

September 2009

**BASIS FOR CONCLUSIONS
CANADIAN AUDITING STANDARD (CAS) 705,
Modifications to the Opinion in the Independent Auditor's Report**

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Auditing Standard 705, "Modifications to the Opinion in the Independent Auditor's Report."

Background

In July 2007, the International Auditing and Assurance Standards Board (IAASB) issued its Exposure Draft of International Standard on Auditing (ISA) 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report" (ED-ISA 705). The IAASB approved final ISA 705 in June 2008 subject to confirmation by the Public Interest Oversight Board (PIOB) that due process was followed. This confirmation was received in October 2008.

In September 2007, the AASB issued its Exposure Draft to adopt proposed ISA 705 as CAS 705 (ED-CAS 705) to replace Section 5510, RESERVATIONS IN THE AUDITOR'S REPORT. There were 6 respondents to ED-CAS 705 (identified below).

The AASB approved CAS 705 in October 2008. The Auditing and Assurance Standards Oversight Council reviewed due process followed by the AASB in the development of this CAS prior to its issuance in the CICA Handbook – Assurance.

Purpose of this Basis for Conclusions

This Basis for Conclusions has been prepared to make Canadian stakeholders aware of the following.

- (a) A Basis for Conclusions prepared by IAASB staff for ISA 705 is available on the [IAASB web site](#), and it provides information on how the IAASB dealt with comments received on significant matters in response to the ED-ISA 705.
- (b) Information on how the AASB dealt with significant matters arising from comments received in response to its ED-CAS 705 is also available. This information is set out below.

Significant Matters

AASB's Consideration of Amendments to ISA Wording

1. CAS 705 contains no amendment to the ISA wording. However, as noted below, a change has been made to illustrative auditor's reports.

Use of the Phrases "present fairly" and "give a true and fair view"

2. When describing the wording of the auditor's qualified opinion, ED-ISA 705 referenced two phrases – "present fairly, in all material respects" and "give a true and fair view," and when describing the wording of the auditor's adverse opinion, referenced the two phrases – "do not present fairly (or give a true and fair view)." In Canada, governing legislation often requires use of, and it is generally accepted practice to use, the phrase "present fairly, in all material respects." The AASB wished to maintain consistency of reporting in Canada in the future and believed that it is important for auditors to continue to only use that phrase. Accordingly, ED-CAS 705 proposed to require that when expressing a qualified or adverse opinion on financial statements prepared in accordance with a fair presentation framework, the auditor only use the phrase "present fairly, in all material respects," or "do not present fairly in accordance with," respectively and make no reference to the phrase "give a true and fair view." A similar amendment was proposed with respect to proposed CAS 700, "The Independent Auditor's Report on General Purpose Financial Statements." Respondents were supportive of the AASB's proposal that auditors continue to use the phrase "present fairly."
3. In considering the wording of the final CAS, the AASB noted that one of the objectives of adopting the ISAs is to permit Canadian auditors to report in the same manner as auditors in other jurisdictions. The AASB concluded that auditors would not be able to do so if the amendment proposed in CAS-ED 705 were to be implemented. Accordingly, the AASB has not made the amendment proposed in the ED-CAS 705. However, the opinion paragraphs in the illustrative reports in CAS 705 use only the phrase "present fairly, in all material respects", or "do not present fairly", as appropriate. In addition, the Preface to the CICA Handbook – Assurance explains that all illustrative reports throughout the CASs only use this phrase.

References to Fair Presentation Financial Reporting Frameworks

4. A respondent suggested an amendment to the wording of ISA 705 to exclude from CAS 705 any reference to fair presentation financial reporting frameworks, since, in the respondent's view, compliance frameworks would not be relevant in Canada. The AASB did not make such an amendment. It is a fundamental principal of both the CASs and ISAs that the auditor be able to report on financial statements prepared using a fair presentation, or compliance, financial reporting framework, provided that the relevant framework is acceptable.

Examples to Clarify “Multiple Uncertainties”

5. A respondent suggested that CAS 705 should contain an amendment to ISA 705 to provide an example of an auditor’s report that contains a disclaimer of opinion regarding multiple uncertainties. The concept of multiple uncertainties is noted in paragraph 10. The IAASB concluded that such an example should not be provided for two reasons. First, it is only in extremely rare cases that the need for such a disclaimer might arise and the appropriateness of providing such a disclaimer would depend on the circumstances of each case. Second, such an example would have to be long and detailed to fully set out the fact patterns and, therefore, would be of little benefit to stakeholders. The AASB concluded that no amendment should be made since the circumstances contemplated in this requirement will also be extremely rare in Canada and agreed with IAASB’s position on this matter.

Other Matters

None.

List of Respondents to ED-CAS 705

Auditor General Alberta
BDO Dunwoody LLP
Canadian Public Accountability Board
Deloitte & Touche LLP
Ordre des comptables agréés du Québec
Provincial Auditor Saskatchewan