

ASA 701 Modifications to the Auditor’s Report

(Conformity with ISA 701 *Modifications to the Independent Auditor’s Report*)

(Superseded Australian auditing standard – AUS 702 *The Audit Report on a General Purpose Financial Report*)

OBJECTIVE

The objective of ASA 701 *Modifications to the Auditor’s Report* is to prescribe mandatory requirements for auditors in relation to the issuance of an ‘other than unqualified’ auditor’s report, or one with an emphasis of matter section, as a result of an audit of a general purpose financial report. This situation is referred to as a modified auditor’s opinion. The modification may relate to an emphasis of matter section in an unqualified opinion (or in a modified opinion), a qualified opinion (formerly known as an ‘except for’ opinion), a disclaimer of opinion, or an adverse opinion. Figure 1 depicts the categories of auditor’s reporting choices and which Fact Sheets are applicable to each of the choices. The Fact Sheet for ASA 700 *The Auditor’s Report on a General Purpose Financial Report* deals with unqualified or unmodified auditor’s reports.

Figure 1

Categories of Auditor’s Reports			
		Unqualified	“Other than Unqualified”
Refer ASA 700 Fact Sheet	Unmodified		
Refer ASA 701 Fact Sheet (<i>this Fact Sheet</i>)	Modified	Emphasis of Matter	Qualified
			Disclaimer
			Adverse

APPLICATION

Financial reporting periods commencing on or after 1 July 2006.

Modified Auditor’s Opinions

Whenever an opinion that is other than unqualified is expressed, the auditor needs to provide in the auditor’s report a clear description of all the substantive reasons and, unless impracticable, a quantification of the possible effect(s) on the financial report. This is in addition to the requirements in ASA 700 *The Auditor’s Report on a General Purpose Financial Report* to include a title and introductory paragraph, and paragraphs dealing with the responsibility of those charged with governance, the auditor’s responsibility, a description of the audit, other reporting responsibilities, and the auditor’s signature, date, and address.

Emphasis of Matter Paragraphs

In the specific circumstances explained below, an auditor may choose to modify the audit report by adding an emphasis of matter paragraph. This type of paragraph is intended to highlight a matter affecting the financial report where the matter is discussed extensively in a note to the financial statements. The addition of such an emphasis of matter paragraph does not affect the auditor’s opinion and generally commences with the words “Without qualification to...” to reference the fact that the auditor’s opinion is not qualified.

The specific circumstances in which an emphasis of matter paragraph may be included in the auditor’s report are when:

- a significant uncertainty exists in relation to the ability of the entity to continue as a going concern (see Fact Sheet for ASA 570 *Going Concern*);
- a significant uncertainty exists in relation to an other than a going concern issue (eg asset realisation);

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- the financial preparer has added additional disclosures in the notes to the financial statements on the basis that, or which imply that, application of a particular Accounting Standard has resulted in the financial report being potentially misleading, and the auditor agrees. If this is the case the auditor needs to state in the audit report the specific reasons why the auditor believes the additional disclosures are necessary to ensure the financial report as a whole is not misleading and that, in the auditor's opinion, the additional disclosures are relevant and reliable in meeting the objectives of the financial report. If the financial report is prepared under the *Corporations Act 2001*, and additional information is included to give a true and fair view of the entity's financial position and performance, the auditor's report includes the auditor's opinion on whether the additional information was necessary to give a true and fair view.
- information in a document containing the audited financial report is materially inconsistent with that financial report;
- an audited financial report has been issued and a fact is discovered that leads those with governance responsibilities to prepare a revised financial report. The paragraph needs to refer to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial report, and to the earlier report issued by the auditor.

In extreme cases, such as situations involving multiple uncertainties that are significant to the financial report, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph.

Other Modified Auditor's Opinions

An auditor may not be able to express an unqualified opinion when the circumstances listed below exist and, in the auditor's judgement, the effect of the matter is or may be material to the financial report. These circumstances are:

- there is a limitation on the scope of the auditor's work. This could lead to a qualified (except for) opinion or a disclaimer of opinion, depending on the materiality of the limitation;
- there is a disagreement with those with governance responsibilities regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of financial report disclosures. This could lead to a qualified (except for) opinion or an adverse opinion, depending on the disagreement.
- there is a conflict between applicable financial reporting frameworks. This could lead to a qualified (except for) opinion or an adverse opinion, depending on the materiality of the conflict. A conflict between applicable financial reporting frameworks may occur when the application of accounting policies required or allowed by relevant statutory and other requirements has not resulted in a fair presentation in accordance with Australian Accounting Standards. In this case an auditor must express an unmodified opinion with respect to presentation in accordance with relevant statutory and other requirements; and a qualified or adverse opinion with respect to presentation in accordance with Australian Accounting Standards as appropriate. When the accounting policies applied are contrary to those required by relevant statutory and other requirements, the auditor's opinion must be modified with respect to presentation in accordance with those requirements, whether or not the auditor's opinion with respect to presentation in accordance with Australian Accounting Standards is modified.

In the case of a *qualified* opinion, the opinion paragraph must be headed "Qualified Auditor's Opinion" and be expressed as being "except for" the effects of the matter to which the qualification relates. .

In the case of a *disclaimer of opinion*, the opinion paragraph must be headed "Disclaimer of Auditor's Opinion" and be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial report.

In the case of an *adverse opinion*, the opinion paragraph must be headed "Adverse Auditor's Opinion" and be expressed when the effect of a disagreement or a conflict between applicable financial reporting frameworks is so material and pervasive to the financial report that the auditor concludes that a qualification of the auditor's report is not adequate to disclose the misleading or incomplete nature of the financial report.

ASA 701 *Modifications to the Auditor's Report* includes an Appendix that provide examples of each type of auditor's report.

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Acknowledgements

CPA Australia wishes to acknowledge the assistance of the Monash University Centre for Research in Accounting and Finance, in the production of the original set of fact sheets.

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