

# **Practitioner's Guide on Drafting of Modified Opinions in Independent Auditor's Reports**



**The Institute of Chartered Accountants of India**  
*(Set up by an Act of Parliament)*  
**New Delhi**

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Drafting of Modified Opinions in  
Independent Auditor's Reports**



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## Foreword

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The auditing profession plays an important role in building trust in financial statements by providing assurance to various stakeholders. Auditors convey the outcome of their work through the Independent Auditor's Report, which helps users understand about the reliability of financial statements. In certain situations, auditors may need to modify their opinion to explain specific issues identified during the audit. Such modifications may take the form of a qualified opinion, an adverse opinion or a disclaimer of opinion, depending on the circumstances. It is therefore important that modified opinions are drafted in a clear, consistent and understandable manner in line with the Standards on Auditing.

I am happy to note that the Auditing and Assurance Standards Board (AASB) of ICAI has developed this publication "Practitioner's Guide on Drafting of Modified Opinions in Independent Auditor's Reports".

The publication has been developed with the objective of providing guidance to auditors in drafting clear and appropriate modified opinions in independent auditor's reports. It contains illustrations and suggested reporting language for qualified opinions, along with illustrative formats for adverse opinion and disclaimer of opinion, in accordance with the applicable Standards on Auditing.

I compliment CA. Sripriya Kumar, Chairperson, CA. Ravi Kumar Patwa, Vice-Chairman and all other members of the AASB for bringing out this publication for the benefit of the members.

I am sure that the members and other stakeholders will find this publication immensely useful in their professional endeavours.

**CA. Charanjot Singh Nanda**  
President, ICAI



## Preface

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The Independent Auditor's Report serves as the primary means through which auditors communicate their opinion on the financial statements to users, thereby reinforcing transparency, accountability and confidence in the audit process. The form, content and clarity of the auditor's opinion are crucial to maintaining public trust in audit process. Certain situations require auditors to issue a modified opinion such as a qualified opinion, an adverse opinion, or a disclaimer of opinion depending on the specific facts and circumstances of the engagement.

In this context, the Auditing and Assurance Standards Board (AASB) of ICAI earlier issued the publication "Implementation Guide on Reporting Standards (Revised SA 700, Revised SA 705 and Revised SA 706)" in 2018 and the Centre for Audit Quality (CAQ) of ICAI also issued the publication "Analysis of Modified Opinions" in 2023.

Based on these initiatives and to provide additional guidance to auditors, the Auditing and Assurance Standards Board has brought out this publication, "Practitioner's Guide on Drafting of Modified Opinions in Independent Auditor's Reports". The Guide contains an overview of the concept and types of modified opinions, guidance on presentation and headings in the auditor's report when an opinion is modified, covers illustrations on certain commonly encountered audit areas and circumstances.

The Guide seeks to provide practical and illustrative guidance, in relation to qualified opinions, while also covering adverse opinions and disclaimer of opinions, as envisaged under SA 705 (Revised). However, auditors may note that the illustrations contained in the Guide are indicative in nature and are intended to support auditors in applying the requirements of the Standards on Auditing. These illustrations do not substitute the auditor's professional judgment. The appropriateness of any modified opinion, including the wording and extent of description, depends upon the specific facts and circumstances of the engagement, the applicable financial reporting framework, and the audit evidence obtained.

We wish to express our sincere thanks to CA. Charanjot Singh Nanda, President, ICAI and CA. Prasanna Kumar D, Vice President, ICAI, for their guidance and support to the activities of the Board.

At this juncture, we wish to place on record our gratitude to all members of the study group viz. CA. Deepa Agarwal, CA. Nilanjan Paul, CA. Sumit Mahajan, CA. Lalit Kumar, CA. Pranav Jain, and CA. Bhavani Balasubramanian for finalizing this publication.

We wish to place on record high appreciation of all Board members and special invitees to the Board for their valuable contribution in various activities of the Board.

We also wish to place on record our sincere thanks to all the Council Members for their suggestions, support and guidance in various activities of the Board. We also wish to thank CA. Megha Saxena, Secretary, AASB and other staff of AASB for their contribution in finalising this publication.

We are confident that the publication would be well received by the members and other interested readers.

**CA. Ravi Kumar Patwa**  
Vice Chairman, AASB

**CA. Sripriya Kumar**  
Chairperson, AASB

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## Introduction

1. The audit profession plays a significant role in ensuring the credibility of financial information of an entity. The auditor's opinion, expressed through the independent auditor's report, is intended to provide reasonable assurance to the users that the financial statements are prepared in accordance with an applicable financial reporting framework and are free from material misstatements, whether due to fraud or error.
2. In today's dynamic business environment, where users of financial information increasingly demand transparency and accountability, the form and content of the auditor's report assume critical importance. The Independent Auditor's Report, which is the final outcome of the audit process and the opinion presented therein are of utmost relevance to a user of the financial statement.
3. Independent auditor's reports issued to relevant stakeholders may express modified or unmodified opinions. An unmodified opinion is one where the independent auditor is able to opine that the financial statements reflect a true and fair view of the financial statements. However, in certain circumstances, auditors may be necessitated to issue modified opinion i.e. qualified opinion, adverse opinion or a disclaimer of opinion. Auditor's reports may also contain certain matters reported under an Emphasis of Matter paragraph which do not affect an audit opinion.
4. The Standards on Auditing - SA 700(Revised), "Forming an Opinion and Reporting on Financial Statements", SA 701, "Communicating Key Audit Matters in the Independent Auditor's Report", SA 705(Revised), "Modifications to the Opinion in the Independent Auditor's Report", SA 706(Revised), "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report" and SA 720(Revised), The Auditor's Responsibilities Relating to Other Information provide a comprehensive framework for forming and expressing an opinion on financial statements of an entity, by an Independent auditor and include circumstances requiring modifications,

## **Practitioner's Guide on Drafting of Modified Opinions**

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emphasis of matter paragraphs, other matter paragraphs, communication of key audit matters, other information.

5. The Auditing and Assurance Standards Board (AASB) studied modified opinions in several audit reports which have been issued by auditors and also considered a publication issued by the Centre for Audit Quality Directorate of ICAI, "Analysis of Modified Opinions" issued in June 2023. Based on above and further discussions with relevant stakeholders, a need was felt to provide additional guidance to independent auditors in drafting modifications to opinions in the auditor's report especially in the context of qualified opinions so that the intent of such opinion issued by independent auditors is achieved both in letter and spirit.
6. This Practitioner's Guide, developed by AASB, provides illustrative guidance to auditors on the drafting of qualified opinions in the independent auditor's report by providing a significant number of illustrations on the same. It is intended to assist practitioners in appreciating the circumstances in formulating appropriate wordings for such modified opinions. Illustrations of adverse opinion and disclaimer of opinion are also reproduced from the illustrative formats provided in SA 705(Revised).
7. Readers may note that the illustrations provided are indicative in nature and do not substitute the auditor's professional judgment. The applicability, extent, and wording of any modified opinion will vary upon the specific facts, circumstances, and audit evidence relating to the entity under audit and users are advised to exercise professional judgement in applying the contents of this publication to specific engagements undertaken by them.

## **Types of Modified Opinions in Independent Auditor's Reports**

**Readers are advised to read the entire text of the Standards on Auditing for detailed understanding and appreciation of the underlying requirements**

1. SA 705(Revised) 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.
2. 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.
3. *Reference to Auditor's Modified Opinion*
  - (a) When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section.

- (b) The Auditor shall amend the heading "Basis for Opinion" required by paragraph 28 of SA 700 (Revised) to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate and within this section, include a description of the matter giving rise to the modification.

4. *Qualified Opinion*

The auditor shall express a qualified opinion when

- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

5. *Adverse Opinion*

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

6. *Disclaimer of Opinion*

The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient

appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

7. When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole.

## Illustrations of Various Categories of Modified Opinions

### A. Qualified Opinions in Independent Auditor's Report

The placement of the relevant paragraph is illustrated as under:

**INDEPENDENT AUDITOR'S REPORT**

**To the Members of ABC Company Limited**

**Report on the Audit of the Standalone Financial Statements**

**Qualified Opinion**

We have audited the standalone financial statements of ABC Company Limited ("the Company"), which comprise the balance sheet as at March 31, 20XX, and the statement of Profit and Loss, (statement of changes in equity) and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of [significant accounting policies/ material accounting policy information] and other explanatory information (in which are included the Returns for the year ended on that date audited by the branch auditors of the Company's branches located at (location of branches)).

In our opinion and to the best of our information and according to the explanations given to us, **except for the effects of the matter described in the Basis for Qualified Opinion** section of our report, the aforesaid financial statements give the information required by the Companies Act 2013 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at March 31st, 20XX and its profit/loss, (changes in equity) and its cash flows for the year ended on that date.

**Basis for Qualified Opinion**

The Company's inventories are carried in the Balance Sheet at Rs. XXX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from the [Indian] Accounting

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Standards prescribed under section 133 of the Companies Act, 2013. The Company’s records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of Rs. xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by Rs. xxx, and income tax, net income and shareholders’ funds would have been reduced by Rs. xxx, Rs. xxx and Rs. xxx, respectively.

..... (emphasis supplied for the purpose of this publication)

<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under “Basis for Qualified Opinion” Paragraph in Auditor’s Report</b>
<b>Going concern</b>		
1.	<b>Expiry of financing arrangements</b>	As detailed in Note X to the financial statements, the Company’s financing arrangements expire and amounts outstanding are payable on April 30, 20XX. The Company has not been able to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statements do not adequately disclose this matter.
<b>Property, plant and equipment</b>		
2.	<b>Non maintenance of property, plant and equipment register</b>	As detailed in Note X to the financial statements the Company has neither maintained a register of property, plant and equipment nor provided alternate evidence to verify existence and completeness of the property,

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under “Basis for Qualified Opinion” Paragraph in Auditor’s Report</b>
		plant and equipment as at the year end. Consequently, in absence of sufficient appropriate audit evidence we are unable to determine whether any adjustments/disclosures were necessary to the financial statements.
3.	<b>Non verification of property, plant and equipment</b>	As detailed in Note X to the financial statements, the Company has neither carried out a physical verification of its Property, Plant and Equipment [during the year or in a phased manner as per the pre-approved plan for such verification] nor provided alternate evidence to verify existence and condition of the property, plant and equipment as at the year end. Consequently, in absence of sufficient appropriate audit evidence we are unable to determine whether any adjustments / disclosures were necessary to the financial statements.
4.	<b>Depreciation</b>	Scenario-1  The Company has not recognised depreciation on property, plant and equipment as per [Accounting Standard 10/ Indian Accounting Standard 16] “Property, Plant and Equipment” and Schedule II to the Companies Act, 2013. As a result, depreciation for the current year as stated in Note Y to the financial statements is understated by INR _____ and the carrying value to property, plant and equipment is

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		<p>overstated by the same amount. Consequently, the profit after tax is overstated by INR_____ and Reserves and Surplus is understated by INR_____.</p> <hr/> <p>Scenario-2</p> <p>As detailed in Note X to the financial statements the Company has not provided depreciation, which constitutes a departure from [Accounting Standard 10/ Indian Accounting Standard 16] “Property Plant and Equipment” and Schedule II to the Companies Act, 2013. As a result, depreciation for the current year as stated in Note Y to the financial statements is understated by INR_____ and the carrying value to property, plant and equipment is overstated by the same amount. Consequently, the profit after tax is overstated by INR_____ and Reserves and Surplus is understated by INR_____.</p>
5.	<b>Capitalisation of property, plant and equipment</b>	As detailed in Note X to the financial statements, the Company has capitalised INR_____during the current year instead of recognising the same as Capital Works in Progress as per the requirements of [Accounting Standard 10/ Indian Accounting Standard 16] “Property, Plant and Equipment”. As a result, depreciation

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		of the current year is overstated by INR _____ and the Property, Plant and Equipment is understated by the same amount and the Capital Works in Progress is understated by INR____. Consequently, the Profit after Tax is understated by INR_____ and Reserves and Surplus is understated by INR_____.
6.	<b>Capital Work In progress</b>	As detailed in Note X to the financial statements, the Company has capitalised INR_____ of Property, Plant and Equipment from Capital Work and has recognised the depreciation of INR_____ on the aforesaid Property, Plant and Equipment. In absence of sufficient audit evidence regarding the aforesaid adjustments including capitalisation certificate we are unable to comment on the consequential effects thereof on the financial statements.
7.	<b>Impairment of non-financial assets not undertaken</b>	As detailed in Note X to the financial statements, cash generating unit aggregating to INR_____ is not in usable condition. However, the management has not assessed the recoverable value of the cash generating unit as per the requirements of [Indian Accounting Standard 36/ Accounting Standard

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under "Basis for Qualified Opinion" Paragraph in Auditor's Report</b>
		28], "Impairment of Assets". In absence of sufficient audit evidence we are unable to comment on the consequential effects thereof on the financial statements include the impairment loss, if any, that should have been recognized in the financial statements.
8.	<b>Non capitalisation of interest costs</b>	As detailed in Note X to the financial statements, the Company has not capitalized interest cost of INR_____ incurred for construction of Property, Plant and Equipment, which is in contravention with the requirements set out in [Accounting Standard 10/ Indian Accounting Standard 16], "Property, Plant and Equipment." Such omission has resulted in non-recognition of depreciation for the current year by INR_____. As a result Profit After Tax for the current year is lower by INR___ and Property, Plant and Equipment as at the year end is lower by INR_____.
9.	<b>Non Confirmation of assets held by Third parties</b>	As detailed in Note X to the financial statements, property, plant and equipment amounting to INR_____ owned by the Company are located at third-party sites. We were neither provided with confirmation from such site owners nor were we able to

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		perform alternate audit procedures to assess the existence and condition of the property, plant and equipment. Therefore, we cannot comment whether any adjustment/ disclosure might have been necessary in the financial statements.
<b>Inventory</b>		
10.	<b>Auditor not able to verify inventory as at year end</b>	As detailed in Note X to the financial statements the Company has not undertaken physical verification of inventories amounting to INR_____ existing as at the year end. Accordingly, we were not able to observe the counting of such physical inventories or satisfy ourselves concerning those inventories quantities by alternative means. Given that the aforesaid inventories are material to the financial statements, we are unable to determine the effect thereof on the financial statements . Therefore, we cannot comment on the adjustments/ disclosures that might be necessary in the financial statements.
11.	<b>Auditor not able to verify opening balance of inventory</b>	As detailed in <i>Note X</i> to the financial statements, we were appointed as auditors of the Company during the financial year 20X0. Accordingly, we were not able to observe the counting

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		<p>of the physical inventories at the beginning of that period or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 20X0. Our audit opinion on the financial statements for the year ended 31 March, 20X0 was modified accordingly. Our opinion on the current period’s financial statements is also modified because of the possible effect of this matter on the comparability of the current period’s figures and the corresponding figures.</p>
12.	<p><b>Adjustment entries for excess / shortage on physical verification not accounted</b></p>	<p>As detailed in Note X to the financial statements the Company has failed to record necessary adjustment entries for discrepancies identified during the physical verification of inventories. This failure to recognise these discrepancies has resulted in [overstatement / understatement] of the reported inventory balances and the [Cost of materials consumed/ Changes in inventories of.....] by Rs.....As a result Profit After Tax is [lower/ higher] by Rs.....</p>
	<p><b>Non provision for losses on slow moving,</b></p>	<p>As detailed in Note X to the financial statements the Company has not made adequate provisions for slow</p>

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under “Basis for Qualified Opinion” Paragraph in Auditor’s Report</b>
	<b>non moving and obsolete inventory</b>	moving, non-moving, and obsolete inventory items aggregating to INR____, contrary to the requirements of [Indian Accounting Standard 2/ Accounting Standard 2] “Inventories”. The absence of these provisions has lead to an overstatement of inventory and an understatement of [Cost of materials consumed/ Changes in inventories of.....] by Rs.....and understatement of Profit After Tax by Rs____.
	<b>Right over inventory not ascertainable</b>	During our audit, we noted that the rights of the Company over inventories amounting to INR____ as included in Note X to the financial statements could not be clearly ascertained. This uncertainty arose due to [inadequate documentation or disputes over ownership], leading to potential risks that these items may not be available for use or sale by the Company. Therefore, we cannot comment on the adjustments/ disclosures that might be necessary in the financial statements.
	<b>Inventory held by third parties could not be verified</b>	As detailed in Note X to the financial statements, the Company has not undertaken physical verification of inventories amounting to INR____ held at third-party locations as at the year end. Accordingly, we were not

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under “Basis for Qualified Opinion” Paragraph in Auditor’s Report</b>
		able to observe the counting of such physical inventories or satisfy ourselves concerning those inventories quantities by alternative means. Given that the aforesaid inventories are material to the financial statements, we are unable to determine the effect thereof on the financial statements. Therefore, we are unable to comment whether any adjustments/ disclosures might be necessary in the financial statements.
<b>Investments</b>		
16.	<b>Valuation of Investments</b>	As detailed in Note X to the financial statements the Company’s holds investments of INR____ as at the year end. During our audit, we identified that the Company has not calculated the recoverable value of these investments as per [Accounting Standard 13, “Accounting for Investments” / Ind AS 109, “Financial Instruments”] thereby resulting in [either overvalued or undervalued] investments. The net impact of the [over or undervaluation] of investments and profit after tax of the Company is Rs .....and Rs.....respectively.
17.	<b>Ownership of Investments</b>	(a) During our audit, we noted that the ownership of the Company over investments amounting to INR

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		<p>as included in Note X to the financial statements could not be clearly ascertained. This uncertainty arose due to [inadequate documentation or disputes over ownership], leading to potential risks that these investments may not be available for sale by the Company. Therefore, we cannot comment on the adjustments/ disclosures that might be necessary in the financial statements.</p>
		<p>(b) As referred to in Note ___ to the financial statements. investments aggregating Rs ___ were not found to be in the name of the Company. The management of the Company asserts that these investments are controlled by the Company and are held in the name of the nominees of the Company due to various operational or strategic reasons. In absence of sufficient appropriate audit evidence, we are unable to comment on the existence and ownership of these investments and adjustments, if any, and the adjustments/ disclosures that might be necessary in the financial statements.</p>

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18.	<b>Investments in Strike off entities</b>	During our audit, we identified that the Company holds investments aggregating to INR___ in entities that are currently undergoing the strike-off process or have already been struck off as explained in Note X to the financial statements. The status of these entities raises significant concerns about recoverability of the investments held in them. No [provision for diminution other than temporary/ impairment loss] in the value of such investments as per AS 13/ Ind AS 109 have been considered in the financial statements. Consequent to the same, the profit after tax and the investments are overstated to the extent of Rs .....and Rs.... Respectively.
19.	<b>Investments in Dormant entities</b>	During our audit, we identified that the Company holds investments aggregating to INR___ in entities that have been dormant for an extended period as explained in Note X to the financial statements. No [provisions for diminution other than temporary/impairment loss] in the value of such investments, as per [AS 13/ Ind AS 109] have been considered in the financial statements. Consequent to the same, the profit after tax and the

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under “Basis for Qualified Opinion” Paragraph in Auditor’s Report</b>
		investments are overstated to the extent of Rs .....and Rs..... respectively.
20.	<b>Diminution in value of Investments</b>	As detailed in Note X to the financial statements, which details the Company’s investment portfolio. During our audit, we observed that the Company has not made necessary provision in the financial statements for [diminution other than temporary/ impairment loss] in the value of the investment as per [AS 13/Ind AS 109], despite clear evidence of a sustained decline in their recoverable value. The value of such investments is Rs .....Consequent to the same, the profit after tax and the investments are overstated to the extent of Rs .....and Rs.....
21.	<b>Departure from Accounting Standards on Valuation of Marketable Securities</b>	As detailed in Note X to the financial statements, The Company’s short-term marketable securities are carried in the balance sheet at Rs. xxx. Management has not marked these securities to market but has instead stated them at cost, which constitutes a departure from [AS 13/ Ind AS 109]. The Company’s records indicate that had management marked the marketable securities to market, the Company would have recognized an unrealized loss of Rs. xxx in the

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under “Basis for Qualified Opinion” Paragraph in Auditor’s Report</b>
		statement of profit and loss for the year. The carrying amount of the securities in the balance sheet would have been reduced by the same amount at March 31, 20X1, and income tax, profit after tax and [shareholders’ fund/ Equity] would have been reduced by Rs. xxx, Rs. xxx and Rs. xxx, respectively.
<b>Revenues and Receivables</b>		
22.	<b>Overstatement of revenue</b>	During our audit, we identified instances where revenue from sale of goods was recognized despite that [risk and reward of ownership/ control over goods] was not transferred to the customer by the year end, which constitutes a departure from [Accounting Standard 9, “Revenue Recognition” / Ind AS 115, “Revenue from Contracts with Customers”]. Consequent to the above, the revenue from operations, profit after tax and trade receivables are overstated by Rs ....., Rs ..... and Rs ..... respectively.
23.	<b>Non confirmation of balances by debtors</b>	As detailed in Note X to the financial statements, regarding the trade receivables outstanding at the year end. Our audit procedures included sending requests for direct confirmations to customers to verify the amounts they owed to the

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under "Basis for Qualified Opinion" Paragraph in Auditor's Report</b>
		Company as at year-end. The total value of such cases is Rs .....A significant portion of these confirmation requests were either not responded by the customers or the responses received did not reconcile with the balances recorded in the Company's books. In absence of sufficient appropriate audit evidence from the alternate procedures, we are unable to ascertain the adjustments/ disclosures might be necessary in the financial statements.
24.	<b>Non provision for bad and doubtful debts</b>	As detailed in Note X to the financial statements, The Company has trade receivables aggregating Rs ___ as at ____, out of which trade receivables aggregating Rs _____ are unlikely to be collected due to the financial difficulties or disputes over the supplied goods or services. The Company has not recognized any [provision for doubtful debts/ impairment loss] against these old balance. Accordingly, non-recognition of [provision for doubtful debts/ impairment loss] of Rs ___ has resulted in an overstatement of profit after tax by Rs.....and trade receivables to such extent.
25.	<b>Inability to obtain and hence confirm</b>	As detailed in Note X to the financial statements, owing to nature of books and records maintained by the

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under "Basis for Qualified Opinion" Paragraph in Auditor's Report</b>
	<b>the aging of trade receivable balances</b>	Company, we were unable to obtain and confirm the accuracy of the ageing of trade receivable balances aggregating Rs ___ as at _____. In absence of such information, we are unable to comment on the appropriateness of the disclosure of trade receivable balances in Note ___ to the financial statements and accordingly we are unable to ascertain the impact, if any, of such non-availability of information on the carrying values of such trade receivables and the impact, if any, on the accompanying financial statements.
<b>Bank balances</b>		
26.	<b>Confirmation of balances not obtained</b>	During our audit, we were neither able to obtain independent confirmation of the bank balances nor was able to satisfy the bank balances by alternative means aggregating to Rs ___ as contained in Note _____. Consequently, we are unable to conclude whether any adjustments/disclosures to the cash and bank balances or other related financial statement accounts might be necessary.
27.	<b>Issues in relation to Bank reconciliation statements</b>	During our audit, it was observed that there are numerous unresolved items in the Bank Reconciliation Statement. These unresolved items include

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		<p>discrepancies between the bank statements and the Company’s accounting records, which have not been investigated or resolved by the Company by the year-end. The total value of such items in the Bank Reconciliation Statement include unreconciled credits of Rs ..... and unreconciled debits of Rs .....Accordingly, profit after tax for the year and bank balance is [overstated/understated] by Rs _____.</p>
<b>Loans and Advances</b>		
28.	<b>Confirmation of balances</b>	<p>As detailed in Note X to the financial statements, which pertains to loans and advances granted by the Company. Our audit procedures included requests for direct confirmations from parties to verify the balances they owed to the Company as at year-end. A significant portion of these confirmation requests received no response or the responses received did not reconcile with the balances recorded in the Company's books. The total value of such cases is Rs ..... Therefore, we cannot comment whether any adjustment/ disclosure might have been necessary in the financial statements.</p>

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under "Basis for Qualified Opinion" Paragraph in Auditor's Report</b>
<b>Share Capital</b>		
29.	<b>Share application money pending allotment</b>	As detailed in Note X to the financial statements, which pertains to the share application money of of Rs.....received on_____. It has been observed that the Share application money has been pending allotment for a considerable period of time, exceeding the timeframe specified under the section 73 to the Companies Act 2013 read with related Rules. The funds have since used for business purposes. The Company has not assessed the effect of penalties with regard to section 73 to the Companies Act, 2013 read with related Rules. Therefore, we cannot comment whether any adjustment/ disclosure might have been necessary in the financial statements.
<b>Secured and Unsecured Loans</b>		
30.	<b>Non accrual of Interest on Loans</b>	As detailed in Note X to the financial statements, which pertains to the interest expenses relating to loans availed by the Company. During our audit, it was observed that the Company has not accrued interest amounting to INR____ on several loans This has resulted in an understatement of interest expense for the year and a corresponding

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under "Basis for Qualified Opinion" Paragraph in Auditor's Report</b>
		understatement of the liabilities and understatement of profit after tax by Rs._____.
31.	<b>Non accrual of Interest on Loans classified as NPA</b>	As detailed in Note X to the financial statements, which pertains to the loans availed by the Company that have been classified as Non-Performing Assets (NPA) by the lending bank / Financial Institutions. During our audit, it was observed that the Company has not accrued interest on these loans, citing their classification as NPA by the bank as the basis for this decision. This has resulted in an understatement of interest expense and a corresponding understatement of the liabilities and understatement of profit after tax by Rs._____
32.	<b>Non accrual of interest for the year</b>	As detailed in Note X to the financial statements, the company has not provided for interest for the year ended 31st March XXXX on certain borrowings from Banks and Financial institutions and also on loans that assigned to Asset Reconstruction Companies (ARCs) which in our opinion, the Company has not followed accrual system of accounting and disclosure of accounting policy is not in accordance with Ind AS I- "Presentation of Financial

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		Statements” to this extent. Accordingly, we are unable to comment on the effect thereof on the financial statements.
<b>Trade Payables</b>		
33.	<b>Confirmation of Balances</b>	As detailed in Note X to the financial statements, regarding the trade payables outstanding at the year end. Our audit procedures included sending requests for direct confirmations to vendors to verify the amounts that were owed by the Company as at year-end. The total value of such cases is Rs ..... A significant portion of these confirmation requests were either not responded by the vendors or the responses received did not reconcile with the balances, recorded in the Company's books. In absence of sufficient appropriate audit evidence from the alternate procedures, we are unable to ascertain the adjustments/ disclosures might be necessary in the financial statements.
<b>Others</b>		
34.	<b>Branch Audit reports not received (In Main report under the specified para)</b>	As detailed in Note X to the financial statements, which pertains to the audit of the Company’s branch offices under Section 143(8) of the Companies Act, 2013. During our

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under “Basis for Qualified Opinion” Paragraph in Auditor’s Report</b>
		<p>audit, it was noted that the reports on the accounts of the branch offices audited by other auditors have not been sent to us and accordingly could not have been properly dealt with by us in preparing this report. The number of such branches is Rs ..... and the total value of assets is Rs ....., liabilities is Rs .... , Income is Rs ..... and expense is Rs .....Except for the above, the reports on the accounts of the branch offices of the Company audited under Section 143(8) of the Companies Act, 2013 by branch auditors have been sent to us and have been properly dealt with by us in preparing this report.</p> <p>[Auditor to assess the effect on the true and fair view of the financial statements]</p>
35.	<p><b>Non-Disclosure of Pending Litigations (In Main report under the specified para)</b></p>	<p>Except for certain pending litigations as explained in Note X to the financial statements the Company has adequately disclosed the impact of pending litigations in its financial statements.</p> <p>[Auditor to assess the effect on the true and fair view of the financial statements]</p>

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under “Basis for Qualified Opinion” Paragraph in Auditor’s Report</b>
36.	<b>Provisions for losses on long term contracts (In Main report under the specified para)</b>	<p>Except for certain long term contracts as explained in Note X in the financial statements, the Company has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts – Refer Note XX to the financial statements.</p> <p>[Auditor to assess the effect on the true and fair view of the financial statements]</p>
37.	<b>Debt restructuring scheme by lenders and balance confirmation from lenders - overdue/penal interest</b>	<p>As detailed in Note X to the financial statements, which pertains to Pending sanction of debt restructuring scheme by lenders and balance confirmation from lenders, the Company has not provided for the penal interest, if any. Accordingly, we are unable to comment on the effect thereof on the financial statements.</p>
38.	<b>Related party disclosures</b>	<p>As detailed in Note X of the Standalone Ind AS Financial Statements related party relationships as required under Ind AS 24, “Related Party Disclosures” and the Companies Act, 2013 are as identified by the Management taking into account the findings and the information available with the Management. In this regard in the</p>

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		<p>absence of specific declarations from the erstwhile directors on their compliance with disclosures of related parties especially considering the substance of the relationship rather than the legal form the related parties have been identified based on the declarations by the erstwhile directors and the information available through the known shareholding pattern in the entities. Therefore there may be additional related parties whose relationship may not have been disclosed to the Company and hence not known to the Management. In the absence of all required information we are unable to comment on the completeness/ accuracy of the related party disclosures/details in these Standalone Ind AS Financial Statements and the compliance with the applicable regulations and the consequential impact if any of the same on these Standalone Ind AS Financial Statements.</p>
39.	<p><b>Depreciation Remaining useful life of machine-assets was NIL but the assets are still in use</b></p>	<p>As detailed in Note X to the financial statements, it was observed that lots of assets are shown in the books of accounts of the company under different assets head at its residual value. Further, the remaining useful life of those machines was NIL but the assets are still in use and are being</p>

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		<p>installed in the factory and further no depreciation has been charged by the company as they are shown at their residual value since Financial Year XXXX. However, as per Ind AS - 16, depreciation can be seized only if the asset is demortized/sale or is held for sale. Moreover as per IND AS 16, "Property, Plant and Equipment", the company should have to revalue these assets and charge depreciation on the revalued amount. While discussing this issue with the management, it was told to us that such machines could not be revalued by any valuation officer as these machines were bought from Italy with the name of XYZ Machines and the size of these machines are very heavy. Accordingly, we are unable to comment on the effect thereof on the financial statements.</p>
40.	<b>Cash Flow Statement</b>	<p>As detailed in Note X to the financial statements, the Company has not complied with Accounting Standard (AS) 3, "Cash Flow Statements" to the extent of disclosure/adjustment of unrealized gain/loss on foreign currency fluctuation in the Cash Flow Statement, Accordingly, we are unable to comment on the effect thereof on the financial statements.</p>

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under "Basis for Qualified Opinion" Paragraph in Auditor's Report</b>
41.	<b>Inventories lying at various locations</b>	As detailed in Note X to the financial statements, the Company's inventories lying at various locations have become obsolete and lying idle for a considerable long period of time. The usefulness and the serviceability of these inventories are subject to verification, identification and inspection by the management. Pending verification, identification and inspection by the management and subsequent adjustment entries to be passed in the books of accounts, Accordingly, we are unable to comment on the effect thereof on the financial statements.
42.	<b>Cheques received after balance sheet date treated as 'cheques-in-hand'</b>	As detailed in Note X to the financial statements, as per the company's current accounting policy, as at the year-ending 31 March 20x1, cheques/drafts in hand dated 31 March 20X1 and received on or before 15th April 20X1 are accounted for as 'cheques-in-hand' for the year ending 31 March 20x1. Another standpoint is that to classify cheques or drafts in hand' these should have been received by the company on or before balance sheet date (irrespective cheque or draft is dated 31 March or before). The policy adopted by the company is not correct because for cheques in hand to be considered as

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		<p>assets as on the Balance Sheet date should be in possession and control of the company in such a way that these can be used based in accordance with AS 4, "Contingencies and Events Occurring After the Balance Sheet Date" adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. This has resulted in understatement of trade receivables and overstatement of cash and bank balances by Rs. ____ as at 31 March 20X1. Accordingly, we are unable to comment on the effect thereof on the financial statements.</p>
43.	<b>Training expenditure for operating a plant</b>	<p>As detailed in Note X to the financial statements, the company is in the business of power generation and hence has conducted feasibility study on whether a power plant can be set-up. As per the company's accounting policy, training expenditure incurred before start of plant is treated as deferred revenue expenditure and amortised over a period of 3 years once the plant is started. Such policy is not in accordance with AS 26, "Intangible Assets" which requires expenditure on training activities to be recognized as an expense when it is</p>

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		<p>incurred. The consequential impact of such non-compliance has resulted in overstatement of other non-current assets and net profits each by Rs. _____ for the year. Accordingly, we are unable to comment on the effect thereof on the financial statements.</p>
44.	<p><b>Dividend declared after reporting period on financial liability</b></p>	<p>As detailed in Note X to the financial statements, the company has Redeemable Preference Shares in its books which are classified as financial liability under Ind AS 32, “Financial Instruments: Presentation”. The company has declared dividend on those Redeemable Preference Shares after the reporting date i.e. March 31st, XXXX_) but has not recognised such dividends as liability in the financial statement for the year ended March 31, XXXX. This non-recognition is not in accordance with Ind AS 32 read with Ind AS 8, “Accounting Policies, Changes in Accounting Estimates and Errors” which requires dividend declared on a financial liability, like Redeemable Preference Shares, shall be recognised in profit or loss as expense and dividend declared on equity instruments shall be recognised directly in equity as proposed dividend. This has resulted in understatement of current liability</p>

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<b>S No.</b>	<b>Illustrative Circumstances</b>	<b>Suggested Reporting Language under “Basis for Qualified Opinion” Paragraph in Auditor’s Report</b>
		and net profits each by Rs. ____ for the current financial year. Accordingly, we are unable to comment on the effect thereof on the financial statements.

## B. Adverse Opinion in Independent Auditor's Report

### INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Company Limited

Report on the Audit of the Consolidated Financial Statement

#### Adverse Opinion

We have audited the accompanying consolidated financial statements of ABC Company Limited (hereinafter referred to as the "Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its associates and jointly controlled entities, which comprise the consolidated balance sheet as at March 31, 20XX, the consolidated statement of profit and Loss, (consolidated statement of changes in equity) and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "consolidated financial statements").

In our opinion and to the best of our information and according to the explanations given to us, **because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report,** the accompanying consolidated financial **statements do not give a true and fair view in conformity with the accounting principles generally accepted in India,** of the consolidated state of affairs of the Group, its associates and jointly controlled entities, as at March 31, 20XX, of its consolidated profit/loss, (consolidated position of changes in equity) and the consolidated cash flows for the year then ended.

#### Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20XX because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a

cost basis. Under the accounting principles generally accepted in India, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

.... ( emphasis supplied here for the purpose of this publication)

### C. Disclaimer of Opinion in Independent Auditor's Report

#### INDEPENDENT AUDITOR'S REPORT

To the Partners of ABC & Associates

#### **Disclaimer of Opinion**

We were engaged to audit the financial statements of ABC & Associates ("the entity"), which comprise the balance sheet as at March 31, 20X1, the statement of Profit and Loss, and (statement of cash flows) for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. We do not express an opinion on the accompanying financial statements of the entity. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, **we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.**

#### **Basis for Disclaimer of Opinion**

We were not appointed as auditors of the entity until after March 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at March 31, 20X0 and 20X1, which are stated in the Balance Sheets at Rs XXX and Rs XXX, respectively. In addition, the introduction of a new computerized accounts receivable system in November 20X0 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the Balance Sheet at a total amount of Rs xxx as at March 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of Profit and Loss and statement of cash flows.

.... ( emphasis supplied here for the purpose of this publication)