PROPOSED CONFORMING AMENDMENT TO INTERNATIONAL STANDARD ON AUDITING 700

Emphasis of Matter Paragraph in the Auditor’s Report

72. Management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework. The auditor’s responsibility is to express an opinion on the financial statements based on the audit.

73. In certain circumstances, the auditor may determine that it is necessary to emphasize in the auditor’s report a matter in the financial statements that is significant, unusual and important to the understanding of the true and fair view or fair presentation of the financial statements.

74. The addition of an emphasis of matter paragraph to the auditor’s report does not affect the auditor’s opinion. The inclusion of an emphasis of matter paragraph in the auditor’s report is not a substitute for the auditor’s expression of an except for opinion, an adverse opinion, or a disclaimer of opinion when required by the circumstances of a specific audit engagement. See ISA 701, “Qualifications to the Opinion in the Independent Auditor’s Report.”

75. An emphasis of matter paragraph should follow the opinion paragraph in the auditor’s report and should have a heading that clearly describes the matter being emphasized.

76. The auditor should emphasize in the auditor’s report a matter in the financial statements only when all of the following conditions are met:

(a) The matter is appropriately presented and disclosed in the entity’s financial statements in accordance with the applicable financial reporting framework;

(b) The auditor agrees with management on the accounting policy selected, the application of the accounting policy and the adequacy of related disclosures;

(c) The matter is both significant and unusual; and

(d) In the auditor’s judgment, the matter is of fundamental importance to the user’s understanding of the true and fair view or fair presentation of the financial statements.

77. The auditor ordinarily considers a matter to be significant when it may materially and pervasively affect the financial statements.

78. The auditor ordinarily considers a matter to be unusual when it is specific to the entity. Matters that are common to certain industries are generally understood by users of the financial statements and accordingly are not unusual for the purpose of this ISA.
79. Examples of matters the auditor might include in an emphasis of matter paragraph, only when the criteria in paragraph 76 are met, include the following:
   - Significant uncertainty related to the use of the going concern assumption;
   - Significant uncertainties, other than those related to the use of the going concern assumption and
   - Related party transactions.

80. Significant uncertainties about the outcome of future events may affect a number of financial statement line items. In these circumstances, management is responsible for estimating the effect of future events on the financial statements, or determining that a reasonable estimate cannot be made, and making the required disclosures in accordance with the applicable financial reporting framework.

81. The existence of a significant uncertainty does not in itself result in an inability for the auditor to obtain sufficient appropriate audit evidence. A significant uncertainty can be expected to be resolved at a future date, at which time sufficient information concerning its outcome will become available. Consequently, a lack of information related to the outcome of an uncertainty does not necessarily lead to a conclusion that the information supporting management’s assertions is not sufficient. Rather, the auditor’s judgment regarding the sufficiency of appropriate audit evidence is based on information that is, or should be, available. If, after considering the existing conditions and available information, the auditor concludes that sufficient appropriate audit evidence supports management’s assertions about an uncertainty and its presentation and disclosure in the financial statements, the auditor expresses an unqualified opinion.

82. In accordance with ISA 570, “Going Concern,” the auditor adds an emphasis of matter paragraph to the auditor’s report to highlight the existence of a significant uncertainty regarding an entity’s ability to continue as a going concern. The auditor draws attention to the note in the financial statements that discusses the going concern uncertainty.

83. The auditor considers adding an emphasis of matter paragraph to the auditor’s report when there is a significant uncertainty (other than a going concern uncertainty), the resolution of which is dependent on future events and which may materially and pervasively affect the financial statements.

84. The auditor may wish to emphasize a significant and unusual related party transaction in an emphasis of matter paragraph of the auditor’s report to highlight the entity’s disclosure of the nature of the related party relationship as well as information about the transaction and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

85. The addition of a paragraph emphasizing a going concern uncertainty or other significant uncertainty is appropriate when the auditor agrees with management about the use of the going concern assumption and the disclosures in the financial statements describing the uncertainty.
Other Matters Paragraph in the Auditor’s Report

86. Because the auditor’s report is the auditor’s only means of communicating to users of the financial statements, the auditor may find it necessary to communicate other matters in the auditor’s report. Such other matters are not included in the financial statements and are different from the matters that would be addressed in an emphasis of matter paragraph.

87. The auditor should include such other matters in a separate paragraph under the heading “Other Matters.” This paragraph should follow the auditor’s opinion and any emphasis of matter paragraph. The heading makes it clear to the users of the financial statements that such other matters are not included in the financial statements.

88. The Other Matters paragraph addresses matters such as:
   • Avoidance of auditor association with misleading information;
   • Other statutory requirements; and
   • In rare and unusual circumstances, other matters that are not disclosed in the financial statements.

89. If an amendment to other information in a document containing audited financial statements is necessary for such other information not to be materially inconsistent with the information in the financial statements and management refuses to make the amendment, the auditor considers including in the auditor’s report an Other Matters paragraph describing the material inconsistency to avoid being associated with misleading information.

90. An Other Matters paragraph may also be used when there are additional statutory reporting responsibilities. Standards, laws or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that require further explanation of the auditor’s responsibilities in the audit of the financial statements or of the auditor’s report thereon.