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International/Auditing/Standards/IFAC/2008 Handbook of International Auditing Assurance and Ethics Pronouncements - Part I/IFAC ISAs - Contents List/IFAC ISA 701 - Modifications to the independent auditor's report IFAC ISA 701/Circumstances that may Result in Other than an Unqualified Opinion IFAC ISA 701

IFAC ISA 701

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Circumstances that may Result in Other than an Unqualified Opinion

Limitation on Scope

16. A limitation on the scope of the auditor's work may sometimes be imposed by the entity (for example, when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary). However, when the limitation in the terms of a proposed engagement is such that the auditor believes the need to express a disclaimer of opinion exists, the auditor would ordinarily not accept such a limited engagement as an audit engagement, unless required by statute. Also, a statutory auditor would not accept such an audit engagement when the limitation infringes on the auditor's statutory duties.
17. A scope limitation may be imposed by circumstances (for example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories). It may also arise when, in the opinion of the auditor, the entity's accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed to be desirable. In these circumstances, the auditor would attempt to carry out reasonable alternative procedures to obtain sufficient appropriate audit evidence to support an unqualified opinion.
18. **When there is a limitation on the scope of the auditor's work that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report should describe the limitation and indicate the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed.**
19. Illustrations of these matters are set out below.

Limitation on Scope-Qualified Opinion

"We have audited ... (remaining words are the same as illustrated in the introductory paragraph - see paragraph 60 of ISA 700).

Management is responsible for . (remaining words are the same as illustrated in the management's responsibility paragraph - see paragraph 60 of ISA 700).

Our responsibility is to express an opinion on these financial statements based on our audit. *Except as discussed in the following paragraph, we conducted our audit in accordance with ... (remaining words are the same as illustrated in the auditor's responsibility paragraphs - see paragraph 60 of ISA 700).*

We did not observe the counting of the physical inventories as of December 31, 20X1, since that date was prior to the time we were initially engaged as auditors for the Company. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities, the financial statements give a true and fair view of ... (remaining words are the same as illustrated in the opinion paragraph - paragraph 60 of ISA 700)."

Limitation on Scope-Disclaimer of Opinion

"We were engaged to audit the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management is responsible for . (remaining words are the same as illustrated in the management's responsibility paragraph - see paragraph 60 of ISA 700).

(Omit the sentence stating the responsibility of the auditor.)

(The paragraph discussing the scope of the audit would either be omitted or amended according to the circumstances.)

(Add a paragraph discussing the scope limitation as follows:

We were not able to observe all physical inventories and confirm accounts receivable due to limitations placed on the scope of our work by the Company.)

Because of the significance of the matters discussed in the preceding paragraph, we do not express an opinion on the financial statements."

Disagreement with Management

20. The auditor may disagree with management about matters such as the acceptability of accounting policies selected, the method of their application, or the adequacy of disclosures in the financial statements. **If such disagreements are material to the financial statements, the auditor should express a qualified or an adverse opinion.**

21. Illustrations of these matters are set out below.

Disagreement on Accounting Policies-Inappropriate Accounting Method-Qualified Opinion

"We have audited ... (remaining words are the same as illustrated in the introductory paragraph - see paragraph 60 of ISA 700).

Management is responsible for . (remaining words are the same as illustrated in the management's responsibility paragraph - see paragraph 60 of ISA 700).

Our responsibility is to . (remaining words are the same as illustrated in the auditor's responsibility paragraphs - see paragraph 60 of ISA 700).

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which practice, in our opinion, is not in accordance with International Financial Reporting Standards. The provision for the year ended December 31, 20X1, should be xxx based on the straight-line method of depreciation using annual rates of 5% for the building and 20% for the equipment. Accordingly, the fixed assets should be reduced by accumulated depreciation of xxx and the loss for the year and accumulated deficit should be increased by xxx and xxx, respectively.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements give a true and fair view of ... (remaining words are the same as illustrated in the opinion paragraph - see paragraph 60 of ISA 700)."

Disagreement on Accounting Policies-Inadequate Disclosure-Qualified Opinion

"We have audited ... (remaining words are the same as illustrated in the introductory paragraph - see paragraph 60 of ISA 700).

Management is responsible for . (remaining words are the same as illustrated in the management's responsibility paragraph - see paragraph 60 of ISA 700).

Our responsibility is to . (remaining words are the same as illustrated in the auditor's responsibility paragraphs - see paragraph 60 of ISA 700).

On January 15, 20X2, the Company issued debentures in the amount of xxx for the purpose of financing plant expansion. The debenture agreement restricts the payment of future cash dividends to earnings after December 31, 19X1. In our opinion, disclosure of this information is required by ...^[1]

In our opinion, except for the omission of the information included in the preceding paragraph, the financial

statements give a true and fair view of ... (remaining words are the same as illustrated in the opinion paragraph-see paragraph 60 of ISA 700)."

Disagreement on Accounting Policies-Inadequate Disclosure-Adverse Opinion

"We have audited ... (remaining words are the same as illustrated in the introductory paragraph - see paragraph 60 of ISA 700).

Management is responsible for . (remaining words are the same as illustrated in the management's responsibility paragraph - see paragraph 60 of ISA 700).

Our responsibility is to . (remaining words are the same as illustrated in the auditor's responsibility paragraphs - see paragraph 60 of ISA 700).

(Paragraph(s) discussing the disagreement.)

In our opinion, because of the effects of the matters discussed in the preceding paragraph(s), the financial statements do not give a true and fair view of (or 'do not present fairly, in all material respects,') the financial position of ABC Company as of December 20, 19X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards."

Footnotes

[1]

2 Refer to relevant statutes or law.

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