



Date: 27 August, 2010

Ref no: 14-2008-0111

## Description of content of ISSAI 1705

### *Modifications to the Opinion in the Independent Auditor's Report*

Reading this description is not a substitute for reading the ISA or ISSAI itself.

ISSAI 1705 is comprised of International Standard on Auditing (ISA) 705 – Modifications to the Opinion in the Independent Auditor's Report, and a corresponding Practice Note. The ISA and the Practice Note are read together.

### *Authority*

Public Sector auditors using the ISAs or ISSAIs as the authoritative standard shall comply with all ISAs or ISSAIs relevant to the audit. An ISA or ISSAI is relevant to the audit when the ISA or ISSAI is in effect and the circumstances addressed by the ISA or ISSAI exist. The auditor shall not represent compliance with ISAs or ISSAIs in the auditor's report unless the auditor has complied with the requirements of all ISAs or ISSAIs relevant to the audit.

### *Description of the ISA*

ISA 705 deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with ISA 700<sup>1</sup> the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

### *Types of Modified Opinions*

ISA 705 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, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- b. The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

---

<sup>1</sup> ISA 700, Forming an Opinion and Reporting on Financial Statements.

*Objective of the auditor in terms of the ISA*

The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:

- a. The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or
- b. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Among other matters, the requirements in this ISA deal with:

- a. Circumstances when a modification to the auditor's opinion is required.
- b. Determining the type of modification to the auditor's opinion.
- c. The consequence of an inability to obtain sufficient appropriate audit evidence due to a limitation imposed by management or those charged with governance after the auditor has accepted the engagement.
- d. The form and content of the auditor's report when the opinion is modified.
- e. Communication with those charged with governance.

*Description of the Practice Note*

The Practice Notes provides supplementary guidance for auditors applying ISA 705 when conducting financial audits of public sector entities.

*Content of the Practice Note*

- a. The Practice Note provides additional guidance for public sector auditors related to: Overall considerations relating to additional objectives or general public expectations concerning reporting of non-compliance with authorities or reporting on effectiveness of internal control.
- b. Circumstances when a modification to the auditor's opinion is required.
- c. Determining the type of modification to the auditor's opinion.
- d. Nature of material misstatements.
- e. Nature of an inability to obtain sufficient appropriate audit evidence.
- f. Form and content of the auditor's report when the opinion is modified.
- g. Communication with those charged with governance.