

Chapter - 8 " Audit Reports "

(6) SA 705 : Modifications to the Opinion in the Independent Auditor's Report :

(i) Circumstances where a modification in Auditor report is required:

(a) Auditor concludes that based on audit evidences obtained



f.s. as a whole are not free from material misstatements

or

(b) Auditor is unable to obtain SAAE to conclude that



f.s. as a whole are free from material misstatements.

(ii) Objectives of Auditor as per SA 705 : To express clearly an appropriate modified opinion on the f.s. that is necessary when:

(a) Auditor concludes that based on audit evidences obtained



f.s. as a whole are not free from material misstatements

or

(b) Auditor is unable to obtain SAAE to conclude that



f.s. as a whole are free from material misstatements.

(iii) Types of Modified opinion : 3 types

(A) Qualified opinion: It is expressed when



(a) Auditor having obtained SAAE concludes that f.s. are misstated and misstatements are material, but do not have pervasive effect.

or

(b) Auditor is not been able to collect SAAE for matters that are material, but do not have pervasive effect.

(B) Adverse opinion: It is expressed when Auditor having obtained SAAE concludes that f.s. are materially misstated and misstatements are having pervasive effect.

(c) Disclaimer of opinion: Auditor expresses disclaimer of opinion when he is not able to collect SAAE for the matter that are material as well as having pervasive effect.

Note: Decision regarding which type of modified opinion is appropriate, depends upon:

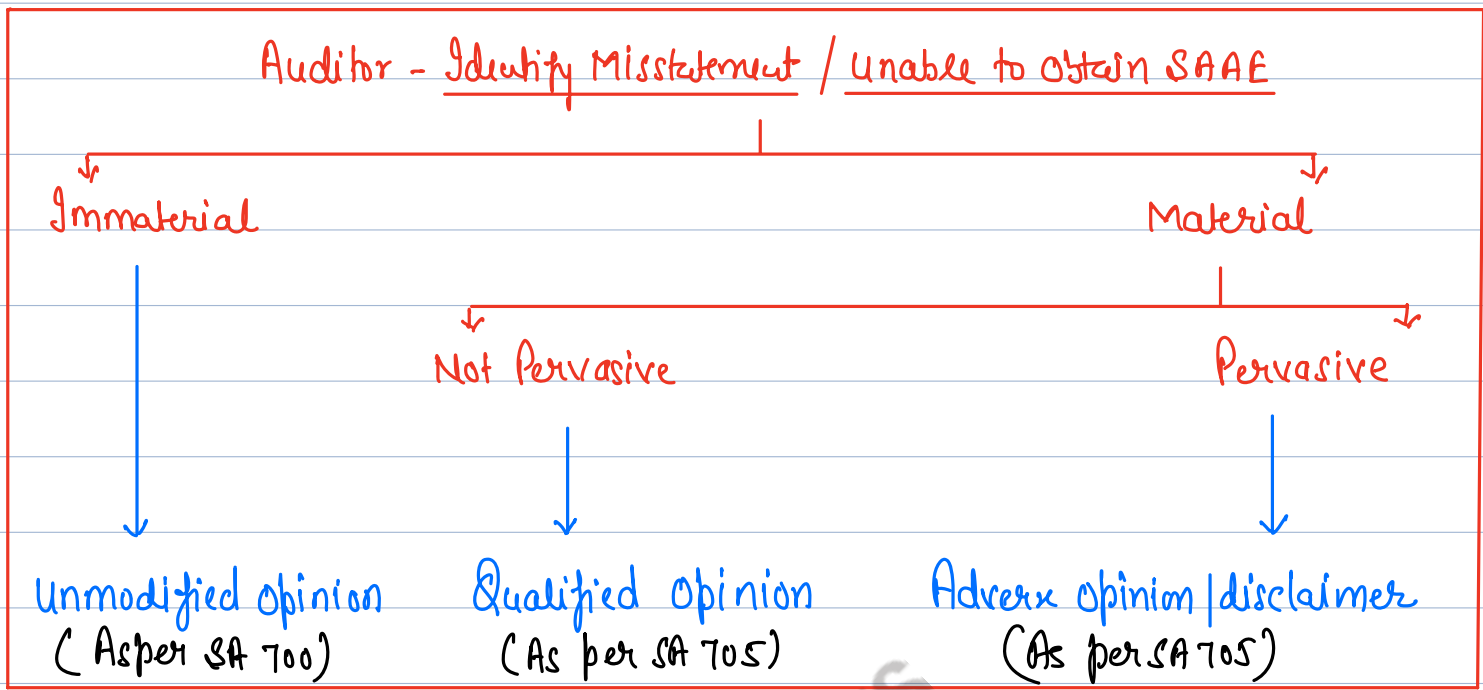
- Nature of the matter giving rise to modification (i.e. whether the f.s. are materially misstated or auditor not able to collect SAAE).
- Auditor's judgement about the pervasiveness of the effects.

Nature of Matter giving rise to modification	Auditor's judgement	
	Not Pervasive	Pervasive
(a) f.s. are <u>Materially Misstated</u>	Qualified opinion	^{3/} Adverse opinion
(b) <u>SAAE</u> not obtained	Qualified opinion	^{4/} Disclaimer of opinion

Note: Pervasive effect: Pervasive effect on the f.s. are those that is the auditor's judgement:

- are not confined to specific element, account or item of f.s.; or
- if so confined, represent a substantial proportion of the f.s.; or
- in relation to disclosures, are fundamental to

User's understanding of F.S.



(iv) Auditor unable to collect SAAE due to limitations imposed by Mngt:

↓
Auditor should request the management to remove the limitation

↓
Management Agree and Remove the limitation

↓
Auditor shall perform his planned audit procedures

↓
Management refuses to remove the limitation

↓
Communicate to TCWG and perform Alternate audit procedures

↓
Auditor shall not able to collect SAAE
| Evaluate its effects

↓
Material but not pervasive

↓
Qualified Opinion

↓
Material as well as pervasive

↓
Withdraw from engagement or Issue Disclaimer of opinion.

(v) Form and Content of Auditor's Report when opinion is modified:

I. Opinion Section: Use the heading: Qualified opinion; or
Adverse opinion; or
Disclaimer of opinion, as appropriate.

Wordings of Opinion:

(A) Qualified opinion: "In our opinion and to the best of information and explanations provided to us, except for the effects of matters described in Basis for Qualified Opinion Section, f.s. give the information in the manner as required and give true and fair view of _____"

(B) Adverse opinion: In our opinion and to the best of information and explanations provided to us, because of the significance of matters described in Basis for Adverse Opinion Section, f.s. does not give the information in the manner as required and does not give true and fair view of _____"

(C) Disclaimer of opinion: When auditor disclaims the opinion, he shall:

- (i) State that the auditor does not express an opinion on the f.s.
- (ii) State that because of the significance of the matters described in Basis for disclaimer of opinion Section, auditor has not been able to obtain SAAE to provide a basis for an audit opinion on the f.s.; and
- (iii) Amend the statement required by SA 700, which indicates that the f.s. has been audited, to state that auditor was engaged to audit the f.s.

II. Basis for opinion Section:

- Amend the heading → Basis for Qualified opinion

" " Adverse "

" " Disclaimer of opinion, as appropriate

- Include a detailed description of matters due to which opinion is modified.



(a) If opinion is modified due to material misstatement, audit report

shall include: (i) Description of misstatement;

(ii) Quantification of financial effect;

(iii) If financial effect is not ascertainable, state the fact.

Example: If inventory is over-valued, Basis for Qualified opinion shall include:

(a) Reasons for over-valuation (cost or NRV - Lower - not applied)

(b) Amt. to be written-down.

(b) If opinion is modified due to non-availability of information, audit report shall state the reasons for auditor's inability to obtain SAAF.

For Ex: Records not available due to:

(i) Limitations imposed by Management.

(ii) being destroyed by fire, flood or other reason;

(iii) being seized by J-tax authorities.

(c) If opinion is modified due to non-disclosure of information required to be disclosed, Auditor shall:

(i) Discuss the non-disclosure with TCOG;

(ii) Describe the nature of omitted disclosure;

(iii) Unless prohibited by law and regulation, include the omitted disclosure, if it is practicable to do so, and auditor has obtained SAAE about the omitted disclosure.

For Ex:- Disclosures w.r.t. Related party transactions required by AS-18 | Sch. III.

- Disclosure w.r.t. CSR Expenditure
- " w.r.t. Benami transaction

Imp:-

(III). Auditor's responsibility section in case of Disclaimer of opinion:

When auditor disclaims the opinion, the auditor shall amend the description of auditor's responsibilities so as to include the following:

- Statement that auditor's responsibility is to conduct an audit of f.s. in accordance with SAs and to issue the audit report.
- Statement that because of significance of matters described in "Basis for Disclaimer of Opinion Section", auditor was not able to collect SAAE so as to provide a basis for audit opinion.
- Statement about auditor's independence and other ethical requirements.

Note:

(1) When auditor issues disclaimer of opinion on the f.s., auditor's report shall not include "Key Audit Matters Section" as per SA 701.

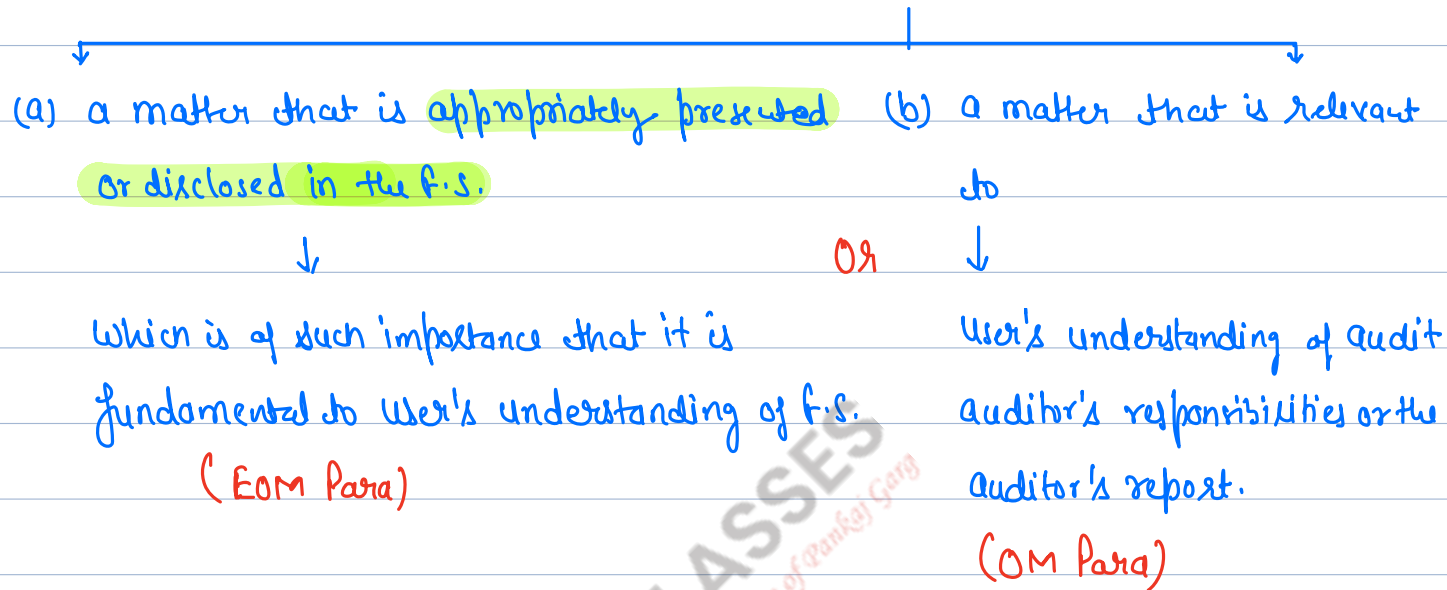
(2) When auditor expects to modify the opinion, he shall communicate with T&G,

(a) the circumstances that led to expected modification and

(b) wordings of the modification.

① SA 706 : Emphasis of Matter Paragraph and Other Matter Paragraph in the Independent Auditor's Report:

(i) Objectives of Auditor as per SA 706: To draw user's attention, by way of clear additional communication in auditor's report w.r.t.



(ii) Meaning of EOM and OM Paras:

(I) EOM Para: A Para included in auditor's report that refers to a matter appropriately presented or disclosed in the f.s., that in the auditor's judgement is of such importance that it is fundamental to user's understanding of f.s.

(II) OM Para: A Para included in auditor's report that refers to a matter other than those presented or disclosed in the f.s. that in the auditor's judgement, is relevant for user's understanding of audit, auditor's responsibilities; or auditor's report.

(iii) Requirements w.r.t. EOM Para:

(1) EOM Para should be included in the Auditor's Report in a separate section titled as "Emphasis of Matter".

(2) EOM Para is not a substitute for:

(a) Modified Opinion (SA 705)

(b) F.S. Disclosures

(c) Reporting of Material Uncertainty relating to Going Concern (as per SA 570)

(d) Key Audit Matters (SA 701).

(3) EOM Para may be located in Auditor's Report immediately following the "Basis for Opinion" Section

(4) EOM Para shall include a clear reference of the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the F.S.

(5) EOM Para refer only to information which is appropriately disclosed in the F.S.

(6) It must be indicated that auditor's opinion is not modified in respect of this matter.

V. Imp:

Circumstances in which EOM Para may be included! (Learning + Notify - H.W.)

(iv) Requirements w.r.t. OM Para:

(1) OM Para shall be included in the audit report in a separate section titled as "Other Matter".

(2) OM Para may be located in the audit report immediately after "KAM".

(3) OM Para should be included in audit report when not prohibited by law or regulation.

(4) OM Para is not a substitute for KAM.

Note: If auditor expects to include an EOM or OM Para in the auditor's report, he shall communicate with TCWG regarding this expectation and the wordings of these paragraphs.

(H.W. - Questions - SA 706)