

MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT: CAS 705

Circumstances When a Modification to the Auditor's Opinion Is Required

- Modify the opinion in the auditor's report when:
 1. F/S is **materially misstated**; or
 2. The auditor is **unable to obtain sufficient appropriate audit evidence** to conclude that the F/S is free from material misstatement

Determining the Type of Modification to the Auditor's Opinion

Qualified Opinion

- Express a qualified opinion when:
 1. Misstatements, individually or in aggregate, are **material**, but **not pervasive**, to the F/S; or
 2. The auditor is **unable to obtain sufficient appropriate audit evidence** to base the opinion, but the auditor concludes that the possible undetected misstatements could be **material** but **not pervasive**

Adverse Opinion

- Express an adverse opinion when the auditor, having **obtained sufficient appropriate audit evidence**, concludes that misstatements, individually or in aggregate, are both **material and pervasive**

Disclaimer of Opinion

- Disclaim an opinion when the auditor is **unable to obtain sufficient appropriate audit evidence** on which to base the opinion, and the auditor concludes that the possible effects of undetected misstatements could be both **material and pervasive**

Summary of Modified Opinions

Nature of Matter Giving Rise to the Modification	Material but Not Pervasive	Material and Pervasive
F/s are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management Imposed Limitation after the Auditor Has Accepted the Engagement

- If **after accepting the engagement**, management imposes a **limitation on the scope of the audit** that is likely to result in a **qualified opinion or to disclaimer of an opinion**, **request management to remove the limitation**
- If management refuses to remove the limitation, communicate the matter to **those charged with governance** and determine if it is possible to **perform alternative procedures** to obtain sufficient appropriate audit evidence
- If the auditor is unable to obtain sufficient appropriate audit evidence:
 1. If the possible effects of undetected misstatements could be **material but not pervasive**, **qualify the opinion**; or

2. If the possible effects of undetected misstatements could be both **material and pervasive**; either
 - a) **Withdraw from the audit**, where practicable and possible under applicable law; or
 - b) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, **disclaim an opinion**
- If the auditor withdraws, before withdrawing, communicate to those charged with governance misstatements identified during the audit that would have led to a modification of the opinion

Form and Content of the Auditor's Report When the Opinion Is Modified

Basis for Modification Paragraph

- When the auditor modifies the opinion on the F/S, include a “**Basis for Qualified/Adverse/Disclaimer of Opinion**” paragraph (immediately before the opinion paragraph) in the auditor's report that provides a description of the matter giving rise to the modification
- If there is a material misstatement that relates to specific amounts in the F/S, **describe and quantify** the financial effects of the misstatement in the basis for modification paragraph, unless it is impracticable
 - If it is impracticable, must state so in the basis for modification paragraph
- If there is a material misstatement that relates to the **non-disclosure of information** required to be disclosed:
 - Discuss the non-disclosure with **those charged with governance**
 - Describe in the **basis for modification paragraph** the nature of the omitted information
 - Unless prohibited by law or regulation, **include the omitted disclosures**
- If the modification results from an **inability to obtain sufficient appropriate audit evidence**, the basis for modification paragraph should include the reasons for that inability
- Even if the auditor has expressed an **adverse opinion or disclaimed an opinion**, describe in the basis for modification paragraph, matters that the auditor is aware that would have required a modification to the opinion, and the effects

Opinion Paragraph

- When the auditor modifies the audit opinion, use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion"
- **When the auditor expresses a qualified opinion due to a material misstatement in the F/S**, state in the opinion paragraph that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion paragraph the F/S present fairly, in all material respects, in accordance with the applicable financial reporting framework
- **When the auditor expresses an adverse opinion** state in the **opinion paragraph** that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion paragraph, the F/S do not present fairly in accordance with the applicable financial reporting framework
- **When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence**, state in the opinion paragraph that: because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion; and, accordingly, the auditor does not express an opinion on the F/S
- **When the auditor expresses a qualified or adverse opinion**, amend the description of the auditor's responsibility to state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's modified audit opinion

- When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence
 - **amend the introductory paragraph** of the auditor's report to state that the auditor was engaged to audit the F/S
 - **amend the description of the auditor's responsibility and the description of the scope of the audit** to state only the following: "Our responsibility is to express an opinion on the F/S based on conducting the audit in accordance with Canadian generally accepted auditing standards. Because of the matter(s) described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion"
- When the auditor expects to modify the opinion in the auditor's report, communicate with those charged with governance