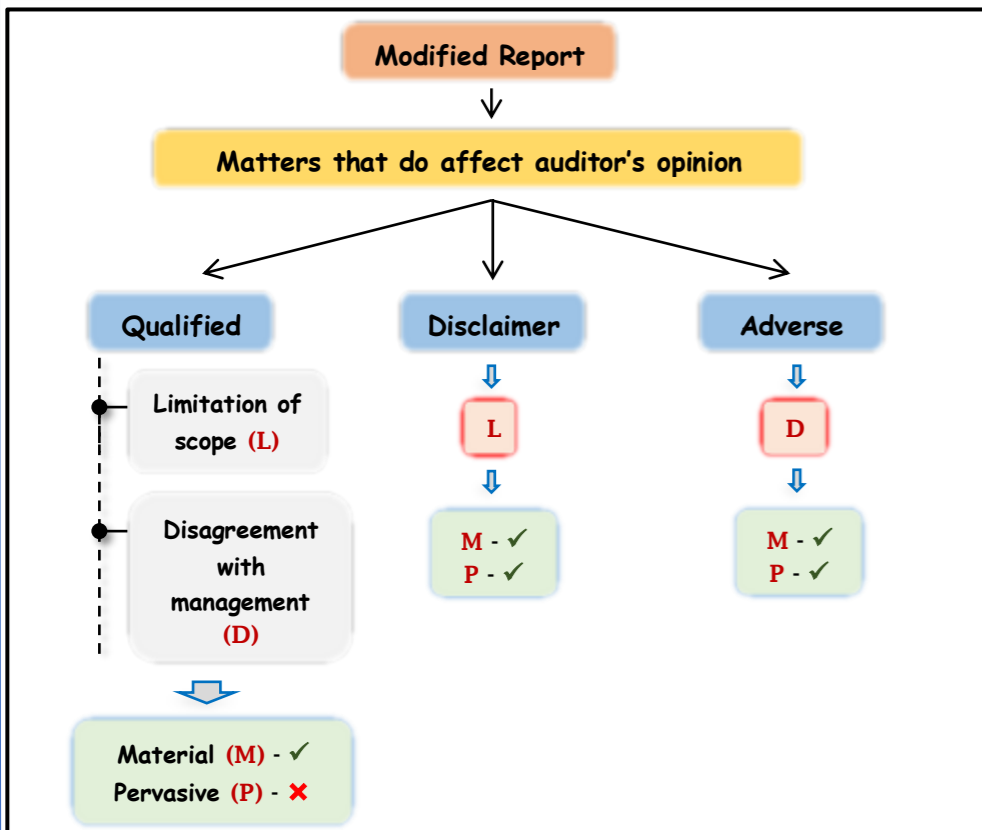


SA 705 Modification to the opinion in the independent auditor's report



Pervasive: Pervasive is a term used in the context of misstatements, to describe the effects on the FS of misstatements or the possible effects on FS of misstatements.

- Pervasive effects on the FS are those that in the auditor's judgment:
- Are not confined to specific elements, accounts or items of FS;
 - If so confined, represent/could represent a substantial proportion of FS; or
 - In relation to disclosures, are fundamental to users' understanding of FS.

Circumstances when a modification is required

- Auditor concludes that, based on AE obtained, FS as a whole are not free from MM; or
- Auditor is unable to obtain SAAE to conclude that the FS as a whole are free from MM.

Type of Modification

Qualified Opinion: Auditor shall express a qualified opinion when:

- Auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the FS; or

- Auditor is unable to obtain SAAE on which to base the opinion, but auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion: Auditor shall express an adverse opinion when the auditor, having obtained SAAE, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the FS.

Disclaimer of Opinion: When auditor is unable to obtain SAAE on which to base the opinion, and concludes that the possible effects on the FS of undetected misstatements, if any, could be both material and pervasive.

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion

Not to include an unmodified opinion w.r.t same FRF on a single FS or one or more specific elements, accounts or items of a FS. (Contradict)

Special consideration needed for expressing Qualified Opinion

State that, in auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section:

- When reporting in accordance with fair presentation framework, the accompanying FS present fairly, in all material respects (or give a true and fair view of) [...] in accordance with [the applicable FRF]; or
- When reporting in accordance with a compliance framework, the accompanying FS have been prepared, in all material respects, in accordance with [the applicable FRF].

When the modification arises from an inability to obtain SAAE, he shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion.

Unless required by L/R, when auditor disclaims an opinion on FS, auditor's report shall not include a Key Audit Matters section in accordance with SA 701.

Special consideration needed for expressing Adverse Opinion

When auditor expresses an adverse opinion, auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion section:

- When reporting in accordance with a fair presentation framework, the accompanying FS don't present fairly (or give a true and fair view of) [...] in accordance with [the applicable FRF]; or
- When reporting in accordance with a compliance framework, the accompanying FS have not been prepared, in all material respects, in accordance with [the applicable FRF].

Special consideration needed for expressing Disclaimer of Opinion

When auditor disclaims an opinion due to an inability to obtain SAAE, auditor shall:

- State that auditor doesn't express an opinion on accompanying FS;
- State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, auditor has not been able to obtain SAAE to provide a basis for an audit opinion on the FS; and

Amend the statement required in SA 700, which indicates that the FS have been audited, to state that auditor was engaged to audit the FS.

Consequence of an Inability to Obtain SAAE Due to a Management-Imposed Limitation after Auditor Has Accepted the Engagement

He considers likely to result in the need to express a qualified opinion or to disclaim an opinion - request that management remove the limitation.

If management refuses to remove limitation - Communicate matter to TCWG, unless all of TCWG are involved in managing the entity, and determine whether it is possible to perform alternative procedures to obtain SAAE.

If auditor is unable to obtain SAAE, he shall determine the implications as follows:

- If auditor concludes that possible effects on the FS of undetected misstatements, if any, could be material but not pervasive, he shall qualify the opinion; or
- If auditor concludes that the possible effects on the FS of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, he shall:
 - Withdraw from audit, where practicable and possible under applicable L/R; or
 - If withdrawal from audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the FS.

If auditor decides to withdraw

When auditor decides to withdraw before withdrawing, he shall communicate to TCWG any matters regarding misstatements identified during the audit that would have given rise to modification of opinion

Where Auditors' withdrawal is not permitted:

Listing agreement and SEBI of India's directive on the resignation of auditor doesn't permit withdrawing from the engagement without issuing the audit / review report.

Situation	Then Auditor shall before such resignation
If auditor resigns within 45 days from the end of a quarter of a FY	Issue the limited review/ audit report for such quarter.
If auditor resigns after 45 days from the end of a quarter of a FY	Issue the limited review/ audit report for such quarter as well as the next quarter.
If auditor has signed the limited review/ audit report for the first 3 quarters of a FY	Issue the limited review/ audit report for the last quarter of such financial year as well as the audit report for such FY.

ICAI announcement on the Resignation of Auditor: ICAI has made an announcement that auditor of an unlisted company shall not mention "professional pre-occupation" as a reason for the resignation. He shall mention the reasons clearly for the resignation in the resignation letter issued to Company.

Basis for Modification of Opinion (Qualified/Disclaimer /Adverse)

- (a) Amend the heading "Basis for Opinion" to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and
- (b) Within this section, include a description of matter giving rise to the modification.

If there is a MM of the FS that relates to	Include in the Basis for Opinion section
Specific amounts in the FS	Description and quantification of financial effects of the misstatement, unless impracticable. Not practicable to quantify - he shall so state in this section.
Relates to narrative disclosures	Explanation of how disclosures are misstated.
To required to be disclosed	(a) Discuss non-disclosure with TCWG; (b) Describe in Basis for Opinion section nature of omitted info.; and (c) Unless prohibited by L/R, include omitted disclosures, provided it is practicable to do so and auditor has obtained SAAE about omitted info.

When auditor disclaim opinion on FS, audit report shall not include below elements required under SA 700

- (a) A reference to section of the auditor's report where auditor's responsibilities are described; and
- (b) A statement about whether AE obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Description of Auditor's Responsibilities for Audit of FS When the Auditor Disclaims an Opinion on FS

- Amend description of auditor's responsibilities required by SA 700 to include only the following:
- (a) A statement that auditor's responsibility is to conduct an audit of the entity's FS in accordance with SA and to issue an auditor's report;
 - (b) A statement that, however, because of matter(s) described in the Basis for Disclaimer of Opinion section, auditor was not able to obtain SAAE to provide a basis for an audit opinion on the FS; and
 - (c) Statement about auditor independence and other ethical responsibilities required in SA 700.

SA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in Independent Auditor's Report

Emphasis of Matter paragraph

A paragraph included in auditor's report that refers to a matter **appropriately presented or disclosed in FS** that, in auditor's judgment, is of such importance that it is fundamental to users understanding of the FS.

Ex: Circumstances where auditor may consider it necessary to include an EOMP are:

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- A significant subsequent event that occurs between the date of FS and date of the auditor's report.
- Early application (where permitted) of a new accounting standard that has a material effect on the FS.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

When to give EOMP in Auditor's Report?

If auditor considers it necessary to draw users' attention to a matter presented or disclosed in FS that, in his judgment, is of such importance that it is fundamental to users' understanding of FS, he shall include an EOMP provided:

- (a) Auditor would **not be required to modify the opinion** in accordance with SA 705 as a result of the matter; and
 - (b) When SA 701 applies, matter has not been determined to be a **key audit matter** to be communicated in the auditor's report.
- Ex- These circumstances may include:
- When a FRF prescribed by L/R would be unacceptable but for the fact that it is prescribed by L/R.
 - To alert users that FS are prepared in accordance with a special purpose framework.
 - When facts become known to auditor after date of auditor's report and auditor provides a new or amended auditor's report (i.e., subsequent events).

When auditor includes EOMP in audit report, he shall

- (a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes term "Emphasis of Matter";
- (b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the FS. The paragraph shall refer only to information presented or disclosed in FS; and
- (c) Indicate that auditor's opinion is not modified in respect of the matter emphasized.

Other Matter paragraph

A paragraph included in auditor's report that refers to matters **other than those presented or disclosed in FS** that, in auditor's judgment, is relevant to users' understanding of the audit, auditor's responsibilities or auditor's report.

Ex- Branch is audited by another auditor

When to issue OMP in Auditor's Report?

If auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the FS that, in auditor's judgment, is relevant to users' understanding of audit, auditor's responsibilities or auditor's report, auditor shall include an Other Matter paragraph in the auditor's report, provided:

- (A) This is **not prohibited** by L/R; and
- (B) When SA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report.

When auditor includes an OMP in auditor's report, he shall include the paragraph within a separate section with heading "Other Matter," or other appropriate heading.