

SA 705 – Modifications to Opinion in Independent Auditor's Report

<p>Objective of Auditor</p> <p>To express appropriately modified opinion when -</p> <ul style="list-style-type: none"> Auditor concludes, FS are not free from MM Auditor is unable to obtain SAAE to conclude that FS are free from MM <p>Decision regarding which type of modified opinion is appropriate depends upon -</p> <ul style="list-style-type: none"> Nature of matter giving rise to modification Auditor's judgement about pervasiveness of effects of matter on FS 	<p>Definition of Pervasive</p> <p>A term used to describe effects on FS of misstatements or possible effects on FS of misstatements that are undetected due to inability to obtain SAAE. Pervasive effects on FS are those that, in auditor's judgement -</p> <ul style="list-style-type: none"> Are not confined to specific a/c of FS If so confined, represent a substantial proportion of FS For disclosures, are fundamental to users' understanding of FS
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Types of Modifications/Modified Opinion

Qualified Opinion	<ul style="list-style-type: none"> When auditor obtains SAAE to conclude that misstatements are material, but not pervasive to FS or Auditor is unable to obtain SAAE, but he concludes that possible effects on FS of undetected misstatements could be material but not pervasive
Adverse Opinion	Auditor shall express adverse opinion when he obtained SAAE , concludes that misstatements are both material and pervasive to FS
Disclaimer of Opinion	Auditor shall disclaim an opinion when he is unable to obtain SAAE and he concludes that possible effects on FS of undetected misstatements could be both material & pervasive

Nature of Matter Giving Rise to Modification	Auditor's Judgement about Pervasiveness of Effects on FS	
	Material but not Pervasive	Material and Pervasive
FS are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain SAAE	Qualified opinion	Disclaimer of opinion

Inability to Obtain SAAE Due to Mgt Imposed Limitation after Auditor Has Accepted Engagement

- If, after accepting engagement, Mgt has imposed limitation on scope of audit, auditor shall **request Mgt to remove** limitation
- If **Mgt refuses**, auditor shall **communicate to TCWG** & determine if it is possible to **perform alternative procedures** to obtain SAAE
- If auditor concludes that possible effects of undetected misstatements could be **material but not pervasive**, he shall **qualify opinion** or
- If auditor concludes that possible effects of undetected misstatements could be **both material & pervasive**, he shall -
 - Withdraw, if possible**, under L&R
 - If withdrawal is **not possible** before issuing report, **disclaim opinion** on FS
- If auditor withdraw, **before withdrawing, communicate to TCWG** any **misstatement identified** during audit that would have given rise to modification of opinion

<p>Form & Content of Report When Opinion is Modified</p> <p>Auditor's Opinion When auditor modifies opinion, he shall use heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," for Opinion section</p> <p>Qualified Opinion</p> <ul style="list-style-type: none"> Auditor shall state that, "except for effects of matter described in Basis for Qualified Opinion" When modification arises from inability to obtain SAAE, auditor shall use corresponding phrase "except for possible effects of matter(s) ..." for modified opinion <p>Adverse Opinion When auditor expresses adverse opinion, auditor shall state that, "Because of significance of matters described in Basis for Adverse Opinion -</p> <ul style="list-style-type: none"> When fair presentation framework - FS do not present fairly (or give true & fair view of) When compliance framework - FS are not prepared, in all material respects <p>Disclaimer of Opinion When auditor disclaims opinion, auditor shall -</p> <ul style="list-style-type: none"> State that auditor does not express opinion State that auditor is not able to obtain SAAE to provide basis for opinion Amend statement which indicates that FS have been audited, to state that auditor was engaged to audit FS 	<p>Basis for Opinion When auditor modifies opinion, auditor shall -</p> <ul style="list-style-type: none"> Amend heading "Basis for Opinion" to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion" Include a description of matter giving rise to modification Auditor shall also include quantification of financial effects of misstatement. If not practicable, auditor shall so state <p>If there is MM of disclosures, auditor shall include explanation of how disclosures are misstated. If there is MM for non-disclosure of info required to be disclosed, auditor shall -</p> <ul style="list-style-type: none"> Discuss non-disclosure with TCWG Describe in Basis for Opinion section, nature of omitted info Unless prohibited by law, include omitted disclosures, if it is practicable & auditor has obtained SAAE for omitted info <p>If modification results from inability to obtain SAAE, auditor shall include reasons for that inability. When auditor disclaims opinion, report shall not include -</p> <ul style="list-style-type: none"> Statement about whether SAAE is obtained Reference to auditor's responsibilities section Even if auditor has expressed adverse or disclaimer of opinion, he shall describe other matters of which he is aware that would have required modification to opinion & its effects
<p>Description of Auditor's Responsibilities When Auditor Disclaims Opinion - to include only -</p> <ul style="list-style-type: none"> Statement that auditor's responsibility is to conduct audit of FS as per SAs Statement that auditor was not able to obtain SAAE to provide basis for opinion Statement for independence & other ethical responsibilities 	
<p>Communication with TCWG When auditor expects to modify opinion, auditor shall communicate with TCWG, circumstances that led to expected modification & wording of modification</p>	