

**PROPOSED ~~CONFORMING AMENDMENT TO~~  
INTERNATIONAL STANDARD ON AUDITING 702~~0~~**

**EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTERS PARAGRAPHS IN  
THE INDEPENDENT AUDITOR'S REPORT**

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International Standard on Auditing (ISA) 702, "Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor's Report," should be read in the context of the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services," which sets out the application and authority of ISAs.

## Introduction

1. This International Standard on Auditing (ISA) establishes standards and provides guidance on circumstances when the auditor considers including an *emphasis of matter paragraph* (see paragraphs 6–18) or an *other matters paragraph* (see paragraphs 19–23) in the auditor's report on the financial statements, and on the form and placement of such paragraphs.
2. ISA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements," establishes standards and provides guidance on the form and content of the auditor's report on a complete set of general purpose financial statements prepared in accordance with a financial reporting framework that is designed to achieve fair presentation when the auditor is able to express an unmodified opinion.
3. Proposed ISA 800 (Revised), "The Independent Auditor's Report on Other Historical Financial Information," establishes standards and provides guidance on the form and content of the auditor's report on historical financial information other than that referred to in ISA 700 (Revised) when the auditor is able to express an unmodified opinion.
4. Proposed ISA 701 (Revised), "Modifications to the Opinion in the Independent Auditor's Report," establishes standards and provides guidance for auditor reports issued in accordance with ISA 700 (Revised) and proposed ISA 800 (Revised) when the auditor's opinion is modified.
5. The standards and guidance in this ISA apply to auditor reports issued in accordance with ISA 700 (Revised), proposed ISA 800 (Revised) and proposed ISA 701 (Revised).

## **Emphasis of Matter Paragraph in the Auditor's Report**

- ~~672. 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 consider emphasizing in the auditor's report a matter in the financial statements only when both of 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;~~

~~The matter is of fundamental importance to the user's understanding of the true and fair view of the financial statements, and both significant and unusual; and~~

~~b) In the auditor's judgment, The matter the matter is unusual of fundamental importance to the user's understanding of the true and fair view or fair presentation of the financial statements.~~

~~7. Ordinarily the auditor determines a matter to be of fundamental importance to the user's understanding of the financial statements if the possible consequences of the matter could significantly affect the entity's financial position, financial performance and cash flows.~~

~~8. The auditor ordinarily considers a matter to be unusual if it occurs infrequently or is out of the ordinary course of business.~~

~~9. The inclusion of an *emphasis of matter paragraph* in the auditor's report does not affect the auditor's opinion. It 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 proposed ISA 701 (Revised)) nor is it a substitute for disclosures that management is required to make in the financial statements by the applicable financial reporting framework.~~

~~10. Accordingly, the auditor only includes an *emphasis of matter paragraph* in the auditor's report if the matter under consideration meets the following criteria:~~

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

~~b) The auditor agrees with management on the selected accounting policy, its application and the presentation and disclosure of the matter.~~

~~When the matter under consideration does not meet these criteria, the auditor considers whether it represents a disagreement with management and whether an *except for opinion* or an *adverse opinion* is appropriate (see ISA 701 (Revised)).~~

~~11. 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. In accordance with ISA 570, "Going Concern," the auditor includes an *emphasis of matter paragraph* in 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.

12. Circumstances in which the ~~Examples of matters the~~ auditor may consider it necessary to ~~ight~~ include ~~e in~~ an *emphasis of matter paragraph*, ~~only~~ when the criteria in paragraphs ~~6~~ and ~~1076~~ 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, such as an uncertainty related to the future outcome of major litigation or regulatory action (e.g., a regulatory agency requires a company to recall a major product for safety reasons) (see report example 1 in the Appendix); and
- Significant and unusual ~~r~~Related party transactions (see report example 2 in the Appendix).
- Early application of a new accounting principle (or International Financial Reporting Standard) (i.e., before its application is required).
- A subsequent event disclosed in the financial statements
- A matter such as a major catastrophe, which is disclosed in a note to the financial statements, that has had, or continues to have, a significant effect on the entity's business or operations. (See report example 3 in the Appendix)

1380. The auditor considers including an *emphasis of matter paragraph* in the auditor's report when there is a significant uncertainty (other than a going concern uncertainty), whose resolution is dependent on future events and which may materially and pervasively affect the financial statements.

14. 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.

15. The addition of a paragraph emphasizing a going concern problem or significant uncertainty is ordinarily adequate to meet the auditor's reporting responsibilities regarding such matters. However, in extreme cases, such as situations involving multiple uncertainties, the auditor may conclude that the cumulative nature and possible effect of the multiple uncertainties are such that it is not possible to obtain sufficient appropriate audit evidence and, accordingly, the auditor expresses a *disclaimer of opinion*. (See ISA 701 (Revised))

16.81. The existence of ~~one or more a~~ significant uncertainties~~y~~ 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 conclusive 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 unmodified qualified opinion.

~~17.82. 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 may consider including 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 regarding the disclosure of ~~to highlight~~ to highlight the significant and unusual related party transactions in order to highlight e 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.~~

~~18. **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.**~~

~~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**

~~19.86. In some jurisdictions, the auditor's report may be the only means of communicating to readers of the report. As a result, the auditor may find it necessary to use the auditor's report as a means of communicating information relating to matters other than those that are required to be presented or disclosed in the financial statements and thus the subject of an *emphasis of matter paragraph*. Such information is referred to in this ISA as "Other Matters."~~

~~20. **The auditor should include other matters in a separate paragraph of the auditor's report under the heading "Other Matters."** This *other matters paragraph* ordinarily follows the auditor's opinion and any *emphasis of matter paragraph*. (See example reports 4 and 5 in the Appendix.)~~

~~21. 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 content of the *other matters paragraph* heading makes it clear to the users of the financial statements that such other matters are not included in the financial statements.~~

22.

88. The *Other Matters paragraph* addresses matters that are not required to be recognized or disclosed in the financial statements by the applicable financial reporting framework. These would include the following:

- a) Avoidance of auditor association with misleading information in a document containing audited financial statements
- b) Matters relating to the auditor's responsibility that are required or permitted to be communicated by standards, laws, or generally accepted practice in a jurisdiction.
- c) In rare and unusual circumstances, other matters that the auditor considers relevant to communicate to the user.

23. As described in ISA 720, the auditor has a responsibility to read the other information in a document containing audited financial statements to identify material inconsistencies or misleading information. Avoidance of auditor association with misleading information: If an amendment to such other information is necessary for it 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.

• 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.~~

**Effective Date**

24. This ISA is effective for auditor's reports dated on or after December 31, 2006.

## APPENDIX 1

### Illustrative Audit Reports

#### Example 1: Illustrative auditor's report with an unmodified opinion; the report contains an emphasis of matter paragraph referring to a significant uncertainty related to pending litigation

##### INDEPENDENT AUDITOR'S REPORT

*[Appropriate Addressee]*

##### Report on the Financial Statements<sup>1</sup>

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

##### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

##### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>2</sup> An audit

<sup>1</sup> The subheading "Report on the Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>2</sup> In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's

also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion*

In our opinion, the financial statements give a true and fair view of (or “present fairly, in all material respects”) the financial position of ABC Company as of December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Significant Uncertainty Regarding Pending Litigation*

We draw attention to Note X to the financial statements, which appropriately describes a lawsuit in which the Company is the defendant. The lawsuit alleges infringement of certain patent rights and claims royalties and punitive damages in the amount of 10 million EUR. The Company believes that it will be able to successfully defend its case and accordingly, no provision for any liability that may result has been recognized in the financial statements.

**Report on Other Legal and Regulatory Requirements (ISA 700 (Revised), paragraphs 46-49)**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.”

**Example 2: Illustrative auditor's report with an unmodified opinion; the report contains an emphasis of matter paragraph referring to a significant and unusual related party transaction**

INDEPENDENT AUDITOR'S REPORT

*[Appropriate Addressee]*

**Report on the Financial Statements<sup>3</sup>**

We have audited ... (remaining words are the same as illustrated in the introductory paragraph – see report example 1 above).

*Management's Responsibility for the Financial Statements*

Management is responsible for ... (remaining words are the same as illustrated in the management's responsibility paragraph – see report example 1 above).

*Auditor's Responsibility*

Our responsibility is ... (remaining words are the same as illustrated in the auditor's responsibility paragraphs – see report example 1 above).

*Opinion*

In our opinion ... (remaining words are the same as illustrated in the opinion paragraph – see report example 1 above).

*Significant and Unusual Related Party Transaction*

We draw attention to Note X to the financial statements, which includes an appropriate description of the company's sale of the office equipment division to the company's CEO for 100 million EUR.

**Report on Other Legal and Regulatory Requirements (ISA 700 (Revised), paragraphs 46-49)**

*[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]*

*[Auditor's signature]*

*[Date of the auditor's report]*

*[Auditor's address]*

<sup>3</sup> The subheading "Report on the Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

**Example 3: Illustrative auditor's report with an unmodified opinion; the report also contains an emphasis of matter paragraph referring to uncertainty regarding the effects of a major catastrophe**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

**Report on the Financial Statements<sup>4</sup>**

We have audited ... (remaining words are the same as illustrated in the introductory paragraph – see report example 1 above).

Management's Responsibility for the Financial Statements

Management is responsible for... (remaining words are the same as illustrated in the management's responsibility paragraph – see report example 1 above).

Auditor's Responsibility

Our responsibility is ... (remaining words are the same as illustrated in the auditor's responsibility paragraphs – see report example 1 above).

Opinion

In our opinion ... (remaining words are the same as illustrated in the opinion paragraph – see report example 1 above).

Significant Uncertainty Regarding the Effects of a Major Catastrophe

We draw attention to Note X to the financial statements, which includes an appropriate description of the considerable uncertainties to which the calculation of the year's results and shareholders' equity at December 31, 20X1 are subject because of [describe major catastrophe]. That note gives a description of the accounting treatment of the Company being in the process of run-off, including expectations for the Company's future operations.

**Report on Other Legal and Regulatory Requirements (ISA 700 (Revised), paragraphs 46-49)**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

<sup>4</sup> The subheading "Report on the Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

**Example 4: Illustrative auditor's report with an unmodified opinion; the report contains an other matters paragraph referring to a material inconsistency with other information in an annual report containing audited financial statements**

INDEPENDENT AUDITOR'S REPORT

*[Appropriate Addressee]*

**Report on the Financial Statements<sup>5</sup>**

We have audited ... (remaining words are the same as illustrated in the introductory paragraph – see report example 1).

*Management's Responsibility for the Financial Statements*

Management is responsible for ... (remaining words are the same as illustrated in the management's responsibility paragraph – see report example 1 above).

*Auditor's Responsibility*

Our responsibility is ... (remaining words are the same as illustrated in the auditor's responsibility paragraphs – see report example 1 above).

*Opinion*

In our opinion ... (remaining words are the same as illustrated in the opinion paragraph – see report example 1 above).

*Other Matters*

In the Chairman's Report contained in the Company's Annual Report, it is stated that the Company has realized a relative increase in profitability this year over that of the prior year. While this statement is true with regard to earnings before interest, taxes, depreciation, and amortization (EBITDA), it is inconsistent with regard to profit for the year, which has decreased by 50% from last year.

**Report on Other Legal and Regulatory Requirements (ISA 700 (Revised), paragraphs 46-49)**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

*[Auditor's signature]*

*[Date of the auditor's report]*

*[Auditor's address]*

<sup>5</sup> The subheading "Report on the Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

**Example 5: Illustrative auditor's report with an unmodified opinion; the report contains an emphasis of matter paragraph, an other matters paragraph, and a report on other legal and regulatory requirements**

INDEPENDENT AUDITOR'S REPORT

*[Appropriate Addressee]*

**Report on the Financial Statements<sup>6</sup>**

We have audited ... (remaining words are the same as illustrated in the introductory paragraph – see report example 1).

*Management's Responsibility for the Financial Statements*

Management is responsible for ... (remaining words are the same as illustrated in the management's responsibility paragraph – see report example 1 above).

*Auditor's Responsibility*

Our responsibility is ... (remaining words are the same as illustrated in the auditor's responsibility paragraphs – see report example 1 above).

*Opinion*

In our opinion ... (remaining words are the same as illustrated in the opinion paragraph – see report example 1 above).

*Significant Uncertainty Regarding Pending Litigation*

We draw attention to Note X to the financial statements, which appropriately describes a lawsuit in which the Company is the defendant. The lawsuit alleges infringement of certain patent rights and claims royalties and punitive damages in the amount of 10 million EUR. The Company believes that it will be able to successfully defend its case and accordingly, no provision for any liability that may result has been recognized in the financial statements.

*Other Matters*

In the Chairman's Report contained in the Company's Annual Report, it is stated that the Company has realized a relative increase in profitability this year over that of the prior year. While this statement is true with regard to earnings before interest, taxes, depreciation, and amortization (EBITDA), it is inconsistent with regard to profit for the year, which has decreased by 50% from last year.

**Report on Other Legal and Regulatory Requirements (ISA 700 (Revised), paragraphs 46-49)**

*[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]*

<sup>6</sup> The subheading "Report on the Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

*[Auditor's signature]*

*[Date of the auditor's report]*

*[Auditor's address]*

## APPENDIX 2

### Current Requirements in the ISAs for EOM Paragraphs

#### ISA 570, Going Concern

- 33. If adequate disclosure is made in the financial statements, the auditor should express an unqualified opinion but modify the auditor's report by adding an emphasis of matter paragraph that highlights the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern and draws attention to the note in the financial statements that discloses the matters set out in paragraph 32 of ISA 570, Going Concern.**

#### ISA 700, The Auditor's Report on Financial Statements

- 32. The auditor should consider modifying the auditor's report by adding a paragraph if there is a significant uncertainty (other than a going concern problem), the resolution of which is dependent upon future events and which may affect the financial statements.**
- 35. In addition to the use of an emphasis of matter paragraph for matters that affect the financial statements the auditor may also modify the auditor's report by using an emphasis of matter paragraph, preferably after the opinion paragraph, to report on matters other than those affecting the financial statements. For example, if an amendment to other information in a document containing audited financial statements is necessary and the entity refuses to make the amendment, the auditor would consider including in the auditor's report an emphasis of matter paragraph describing the material inconsistency. An emphasis of matter paragraph may also be used when there are statutory reporting responsibilities.**

#### ISA 560, Subsequent Events

#### Facts Discovered After the Financial Statements Have Been Issued

- 14. When, after the financial statements have been issued, the auditor becomes aware of a fact which existed at the date of the auditor's report and which, if known at that date, may have caused the auditor to modify the auditor's report, the auditor should consider whether the financial statements need revision, should discuss the matter with management, and should take the action appropriate in the circumstances.**
- 15. When management revises the financial statements, the auditor would carry out the audit procedures necessary in the circumstances, would review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation, and would issue a new report on the revised financial statements.**
- 16. The new auditor's report should include an emphasis of a matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial statements and to the earlier report issued by the auditor. The new auditor's report would be dated not earlier than the date the**

revised financial statements are approved and, accordingly, the procedures referred to in paragraphs 4 and 5 would ordinarily be extended to the date of the new auditor's report.

**ISA 710, Comparatives**

13. When the auditor's report on the prior period, as previously issued, included a qualified opinion, disclaimer of opinion, or adverse opinion and the matter which gave rise to the modification is resolved and properly dealt with in the financial statements, the current report does not ordinarily refer to the previous modification. However, if the matter is material to the current period, the auditor may include an emphasis of matter paragraph dealing with the situation.
  
24. When the comparatives are presented as comparative financial statements, the auditor should issue a report in which the comparatives are specifically identified because the audit opinion is expressed individually on the financial statements of each period presented. Since the auditor's report on comparative financial statements applies to the individual financial statements presented, the auditor may express a qualified or adverse opinion, disclaim an opinion, or include an emphasis of matter paragraph with respect to one or more financial statements for one or more periods, while issuing a different report on the other financial statements.
  
25. When reporting on the prior period financial statements in connection with the current year's audit, if the opinion on such prior period financial statements is different from the opinion previously expressed, the auditor should disclose the substantive reasons for the different opinion in an emphasis of matter paragraph. This may arise when the auditor becomes aware of circumstances or events that materially affect the financial statements of a prior period during the course of the audit of the current period.

**ISA 720, Other Information in Documents Containing Audited Financial Statements**

13. If an amendment is necessary in the other information and the entity refuses to make the amendment, the auditor should consider including in the auditor's report an emphasis of matter paragraph describing the material inconsistency or taking other actions.

### APPENDIX 3

#### ISA 700 (Revised) and Conforming Amendments – References to ISA 701

6. (This paragraph has been included because the guidance in paragraph 8 below refers to it.) Unless required by law or regulation to use different wording, the auditor's opinion on a complete set<sup>7</sup> of general purpose financial statements prepared in accordance with a financial reporting framework that is designed to achieve fair presentation (for purposes of this ISA referred to as "financial statements") states whether the financial statements "give a true and fair view" or "are presented fairly, in all material respects," in accordance with the applicable financial reporting framework. These phrases "give a true and fair view" and "are presented fairly, in all material respects," are equivalent. Which of these phrases is used in any particular jurisdiction is determined by the law or regulations governing the audit of financial statements in that jurisdiction, or by established practice in that jurisdiction.
8. When wording prescribed by law or regulation differs significantly from the phrases in paragraph 6, the auditor carefully considers whether there may be a risk that users might misunderstand the assurance obtained in an audit of financial statements. For example, the wording might convey to readers that the auditor is attesting to the accuracy of the financial statement amounts rather than expressing an opinion on whether the financial statements give a true and fair view or are presented fairly, in all material respects. In such circumstances, the auditor considers whether the risk of misunderstanding can be mitigated through appropriate explanation in the auditor's report (see ISA 701).

#### Extremely Rare Circumstances when Applying the Financial Reporting Framework Results in Misleading Financial Statements

15. As discussed in ISA 210, the auditor considers the acceptability of the financial reporting framework when considering accepting the engagement. Application of a financial reporting framework determined to be acceptable for general purpose financial statements will ordinarily result in financial statements that achieve fair presentation. In extremely rare circumstances, however, application of a specific requirement in a framework that has been determined to be acceptable for general purpose financial statements may result in financial statements that are misleading in the particular circumstances of the entity. Some financial reporting frameworks determined to be acceptable for general purpose financial statements acknowledge, implicitly or explicitly, that there are extremely rare circumstances when it is necessary for the financial statements to depart from a specific requirement in the framework in order to achieve the objective of fair presentation of the financial statements and provide guidance on the disclosures required. Other financial reporting frameworks may not provide any guidance on these circumstances even though they are acceptable frameworks for general purpose financial statements. If the auditor encounters circumstances that lead the auditor to conclude that compliance with a specific requirement results in financial statements that are misleading, the auditor considers the need to modify the auditor's report. The modifications, if any, that are appropriate to the auditor's report will depend on how management addresses the matter in the financial statements and how the financial reporting framework deals with these rare circumstances

<sup>7</sup> As explained in paragraph 35 of ISA 200, "Objective and General Principles Governing an Audit of Financial Statements," the financial reporting framework determines what constitutes a complete set of financial statements. A complete set of financial statements under International Financial Reporting Standards (IFRSs) comprises a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and a summary of significant accounting policies and other explanatory notes.

(see ISA 701).

63. The auditor may refer to the audit having been conducted in accordance with both ISAs as well as national auditing standards when the auditor complies with each of the ISAs relevant to the audit and performs any additional audit procedures necessary to comply with the relevant standards of that jurisdiction or country. A reference to both the ISAs and national auditing standards is not appropriate if there is a conflict between the reporting requirements regarding the auditor's report in the ISAs and in the national auditing standards that affects the auditor's opinion or the need to include an emphasis of matter paragraph in the particular circumstances. For example, some national auditing standards prohibit the auditor from including an emphasis of matter paragraph to highlight a going concern problem, whereas ISA 701 requires the auditor to modify the auditor's report by adding an emphasis of matter paragraph in such circumstances. In case of such conflicts, the auditor's report refers only to the auditing standards (either ISAs or the relevant national auditing standards) in accordance with which the auditor has complied with the reporting requirements.

## **ISA 200**

### **Financial Reporting Frameworks Supplemented with Legislative and Regulatory Requirements**

42. In some jurisdictions, legislative and regulatory requirements may supplement a financial reporting framework adopted by management with additional requirements relating to the preparation and presentation of financial statements. In these jurisdictions, the applicable financial reporting framework, for the purposes of applying the ISAs, encompasses both the identified financial reporting framework and such additional requirements, provided they do not conflict with the applicable financial reporting framework. This may, for example, be the case when additional requirements prescribe disclosures in addition to those required by the identified financial reporting framework or when they narrow the range of acceptable choices that can be made within the identified financial reporting framework. If the additional requirements conflict with the applicable financial reporting framework, the auditor discusses the nature of the requirements with management and whether the additional requirements can be met through additional disclosures. If this is not possible, the auditor considers whether it is necessary to modify the auditor's report, see ISA 701, "Modifications to the Independent Auditor's Report."
48. When the auditor concludes that the financial reporting framework adopted by management is not acceptable, the auditor considers the implications in relation to engagement acceptance (see ISA 210) and the auditor's report (see ISA 701).
49. When the auditor is expressing an opinion on a complete set of general purpose financial statements prepared in accordance with a financial reporting framework that is designed to achieve fair presentation, the auditor refers to ISA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements," for standards and guidance on the matters the auditor considers in forming an opinion on such financial statements and on the form and content of the auditor's report. The auditor also refers to ISA 701 when expressing a modified audit opinion, including an emphasis of matter, a qualified opinion, a disclaimer of opinion or an adverse opinion.

## ISA 210

### 210.14

Without an acceptable financial reporting framework management does not have an appropriate basis for preparing the financial statements and the auditor does not have suitable criteria for evaluating the entity's financial statements. In these circumstances, unless use of the financial reporting framework is required by law or regulation, the auditor encourages management to address the deficiencies in the financial reporting framework or to adopt another financial reporting framework that is acceptable. When the financial reporting framework is required by law or regulation and management has no choice but to adopt this framework, the auditor accepts the engagement only if the deficiencies can be adequately explained to avoid misleading users, see ISA 701, "Modifications to the Independent Auditor's Report," paragraph 5 and, unless required by law or regulation to do so, does not express the opinion on the financial statements using the terms "give a true and fair view" or "are presented fairly, in all material respects," in accordance with the applicable financial reporting framework.

15. When the auditor accepts an engagement involving an applicable financial reporting framework that is not established by an organization that is authorized or recognized to promulgate standards for general purpose financial statements of certain types of entities, the auditor may encounter deficiencies in that framework that were not anticipated when the engagement was initially accepted and that indicate that the framework is not acceptable for general purpose financial statements. In these circumstances, the auditor discusses the deficiencies with management and the ways in which such deficiencies may be addressed. If the deficiencies result in financial statements that are misleading and there is agreement that management will adopt another financial reporting framework that is acceptable, the auditor refers to the change in the financial reporting framework in a new engagement letter. If management refuses to adopt another financial reporting framework, the auditor considers the impact of the deficiencies on the auditor's report, see ISA 701.