

CANADIAN AUDITING STANDARDS

CAS 705

modifications to the opinion in the independent auditor's report

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

- A2. CAS 700 requires the auditor, in order to form an opinion on the financial statements, to conclude as to whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement. 8 This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements in accordance with CAS 450. 9
- A7. In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:
- (a) The financial statements do not include all of the disclosures required by the applicable financial reporting framework;
 - (b) The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or
 - (c) The financial statements do not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.

Paragraph A17 of CAS 450 provides further examples of material misstatements in qualitative disclosures that may arise.

- A9. An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 9-10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of fraud risks and consideration of engagement continuance.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving CAS 570, Going Concern.

19. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:
- (a) State that the auditor does not express an opinion on the accompanying financial statements;
 - (b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
 - (c) Amend the statement required by paragraph 24(b) of CAS 700, which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.
29. Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with CAS 701 or an Other Information section in accordance with CAS 720.^{4·5} (Ref: Para. A26)
- A18. Illustration 3 in the Appendix contains an auditor's report with a qualified opinion as the auditor is unable to obtain sufficient appropriate audit evidence. Illustration 4 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. Illustration 5 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. In each of the latter two cases, the possible effects on the financial statements of the inability are both material and pervasive. The Appendices to other CASs that include reporting requirements, including CAS 570, 11 also include illustrations of auditor's reports with modified opinions.
- A26. Providing the reasons for the auditor's inability to obtain sufficient appropriate audit evidence within the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users in understanding why the auditor has disclaimed an opinion on the financial statements and may further guard against inappropriate reliance on them. However, communication of any key audit matters other than the matter(s) giving rise to the disclaimer of opinion may suggest that the financial statements as a whole are more credible in relation to those matters than would be

appropriate in the circumstances, and would be inconsistent with the disclaimer of opinion on the financial statements as a whole. Similarly, it would not be appropriate to include an Other Information section in accordance with CAS 720 addressing the auditor's consideration of the consistency of the other information with the financial statements. Accordingly, paragraph 29 of this CAS prohibits a Key Audit Matters section or an Other Information section from being included in the auditor's report when the auditor disclaims an opinion on the financial statements, unless the auditor is otherwise required by law or regulation to communicate key audit matters or to report on other information.

Appendix

(Ref: Para. A17-A18, A25)

Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., CAS 600 1 does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB) (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in CAS 210. 2
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of Canada.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with CAS 570.
- Key audit matters have been communicated in accordance with CAS 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., CAS 600 applies).
- The consolidated financial statements are prepared by management of the entity in accordance with IFRS Accounting Standards as issued by the IASB (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in CAS 210.
- The consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of Canada.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with CAS 570.
- CAS 701 applies; however, the auditor has determined that there are no key audit matters other than the matter described in the Basis for Adverse Opinion section.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the consolidated financial statements also affects the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

Illustration 3 – Qualified Opinion due to the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., CAS 600 applies).
- The consolidated financial statements are prepared by management of the entity in accordance with IFRS Accounting Standards as issued by the IASB (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in CAS 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of Canada.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with CAS 570.
- Key audit matters have been communicated in accordance with CAS 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the consolidated financial statements also affects the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

Illustration 4 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements

Basis for Disclaimer of Opinion

The Group's investment in its joint venture XYZ Company is carried at xxx on the Group's consolidated statement of financial position, which represents over 90% of the Group's net assets as at December 31, 20X1. We were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, and the elements making up the consolidated statement of changes in equity and the consolidated cash flow statement.

Illustration 5 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after December 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and 20X1, which are stated in the statements of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of xxx as at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of revisions to IAS 1 *Presentation of Financial Statements*, which were published in Part 1 of the CPA Canada Handbook – Accounting in June 2021. The revisions require entities to disclose material accounting policy information rather than significant accounting policies.

Appendix

(Ref: Para. A17-A18, A25)

Illustrations of Independent Auditor's Reports with Modifications to the Opinion

Illustration 1

Qualified Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of

cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Illustration 2

Adverse Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Illustration 3

Qualified Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Illustration 4

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Illustration 5

Disclaimer of Opinion

We were engaged to audit the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving [CAS 600, Special Considerations – Audits of Group Financial Statements \(Including the Work of Component Auditors\)](#).

A10. Examples of circumstances beyond the control of the entity include when:

- The entity's accounting records have been destroyed.
- The accounting records of a significant component have been seized indefinitely by governmental authorities.

Footnotes

8. CAS 700, paragraph 11

9. CAS 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

4. CAS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraphs 11-13

5. CAS 720, *The Auditor's Responsibilities Relating to Other Information*, paragraph A54

11. CAS 570, *Going Concern*

1. CAS 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* does not apply).

2. CAS 210, *Agreeing the Terms of Audit Engagements*

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