



Pervasive material misstatements in audit reports

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ABSTRACT

Professional judgment is always an important factor in detecting pervasive material misstatements, and the detection of pervasive material misstatements also affects the auditors' opinion. The term pervasive in financial statement auditing is used to identify the effects of misstatements or potential misstatements on financial statements that lead to an adverse or disclaimer of opinion, as defined in paragraph 5 of ISA 705, "Modified Opinions in the Independent Auditor's Report. However, auditors in practice have different interpretations of the concept of pervasive, which leads to different opinions in audit reports, even in similar circumstances. Efforts to introduce materiality criteria began in the early 1950s, and numerous guidelines have been provided by professional bodies and researchers. However, it is rare to find a reliable source that discusses or researches the concept of comprehensiveness or provides guidance for it. In this article, an attempt has been made to describe the concept of comprehensiveness in a way that provides a basis for better professional judgment and improved audit opinions by examining the views and opinions that played a key role in introducing the term comprehensiveness in the International Standard on Auditing 705. The innovation of the research on the topic of learning about material misstatements is a professional topic that has not been comprehensively researched in this area so far. Therefore, given the innovation and applicability of the topic, educational and research institutions can use the results of this research in teaching and enriching the research literature. Auditors can also use this research for audit opinions to identify factors affecting the detection of material misstatements during professional judgment.

Keywords: professional judgment, auditors' opinion



1. Introduction

Auditing is performed to present important matters to stakeholders, and identifying important matters is one of the main challenges for auditors (Dwyer et al., 2024). As stated in auditing standards, the auditor's responsibility is to express an opinion on the financial statements based on an audit conducted in accordance with auditing standards and with an emphasis on compliance with professional ethics, and must also plan and perform the audit in a way that obtains reasonable assurance that the financial statements are free from material misstatement (Hussein et al., 2023). However, if the auditor has concluded that a modification of the opinion on the financial statements is necessary, he must submit an appropriately modified report, citing Auditing Standard No. 705. Deciding on the type of opinion depends on the following:

- a) The nature of the matter that led to the modification. These matters include the existence of misstatements in the financial statements, limitations in obtaining sufficient and appropriate audit evidence, and fundamental ambiguity.
- b) The auditor's judgment about the materiality or pervasiveness of the effects of the misstatement or the possible effects of the limitation on the financial statements.

Auditing Standard No. 705 describes how the auditor's judgment affects the type of his opinion, considering the nature and importance of the matter that led to the adjustment and the pervasiveness of its effects or possible effects on the financial statements. Matters of pervasiveness will cause a fundamental problem and a disclaimer of opinion or a disclaimer of opinion.

This standard states that even if the auditor is unable to obtain sufficient appropriate audit evidence, he should proceed as follows:

A- If the auditor concludes that the possible effects of undetected possible misstatements on the financial statements could be material but not pervasive, he should issue a qualified opinion; or

B- If the auditor concludes that the possible effects of undetected misstatements on the financial statements could be so material and pervasive that a qualified opinion would not be sufficient to indicate the materiality of the matter, the auditor should:

- If possible and in the absence of legal or regulatory prohibition, withdraw from the audit; or

- If withdrawal from the audit is not possible before issuing the auditor's report, disclaim an opinion on the financial statements.

In addition, in 1379, a guideline for determining the level of materiality was issued by the Audit Organization, which considered a percentage of average sales and total assets as the basis for determining tolerable misstatement, and currently, the aforementioned guideline is the basis for the work of the Audit Organization and most audit firms. As is clear, ISA 750 has well stated how the independent auditor should express his opinion under different natures of matters such as misstatement, limitation, and ambiguity, materiality (comprehensive and non-comprehensive), and the materiality level guideline has also referred to the category of materiality in detail. The term comprehensive is defined in paragraph 5 of ISA 705 "Modified Opinions in the Independent Auditor's Report". However, auditors in practice have different understandings of the concept of comprehensiveness, and this causes us to witness different opinions in audit reports even in similar circumstances. Efforts to introduce materiality criteria began in the early 1950s, and numerous guidelines have been provided by professional authorities and researchers so far; However, it is rare to find a reliable source that discusses or researches the concept of comprehensiveness or provides guidance for it. Therefore, this article attempts to describe the concept of comprehensiveness in a way that provides a basis for better professional judgment and improved audit opinions by examining the opinions and perspectives that played a key role in introducing the term comprehensiveness in the International Auditing Standard 705. The innovation of the research on the topic of learning about material misstatements is a professional topic that has not been comprehensively researched in this area so far. Therefore, given the innovation and applicability of the topic, educational and research institutions can use the results of this research in teaching and enriching the research literature. Auditors can also use this research for audit opinions to identify factors affecting the detection of material misstatements during professional judgment.

The concept of materiality in auditing

The materiality level of financial statements is the most important element in the auditing profession, which determines the scope of procedures performed

and the level of confidence in the information in the financial statements. After selecting the materiality level, the auditor must determine the materiality level for the opinion. If the selected materiality level is not correct, audit risk increases, adequate procedures are not performed, and the financial statements will not meet the expectations of users. The biggest problem that the auditor can face is determining the level of materiality, which may affect the reliability of the financial statements and the decisions made by users. The final decision is made by the auditor in terms of the materiality level, and also, the level of materiality determined by the auditor does not always meet the expectations of users of the financial statements (Lakis and Mesiolovicus, 2017). The main reason for the existence of the auditing profession is its accreditation function, which means providing assurance on the suitability and reliability of financial statements, which implies the concept of materiality and has been introduced into the accounting and auditing profession since the early 1930s and is currently considered in international auditing standards and national auditing standards. Materiality is a key theoretical and practical concept in auditing, and there are different views between auditors and users of audit reports on this concept. The level of materiality is considered as a threshold and dividing line between material and immaterial information. In this way, if the information is not material, there is no need to examine it further, and vice versa, auditors cannot comment on the financial statements without considering the concept of materiality, and it determines the scope of the procedures performed and the level of confidence in the information in the financial statements (Ohia and Torio, 2022). The materiality level of financial statements is the most important element in the auditing profession, which determines the scope of procedures performed and the level of confidence in the information in the financial statements. After selecting the materiality level, the auditor must determine the level of materiality for the opinion. If the selected materiality level is not correct, audit risk increases, adequate procedures are not performed, and the financial statements will not meet the expectations of users. The biggest problem that the auditor can face is determining the level of materiality, which may affect the reliability of the financial statements and the decisions made by users. The final decision is made by the auditor in terms of the level of materiality, and

also, the level of materiality determined by the auditor does not always meet the expectations of users of the financial statements (Kehzadi-Tahne, 2019)

The concept of pervasiveness in auditing

According to accounting standards and international financial reporting standards, a matter is considered significant if, individually or in the aggregate, it could be expected to influence the decisions of users. In auditing standards, a misstatement resulting from the independent auditor's report on the entire group is classified as a material misstatement but not pervasive or a material misstatement that is pervasive. The judgment of significance is made in light of the surrounding circumstances and is influenced by size, nature, or a combination of both (Maham et al., 2014). The word pervasive in the Oxford English Dictionary means "present in all parts of a place or thing, spreading gradually throughout them" and in Webster's English Dictionary, it means "present or spreading in every part of something". Both cultures have the same semantic view of this word, and the characteristics of "comprehensiveness" and "extensiveness" are evident in both meanings. In general, misstatements and their effects are of great importance, and the auditor considers these effects for their consequences in the auditor's report. The auditor examines whether the misstatements discovered and not discovered during the audit work are of pervasive and fundamental importance or are only material but not pervasive. It can be said that the effect of misstatements is pervasive when such a misstatement is not limited to a single element, account or items of the financial statements, and even if it is limited to it, it represents a significant portion of the financial statements. Material misstatements are not always pervasive, but pervasive misstatements often reflect significant amounts of misstatement. For example, cash embezzlement has been discovered. This fraud is naturally material, but it is unlikely to be pervasive. In simple terms, pervasive effects relate to the scope of the effect. ISA 705 uses the term pervasive to describe the effects of misstatements on the financial statements or the effects of possible misstatements on the financial statements that have not been detected because of limitations in obtaining sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- a) are not limited to specific accounts or items in the financial statements;
- b) if limited to specific accounts or items in the financial statements, would constitute or could constitute a significant portion of the financial statements; or
- c) are, in terms of disclosure, highly significant to users' understanding of the financial statements.

Maham et al. (2014) conducted a study entitled *Determining the significance and pervasiveness of misstatements in auditing*. The ultimate goal of this study is to determine the level of materiality and pervasiveness. A sample was selected from two groups including certified public accountants in the Audit Organization of Iran (public sector) and other audit institutions (private sector), each sample consisting of 60 participants. To collect data, questionnaires consisting of two demographic sections and research-related questions were used. The results showed that there is a significant difference in the views of auditors working in the audit organization and certified public accountants in the private sector regarding the importance and amount of pervasiveness. This means that there is no agreement between the two groups in this regard. (Maham et al., 2014). Ghaemi et al (1403) showed that the amount of assets of the audited unit in some industries has a direct and positive effect on the auditor's opinion and the method of determining the pervasiveness of the effects of distortions. Dwyer et al. (2024) showed that the auditor's assessment of existing risks has an effect on audit reports. Hossein et al. (2023) showed that there is a direct relationship between the characteristics of the audit firm and the determination of the pervasiveness of the effect of distortions.

Development of ISA 705 and Definition of the Comprehensive Term

The International Auditing and Assurance Standards Board (IAASB) launched the Transparency Project in 2004 with the aim of improving the understanding of ISAs and improving audit quality worldwide. One of the topics that was decided to be re-issued under this project was the revised audit reports, which were previously part of ISA 700, "The Auditor's Report on Financial Statements"⁵; however, with the Board's approval, this topic was published separately as ISA 701, "The Independent Auditor's Report on Financial

Statements"⁶. However, in 2005, this standard was revised and split into two International Standards on Auditing: 705 "Modified Opinions in the Independent Auditor's Report" and 706 "Emphasis of Matter and Other Explanatory Paragraphs in the Independent Auditor's Report."⁷ Finally, ISA 705 was first adopted by the Board in 2008 and became effective for audits of financial statements for periods beginning on or after December 15, 2009. This standard was revised in 2014 to improve the auditor's report and to align it with the requirements of ISA 700 (Revised) and is effective for audits of financial statements for periods beginning on or after December 15, 2016. The term comprehensive was first introduced and defined in the International Standard on Auditing 705; whereas before that, for the effects of misstatements or potential misstatements on financial statements that led to an adverse or disclaimer of opinion, very important and fundamental terms were used in most cases. Considering the key role of the process of developing this standard in describing the term comprehensive and since the definition of this term has not changed in the revised version of the standard. A summary of the comments related to the definition of the term comprehensive in the drafts of the aforementioned standard and the views of the Board on this matter are as follows (Seyyed Mohammad Reza Abtahi Naeini, 1402).

Board Working Group Comments on the Initial Draft

The Board issued an initial draft of ISA 705 in March 2005 and, in light of comments received from the Advisory Group and the Board Working Group, and in accordance with the Transparency Project's covenants, issued a final draft for comment in July 2007. During this period, the Working Group met to review the initial draft and provide comments on its amendments. An understanding of the Working Group's comments on the term "inclusive" and the proposed amendments to the initial draft can help to better understand the meaning of the term. A summary of the Working Group's comments on the concept and criteria for "inclusive" is as follows:

A) Pervasive Concept

The Working Group suggested at one of its meetings that the meaning of pervasiveness of a material

misstatement should be described. The Working Group initially believed that pervasiveness of a material misstatement meant that the effect of such a misstatement on the financial statements, as a single set, was such that the financial statements were misleading. The Working Group subsequently concluded that pervasiveness of a material misstatement was not necessarily associated with misleading financial statements, and that in some cases even a material misstatement may cause the financial statements to be misleading; however, a qualified opinion would suffice. Some members of the Working Group requested a definition of the term “misleading” to clarify the meaning of the term, which was initially welcomed by the Working Group; However, after due consideration, the Working Group stated that the term misleading is used in several International Standards on Auditing (including Standards 200, 700 and 701) and that if the term were defined solely for the specific purposes of International Standard on Auditing 705, it would not be comprehensive due to its limited scope. Furthermore, the Working Group believed that in order to provide a definition of the term misleading, it would be necessary to clarify its relationship to the concept of “financial statements, as a whole, being free from material misstatement” (as stated in International Standards on Auditing 200 and 700). For these reasons, the definition of the term “misleading” was removed from the Working Group’s agenda and the task was deferred to a future project to provide a definition with a broad scope of application for all International Standards on Auditing that use the term. Accordingly, the Working Group revised the concept of pervasiveness and expressed its understanding of it. Accordingly, in the Working Group’s view, pervasiveness of a material misstatement means that the effect of a misstatement (or combination of misstatements) on the financial statements is such that it can be concluded that they have not been prepared in accordance with the relevant financial reporting framework. This description establishes a direct link between pervasiveness and the primary objective of the audit, as stated in ISA 200, which is to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the relevant financial reporting framework. The Working Group believed that in this approach, the auditor would be able to easily distinguish between misstatements that are merely material and

misstatements that are pervasive because, in the case of a misstatement that is material but not pervasive, the auditor could conclude that, except for the effects of the misstated element, account or item in the financial statements, the rest of the financial statements were prepared in accordance with the applicable financial reporting framework. However, when the effects of the misstatement are pervasive, the entire financial statements or a very large portion of them are affected and, therefore, the auditor could not conclude that any (or substantially all) of the financial statements were prepared in accordance with the applicable financial reporting framework.

B) Pervasive Standard

The initial draft stated that since the effects of a material misstatement should be clearly described in the auditor’s report, the type of qualified or disclaimed opinion would be determined in proportion to these effects. This standard for the pervasiveness of the effects of a misstatement was not clear and did not specify the difference between the circumstances in which a misstatement is material and the circumstances in which a misstatement is pervasive. For this reason, at one of the working group meetings, some members of the Board criticized this standard and the working group changed it and substituted another standard that was later used in the definition of the term pervasive. According to the new standard, a misstatement is pervasive in circumstances in which its effects relate to an element, account, or item that constitutes a very large part of the financial statements; or the effects of the misstatement, even if quantified, are not limited to specific elements, accounts or items of the financial statements. In addition, the Working Group believed that, with regard to the pervasiveness of the effects of the misstatement, it should be noted that these effects are very significant to the understanding of the financial statements by users (for misstatements in disclosure) or can represent a significant portion of the financial statements (for other misstatements). In the Working Group’s view, the extent to which the effects of the misstatement can be considered a significant portion of the financial statements depends on the auditor’s professional judgment. The Working Group believed that the new criterion for the pervasiveness of the effects of the misstatement is clearer and more objective than the previous criterion and enables the auditor to

consistently apply the International Standards on Auditing. Despite the description of the concept of comprehensiveness and its criteria, and despite the need to apply professional judgment in different situations, the working group believed that a definition of the term comprehensive was necessary for the clarity of ISA 705 and its correct understanding, and therefore proposed that a definition of this term be provided based on the practical concepts of materiality. Emphasizing the need to define the aforementioned term, the working group believed that considering the effects of misstatements (or matters that lead to a disclaimer of opinion) as comprehensive is not limited to only one part of the audit, but is an issue that affects the entire audit.

C) Request for Comments on the Final Draft

With the publication of the final draft of the International Standard on Auditing 705 for comment, the deadline for respondents to submit comments on this draft was set at 30 November 2007. Respondents were asked to comment, among other things, on the addition of a definition of the term pervasive to the standard. In this draft, the term pervasive was defined as follows: "In relation to misstatements or the inability to obtain sufficient appropriate audit evidence, the term pervasive is used to describe a matter that, in the auditor's judgment, the effects or potential effects of the matter are not limited to elements, accounts or items of the financial statements; or, if limited, constitutes or could constitute a significant portion of the financial statements." Respondents to the consultation included member bodies of the International Federation of Accountants (IFAC),¹² national standard-setting bodies, audit firms, regulators, government agencies and others, from which 47 comments were received. More than half of the respondents provided their views on adding a definition of the term "overarching" to the standard. A summary of the respondents' views is as follows:

- The majority of respondents welcomed the addition of a definition of the term "overarching" to the standard. They believed that the definition was essential for understanding the standard and would increase its clarity.

- Some respondents supported the definition of the term "overarching" provided in the draft, while a small number considered it complex and contradictory.
- A number of respondents believed that the definition of the term "overarching" in the draft would not improve the clarity of the standard and that the definition would only include material supporting a disclaimer of opinion or disclaimer of opinion.
- The American Institute of Certified Public Accountants (AICPA), one of the respondents, stated that the definition of the term "overarching" in the draft was stylistically inconsistent with other definitions in the International Standards on Auditing and that it was unclear how the definition would fit into the glossary.
- Two respondents believed that the concept of "materiality" should be included in the definition of the term "overarching".
- Some respondents suggested that the definition in the draft be divided into short sentences or phrases to improve the definition of the term "overarching".
- A small number of respondents considered it useful to include the phrase "significant to the understanding of users" in the definition of the term comprehensive in relation to disclosure.
- One respondent commented that the definition of comprehensive in the draft was unclear, as it believed that misstatements and the inability to obtain sufficient appropriate evidence were two distinct issues. Also, the characteristics of being significant and not limited (extensive), which are included in the definition, are considered two separate concepts.
- The United States General Accountability Office (GAO),¹⁴ as another respondent, stated that the definition of comprehensive in the draft clearly states that whenever this term is used in connection with a modified opinion, it is not excluded from two situations: (a) a misstatement or a combination of misstatements could cause the financial statements, as a whole, to be misleading; or (b) The inability to obtain sufficient appropriate evidence is so widespread that the auditor

cannot determine whether the financial statements, as a whole, are fairly presented.

The Board's Views on the Standard Development

The Board's views on the term "comprehensive" that played a major role in the development of ISA 705 can help to better understand the concept of this term and its interpretation. It should be noted, however, that these views have changed in some cases during the standard development process, based on comments received from the Advisory Group, the Working Group, and survey respondents, and awareness of the reasons for these changes can further clarify the standard developers' views on the concept of "comprehensive." The Board's views on the overarching term are summarized below:

- The Board, in response to comments received on the initial draft, recommended at one of its meetings that, before the overarching concept was described, the term "disagreement with management," which was used prior to the adoption of ISA 705 to form qualified or disclaimed opinions in the independent auditor's report, be replaced by the more comprehensive term "material misstatement." The Board's rationale for replacing the term "material misstatement" was that, in some circumstances, management may agree with the auditor that there is a material misstatement in the financial statements but may refuse to correct it.
- The Board originally held that a material misstatement in relation to financial statements is pervasive when the effects of the misstatement are not limited to specific items in the financial statements that do not constitute a significant portion of them and cannot be quantified. The Board subsequently changed its view to state that misstatements are pervasive when they are material individually or in the aggregate and are not limited to specific elements, accounts or items in the financial statements; or, if limited, constitute or could constitute a significant portion of the financial statements.
- With respect to a material misstatement in disclosures in financial statements, the Board

also originally held that this misstatement is pervasive when its effects are not limited to specific disclosures in the financial statements that are not highly significant. The Board then modified its opinion to state that, in relation to disclosures, misstatements are considered pervasive when, individually or in the aggregate, they are material and the effects of the misstatements on the disclosures are highly significant to users' understanding of the financial statements.

- The Board originally held that an inability to obtain sufficient appropriate audit evidence is pervasive when the aggregate potential effects are not limited to specific items in the financial statements that meet the following conditions:
 - a) The maximum potential misstatement that can be quantified does not constitute a material part of the financial statements; and
 - b) The effects of the disclosures on the financial statements are not highly significant.Finally, the Board agreed to align the description of pervasiveness resulting from an inability to obtain sufficient appropriate audit evidence with the description of pervasiveness regarding misstatements. Accordingly, the Board stated that an inability to obtain sufficient appropriate audit evidence is material and pervasive when the potential effects of the failure are not limited to elements, accounts, or items of the financial statements; or, if limited, those potential effects could constitute a significant portion of the financial statements.

- In describing the concept of pervasiveness, the Board emphasized that the extent to which the effects of a misstatement or potential misstatement can be considered a significant portion of the financial statements ultimately depends on the auditor's professional judgment in the circumstances.
- In a positive response to comments received on the need to describe the meaning of the term comprehensive, the Board agreed to provide a definition of comprehensive in both the Standard and the Glossary. The Board believed that caution should be exercised in providing this definition and that comprehensiveness should not be considered a matter that inherently requires professional judgment.

- The Board agreed with the suggestion of some respondents that the definition of comprehensive be divided into short sentences or phrases, and the definition of this term was to be provided in separate paragraphs.
- The Board accepted the reasons given by the Working Group for opposing the reference to “the potential for misleading financial statements” in the definition of comprehensive, which was suggested by a small number of respondents.
- The Board did not agree with the view that the concept of materiality should be included in the definition of comprehensive; Because the draft standard included the term “material and pervasive,” which the Board believed was often used in practice and was well understood.
- The Board believed that the term “material and pervasive” was used to describe the effects of material misstatements that are pervasive. In other words, the auditor would only consider material misstatements in relation to the pervasiveness of the effects of misstatements, because the primary objective of the audit is to express an opinion on the fair presentation of the financial statements in all material respects.
- Finally, in the final summary, the Board defined the term pervasive in the standard as follows:

Pervasive is a term used in connection with misstatements to describe the effects of misstatements or potential misstatements on the financial statements that have not been detected because sufficient appropriate audit evidence could not be obtained. Pervasive effects on the financial statements are those that, in the auditor’s judgment:

- 1) are not limited to specific elements, accounts, or items of the financial statements;
- 2) if limited, constitute or could constitute a significant portion of the financial statements; or
- 3) are, from the perspective of disclosure, considered significant to users’ understanding of the financial statements.

Applying the Pervasive Concept in Practice

When evaluating the effects of misstatements or potential misstatements on the financial statements and when forming an audit opinion, the auditor pays attention to the pervasiveness of these effects. In this regard, two common mistakes in applying the pervasiveness concept, which arise from the auditor’s mental assumptions to consider the effects of misstatements or potential misstatements on the financial statements as pervasive and in practice cause challenges in the audit opinion, are as follows:

- Determining the pervasiveness of the effects of misstatements based on materiality criteria as x percent and above; for example, the auditor may consider misstatements of 30 percent of revenues or total assets and above to be pervasive; and
- Determining the pervasiveness of the effects of misstatements based on overall significance (materiality level) as y equal and above; For example, the auditor may consider misstatements of 10 times or more of overall materiality to be pervasive.

The standard does not recommend or state any quantitative threshold for the effects of misstatements, as a percentage of the materiality criteria or a multiple of overall materiality, that would be considered a significant portion of the financial statements. As discussed earlier, the pervasiveness of the effects of a misstatement or potential misstatement in the financial statements depends on the auditor’s judgment in the circumstances. Also, guidance issued by audit firms and networks on materiality in financial statement audits generally does not suggest a quantitative threshold for determining pervasiveness; Because the auditor determines the pervasiveness of misstatements by exercising his or her professional judgment in practice, by evaluating the effects of misstatements or potential misstatements on the financial statements and within the framework of the definition provided in paragraph 5 of the standard. The auditor’s professional judgment about pervasiveness focuses on whether the misstatement affects only certain components of the financial statements and its effects are limited in scope, or whether the effects of the misstatement spread to many elements, accounts and items of the financial statements and made the financial statements

as a whole unreliable. In other words, the main point is that if, in the auditor's opinion, some parts of the financial statements remain free from the effects of misstatements and can still be relied on for decision-making by users, then the misstatement is not pervasive and is merely material.

As stated above in the definition of pervasive, pervasive means a phenomenon that spreads everywhere or in anything and is then found. The effects of pervasive misstatements in financial statements also spread and exist to such an extent that the information in the financial statements becomes unusable for various purposes of shareholders and other stakeholders. This is similarly true of potential misstatements resulting from the inability to obtain sufficient and appropriate audit evidence. The pervasiveness of the effects of misstatements that leads to a negative or disclaimer of opinion rarely occurs in practice, and in situations where shareholders or other stakeholders can still use some of the information in the financial statements, a qualified opinion (with the word "except") is more common than a negative or disclaimer of opinion.

Discussion and Conclusion

The auditors' opinion is an important issue that is affected by the level of significance of the diagnostic factors. The philosophy of the existence of independent auditors is to perform the duty of crediting the financial statements so that the stakeholders can be sure that nothing important has been hidden. With major financial scandals, attention to distortions in financial statements has increased more than ever. The increase in the number of frauds, distortions and restatements of financial statements, which are often intertwined with the bankruptcy of large companies, has raised concerns about the quality of financial statements. For this reason, preventing or detecting material errors and distortions in financial statements has always been the focus of attention of investors, regulators, managers, auditors and other stakeholders, and accordingly, numerous standards and guidelines have been established regarding the responsibility of auditors in detecting fraud and distortions in financial statements. In this article, the meaning of the word comprehensive was first explained. Then, with a review of the formation of the International Standard on Auditing 705, a summary of the opinions and views raised in the process of

developing this standard was presented, as well as considerations regarding the application of the pervasive concept in practice. Accordingly, the most important conclusions from the materials presented regarding the pervasive concept are as follows:

- 1) The pervasiveness of the effects of misstatements on the financial statements depends on the auditor's professional judgment in different circumstances. This judgment is made within the framework of the definition of the term pervasive provided in paragraph 5 of the standard.
- 2) The use of pre-determined quantitative thresholds by the auditor to determine the pervasiveness of the effects of misstatements on the financial statements, as a percentage of the materiality criteria or a multiple of the overall materiality, is considered a common mistake in applying the pervasive concept in practice.
- 3) If the effects of the misstatement on the financial statements affect all or a very large portion of the financial statements and the auditor concludes that the financial statements are not useful for the decision-making of stakeholders, the misstatement is pervasive. However, if, in the auditor's opinion, except for the effects of the misstatement on the financial statements, the rest of the financial statements are useful for the decision-making of stakeholders, the misstatement is not pervasive; and
- 4) Pervasive misstatements that lead to a disclaimer of opinion or a disclaimer of opinion occur in rare circumstances; because in cases where the effects of the misstatement on the financial statements are such that stakeholders can still use some of the information in the financial statements, the auditor usually provides a modified opinion of a qualified type.

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