INTRODUCTION

Scope of this ISA .......................................................................................................................... 1-2
Effective Date ............................................................................................................................ 3
Objective ............................................................................................................................ 4
Definitions ............................................................................................................................ 5

REQUIREMENTS

Emphasis of Matter Paragraphs in the Auditor’s Report .......................................................... 6-7
Other Matter(s) Paragraphs in the Auditor’s Report ................................................................. 8
Communication with Those Charged with Governance .......................................................... 9

APPLICATION AND OTHER EXPLANATORY MATERIAL

Emphasis of Matter Paragraphs in the Auditor’s Report .......................................................... A1-A4
Other Matter(s) Paragraphs in the Auditor’s Report ................................................................. A5-A119
Communication with Those Charged with Governance ........................................................ A124+

APPENDICES

Appendix 1: List of ISAs Containing Requirements for Emphasis of Matter Paragraphs
Appendix 23: List of ISAs Containing Requirements and Guidance for Other Matter(s) Paragraphs
Appendix 32: Illustration of an Auditor’s Report that Includes an Emphasis of Matter

References in this ISA to other ISAs that have not yet been finalized reflect the working titles of those ISAs. The references are indicated in brackets and will be updated when those ISAs are finalized.
Paragraph

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with additional communication in the auditor’s report when the auditor considers it necessary to:

   (a) Draw users’ attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to the users’ understanding of the financial statements as a whole, or

   (b) Draw users’ attention to any other matter or matters other than those presented or disclosed in the financial statements that may be relevant to users’ understanding of the audit, or the auditor’s responsibilities or the auditor’s report.

2. Although directed towards communication in an auditor’s report on a complete set of general purpose financial statements, this ISA, adapted as necessary in the circumstances, also applies to communications in the auditor’s report on a single financial statement, an element of a financial statement, or special purpose financial statements.

2. Appendices 1 and 2 identify ISAs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs or Other Matter paragraphs in the auditor’s report. In those circumstances, the requirements in this ISA regarding the form and placement of such paragraphs apply.

Effective Date

3. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

Objective

4. The objective of the auditor, having formed an opinion on the financial statements as a whole, is to draw users’ attention, when in the auditor’s judgment it is necessary to do so, by way of clear additional communication in the auditor’s report, to:

   (a) a matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to the users’ understanding of the financial statements, or

   (b) as appropriate, any other matter(s) that is are relevant to the users’ understanding of the audit, or the auditor’s responsibilities or the auditor’s report.

Definitions

5. For the purposes of the ISAs, the following terms have the meanings attributed below:

   (a) Emphasis of Matter paragraph – A paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to the users’ understanding of the financial statements as a whole.
(b) Other Matter(s) paragraph – A paragraph included in the auditor’s report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to the users’ understanding of the audit, or the auditor’s responsibilities or the auditor’s report.

Requirements

Emphasis of Matter Paragraphs in the Auditor’s Report

6. When the auditor considers it is necessary to draw users’ attention to a matter presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to the users’ understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements. (Ref: Para. A1-A2)

7. When the auditor includes an Emphasis of Matter paragraph in the auditor’s report, the auditor shall:
   (a) Include it immediately after the Opinion paragraph in the auditor’s report;
   (b) Use the heading “Emphasis of Matter,” or other appropriate heading;
   (c) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements; and
   (d) Indicate that the auditor’s opinion is not modified in respect of the matter emphasized. (Ref: Para. A3-A4)

Other Matter(s) Paragraphs in the Auditor’s Report

8. If the auditor considers it is necessary to communicate a matter(s) other than those that are presented or disclosed in the financial statements that, in the auditor’s judgment, are relevant to the users’ understanding of the audit, or the auditor’s responsibilities or the auditor’s report and this is not prohibited by law or regulation, the auditor shall do so in a separate paragraph in the auditor’s report, with the heading “Other Matter(s),” or other appropriate heading. The auditor shall include this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the auditor’s report if the content of the Other Matter(s) paragraph is relevant to the other Reporting Responsibilities section. (Ref: Para. A5-A1140)
Communication with Those Charged with Governance

9. If the auditor expects to include an Emphasis of Matter or an Other Matter(s) paragraph in the auditor’s report, the auditor shall communicate with those charged with governance regarding this expectation, and the proposed wording of this paragraph. (Ref: Para. A129)

***

Application and Other Explanatory Material

Emphasis of Matter Paragraphs in the Auditor’s Report

Circumstances in which an Emphasis of Matter Paragraph May Be Necessary (Ref: Para. 6)

A1. Examples of circumstances where the auditor may determine it necessary to include an Emphasis of Matter paragraph are:

- When the auditor is required to do so by other ISAs (see Appendix 4).
- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- Early application (where permitted) of a new accounting standard (for example, a new International Financial Reporting Standard) that has a pervasive effect on the financial statements in advance of its effective date.
- A major catastrophe that has had, or continues to have, a significant effect on the entity’s financial position.

A2. A widespread use of Emphasis of Matter paragraphs diminishes the effectiveness of the auditor’s communication of such matters. Additionally, to include more information in an Emphasis of Matter paragraph than is presented or disclosed in the financial statements may imply that the matter has not been appropriately presented or disclosed; accordingly, paragraph 6 limits the use of an Emphasis of Matter paragraph to matters presented or disclosed in the financial statements.

Including an Emphasis of Matter Paragraph in the Auditor’s Report (Ref: Para. 7)

A3. The inclusion of an Emphasis of Matter paragraph in the auditor’s report does not affect the auditor’s opinion. An Emphasis of Matter paragraph is not a substitute for either:

(a) The auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement (see ISA 705 (Revised and Redrafted)\(^1\)); or

(b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make.

---

\(^1\) ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report.”
A4. The illustrative report in Appendix 3 includes an Emphasis of Matter paragraph in an auditor’s report that contains a qualified opinion.

Other Matter(s) Paragraphs in the Auditor’s Report (Ref: Para. 8)

Circumstances in which an Other Matter(s) Paragraph May Be Necessary

Relevant to Users’ Understanding of the Audit

A5. In the rare circumstance where the auditor is unable to resign from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive,² the auditor may consider determine that it is necessary to include an Other Matter(s) paragraph in the auditor’s report to explain why it is not possible for the auditor to resign from the engagement.

Relevant to Users’ Understanding of the Auditor’s Responsibilities or the Auditor’s Report

A6. Law, regulation or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that provide further explanation of the auditor’s responsibilities in the audit of the financial statements or of the auditor’s report thereon. Where relevant, one or more sub-headings may be used that describe the content of the Other Matter(s) paragraph.

A6. Certain ISAs require the auditor to include an Other Matter(s) paragraph in certain circumstances. See Appendix 3 for a listing of these ISAs.

A7. An Other Matter(s) paragraph does not deal with circumstances where the auditor has other reporting responsibilities that are in addition to the auditor’s responsibility under the ISAs to report express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework (see “Other Reporting Responsibilities” section in ISA 700 (Redrafted)³), or where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters (see “Other Reporting Responsibilities” section in ISA 700 (Redrafted)⁴).

Reporting on more than one set of financial statements

A8. An entity may prepare one set of financial statements in accordance with a general purpose framework (e.g., the national framework) and another set of financial statements in accordance with another general purpose framework (e.g., International Financial Reporting Standards), and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an Other Matter paragraph in the auditor’s report, referring to the fact that another set of financial statements has been

---

² See paragraph 1345(b)(ii) of ISA 705 (Revised and Redrafted) for a discussion of this circumstance.
³ [ISA 700 (Redrafted), “Forming an Opinion and Reporting on Financial Statements,” paragraph [to be inserted].]
prepared by the same entity in accordance with another general purpose framework and
that the auditor has issued a report on those financial statements.

Restriction on distribution or use of the auditor’s report

A9. Financial statements prepared for a specific purpose may be prepared in accordance with
a general purpose framework because the intended users have determined that such
general purpose financial statements meet their financial information needs. Since the
auditor’s report is intended for specific users, the auditor may consider it necessary in the
circumstances to include an Other Matter paragraph, stating that the auditor’s report is
intended solely for the intended users, and should not be distributed to or used by other
parties.

Including an Other Matter(s) Paragraph in the Auditor’s Report

A10. The content of an Other Matter(s) paragraph reflects clearly that such other matter(s)
is not required to be presented and disclosed in the financial statements. An Other
Matter(s) paragraph does not include information that the auditor is prohibited from
providing by law, regulation or other standards, for example, ethical standards relating to
confidentiality of information. An Other Matter(s) paragraph also does not include
information that is required to be provided by management.

A11. The placement of an Other Matter(s) paragraph depends on the nature of the information
to be communicated. When an Other Matter(s) paragraph is included to draw the users’
attention to matters relevant to their understanding of the audit of the financial
statements, the paragraph is included immediately after the Opinion paragraph and any
Emphasis of Matter paragraph. When an Other Matter(s) paragraph is included to draw
the users’ attention to matters relating to Other Reporting Responsibilities addressed in
the auditor’s report, the paragraph may be included in the section sub-titled “Report on
Other Legal and Regulatory Requirements.” Alternatively, when relevant to all the
auditor’s responsibilities or users’ understanding of the auditor’s report, the Other
Matter(s) paragraph may be included as a separate section following the Report on the
Financial Statements and the Report on Other Legal and Regulatory Requirements.

Communication with Those Charged with Governance (Ref. Para. 9)

A12. Such communication enables those charged with governance to be made aware of the
nature of any specific matters that the auditor intends to highlight in the auditor’s report,
and provides them with an opportunity to obtain further clarification from the auditor
where necessary. Where the inclusion of an Other Matter(s) paragraph on a particular
matter in the auditor’s report recurs on each successive engagement, the auditor may
determine that it is unnecessary to repeat the communication on each engagement.
Appendix 1
(Ref.: Para. 2A1)

List of ISAs Containing Requirements for Emphasis of Matter Paragraphs
This appendix identifies paragraphs in other ISAs as at [December 31, 2008] that require the auditor to include an Emphasis of Matter paragraph in the auditor’s report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

ISA 560 (Redrafted), “Subsequent Events” – paragraphs 12(b) and 16
ISA 570 (Redrafted), “Going Concern” – paragraph 19
Appendix 23
(Ref.: Para. 2A6)

List of ISAs Containing Requirements and Guidance for Other Matter(s) Paragraphs

This appendix identifies paragraphs in other ISAs as at [December 31, 2008] that require the auditor to include an Other Matter(s) paragraph in the auditor’s report in certain circumstances or provide guidance on when an Other Matter(s) paragraph may be necessary. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

ISA 560 (Redrafted), “Subsequent Events” – paragraphs 12(b) and 16

ISA 700 (Redrafted), “Forming an Opinion and Reporting on Financial Statements” – paragraphs A37-A38


ISA 720 (Redrafted), “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements” – paragraph 10
Illustration of an Auditor’s Report that Includes an Emphasis of Matter Paragraph

Circumstances include the following:

- Audit of a complete set of general purpose financial statements prepared by management of the entity in accordance with International Financial Reporting Standards.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in [proposed] ISA 210 (Redrafted).\(^5\)
- There is uncertainty relating to a pending exceptional litigation matter.
- A departure from the applicable financial reporting framework resulted in a qualified opinion.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements\(^6\)

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 information.

Management’s\(^7\) Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation\(^8\) of these financial statements in accordance with International Financial Reporting Standards; this includes the

---

\(^5\) [Proposed] ISA 210, “Agreeing the Terms of Audit Engagements.”

\(^6\) The subtitle “Report on the Financial Statements” is unnecessary in circumstances when the second subtitle “Report on Other Legal and Regulatory Requirements” is not applicable.

\(^7\) Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

\(^8\) Depending on the circumstances, this sentence may read: “Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards.”
design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**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 about 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. An audit 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 qualified audit opinion.

**Basis for Qualified Opinion**

The company’s short-term marketable securities are carried in the balance sheet at xxx. Management has not marked these securities to market but has instead stated them at cost, which constitutes a departure from International Financial Reporting Standards. The company’s records indicate that had management marked the marketable securities to market, the company would have recognized an unrealized loss of xxx in the income statement for the year. The carrying amount of the securities in the balance sheet would have been reduced by the same amount at December 31, 20X1, and income tax, net income and shareholders’ equity would have been reduced by xxx, xxx and xxx, respectively.

---

9 Depending on the circumstances, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but nor for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.”

10 In circumstances when the auditor also has 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 preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.” In the case of footnote 8, this sentence may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances.”
Qualified Opinion

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

Emphasis of Matter

We draw attention to Note X to the financial statements which describes the uncertainty related to the outcome of the lawsuit filed against the company by XYZ Company. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements (see “Other Reporting Responsibilities” section in ISA 700 (Redrafted))

[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]

---

11 In highlighting the uncertainty, the auditor uses the same terminology that is used in the note to the financial statements.