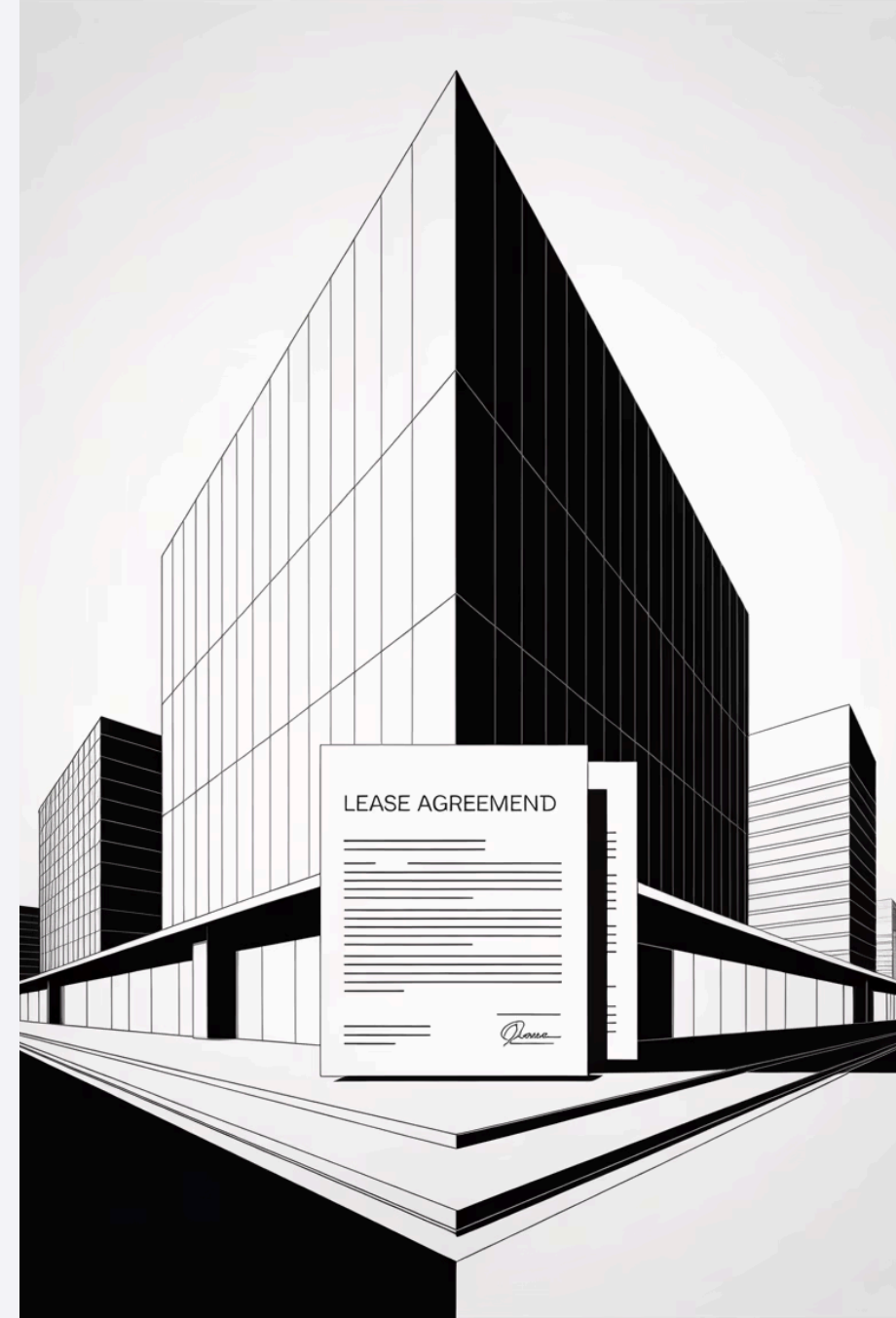
Long-term debt increase required for lease obligations

\$180K

Retained Earnings Impact

Net effect on retained earnings from proper lease accounting

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Example: Issuer Qualified Opinion – Lease Capitalization

Opinion on the Financial Statements

... In our opinion, except for the matter discussed in the paragraph immediately following, the financial statements referred to above present fairly, in all material respects, the financial position of Pinnacle Holdings as of December 31, 20X2, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in the paragraph immediately following this Opinion section, the Company has not capitalized certain lease obligations that, in our opinion, should be capitalized in accordance with accounting principles generally accepted in the United States of America. If these lease obligations had been capitalized, property and equipment would have been increased by **\$4.2 million**, long-term debt would have been increased by **\$4.2 million**, and retained earnings would have been decreased by **\$180,000** as of December 31, 20X2, and related accounts would have been affected.

Basis for Opinion

... We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). We are a public accounting firm registered with the PCAOB and are required to be independent with respect to Pinnacle Holdings in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. ...

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 financial statements and (2) involved our especially challenging, subjective, or complex judgments. (This section would be included here if engaged to report on Critical Audit Matters.) ...

This example illustrates an issuer audit report with a qualified opinion due to financial statement issues, specifically a failure to capitalize certain lease obligations. It highlights the use of the "except for" language in the opinion section and an additional explanatory paragraph detailing the GAAP departure and its financial impact. The **Basis for Opinion** section remains standard for issuers, and the **Critical Audit Matters** section would be included if applicable.



Issuer Adverse Opinion Structure

Adverse opinions for issuers follow a similar structure to qualified opinions but with stronger language indicating the financial statements do not present fairly.

Opinion Paragraph

"Because of the significance of the matter 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..."

Explanatory Paragraphs

Multiple paragraphs may be needed to fully describe pervasive departures from GAAP and their effects on numerous financial statement elements.

Example: Multiple GAAP Departures (Issuer)

A company carries property at appraisal values instead of cost and fails to provide deferred income taxes for timing differences.

Property Valuation

Property, plant, and equipment stated at appraisal values exceeding cost by \$8.5M, with depreciation based on inflated amounts

Deferred Taxes

Failure to record \$1.9M in deferred income taxes for installment sales timing differences

Inventory Impact

Manufacturing overhead includes excess depreciation, overstating inventory by \$620K

Equity Distortion

Retained earnings overstated by \$3.2M and appraisal surplus of \$5.3M improperly recorded



Example: Issuer Adverse Opinion - Multiple GAAP Departures

Opinion on the Financial Statements

... In our opinion, because of the significance of the matters discussed in the following paragraphs, the consolidated 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 Apex Manufacturing Corp. and Subsidiaries as of December 31, 20X2, or the results of its operations or its cash flows for the year then ended.

As discussed in the paragraphs below, the Company has not complied with accounting principles generally accepted in the United States of America in several material respects. Property, plant, and equipment are stated at appraisal values, which exceed cost by **\$8.5 million**. Depreciation is based on the recorded appraisal values. The Company has not recorded deferred income taxes of **\$1.9 million** for the income tax timing differences relating to installment sales. In addition, manufacturing overhead costs include excess depreciation resulting from the aforementioned appraisal values, which has resulted in an overstatement of inventory by **\$620,000**.

As a result of these departures from accounting principles generally accepted in the United States of America, as of December 31, 20X2, retained earnings are overstated by **\$3.2 million**, and an appraisal surplus of **\$5.3 million** has been improperly recorded.

Basis for Opinion

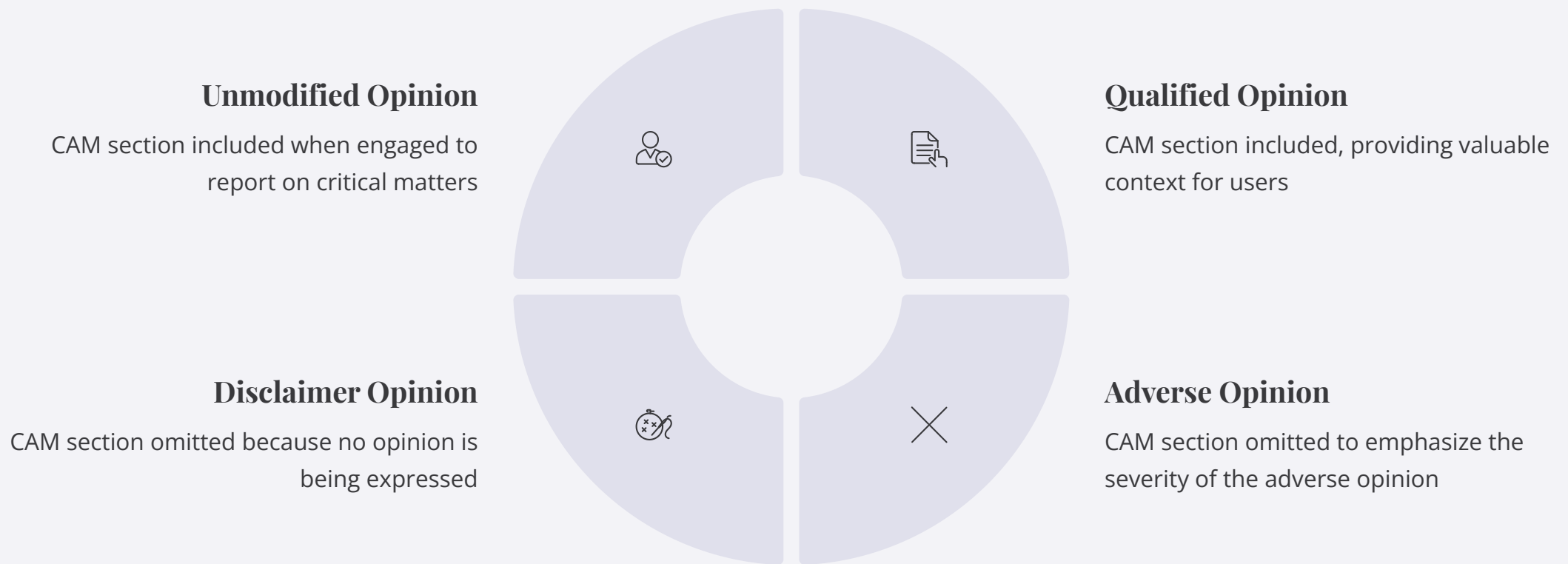
... We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). We are a public accounting firm registered with the PCAOB and are required to be independent with respect to Apex Manufacturing Corp. in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. ...

Critical Audit Matters are not included in this adverse opinion because the pervasive nature of the GAAP departures already warrants such a strong conclusion.

Critical Audit Matters: When to Omit

The Critical Audit Matters section serves an important communication function but must be omitted in certain circumstances to avoid overshadowing the opinion modification.

AICPA chose the title "KAM" for non-issuer entities, following the International Auditing and Assurance Standards Board terminology, while "CAM" (Critical Audit Matter) is the term used exclusively for PCAOB issuer audits.



Issuer Qualified Opinion: Scope Limitation

When scope limitations affect issuer audits, the report structure differs from financial statement issues, particularly in the Basis for Opinion section.

1

Opinion Language

"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..."

2


Explanatory Paragraph

Describes what evidence could not be obtained and why alternative procedures were insufficient

3

Modified Basis Section

Begins with "Except as discussed above, we conducted our audits in accordance with PCAOB standards..."



Qualified opinion
due to scope
limitation

9.20	95.00		866
23.03	19.77	15.12	26

Example: Issuer Qualified Opinion – Scope Limitation

Opinion on 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 accounts receivable discussed in the following paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Client Name Inc. and Subsidiaries as of December 31, 20X2, 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.

As discussed in the following paragraph, we were unable to obtain sufficient appropriate audit evidence concerning the accounts receivable balance of [\\$5.7 million](#) as of December 31, 20X2, and the related sales and cash receipts for the year then ended. The Company's records do not permit the application of alternative audit procedures to satisfy ourselves as to the collectibility or existence of these accounts receivable.

Basis for Opinion

Except as discussed above, we conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). We are a public accounting firm registered with the PCAOB and are required to be independent with respect to Client Name Inc. 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 planned and performed our audits to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters are included in this report if engaged to report on such matters.

Issuer Disclaimer: Heading Changes

Unlike qualified and adverse opinions, disclaimer opinions for issuers require specific heading modifications.

Standard Headings

- Opinion on the Financial Statements
- Basis for Opinion
- Critical Audit Matters

Disclaimer Headings

- Disclaimer of Opinion on the Financial Statements
- Basis for Disclaimer of Opinion
- Critical Audit Matters (omitted)

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Issuer Disclaimer Example

An issuer failed to conduct physical inventory counts and lacks evidence supporting property and equipment costs acquired in prior years.

We were engaged to audit the financial statements... 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, and we do not express an opinion on these financial statements.

\$5.8M

Unverified Inventory

Current year inventory balance that could not be substantiated

\$12.3M

Property Uncertainty

Property and equipment with no supporting cost documentation

Example: Issuer Disclaimer of Opinion - Audit Issues

Disclaimer of Opinion on the Financial Statements

...We were engaged to audit the financial statements of TechFlow Industries and Subsidiaries as of December 31, 20X2, and for the year then ended. The procedures we performed are described in the Basis for Disclaimer of Opinion section of our report. 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. Accordingly, we do not express an opinion on these financial statements.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence concerning the Company's inventory quantities as of December 31, 20X2, because the Company did not take physical inventories. In addition, we were unable to obtain sufficient appropriate audit evidence concerning the cost of property and equipment acquired in prior years. The Company's records do not permit the application of alternative audit procedures to satisfy ourselves as to the existence or valuation of these assets, which represent **\$5.8 million** and **\$12.3 million**, respectively, of the consolidated financial statements.

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 TechFlow Industries in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

1

Standard Unmodified Opinion

We have audited...

Expresses a clear opinion on the financial statements.

Basis for Opinion section details audit procedures performed.

2

Disclaimer of Opinion (Audit Issues)

We were engaged to audit...

States that no opinion can be expressed due to scope limitations.

Basis for Disclaimer of Opinion section explains why sufficient evidence could not be obtained.

Complete Opinion Matrix Summary

This comprehensive matrix shows all possible opinion outcomes based on issue type and materiality.

Materiality	Financial Statement Issues	Audit Issues (Scope)	No Issues
None or Immaterial	Unmodified	Unmodified	Unmodified
Material but Not Pervasive	Qualified	Qualified	N/A
Material and Pervasive	Adverse	Disclaimer	N/A
Lack of Independence	N/A	Disclaimer	N/A

Nonissuer vs. Issuer Report Differences

While the fundamental opinion types (qualified, adverse, disclaimer) are consistent across audit engagements, there are important structural and language differences between nonissuer (AICPA standards) and issuer (PCAOB standards) audit reports. These distinctions reflect the different regulatory environments and reporting requirements.

Opinion Type	Nonissuer Reports (AICPA)	Issuer Reports (PCAOB)
Qualified Opinion (Financial Statement Issues)	<p>Section Headings: "Qualified Opinion on the Financial Statements", "Basis for Qualified Opinion on the Financial Statements"</p> <p>Opinion Language: "except for the effects of the matter described..."</p> <p>Additional Paragraphs: "Basis for Qualified Opinion on the Financial Statements" explains the issue.</p> <p>KAM Inclusion: KAMs (Key Audit Matters) are optional, not standard.</p> <p>Basis Section: Explains the material misstatement affecting specific accounts/disclosures.</p>	<p>Section Headings: "Opinion on the Financial Statements", "Basis for Opinion" (Standard headings)</p> <p>Opinion Language: "except for the effects of the matter described..."</p> <p>Additional Paragraphs: "Basis for Opinion" explains the issue.</p> <p>CAM Inclusion: CAMs typically included for other matters, with explicit statement that the qualified issue is NOT a CAM.</p> <p>Basis Section: Explains the material misstatement, often stating it is not a CAM.</p>
Qualified Opinion (Scope Limitations)	<p>Section Headings: "Qualified Opinion on the Financial Statements", "Basis for Qualified Opinion on the Financial Statements"</p> <p>Opinion Language: "except for the possible effects of the matter described..."</p> <p>Additional Paragraphs: "Basis for Qualified Opinion on the Financial Statements" explains the scope limitation.</p> <p>KAM Inclusion: KAMs (Key Audit Matters) are optional, not standard.</p> <p>Basis Section: Details the specific scope limitation that prevented obtaining sufficient appropriate audit evidence.</p>	<p>Section Headings: "Opinion on the Financial Statements", "Basis for Opinion" (Standard headings)</p> <p>Opinion Language: "except for the possible effects of the matter described..."</p> <p>Additional Paragraphs: "Basis for Opinion" explains the scope limitation.</p> <p>CAM Inclusion: CAMs typically included for other matters, the scope limitation itself is generally not a CAM.</p> <p>Basis Section: Details the scope limitation, often stating it is not a CAM.</p>
Adverse Opinion	<p>Section Headings: "Adverse Opinion on the Financial Statements", "Basis for Adverse Opinion on the Financial Statements"</p> <p>Opinion Language: "do not present fairly... because of the significance of the matter described in the Basis for Adverse Opinion on the Financial Statements section."</p> <p>Additional Paragraphs: "Basis for Adverse Opinion on the Financial Statements" describes the pervasive misstatement.</p> <p>KAM Inclusion: No CAMs are included if an adverse opinion is expressed because the issues are already pervasive</p> <p>Basis Section: Provides full explanation of the pervasive and material misstatement.</p>	<p>Section Headings: "Opinion on the Financial Statements", "Basis for Opinion" (Standard headings)</p> <p>Opinion Language: "do not present fairly... because of the significance of the matter described in the Basis for Opinion section."</p> <p>Additional Paragraphs: "Basis for Opinion" describes the pervasive misstatement.</p> <p>CAM Inclusion: No CAMs are included if an adverse opinion is expressed because the issues are already pervasive.</p> <p>Basis Section: Provides full explanation of the pervasive and material misstatement, and states no CAMs are included.</p>
Disclaimer of Opinion	<p>Section Headings: "Disclaimer of Opinion on the Financial Statements", "Basis for Disclaimer of Opinion on the Financial Statements"</p> <p>Opinion Language: "Because of the significance of the matters described... we do not express an opinion..."</p> <p>Additional Paragraphs: "Basis for Disclaimer of Opinion on the Financial Statements" explains the pervasive scope limitation or lack of independence.</p> <p>KAM Inclusion: Critical Audit Matters section is omitted entirely from the report.</p> <p>Basis Section: Explains the inability to obtain sufficient appropriate audit evidence or lack of independence.</p>	<p>Section Headings: "Disclaimer of Opinion on the Financial Statements", "Basis for Disclaimer of Opinion on the Financial Statements"</p> <p>Opinion Language: "...we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements."</p> <p>Additional Paragraphs: "Basis for Disclaimer of Opinion on the Financial Statements" details the reasons no opinion can be expressed.</p> <p>CAM Inclusion: Critical Audit Matters section is omitted entirely from the report.</p> <p>Basis Section: Explains the pervasive scope limitation or lack of independence.</p>

Key Takeaways



Know the Matrix

Master the relationship between issue type, materiality, and opinion type for both nonissuers and issuers



Understand Language Differences

Qualified opinions use "except for" while adverse opinions state "do not present fairly"



Recognize Heading Changes

Nonissuers change headings for all modified opinions; issuers only change headings for disclaimers



Focus on Pervasiveness

The distinction between material and pervasive determines whether to qualify or disclaim/issue adverse opinion

