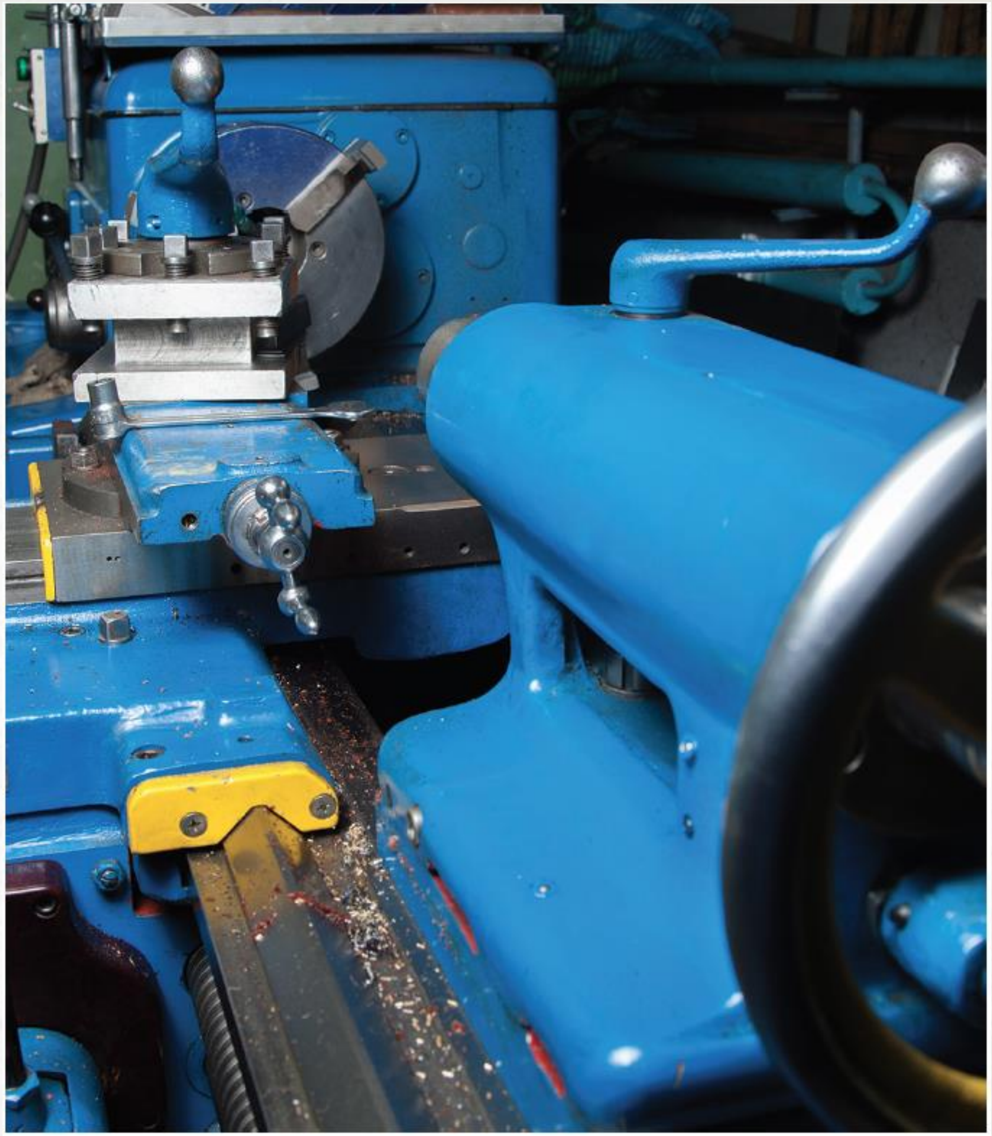
AUDIT REPORTS

CHAPTER 3



CHAPTER 3 LEARNING OBJECTIVES

3-1 Describe the parts of the standard unmodified opinion audit report for nonpublic entities under AICPA auditing standards.

3-2 Specify the conditions required to issue the standard unmodified opinion audit report.

3-3 Understand reporting on financial statements and internal control under PCAOB auditing standards.

3-4 Describe the five circumstances when an emphasis-of-matter explanatory paragraph or nonstandard wording is appropriate to include in an unmodified opinion audit report.

CHAPTER 3 LEARNING OBJECTIVES (CONT.)

3-5 Identify the types of audit reports that can be issued when an unmodified opinion is not justified.

3-6 Explain how materiality affects audit reporting decisions.

3-7 Draft appropriately modified opinion audit reports under a variety of circumstances.

3-8 Determine the appropriate audit report for a given audit situation.

3-9 Understand use of international accounting and auditing standards by U.S. companies.

OBJECTIVE 3-1

Describe the parts of the standard unmodified opinion audit report for nonpublic entities under AICPA auditing standards.

PARTS OF STANDARD UNMODIFIED OPINION AUDIT REPORT

1. Report title
2. Audit report address
3. Introductory paragraph
4. Management’s responsibility
5. Auditor’s responsibility
6. Opinion paragraph
7. Signature and address of CPA firm
8. Audit report date

FIGURE 3-1 Standard Unmodified Opinion Audit Report on Comparative Statements for a U.S. Nonpublic Company—AICPA Auditing Standards

ANDERSON and ZINDER, P.C.
Certified Public Accountants
Park Plaza East – Suite 100
Denver, Colorado 80110
303/359-0800

Report Title	**INDEPENDENT AUDITOR'S REPORT**
Audit Report Address	To the Board of Directors and Stockholders General Ring Corporation
Introductory Paragraph	We have audited the accompanying balance sheets of General Ring Corporation as of December 31, 2016 and 2015, 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.
Management's Responsibility	**Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
Auditor's Responsibility	**Auditor's Responsibility** Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.
Scope paragraph	An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Auditor's Opinion	**Opinion** In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of General Ring Corporation as of December 31, 2016 and 2015, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.
Signature and Address of CPA Firm	*Anderson and Zinder, P.C., CPAs* Denver, Colorado
Audit Report Date (Date Auditor Has Obtained Sufficient Appropriate Evidence	February 15, 2017

OBJECTIVE 3-2
Specify the conditions required to issue the standard unmodified opinion audit report.

CONDITIONS FOR STANDARD UNMODIFIED OPINION AUDIT REPORT

1. Includes all financial statements
2. Sufficient appropriate evidence accumulated
3. Financial statements are presented fairly in accordance with GAAP or other framework
4. No circumstances requiring the addition of an emphasis-of-matter paragraph or modification

FIGURE 3-2 Categories of Audit Reports

Standard Unmodified Opinion	The conditions stated above have been met.
Unmodified Opinion with Emphasis-of-matter Explanatory Paragraph or Nonstandard Wording	A complete audit took place with satisfactory results and financial statements are fairly presented, but the auditor believes that it is important or is required to provide additional information.
Qualified	The auditor concludes that the overall financial statements are fairly presented, but the scope of the audit has been materially restricted or applicable accounting standards were not followed in preparing the financial statements.
Adverse	The auditor concludes that the financial statements are not fairly presented.
Disclaimer	He or she is unable to form an opinion as to whether the financial statements are fairly presented, or he or she is not independent.

OBJECTIVE 3-3
Understand reporting on financial statements and internal control under PCAOB auditing standards.

STANDARD AUDIT REPORT AND REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING UNDER PCAOB AUDITING STANDARDS

Two significant audit reporting differences for public companies.

1. The standard unmodified opinion audit report is different. The differences are detailed in Figure 3-3.

2. Auditors of larger public companies must also issue an opinion on internal control over financial reporting.

FIGURE 3-3 Standard Unmodified Opinion Audit Report on Comparative Statements for a U.S. Public Company—PCAOB Auditing Standards

Introductory Paragraph	We have audited the accompanying balance sheets of Westbrook Company, Inc., as of December 31, 2016 and 2015, and the related statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.
Scope Paragraph	We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
Opinion Paragraph	In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westbrook Company, Inc., as of December 31, 2016 and 2015, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

STANDARD AUDIT REPORT AND REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING UNDER PCAOB AUDITING STANDARDS (CONT.)

Section 404(b) of the Sarbanes-Oxley Act requires the auditor of a public company to report on the effectiveness of internal control over financial reporting.

PCAOB Auditing Standard 5 requires the audit of internal control to be integrated with the audit of financial statements.

However, the auditor may issue separate reports, such as the separate report on internal control over financial reporting shown in Figure 3-4, or a combined report.

Separate reporting is more common.

FIGURE 3-4 Separate Report on Internal Control over Financial Reporting for a U.S. Public Company

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Westbrook Company, Inc.:

Introductory Paragraph

We have audited Westbrook Company, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Westbrook Company, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

Scope Paragraph

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition Paragraph

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations Paragraph

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion Paragraph

In our opinion, Westbrook Company, Inc., maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

Cross Reference Paragraph

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Westbrook Company, Inc., as of December 31, 2016 and 2015, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016, of Westbrook Company, Inc., and our report dated February 11, 2017, expressed an unqualified opinion thereon.

OBJECTIVE 3-4

Describe the five circumstances when an emphasis-of-matter explanatory paragraph or nonstandard wording is appropriate to include in an unmodified opinion audit report.

UNMODIFIED OPINION AUDIT REPORT WITH EMPHASIS-OF-MATTER EXPLANATORY PARAGRAPH OR NONSTANDARD REPORT WORDING

The unmodified opinion audit report with emphasis-of-matter paragraph or nonstandard report wording

- Meets the criteria of a complete audit with financial statements that are fairly presented
- But, auditor wants to draw attention to certain matters or is required to provide additional information.

UNMODIFIED OPINION AUDIT REPORT WITH EMPHASIS-OF-MATTER EXPLANATORY PARAGRAPH OR NONSTANDARD REPORT WORDING

The most important causes of the addition of an emphasis-of-matter paragraph or a modification of wording under both AICPA and PCAOB audit standards:

- Lack of consistent application of generally accepted accounting principles as illustrated in Figure 3-5
- Substantial doubt about going concern as illustrated in Figure 3-6
- Auditor agrees with departure from promulgated accounting principles
- Emphasis of other matters
- Reports involving other auditors as illustrated in Figure 3-7

FIGURE 3-5 Explanatory Paragraph Because of Change in Accounting Principle

INDEPENDENT AUDITOR'S REPORT

(Same paragraphs as the standard report)

As discussed in Note 8 to the financial statements, the Company changed its method of computing depreciation in 2016. Our opinion is not modified with respect to this matter.

Added Explanatory Paragraph

FIGURE 3-6 Explanatory Paragraph Because of Substantial Doubt About Going Concern

Added Explanatory Paragraph

INDEPENDENT AUDITOR'S REPORT

(Same paragraphs as the standard report)

The accompanying financial statements have been prepared assuming that Fairfax Company will continue as a going concern. As discussed in Note 11 to the financial statements, Fairfax Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about the company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

UNMODIFIED OPINION AUDIT REPORT WITH EMPHASIS-OF-MATTER EXPLANATORY PARAGRAPH OR NONSTANDARD REPORT WORDING (CONT.)

Examples of emphasis of other matters include the following:

- The existence of material related party transactions
- Important events occurring subsequent to the balance sheet date
- The description of accounting matters affecting the comparability of the financial statements with those of the prior year
- Material uncertainties disclosed in the footnotes such as unusually important litigation or regulatory action
- A major catastrophe that has had or continues to have a significant effect on the entity's financial position

EMPHASIS OF A MATTER

Under certain circumstances, the CPA may want to emphasize specific matters regarding the financial statements, even though the CPA intends to express an unqualified opinion.

- Subsequent Events
- Related Party Transactions
- Financial Statement Comparability
- Major catastrophe
- Material Uncertainties

FIGURE 3-7 **Unmodified Opinion Shared Report—AICPA Auditing Standards**

INDEPENDENT AUDITOR'S REPORT

(Same introductory and management's responsibility paragraphs as the standard report)

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Stewart Pane and Lighting, a wholly-owned subsidiary, which statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Stewart Pane and Lighting, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

(Same scope paragraph under auditor's responsibility as the standard report)

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

Opinion

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Washington Felp Corporation as of December 31, 2016 and 2015, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OBJECTIVE 3-5

Identify the types of audit reports that can be issued when an unmodified opinion is not justified.

MODIFICATIONS TO THE OPINION IN THE AUDIT REPORT

Three conditions requiring a modification to the audit opinion:

1. The scope of the audit has been restricted (scope limitation).
2. The financial statements have not been prepared in accordance with generally accepted accounting principles (GAAP departure).
3. The auditor is not independent.

MODIFICATIONS TO THE OPINION IN THE AUDIT REPORT (CONT.)

Three types of reports may be appropriate:

- Qualified opinion—Can be used for a scope limitation or departure from GAAP, but only when the auditor concludes that the overall financial statements are fairly stated.
- Adverse opinion—Used when financial statements are so materially misstated or misleading that they do not present fairly the financial position of the entity. This is uncommon and is rarely used.
- Disclaimer of opinion—Used when the auditor cannot form an opinion on the financial statement due to a severe scope limitation, lack of knowledge on the part of the auditor, or lack of independence.

OBJECTIVE 3-6
Explain how materiality affects audit reporting decisions.

MATERIALITY

A common definition of materiality as it applies to accounting and auditing is:

A misstatement in the financial statements can be considered material if knowledge of the misstatement will affect a decision of a reasonable user of the statements.

Three levels of materiality are used for determining the type of opinion to issue:

- **Amounts are immaterial: A standard unmodified opinion audit report is appropriate.**
- **Amounts are material but do not overshadow the financial statements as a whole: A qualified opinion using "except for" is appropriate.**
- **Amounts are so material or so pervasive that overall fairness of the statements is in question: A disclaimer or adverse opinion is appropriate.**

TABLE 3-1 Relationship of Materiality to Type of Opinion

Materiality Level	Significance in Terms of Reasonable Users' Decisions	Type of Opinion
Immaterial	Users' decisions are unlikely to be affected.	Unmodified
Material	Users' decisions are likely to be affected only if the information in question is important to the specific decisions being made. The effect of the misstatement(s) is not pervasive to the financial statements and the overall financial statements are presented fairly.	Qualified
Highly material	Most or all users' decisions based on the financial statements are likely to be significantly affected. The effect of the misstatement(s) is pervasive to the financial statements.	Disclaimer or Adverse

MATERIALITY (CONT.)

Materiality Decisions

Decisions regarding materiality in specific audit situations involves judgment on the part of the auditor. These decisions are based on the following:

- Materiality decisions—Non-GAAP condition
- Dollar amounts compared with a benchmark
- Measurability
- Nature of the item
- Materiality decisions—Scope limitations conditions

OBJECTIVE 3-7

Draft appropriately modified opinion audit reports under a variety of circumstances.

DISCUSSION OF CONDITIONS REQUIRING A MODIFICATION OF OPINION

Modification of the audit opinion can arise from several different circumstances:

- **Auditor's Scope Has Been Restricted—**
  - **Caused by the client or by conditions beyond the control of either the client or the auditor.**
  - **A scope restriction can lead to a qualified report (as illustrated in Figure 3-8) or a disclaimer of opinion (as illustrated in Figure 3-9), depending on the facts in the situation.**
- **Statements Are Not in Conformity with GAAP—**
  - **A departure from GAAP may result in a qualified report (as illustrated in Figure 3-10) or a disclaimer of opinion (as illustrated in Figure 3-11) depending on the facts in the situation.**

FIGURE 3-8

Qualified Report Due to Scope Restriction—AICPA Auditing Standards

INDEPENDENT AUDITOR'S REPORT

(Same introductory paragraph, management's responsibility paragraph, and first two auditor's responsibility paragraphs as the standard report)

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

Basis for Qualified Opinion

Laughlin Corporation's investment in XYZ Company, a foreign affiliate acquired during the year and accounted for under the equity method, is carried at $2,475,000 on the balance sheet at December 31, 2016, and Laughlin's share of XYZ Company's net income of $365,000 is included in Laughlin Corporation's net income for the year then ended. We were unable to obtain sufficient appropriate evidence about the carrying amount of Laughlin Corporation's investment in XYZ Company as of December 31, 2016, and Laughlin's share of XYZ Company's net income for the year then ended because we were denied access to the financial information, management, and the auditors of XYZ Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Laughlin Corporation as of December 31, 2016, 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.

FIGURE 3-9

Disclaimer of Opinion Due to Scope Restriction—AICPA Auditing Standards

INDEPENDENT AUDITOR'S REPORT

We were engaged to audit . . . *(remainder is the same as the introductory paragraph in the standard report)*

(Same management's responsibility paragraph as the standard report)

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

(Same wording as the Basis for Qualified Opinion paragraph in Figure 3-8)

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

FIGURE 3-10 Qualified Opinion Report Due to Non-GAAP—AICPA Auditing Standards

INDEPENDENT AUDITOR'S REPORT

(Same introductory, management's responsibility, and auditor's responsibility paragraphs as the standard report. Only the last sentence of the auditor's responsibility paragraph would be modified as shown next..)

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

Basis for Qualified Opinion

The Company has excluded from property and debt in the accompanying balance sheet certain lease obligations that, in our opinion, should be capitalized to conform with accounting principles generally accepted in the United States of America. If these lease obligations were capitalized, property would be increased by $4,600,000, long-term debt by $4,200,000, and retained earnings by $400,000 as of December 31, 2016, and net income and earnings per share would be increased by $400,000 and $1.75, respectively, for the year then ended.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Ajax Company as of December 31, 2016, 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.

FIGURE 3-11 **Adverse Opinion Due to Non-GAAP—AICPA Auditing Standards**

INDEPENDENT AUDITOR'S REPORT

(Same introductory, management's responsibility, and auditor's responsibility paragraphs as the standard report. Only the last sentence of the auditor's responsibility paragraph wold be modified as shown next.)

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

Basis for Adverse Opinion

(Same wording as the Basis for Qualified Opinion paragraph in Figure 3-10)

Adverse Opinion

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion paragraph, the financial statements referred to above do not present fairly the financial position of Ajax Company as of December 31, 2016, or the results of its operations and its cash flows for the year then ended.

DISCUSSION OF CONDITIONS REQUIRING A MODIFICATION OF OPINION (CONT.)

Auditor Is Not Independent

If the auditor is not independent as specified by the AICPA Code of Professional Conduct, a disclaimer of opinion is required even though necessary audit procedures were performed. The wording in Figure 3-12 is recommended in this situation.

FIGURE 3-12 Disclaimer Due to Lack of Independence

We are not independent with respect to Home Decors.com, Inc., and the accompanying balance sheet as of December 31, 2016, and the related statements of income, retained earnings, and cash flows for the year then ended were not audited by us. Accordingly, we do not express an opinion on them.

OBJECTIVE 3-8

Determine the appropriate audit report for a given audit situation.

AUDITOR'S DECISION PROCESS FOR AUDIT REPORTS

- Determine whether any condition exists requiring a departure from a standard unmodified opinion report.
- Decide the materiality for each condition.
- Decide the appropriate type of report for the condition, given the materiality level.
- Write the audit report.
- Determine if more than one condition requiring a departure or modification exists.
- Table 3-2 summarizes the conditions requiring a departure from a standard unmodified opinion report.

TABLE 3-2 Audit Report for Each Condition Requiring a Departure from a Standard Unmodified Opinion Report at Different Levels of Materiality

Condition Requiring an Unmodified Opinion Report with Nonstandard Wording or Explanatory Paragraph	Level of Materiality: Immaterial	Level of Materiality: Material
Accounting principles not consistently applied*	Standard unmodified opinion	Unmodified opinion with explanatory paragraph
Substantial doubt about going concern†	Standard unmodified opinion	Unmodified opinion with explanatory paragraph
Justified departure from GAAP or other accounting principle	Standard unmodified opinion	Unmodified opinion with explanatory paragraph
Emphasis of other matters	Standard unmodified opinion	Unmodified opinion with explanatory paragraph
Use of another auditor	Standard unmodified opinion	Unmodified opinion with revised wording in other report paragraphs

Condition Requiring a Departure from Unmodified Opinion Audit Report	Level of Materiality: Immaterial	Material, But Not Pervasive to the Financial Statements as a Whole	So Material That Overall Fairness Is in Question
Scope restricted by client or other conditions	Standard unmodified opinion	Additional paragraph, and qualified opinion (except for)	Disclaimer
Financial statements not prepared in accordance with GAAP‡	Standard unmodified opinion	Additional paragraph and qualified opinion (except for)	Adverse
Auditor is not independent		Disclaimer, regardless of materiality	

* If the auditor does not concur with the appropriateness of the change, the condition is considered a violation of GAAP.
† The auditor has the option of issuing a disclaimer of opinion.
‡ If the auditor can demonstrate that GAAP would be misleading, an unmodified opinion audit report with an explanatory paragraph is appropriate.

OBJECTIVE 3-9
Understand use of international accounting and auditing standards by U.S. companies.

INTERNATIONAL ACCOUNTING AND AUDITING STANDARDS

U.S. public companies are required to prepare financial statements that are filed with the Securities and Exchange Commission (SEC) in accordance with U.S. GAAP.

An auditor may be engaged to report on financial statements prepared in accordance with IFRS. In that situation, the auditor refers to those standards rather than GAAP in the audit report as follows:

> In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carlos Incorporated as of December 31, 2016 and 2015, and the results of its operations, comprehensive income, changes in equity, and its cash flows for the years then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.