



Reporting on Not-For-Profit – 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 Canadian Auditing standards 3rd edition 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]

Qualified Opinion

We have audited the financial statements of ABC Not-for-Profit Organization, which comprise the statement of financial position as at December 31, 2018, and the statement of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2018, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Qualified Conclusion

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, 2018 and 2017, current assets as at December 31, 2018 and 2017, and net assets as at January 1 and December 31 for both the 2018 and 2017 years. Our audit opinion on the financial statements for the year ended December 31, 2017 was modified accordingly because of the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not for profit organizations, 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Continuation of Auditor's Report with Report on Other Legal and Regulatory Requirements

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
- Obtain an understanding of internal control relevant to the audit 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 Society's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]