

SA 705 – Modifications to the Opinion in the Independent Auditor’s Report

Objective

Express clearly an appropriately modified opinion on the FSs that is necessary when

- SAAE obtained, that the FSs as a whole are not free from material misstatement
- auditor is unable to obtain SAAE to conclude that the FSs as a whole are free from material misstatement.

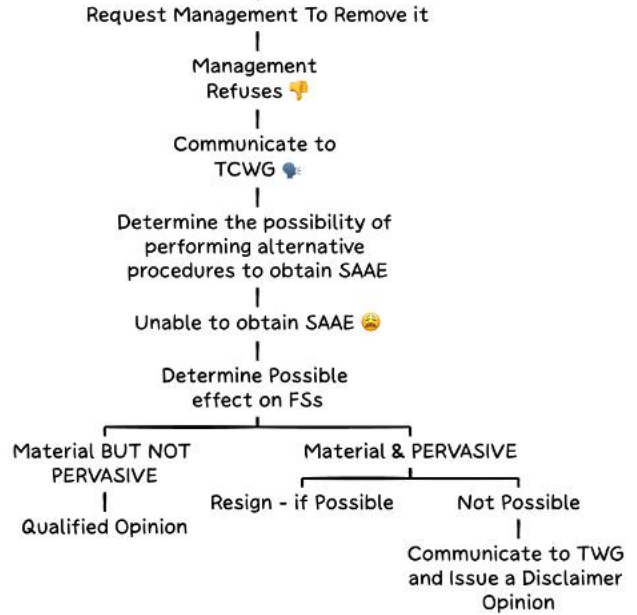
Disclaimer of Opinion – Special Point

The auditor shall disclaim an opinion when,

- in extremely rare circumstances involving multiple uncertainties,
- the auditor concludes that,
- notwithstanding having obtained SAAE regarding each of the individual uncertainties,
- it is not possible to form an opinion on the FSs
 - due to potential interaction of the uncertainties and
 - their possible cumulative effect on the FSs

Audit Baba & Co. gave a Disclaimer of Opinion for FutureX Ltd. as multiple uncertainties—litigation, receivables, and asset valuation—though supported by SAAE individually, had unpredictable combined effects, making it impossible to conclude on the financial statements.

Auditor Accepted the Engagement, Management Imposes certain Limitations on scope of audit.



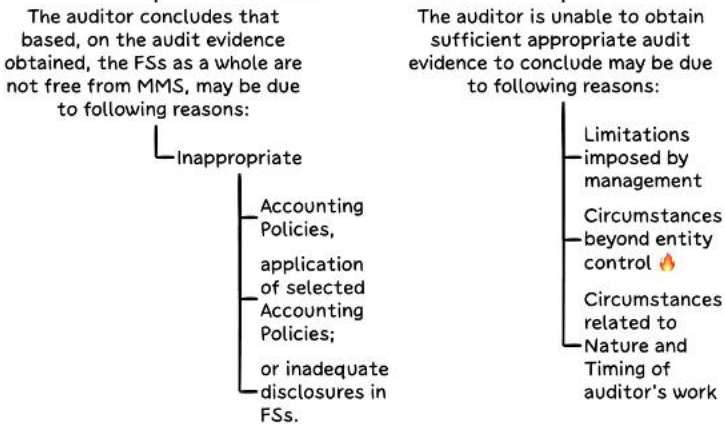
Form and Content of the Auditor’s Report when the Opinion is modified

Use heading “Qualified Opinion,” “Adverse Opinion,” or “Disclaimer of Opinion” when modifying the audit opinion.

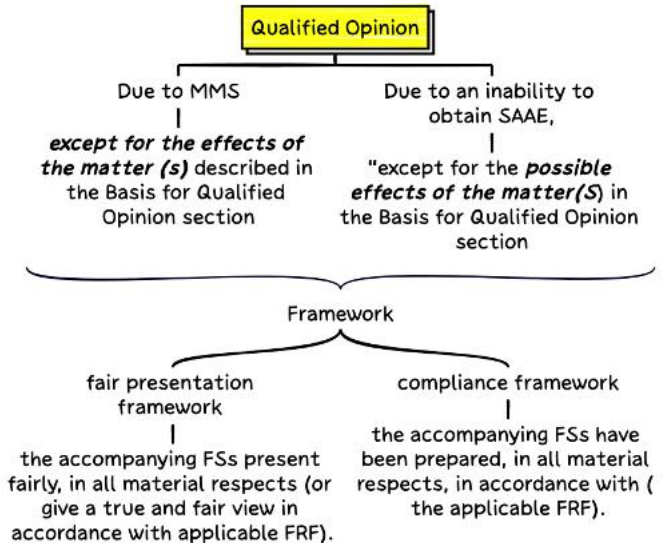
When opinion is modified, auditor shall:

- Amend “Basis for Opinion” heading to:
 - “Basis for Qualified Opinion,”
 - “Basis for Adverse Opinion,” or
 - “Basis for Disclaimer of Opinion,” as appropriate.
- Include description of the matter causing the modification in this section.

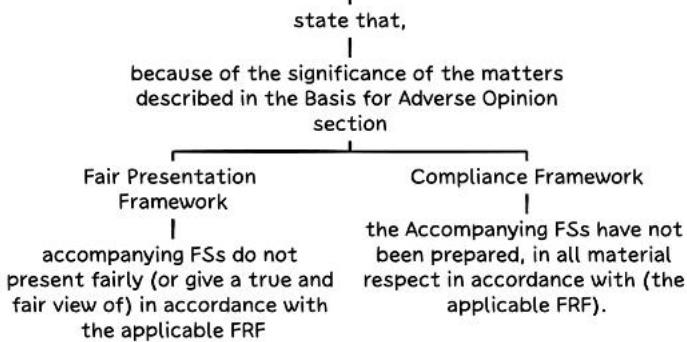
Circumstances when a Modification to the Auditor’s Opinion is Required



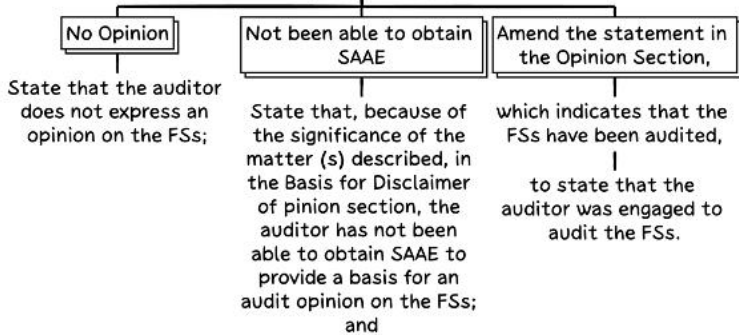
Language to be Used



Adverse Opinion



Disclaimer



Considerations When Auditor Disclaims an Opinion on the FSs.

Unless required by law or regulation, when the auditor disclaims an opinion on the FSs, the auditor’s report shall not include a Key Audit Matters section in accordance with SA 701.

WHY?

Communication of any key audit matters other than the matter(s) giving rise to the disclaimer of opinion

- may suggest that the FSs as a whole are more credible than would be appropriate in the circumstances,
- and would be inconsistent with the disclaimer of opinion on the FSs as a whole.

Communication with TCWG

When the auditor expects to modify the opinion in the auditor’s report, the auditor shall communicate with TCWG the circumstances that led to the expected modification and the wording of the modification.

Description of Auditor’s Responsibilities

When the auditor disclaims an opinion on the FSs due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor’s responsibilities required by SA 700 to include only the following

- a. A statement that the auditor’s responsibility is to conduct an audit of the entity’s FSs in accordance with Standards on Auditing and to issue an auditor’s report;
- b. A statement that, however, ***because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the FSs***; and
- c. The statement about auditor independence and other ethical responsibilities required by SA 700

(Example of statement about independence – We are independent of the entity in accordance with the ethical requirements in accordance with the requirements of the Code of Ethics issued by ICAI and the ethical requirements as prescribed under the laws and regulations applicable to the entity.)

Material Misstatements and Modifications to the Auditor’s Opinion

1. Material misstatement related to specific amounts in financial statements
 - Auditor shall include a description and quantification of the financial effects in the Basis for Opinion section
 - If quantification is impracticable, state so in this section
2. Material misstatement related to narrative disclosures
 - Auditor shall include an explanation of how the disclosures are misstated in the Basis for Opinion section
3. Material misstatement due to non-disclosure of required information
 - Discuss the non-disclosure with those charged with governance
 - Describe the nature of the omitted information in the Basis for Opinion section
 - Include the omitted disclosures if practicable and sufficient appropriate audit evidence is obtained, unless prohibited by law or regulation
4. Modification resulting from inability to obtain sufficient appropriate audit evidence
 - Auditor shall include the reasons for that inability in the Basis for Opinion section
5. Qualified or adverse opinion
 - Amend the statement about the sufficiency and appropriateness of audit evidence in SA 700 (Revised) to include "qualified" or "adverse"
6. Disclaimer of opinion
 - Auditor’s report shall not include:
 - Reference to the auditor’s responsibilities section
 - Statement about the sufficiency and appropriateness of audit evidence
7. Describing other matters requiring modification
 - Even if an adverse opinion or disclaimer is expressed, describe reasons for any other matters that would have required a modification and their effects in the Basis for Opinion section

Examples

An auditor finds inventory overstated by ₹3.75 crore. In the Basis for Opinion section, they write: "The company's inventory is overstated by ₹ 3,75 crore. This overstatement materially inflates current assets and net income for the year ended March 31, 2025."

The company recorded fixed asset additions in FY 2024-25 without proper documentation distinguishing capital from revenue expenditure; due to missing vouchers and inadequate records, quantification of this material misstatement is impracticable.

The company describes a GST liability as "fully settled" when evidence indicates otherwise. The auditor writes: "The disclosure in Note 8 regarding GST compliance mischaracterizes the company's tax position. GST audit records indicate ₹82 lakh of unpaid tax liability for FY 2024-25 that remains unresolved with tax authorities."

The company fails to disclose related party transactions. The auditor writes: "The financial statements fail to disclose that 35% of revenue (₹4.2 crore) comes from companies owned by directors' relatives, as required by Section 188 of the Companies Act, 2013 and AS-18."

"We were unable to obtain sufficient appropriate audit evidence regarding fixed assets valued at ₹6.8 crore because records were damaged during the Mumbai flooding in July 2024, and alternative procedures were insufficient to verify existence and valuation of these assets."

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

"In addition to the inventory valuation issue that resulted in our adverse opinion, we also identified that the company failed to disclose related party transactions worth ₹1.2 crore and improperly capitalized ₹95 lakh of revenue expenditure. These matters would have required modification had we not already expressed an adverse opinion on the financial statements for the year ended March 31, 2025."

Which type of opinion is appropriate?

The decision regarding which type of modified opinion is appropriate depends upon:

- Nature of the matter giving rise to the modification,
 - What went wrong: misstatement or lack of evidence. and
- The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on FS.

CA. S, while conducting audit of an entity is facing the following issues: -

- i) He has not been provided with necessary support for attending inventory count process of entity as at year end.
- ii) Accounts Manager is not providing him present addresses of customers as well as suppliers for sending external confirmations. Even mail ids have not been provided on the pretext of business confidentiality.
- iii) He was not able to verify revenues of entity due to lack of complete details.
- iv) He has been asking for bills on a sample basis for the purpose of verifying expenses, but staff has been making lame excuses.

The matter was brought to knowledge of higher management, but of no avail. The auditor, CA S has come to the conclusion that the possible effects on the financial statements of undetected misstatements would be material and affecting many aspects of financial statements and in such a case, a qualification of the opinion would be inadequate to communicate the gravity of the situation. How should the auditor proceed in such a situation? (RTP, May 2024, NA)

Misc.

Nature of Matter Giving Rise to the Modification	Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the FSs	
	Material but Not Pervasive	Material and Pervasive
FSs Are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion