

Agenda Item

3-C

Disposition of the Present Tense in the Proposed Redrafted ISA 705

§ in Closed-off ISA	Present Tense Statements in Closed-off ISA	§ in Redrafted ISA	Change to Shall?	Rationale or Comments
12	In cases involving multiple uncertainties, the auditor may conclude in extremely rare circumstances that it is not possible to form an opinion on the financial statements as a whole due to the interaction and cumulative possible effects of the uncertainties, even though the auditor has obtained sufficient appropriate audit evidence about management's assertions regarding each of the individual uncertainties. The auditor is not precluded from disclaiming an opinion in such a situation.	A14	No	There is no obligation imposed on the auditor to disclaim an opinion in such a situation, although the auditor may decide that a disclaimer is appropriate. Accordingly, no requirement is intended.
23	An inability to perform a specific procedure does not constitute a scope limitation if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the auditor qualifies the opinion or disclaims an opinion as appropriate. ...	A7	No	See issue in covering memorandum.
33	In certain circumstances, resignation from the audit may not be possible if the auditor is required to continue the audit engagement by law or regulation. This may be the case for national audit agencies that are appointed to audit the financial statements of public sector entities, or in jurisdictions where the auditor is appointed for a specific period and is prohibited from resigning before the end of that period. In such cases, the appropriate response for the auditor to a scope limitation imposed by management is to disclaim an opinion on the financial statements.	A16	No	Explanatory in nature. The requirement to disclaim an opinion when management imposes a scope limitation that is material and pervasive is already set out in the Requirements section.
34	For the purpose of this ISA, a piecemeal opinion arises when the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements as a whole and, in the same report, expresses an unmodified opinion on one or more specific elements, accounts or items in the financial statements with respect to the same financial reporting framework.	A17	No	No obligation intended; explains the nature of a piecemeal opinion.
36	Specific elements, accounts or items in the financial statements may include, for example, the revenue item in the income statement, or specific disclosures in the financial statements. A	A18	No	Explains the prohibition on issuing a piecemeal opinion that is already set out in the Requirements section.

§ in Closed-off ISA	Present Tense Statements in Closed-off ISA	§ in Redrafted ISA	Change to Shall?	Rationale or Comments
	combination of an unmodified opinion on one or more of these specific elements, accounts or items, and an adverse opinion or a disclaimer of opinion on the financial statements as a whole, in the same report and with respect to the same financial reporting framework, is contradictory. <i>It is accordingly not permitted.</i>			
53	Other phrases such as “with the foregoing explanation” or “subject to” are not sufficiently clear or forceful and <i>are</i> not used.	A26	No	Explains why specific wording is required for a qualified opinion; not intended to create a new requirement,

MAPPING DOCUMENT

This mapping document demonstrates how the material in the closed off ISA 705 has been reflected in the proposed redrafted ISA. Highlighted material identifies material that is proposed to be deleted.

Closed-Off ISA 705	New Para	Comments
Introduction 1. This International Standard on Auditing (ISA) establishes standards and provides guidance on: (a) Circumstances that may result in a modification to the auditor’s opinion on the financial statements; (b) The type of opinion appropriate in the circumstances; and (c) The content of the auditor’s report when the auditor’s opinion is modified.	1	Not necessary in redrafted para.
2. ISA 700 (Revised), “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements,” establishes standards and provides guidance on the auditor’s report when the auditor is able to express an unmodified opinion on a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation. The standards and guidance in this ISA are to be applied when the auditor modifies the opinion paragraph in the auditor’s report when engaged to report under ISA 700 (Revised). The Appendix to this ISA provides illustrative reports (based on the form and content of the auditor’s report as set out in ISA 700 (Revised)) where the auditor’s opinion is modified.	2	Redrafted to align with recently finalized ISAs 800 and 805.
3. [Proposed] ISA 701, “The Independent Auditor’s Report on Other Historical Financial Information,” establishes standards and provides guidance on the auditor’s report when the auditor is able to express an unmodified opinion on historical financial information other than (a) a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, and (b) summary audited financial statements. The standards and guidance in this ISA are to be applied, adapted as necessary, in the circumstances of an engagement to report under [Proposed] ISA 701 when the auditor modifies the opinion.	2	Ditto.
4. This ISA does not apply to engagements covered by [Proposed] ISA 800, “The Independent Auditor’s Report on Summary Audited Financial Statements.” [Proposed] ISA 800 establishes standards and provides	3	

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guidance when the auditor modifies the opinion paragraph in the auditor’s report issued as a result of an audit of summary audited financial statements.					
5.	[Proposed] ISA 706, “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report,” establishes standards and provides guidance when the auditor’s report is amended to include an Emphasis of Matter or Other Matter(s) paragraph, without affecting the auditor’s opinion on the financial statements.	4			
6.	The auditor should modify the opinion in the auditor’s report when: (a) The auditor concludes that, based on the audit evidence obtained, the financial statements are not free from material misstatement; or (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements are free from material misstatement.	9			
Determining the Type of Modification to the Auditor’s Opinion 7. This ISA establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon: (a) The nature of the matter giving rise to the modification, i.e. whether the financial statements are materially misstated or whether there is an inability to obtain sufficient appropriate audit evidence; and (b) The auditor’s judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.		5			
8.	The table below illustrates how the auditor’s judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.	6			
<table><tr><td><u>Nature of Matter Giving Rise to the Modification</u></td><td><u>Auditor’s Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</u></td></tr></table>		<u>Nature of Matter Giving Rise to the Modification</u>	<u>Auditor’s Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</u>		
<u>Nature of Matter Giving Rise to the Modification</u>	<u>Auditor’s Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</u>				

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	<u>Material but not Pervasive</u>	<u>Material and Pervasive</u>		
Financial statements are materially misstated	Qualified opinion	Adverse opinion		
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion		
<i>Pervasiveness of the Matter or Matters Giving Rise to a Modification</i>				
Financial Statements are Materially Misstated				
9. The auditor may judge misstatements that are material individually or in the aggregate to be pervasive to the financial statements when such misstatements are not confined to specific elements, accounts or items in the financial statements or, if confined, the misstatements represent or could represent a substantial proportion of the financial statements.			A11	
10. Further, in relation to disclosures, the auditor may judge misstatements that are material individually or in the aggregate to be pervasive to the financial statements when the misstated disclosures are fundamental to users' understanding of the financial statements.			A12	
Inability to Obtain Sufficient Appropriate Audit Evidence				
11. The auditor may judge an inability to obtain sufficient appropriate audit evidence about one or more matters pertaining to the financial statements to be both material and pervasive when the possible effects of the inability cannot be confined to specific elements, accounts or items in the financial statements or, if confined, those possible effects could represent a substantial proportion of the financial statements.			A13	
<i>Multiple Uncertainties</i>				
12. In cases involving multiple uncertainties, the auditor may conclude in extremely rare circumstances that it is not possible to form an opinion on the financial statements as a whole due to the interaction and cumulative possible effects of the uncertainties, even though the auditor has obtained sufficient appropriate audit evidence about management's assertions regarding each of the individual uncertainties. The auditor is not precluded from disclaiming an opinion in such a situation.			A14	

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<p>Financial Statements are Materially Misstated</p> <p>13. A material misstatement of the financial statements may arise in relation to:</p> <ul style="list-style-type: none"> (a) The appropriateness of the selected accounting policies; (b) The application of the selected accounting policies; or (c) The appropriateness or adequacy of disclosures in the financial statements. 	A1	
<p><i>Appropriateness of the Selected Accounting Policies</i></p> <p>14. In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial statements may arise when:</p> <ul style="list-style-type: none"> • The selected accounting policies are not consistent with the applicable financial reporting framework. • The selected accounting policies are not appropriate in the circumstances and, accordingly, the overall presentation of, and disclosures in, the financial statements are not consistent with the auditor's understanding of the entity and its environment. • Because of the accounting policies selected by management, the financial statements, including the disclosures, do not faithfully represent the underlying transactions and events in a manner that gives a true and fair view of (or presents fairly, in all material respects) the information in the financial statements. 	A2	
<p>15. Financial reporting frameworks often contain requirements for the accounting for, and disclosure of, changes in accounting policies. Where the entity has changed its selection of significant accounting policies, a material misstatement of the financial statements may arise when the entity has not complied with these requirements.</p>	A3	

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<p><i>Application of the Selected Accounting Policies</i></p> <p>16. In relation to the application of the selected accounting policies, material misstatements of the financial statements may arise:</p> <ul style="list-style-type: none"> • When management has not applied the selected accounting policies consistently with the financial reporting framework, including applying the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or • Due to the method of application of the selected accounting policies (error in application), such as when there is a disagreement with management about the underlying facts and circumstances to which the selected accounting policies are applied (for example, a disagreement about estimates for pension liabilities). 	A4	
<p><i>Appropriateness or Adequacy of Disclosures in the Financial Statements</i></p> <p>17. In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:</p> <p>(a) The financial statements do not include all of the disclosures required by the applicable financial reporting framework;</p> <p>(b) The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or</p> <p>(c) The financial statements do not provide the disclosures necessary to achieve fair presentation.</p>	A5	
<p><i>Qualified Opinion</i></p> <p>18. The auditor should express a qualified opinion when the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements.</p>	10(a)	
<p>19. Example Report 1 in the Appendix illustrates this situation.</p>	A27	
<p><i>Adverse Opinion</i></p> <p>20. The auditor should express an adverse opinion when the auditor concludes that misstatements, that are material individually or in the aggregate, are pervasive to the financial statements.</p>	11	

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21. Example Report 2 in the Appendix illustrates this situation.	A27	
Inability to Obtain Sufficient Appropriate Audit Evidence 22. The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from: (a) Circumstances beyond the control of the entity; (b) Circumstances relating to the nature or timing of the auditor's work; or (c) Limitations imposed by management.	A6	
23. An inability to perform a specific procedure does not constitute a scope limitation if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the auditor qualifies the opinion or disclaims an opinion as appropriate. Limitations imposed by management may have other implications for the audit, for example, the auditor's assessment of fraud risks and consideration of engagement continuance.	A7	
24. Examples of circumstances beyond the control of the entity include: <ul style="list-style-type: none"> • When the entity's accounting records have been destroyed. • When the accounting records of a significant component based in a foreign jurisdiction have been seized indefinitely by governmental authorities in that jurisdiction. 	A8	
25. Examples of circumstances relating to the nature or timing of the auditor's work include: <ul style="list-style-type: none"> • When the entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain sufficient appropriate audit evidence about the latter's financial information to examine the application of the equity method. • When the timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories. • When the auditor determines that performing substantive procedures alone are not sufficient, but the entity's controls are not effective. 	A9	
26. Examples of an inability to obtain sufficient appropriate audit evidence arising from a scope limitation	A10	

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<p>imposed by management include:</p> <ul style="list-style-type: none"> • When management prevents the auditor from observing the counting of the physical inventory. • When management prevents the auditor from requesting external confirmation of specific account balances. 		
<p><i>Qualified Opinion</i></p> <p>27. The auditor should express a qualified opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the possible effects on the financial statements of that inability are material but not pervasive.</p>	10(b)	
<p>28. Example Report 3 in the Appendix illustrates this situation.</p>	A28	
<p><i>Disclaimer of Opinion</i></p> <p>29. The auditor should disclaim an opinion on the financial statements when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the possible effects on the financial statements of that inability are both material and pervasive.</p>	12	
<p>30. Example Report 4 in the Appendix illustrates a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about a single element in the financial statements. Example Report 5 illustrates a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about multiple elements in the financial statements. In each case, the possible effects on the financial statements of the inability are both material and pervasive.</p>	A28	
<p><i>Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence due to a Management-imposed Limitation After the Auditor has Accepted the Engagement</i></p> <p>31. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit which the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request the removal of the limitation. If management refuses, the auditor should communicate the matter with those charged with governance and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence on which to base an unmodified opinion. If</p>	13	

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<p>the auditor is unable to obtain sufficient appropriate audit evidence, the auditor should determine the implications as follows:</p> <ul style="list-style-type: none"> (a) If the possible effects of the scope limitation are material but not pervasive to the financial statements, the auditor should qualify the opinion; or (b) If the possible effects of the scope limitation are both material and pervasive to the financial statements so that a qualification of the opinion would be inadequate to communicate the gravity of the situation: <ul style="list-style-type: none"> (i) The auditor should resign from the audit; or (ii) If resignation from the audit before issuing the auditor’s report is not practicable or possible, the auditor should disclaim an opinion. <p>In relation to subparagraph (b)(i), if the auditor is aware of matters that would have given rise to a modification of the opinion regarding misstatements identified during the audit, the auditor should communicate such matters to those charged with governance before resigning.</p>		
<p>32. The timing of the auditor’s resignation may depend upon the stage of completion of the engagement when management imposes the scope limitation. If the auditor has substantially completed the audit, the auditor may decide to complete the audit to the extent possible, disclaim an opinion and explain the scope limitation in the Basis for Disclaimer of Opinion paragraph prior to resigning.</p>	A15	
<p>33. In certain circumstances, resignation from the audit may not be possible if the auditor is required to continue the audit engagement by law or regulation. This may be the case for national audit agencies that are appointed to audit the financial statements of public sector entities, or in jurisdictions where the auditor is appointed for a specific period and is prohibited from resigning before the end of that period. In such cases, the appropriate response for the auditor to a scope limitation imposed by management is to disclaim an opinion on the financial statements.</p>	A16	

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<p>Prohibition on Issuing a Piecemeal Opinion</p> <p>34. For the purpose of this ISA, a piecemeal opinion arises when the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements as a whole and, in the same report, expresses an unmodified opinion on one or more specific elements, accounts or items in the financial statements with respect to the same financial reporting framework.</p>	A17	
<p>35. If the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements as a whole, the auditor should not express an unmodified opinion on one or more specific elements, accounts or items in the financial statements in the same report and with respect to the same applicable financial reporting framework (a “piecemeal opinion”).</p>	14	
<p>36. Specific elements, accounts or items in the financial statements may include, for example, the revenue item in the income statement, or specific disclosures in the financial statements. A combination of an unmodified opinion on one or more of these specific elements, accounts or items, and an adverse opinion or a disclaimer of opinion on the financial statements as a whole, in the same report and with respect to the same financial reporting framework, is contradictory. It is accordingly not permitted.</p>	A18	
<p>37. The description of “piecemeal opinion” in paragraph 34 does not include, for example:</p> <ul style="list-style-type: none"> • The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion or the issue of a disclaimer of opinion on the same financial statements under a different financial reporting framework. For example, the auditor may express an adverse opinion on financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, and within the same report, express an unmodified opinion with respect to the proper preparation of the financial statements in accordance with specific legal requirements not designed to achieve fair presentation. • The expression of an unmodified opinion on the closing financial position of the entity but a disclaimer of an opinion on the results of operations and cash flows if the auditor has been unable to obtain sufficient audit evidence concerning the entity’s opening balances (see paragraph 11(c) of ISA 510, “Initial Engagements–Opening Balances”). 	A19	

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Communication with Those Charged with Governance 38. When the auditor expects to modify the opinion in the auditor’s report, the auditor should communicate with those charged with governance the circumstances that lead to the expected modification and the proposed wording of the modification.	27	
39. Such communication enables: (a) Those charged with governance to be made aware of the expected modification(s) and the reasons (or circumstances) for the modification(s); (b) The auditor to agree the facts in respect of the matter(s) giving rise to the expected modification(s), or to confirm matters of disagreement with management as such; and (c) Those charged with governance to have an opportunity, where appropriate, to provide the auditor with further information and explanations in respect of the matter(s) giving rise to the expected modification(s).	A29	
Form and Content of the Auditor’s Report when the Opinion is Modified Basis for Modification Paragraph 40. Consistency in the auditor’s report helps to promote the users’ understanding and to identify unusual circumstances when they occur. Accordingly, although uniformity in the wording of a modified opinion and in the description of the basis for the modification may not be possible, consistency in both the form and content of the auditor’s report is desirable.	A20	
41. When the auditor modifies the opinion on the financial statements, the auditor should, in addition to the specific elements required by ISA 700 (Revised) and [proposed] ISA 701, include a paragraph in the auditor’s report that provides a description of the matter giving rise to the modification. The auditor should place this paragraph immediately before the opinion paragraph in the auditor’s report and use the heading “Basis for Qualified Opinion,” Basis for Adverse Opinion,” or “Basis for Disclaimer of Opinion,” as appropriate.	15	
42. If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor should include in the Basis for	16, A21	

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Modification paragraph a description of the financial effects of the misstatement (for example, the effects on income tax, net income and equity if inventory is overstated), unless impracticable. If it is not practicable to quantify the financial effects, the auditor should so state in the Basis for Modification paragraph.		
43. If there is a material misstatement of the financial statements that relates to narrative disclosures, the auditor should include in the Basis for Modification paragraph an explanation of why the disclosures are misstated.	17	
44. If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor should describe in the Basis for Modification paragraph the nature of the omitted information and, unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.	18	
45. Disclosing the omitted information in the Basis for Modification paragraph would not be practicable if: (a) The auditor would be assuming management's responsibility for the preparation of the omitted disclosures; or (b) In the auditor's judgment, the disclosures would be unduly voluminous in relation to the auditor's report.	A22	
46. The auditor may be assuming management's responsibility for the preparation of the omitted disclosures if the omitted disclosures have not been prepared by management or are otherwise not readily available to the auditor.	A23	
47. If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor should include in the Basis for Modification paragraph the reasons for that inability.	19	
48. Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor should describe in the Basis for Modification paragraph the reasons for any other matters that would have required a modification to the opinion, and the effects thereof.	20	
49. An adverse opinion or a disclaimer of opinion does not justify the omission of a description of other	A24	

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identified matters that would require a modification, for example misstatements regarding the recognition, measurement, or disclosure of certain assets and liabilities (for example, the existence of inventory).		
Opinion Paragraph 50. When the auditor modifies the audit opinion, the auditor should use the heading “Qualified Opinion,” “Adverse Opinion,” or “Disclaimer of Opinion,” as appropriate, for the opinion paragraph.	21	
51. Inclusion of this paragraph heading makes it clear to the user that the auditor’s opinion is modified and indicates the type of modification.	A25	
52. When the auditor expresses a qualified opinion, the auditor should 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 financial statements give a true and fair view (or “present fairly, in all material respects”) in accordance with the applicable financial reporting framework. When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor should use the corresponding phrase “except for the possible effects of the matter(s) ...” for the modified opinion.	22	
53. Other phrases such as “with the foregoing explanation” or “subject to” are not sufficiently clear or forceful and are not used.	A26	
54. When the auditor expresses an adverse opinion, the auditor should 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 financial statements do not give a true and fair view (or “do not present fairly”) in accordance with the applicable financial reporting framework.	23	
55. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor should 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 financial statements.	24	

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Description of Auditor’s Responsibility when the Auditor Expresses a Qualified or Adverse Opinion 56. When the auditor expresses a qualified or adverse opinion, the auditor should 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.	25	
Description of Auditor’s Responsibility when the Auditor Disclaims an Opinion 57. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor should amend the introductory paragraph of the auditor’s report to state that the auditor was engaged to audit the financial statements. The auditor should also 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 financial statements based on conducting the audit in accordance with International Standards on Auditing. 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.”	26	
Effective Date 58. This ISA is effective for auditors’ reports dated on or after [Date].	7	

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