



Reporting on Not-For-Profits - Qualified Opinions

A common issue for auditors of Not-For-Profit Organizations is that auditing the completeness of fundraising and donation revenue is a difficult and often impossible task. As such, it is common to see audit reports of such entities include a qualified opinion for a limitation in scope on this matter. Typically, this type of qualification is necessary year after year as it is never resolved. This in turn has implications on the wording of the basis for modification paragraph of the audit report which should refer to both the current and corresponding year.

The guidance for this wording is not in CAS 705 Modifications to the Opinion in the Independent Auditor's Report as one might expect but rather in CAS 710 Comparative Information – Corresponding Figures and Comparative Financial Statements. The following is an excerpt from CAS 710 paragraph 11:

11. *If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:*
 - a) *Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or*
 - b) *In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.*

It is our understanding from conversations with various firms, and with practice review officers, that omitting the wording in the basis for modification paragraph when required under CAS 710 (11) is something that is being noted as a deficiency in practice review reports. Thus, we wanted to address this issue and provide some guidance. Luckily, the CPA Canada publication titled Reporting Implications of the New Auditing and Accounting Standards includes a sample audit report with this very modification.

As can be seen in the sample report on the next page, the basis for modification paragraph refer to both the current and corresponding figures when describing the impact of the limitation in scope.

If you have *any* questions on this sample report or in regards to Canadian Audit Standards in general, please contact us at info@clearlineconsulting.ca.

The Clear-Cut: Audit Reporting for Not-For-Profits - Qualified Opinions

Sample Report

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC Not-for-Profit Organization, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

In common with many not-for-profit organizations, ABC Not-for-Profit Organization derives revenue from fundraising activities the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of ABC Not-for-Profit Organization. Therefore, we were not able to determine whether any adjustments might be necessary to fundraising revenue, excess of revenues over expenses, and cash flows from operations for the years ended December 31, 2017 and 2016, current assets as at December 31, 2017 and 2016, and net assets as at January 1 and December 31 for both the 2017 and 2016 years. Our audit opinion on the financial statements for the year ended December 31, 2016 was modified accordingly because of the possible effects of this limitation in scope.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of ABC Not-for-Profit Organization as at December 31, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]