

Auditor Reporting—Auditor Commentary

The following is an excerpt from the December 2012 IAASB meeting highlights, summarizing the IAASB's discussions in response to comments received on its June 2012 Invitation to Comment, *Improving the Auditor's Report*. In relation to auditor commentary (AC), the IAASB agreed to continue to pursue the concept of AC. Amongst other matters, the IAASB asked the Task Force (TF) to further consider the following:

- A revised objective and title for AC, taking into account the view that a focus on key audit areas and significant auditor judgment may be a useful way forward to respond to concerns from all stakeholders that the auditor should not provide original information about an entity.
- Requirements for AC for listed entities, recognizing that a post-implementation review may be a useful means to inform the IAASB about whether wider application of requirements for AC would be appropriate.
- Criteria to guide robust auditor judgments about what matters to include in AC and the level of detail that should be provided, taking into account the support from many ITC respondents for the IAASB to explore using significant risks as the starting point for AC.

The IAASB also asked the TF to further consider whether the concepts of Emphasis of Matter (EOM) and Other Matter (OM) paragraphs should be retained, and how best to engage stakeholders, in particular investors and analysts, as it works to refine the concept of AC and develop further illustrative examples.

I. Basis of Recommendations Included in This Paper

1. The suggestions within this paper build upon previous discussions of the IAASB, the Auditor Reporting TF, and the AC Subcommittee. This paper also takes into account key messages in responses to the June 2012 ITC, including detailed suggestions of examples and how AC could be presented in a revised auditor's report.
2. It is important to note that the key issues to be addressed in relation to AC are all interrelated – the objective, the title, and whether the concepts of EOM and OM paragraphs should be retained or subsumed into AC. The swift resolution of these issues at a high level by the IAASB will be necessary in order to move towards developing requirements and guidance for the planned June 2013 exposure draft (ED). For purposes of facilitating the discussion at the February 2013 IAASB meeting, the ISA 707 Drafting Team (DT-707) recommends that:
 - The title of AC included in the ITC no longer be used; a revised title should be developed based on the revised objective (discussed further below).
 - The concepts of EOM and OM paragraphs be retained for non-listed entities and further consideration should be given to whether they should be retained for listed entities in light of the revised objective of AC. If retained, additional guidance will be needed to explain how these concepts relate to the proposed revised concept of AC (see further discussion in paragraphs 36–44). As the DT-707 further develops the objective of AC, it will undertake a detailed review to determine if any requirements for EOM or OM paragraphs within ISA 706 or other ISAs should instead be required to be presented in the AC section if such

circumstances apply to audits of listed entities. Conforming amendments will be needed to ISA 706¹ and possibly other ISAs.

- A new ISA, ISA 707,² should be developed to contain the objective, requirements and guidance for AC, as well as any additional definitions that may be considered necessary.
 - Revised ISA 700³ include a requirement for auditors of listed entities to report in accordance with ISA 707. This is similar to the approach agreed in relation to reporting on going concern (GC) and other information. If considered appropriate, revised ISA 700 can also include new guidance explaining why auditors of non-listed entities, including public sector entities, may wish to report in accordance with ISA 707 and how this may be done.
3. DT-707 is also of the view that it is first necessary for the IAASB to make progress on its initial discussions about a revised objective and criteria for AC before revised examples of AC can be developed. However, it is likely that these examples will inform the IAASB's decision as to the appropriateness of proposed requirements for AC. DT-707 intends to develop revised examples after the February 2013 IAASB meeting for discussion at the April 2013 Consultative Advisory Group (CAG) meeting, the April 2013 IAASB meeting, the May 2013 National Auditing Standard Setters (NSS) Liaison Group meeting, and other targeted outreach, in particular with investors and other users, in advance of the planned approval of the June 2013 ED.

II. The Objective and Focus of AC

4. The ITC included the following as a possible objective of AC:

The objective of AC is to highlight matters that are, in the auditor's judgment, likely to be most important to users' understanding of the audited financial statements or the audit.

5. At its December 2012 meeting, the IAASB agreed that a focus on key audit areas and significant auditor judgment may be a useful way forward to respond to concerns from all stakeholders that the auditor should not provide original information about an entity. These concerns were particularly expressed by preparers, as they were of the view that the auditor is not equipped to make business judgments about, or "tell the story" of, the entity, and it is the role of management to highlight matters that are important to users. However, both the IAASB and the TF have acknowledged the interaction between areas of significant auditor judgment (which relate to how the audit was conducted) and significant management judgment (which relate to how the financial statements were prepared and presented by management). The IAASB also asked the TF to consider whether a different title than "Auditor Commentary" would be appropriate in light of a revised objective.
6. Many respondents to the ITC also highlighted the challenges of general purpose financial reporting (which is designed to meet the needs of a broad set of users rather than the demands of any particular group) with the view that no one other than users themselves can determine which areas are "most important". Users, which was noted to be a wider group than investors, have identified a wide range of information needs, driven largely by the region, regulatory environment and industry

¹ ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

² The IAASB may consider renumbering the ISA in due course, in particular in light of the final decision relating to EOM and OM paragraphs.

³ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

in which the entities they are interested in operate. Accordingly, DT-707 is of the view that the current construct of the objective likely needs to be amended to be based on the audit that was performed, including focusing on matters discussed with management, those charged with governance (TCWG), and the engagement quality control reviewer (EQCR), as well as on what has been documented in the audit file, recognizing that the auditor would use judgment in determining which of these matters to discuss in the auditor's report.

Focus on Key Audit Areas and Significant Auditor Judgment

7. While the phrases “key audit areas” and “significant auditor judgment” are not defined in the ISAs, the concept of significance is defined in the Glossary of Terms included in the *2012 Handbook of International Quality Control, Audit, Review, Other Assurance and Related Services Pronouncements* as follows:

Significance—The relative importance of a matter, taken in context. The significance of a matter is judged by the practitioner in the context in which it is being considered. This might include, for example, the reasonable prospect of its changing or influencing the decisions of intended users of the practitioner's report; or, as another example, where the context is a judgment about whether to report a matter to TCWG, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.

8. Within the ISAs, there are numerous communication, documentation and review requirements relating to key audit areas and significant auditor judgment, but they are not necessarily defined using the same terms. However, the concept of “significant matters arising during the audit”, while also not explicitly defined, is articulated through the requirements and supporting application material in a number of ISAs. For example:

- ISQC 1⁴ and ISA 220⁵ refer to “significant matters arising during the engagement” and “significant judgments the engagement team made and the conclusions it reached”. For audits of financial statements of listed entities, ISA 220 requires the engagement partner to discuss significant matters arising during the audit with the EQCR to consider whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations, and whether the audit documentation reflects the work performed in relation to the significant judgments and supports the conclusions reached. The EQCR also has a role in relation to the proposed auditor's report, at present in relation to the form of opinion.⁶

⁴ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraphs 37 and A34

⁵ ISA 220, *Quality Control for an Audit of Financial Statements*

⁶ ISA 220 also notes that the EQCR's evaluation involves:

- Discussion of significant matters with the engagement partner;
- Review of the financial statements and the proposed auditor's report;
- Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
- Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate.

Paragraph A45 of ISQC 1 and paragraph A28 of ISA 220 also note that other matters relevant to evaluating the significant judgments made by the engagement team that *may be considered* in an engagement quality control review of an audit of financial statements of a listed entity include:

- Significant risks identified during the engagement and the responses to those risks.
 - Judgments made, particularly with respect to materiality and significant risks.
 - The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
 - The matters to be communicated to management and TCWG and, where applicable, other parties such as regulatory bodies.
- ISA 230⁷ requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor to understand “significant matters arising during the audit, the conclusions reached thereon and significant professional judgments made in reaching those conclusions.”

Paragraph A8 of ISA 230 explains that judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include:

- Matters that give rise to significant risks (as defined in ISA 315).⁸
- Results of audit procedures indicating (a) that the financial statements could be materially misstated, or (b) a need to revise the auditor’s previous assessment of the risks of material misstatement and the auditor’s responses to those risks.
- Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
- Findings that could result in a modification to the audit opinion or the inclusion of an EOM paragraph in the auditor’s report.

ISA 580⁹ also notes that the auditor may have identified significant issues relating to the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, but concluded that the written representations are nevertheless reliable. In such a case, this significant matter is documented in accordance with ISA 230.

- ISA 550¹⁰ requires the auditor to communicate “significant matters arising during the audit” in connection with the entity’s related parties to TCWG.
9. One of the objectives of ISA 260¹¹ is “to provide TCWG with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process.” ISA 260 also notes that effective two-way communication is important in assisting the auditor and TCWG in understanding matters related to the audit in context. The ISA makes

⁷ ISA 230, *Audit Documentation*, paragraph 8(c)

⁸ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁹ ISA 580, *Written Representations*, paragraph A25

¹⁰ ISA 550, *Related Parties*. Paragraph A50 of ISA 550 provides examples of significant related party matters.

¹¹ ISA 260, *Communication with Those Charged with Governance*

reference to communicating significant matters arising from the audit of the financial statements *that are relevant to those charged with governance in overseeing the financial reporting process*, and therefore may be seen as a subset of those matters discussed with the EQCR or documented in the audit file. The specific requirements of ISA 260 require communication about:

- An overview of the planned scope and timing of the audit. Paragraph A13 of ISA 260 notes that matters communicated *may include*:
 - How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error.
 - The auditor's approach to internal control relevant to the audit.
 - The application of the concept of materiality in the context of an audit.
- Under the heading of "Significant Findings from the Audit", the following:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Appendix 2 in ISA 260 includes a list of matters that *may be communicated* and has been reproduced as Appendix 1 to this paper.
 - Significant difficulties, if any, encountered during the audit.
 - Unless all of TCWG are involved in managing the entity, significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management, and written representations the auditor is requesting.
 - Other matters, if any, arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

Other ISAs¹² require additional communications to TCWG, including about uncorrected misstatements, the use of component auditors in a group audit, deficiencies in internal control, GC and fraud.

DT-707 Recommendations

10. DT-707 is of the view that, in order to ensure requirements for the auditor to include additional information in the auditor's report are applied consistently in practice, the concept of, and requirements for, AC should be premised on the work already performed under the ISAs. Basing external communications on the "significant matters arising during the audit" would leverage guidance already included in the ISAs with which auditors should already be familiar.
11. However, using this phrase in the auditor's report may not be appropriate for the following reasons:
 - Referring to matters arising during the audit may imply that AC would be expected to explain how those matters were addressed in all cases.
 - Since the auditor is expressing an opinion in the auditor's report, the term "arising" may call this into question by implying that these matters had not been resolved.

¹² See Appendix 1 of ISA 260.

- It would be preferable to leverage the definition of “significance” in the Glossary, rather than attempting to develop a separate definition of “significant”.
12. Therefore, DT-707 concluded that a new term “matters of audit significance” could be used to refer to the types of matters to be highlighted in the auditor’s report, and is consistent with the concept of “significant matters arising during the audit.”

Matter for IAASB Consideration

1. Does the IAASB agree with DT-707’s recommendation that using the new term “matters of audit significance” would be a useful way forward?

DT-707 Recommendation for a Proposed Revised Objective and Title for New ISA 707

13. Based on the above, DT-707 is of the view that the objective of AC could be revised as follows:

The objective of the auditor, having formed an opinion on the financial statements, is to identify and communicate in the auditor’s report key matters of audit significance to enhance users’ understanding about the audit that was performed.

14. DT-707’s rationale for the specific wording of the objective is as follows:

- *Having formed an opinion on the financial statements* – This phrase was added to mirror the objectives of EOM and OM paragraphs in ISA 706, which are based on the premise that an EOM paragraph is not a substitute for a modified opinion when required by the circumstances of the engagement or disclosures in the financial statements that the applicable financial reporting framework requires management to make. Respondents to the ITC had expressed concern that AC could be seen as a “hidden qualification”, so DT-707 believes that further guidance in ISA 707 to explain how AC is to be presented when a modified opinion is expressed will be important.¹³
- *Identify and communicate in the auditor’s report* – Rather than “highlight” as used in the objective included in the ITC, DT-707 was of the view that it would be useful to recognize that the auditor, having performed the audit, will need to consider the audit and determine what matters should be communicated in the auditor’s report based on their significance. The establishment of criteria is intended to assist auditors in the identification of matters to discuss in the auditor’s report, which is done after the audit has concluded based on what has been communicated to TCWG and the EQCR (see the proposed definition of MAS in paragraph 29) and it not intended to be a separate assessment or identification process for purposes of planning and performing the audit.
- *Key* – While the revised objective no longer makes explicit reference to the concept of the auditor’s judgment, the use of the word “key” is intended to represent the auditor’s process of narrowing what could be a fairly lengthy list of matters to those that are to be communicated in the auditor’s report. Guidance will be developed to support the auditor’s decision-making

¹³ On a preliminary basis, DT-707 is of the view that, if a qualified or adverse opinion is to be expressed, it would likely be relevant for the auditor to include a separate section discussing matters of audit significance in the auditor’s report, but any matters for which a modified opinion would be required would be discussed in the Basis for Modified Opinion paragraph rather than in the separate section. DT-707 has not yet concluded on whether it would be necessary or appropriate to include a discussion of matters of audit significance in cases where the auditor expresses a disclaimer of opinion.

process. Finally, revised ISA 700 will require this communication to be included in the auditor's report for listed entities.

- *Matters of audit significance (MAS)* – See paragraphs 10–12 and the proposed definition in paragraph 29. In the remainder of this paper, the phrase “key matters of audit significance” is referred to as KMAS.
 - *To enhance users' understanding of the audit that was performed* – Reference to “matters likely to be most important to users' understanding of ... the audit” has been removed, for the reasons explained in paragraph 6 above. In addition, concerns over the auditor judging what was likely to be most important to their understanding of the audited financial statements should be alleviated with the shift to a focus on MAS. However, DT-707 was of the view that reference could be made to enhancing users' understanding of the audit that was performed, similar to the objective of OM paragraphs in ISA 706, to explain why the information is being provided in the auditor's report. Re-characterizing the objective in this way retains the concept of providing such information for users, but bases the external communication in the auditor's report on internal communications to TCWG and the EQCR that are already required by ISAs, rather than implying that the process of communicating externally is separate from the audit work already performed.
15. Further refinement of the objective may be necessary depending on DT-707's and IAASB's conclusions as to whether this communication should address matters of audit scope or strategy (discussed in paragraphs 20–24) and whether the concepts of EOM and OM paragraphs will be retained (discussed in paragraphs 36–44).
16. Based on the above objective, DT-707 is of the view that the title of the new ISA could be ISA 707, *Communicating Key Matters of Audit Significance in the Independent Auditor's Report*.

DT-707 Recommendation for a Revised Title for, and Presentation of, Additional Communication in the Auditor's Report

17. Given the IAASB's previous agreement that AC should be presented in a separate section of the auditor's report (as illustrated in the ITC) and the suggested revised objective and title of ISA 707, DT-707 is of the view that the caption in the auditor's report could be “Key Matters of Audit Significance.” The following considerations may be helpful in developing proposals relating to including this information in the auditor's report:
- The title should ensure that investors and others can recognize this enhancement to the auditor's report. However, guidance will likely be needed to explain that law or regulation may require a different title to be used, for example the French “justification of assessments” model, and explain how the aims of other reporting requirements in national jurisdictions are achieved by the IAASB's concept.
 - As the IAASB has agreed that the ordering of sections within the auditor's report will not be mandated, auditors will have flexibility in the placement of this section based on views as to what is most relevant in their jurisdiction or is seen to be most useful to users. For example, if an auditor of a listed entity determines that there is nothing to report (but is required by ISA 707 to disclose that conclusion), the section may be presented later in the auditor's report.

18. An alternative approach, raised by BusinessEurope (a preparer respondent) is that, rather than providing AC, the auditor could include in the Basis for Opinion paragraph a bullet list of the significant risks that had been identified by the auditor.¹⁴ At the December 2012 IAASB meeting, one IAASB member supported considering whether to include significant matters in the Basis for Opinion paragraph. However, the value of the proposed introductory language included in the AC section of the ITC was cited by many as an important way to explain to users the objective and purpose of the section in light of the strong support for the decision as to what matters to include to be left to the auditor's judgment.
19. DT-707 believes that discussion of KMAS continues to be best presented in a separate section to give this new information in the auditor's report appropriate prominence and enable auditors to provide appropriate context to such information through the use of an introductory paragraph. Inclusion in a separate section may also mitigate concerns about AC being seen as "hidden qualifications", as including such discussion in the Basis for Opinion paragraph may imply that the auditor's opinion was qualified in respect of these matters.

Matters for IAASB Consideration

2. Assuming the IAASB is in agreement that a focus on MAS is appropriate, what are its views about:
 - (a) How the proposed revised objective has been articulated?
 - (b) The proposal to develop a new ISA 707, including the proposed numbering and title of the new ISA?
 - (c) DT-707's recommendation that the presentation of KMAS in a separate section in the auditor's report continues to be appropriate?
 - (d) DT-707's recommendation for a revised title for the new section of the auditor's report?

Matters of Audit Scope or Strategy, Including Disclosure about the Use of Other Auditors

20. If the objective of discussing KMAS in the auditor's report is to provide an understanding of key judgments made in performing the audit, those judgments relate not just to outputs (i.e., judgments made in reaching audit conclusions on matters presented or disclosed in the financial statements) but also could relate to inputs (i.e., matters of audit scope or strategy). The IAASB's discussions at its December 2012 meeting supported the TF's initial view that, in light of the mixed support for including AC relating to matters of audit scope or strategy, more outreach was needed to determine whether this type of information would be useful to investors.
21. The UK Financial Reporting Council (UKFRC)'s response to the ITC included a revised illustrative report that included, among other matters,¹⁵ subsections titled "Our assessment of materiality" (providing an illustrative example), and "The scope of our audit" (describing group audit considerations and coverage of audit work), intended to align with matters typically communicated

¹⁴ Risks that are always deemed as significant risks in the ISAs could be described in the section on Auditor's Responsibilities, which BusinessEurope believed should always be on a website rather than in the auditor's report.

¹⁵ The UKFRC's response to the ITC also included an illustrative example of how the auditor would communicate significant matters arising during the audit, which is linked to matters proposed to be included in the separate report required of the Audit Committee and "the auditor's assessment of risks significant to the audit".

to TCWG. The illustrative report included in the UKFRC's response to the ITC was used for outreach with investors and others. The relevant excerpts of the UKFRC's illustrative auditor's report are included in Appendix 2 of this paper for the IAASB's consideration. It is anticipated that, in advance of the February 2013 IAASB meeting, the UKFRC will issue a Consultation Paper (CP) to address auditor reporting on risks of material misstatement, materiality and a summary of the audit scope, which will include proposed additional new requirements for entities that apply the UK Corporate Governance Code (akin to listed entities and certain others) to report on these areas. Application of these requirements would result in an illustrative auditor's report similar to that included in the UKFRC's response to the ITC. Preliminary discussions with UKFRC Staff have indicated the CP would have a 90-day comment period and the UKFRC intends to evaluate all comments received with a view to issuing the updated ISA (UK and Ireland) in 2013.

22. As an example of discussion of matters of audit scope or strategy, the IAASB included a disclosure in the ITC explaining the involvement of other auditors and described the value and impediments of requiring such a disclosure in all auditors' reports. It is important to note that the example disclosure in the ITC was focused on comparing affiliated versus non-affiliated firms on the basis of total audit hours, whereas the UKFRC's example provides more detailed information about the overall coverage achieved in a group audit by percentage of key financial statement line items. At their respective December 2012 and January 2013 meetings, the TF and DT-707 considered responses to the ITC in relation to the use of the work of other auditors. This summarization is included in Section II of **Agenda Item 2-B**. On balance, respondents to the ITC did not support mandating discussion of the involvement of other auditors in all circumstances, but considered it may be appropriate for the auditor to discuss such involvement in certain circumstances. DT-707 is therefore of the view that disclosure in the auditor's report of the involvement of other auditors should not be required in all cases, but could potentially be considered as a KMAS if the auditor judged it as such.

DT-707 Recommendations on a Possible Way Forward on Matters of Audit Scope and Strategy

23. In considering the above, DT-707 confirmed the IAASB's view at its December 2012 meeting that more outreach was needed to determine whether a discussion of matters of audit scope and strategy in the auditor's report would be useful to investors. On that basis in order to inform the IAASB's determination of an appropriate way forward, DT-707 recommends:
- Recognizing it is a national consultation that may elicit responses from investors and others outside of the UK, using the results of the UKFRC's consultation as a first step in understanding whether required discussion of the auditor's report of matters of scope or strategy, including materiality, on a global basis would be appropriate;
 - Using the UKFRC's examples relating to materiality and the scope of the audit and new examples to be developed by DT-707 to facilitate further targeted outreach with investors; and
 - Discussing the possibility of disclosing matters of audit scope or strategy in the auditor's report with the CAG and NSS at their upcoming meetings.
24. The way forward, in particular how additional outreach could be conducted, depends on whether the IAASB sees merit in *requiring* disclosure of matters of audit scope or strategy for listed entities or whether it believes the disclosure of such matters should be left to the auditor's judgment.

Depending on the IAASB's views, there may be implications for the proposed definition of MAS and how KMAS are described.

Matters for IAASB Consideration

3. What are the IAASB's views about whether KMAS should include matters of audit scope or strategy?
 - (a) If so, does the IAASB believe disclosure of such matters should be required for all listed entities or left to the auditor's judgment?
 - (b) If not:
 - (i) Would the IAASB see merit in considering whether either required or voluntary disclosure of such matters would be appropriate through the use of OM paragraphs or, if required, in a new section in the auditor's report or
 - (ii) Does the IAASB believe the decision on whether to require discussion of matters of audit scope or strategy would be best made by NSS?
4. What are the IAASB's views about the UKFRC's illustrative example in Appendix 2 of this paper and DT-707's recommendation to leverage the UKFRC's consultation as an appropriate step forward in relation to determining whether to require disclosure about matters of audit scope and strategy in the auditor's report?

III. Criteria for Reporting under New ISA 707

25. In the ITC, the IAASB noted that users have an interest in matters about which the auditor and TCWG had the most robust dialogue as part of the two-way communication required by ISA 260. Including discussion of some of those matters in the auditor's report will provide some transparency about the auditor's communications with TCWG, which users have indicated they would value. Respondents to the ITC confirmed this view, including that it was not likely necessary to communicate externally about all matters discussed with TCWG.
26. In addition, paragraph 45 of the ITC suggested that auditors could consider the following, at a minimum, in determining which matters to include in AC:
 - Areas of significant management judgment (e.g., in relation to the entity's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures);
 - Significant or unusual transactions (e.g., significant related party transactions or restatements); and
 - Matters of audit significance, including areas of significant auditor judgment in conducting the audit, for example:
 - Difficult or contentious matters noted during the audit, or other audit matters that would typically be discussed with an engagement quality control reviewer or TCWG; and
 - Other issues of significant related to the audit scope or strategy.

27. With the exception of matters related to audit scope or strategy (discussed in paragraphs 20–24), respondents to the ITC, particularly investors, were generally of the view that additional communication about these and other areas would be of interest, provided this additional communication included context about why the matter was significant to the audit or involved significant auditor judgment.

DT-707 Recommendations

28. DT-707 supports the view that the basis for a discussion about MAS should be the auditor's consideration of what should be discussed with TCWG in applying ISA 260 and other standards requiring communication with TCWG. However, DT-707 is also of the view that it would be helpful for auditors to also consider broader matters discussed with the EQCR. It is necessary that the auditor, having planned and performed the audit and formed an opinion on the financial statements as a whole, takes into account all the significant matters arising during the audit and those matters that involved significant auditor judgment in deciding what should be communicated externally to users of the financial statements.

Definition of MAS

29. The first decision to be made in developing criteria and requirements relates to explaining what is meant by the broad term MAS, which is intended to represent the population of items from which the auditor will select those KMAS for discussion in the auditor's report. There are two options – i) develop a definition of the term or ii) develop application material to illustrate the concept. While there are merits to both approaches, on balance DT-707 is of the view that it would be preferable to be as specific as possible about the auditor's starting point for considering what to include in the auditor's report. Doing so provides an opportunity for the IAASB to create consistency in practice in terms of identification of the initial set of matters considered by the auditor, and the requirements and guidance within ISA 707 would be intended to support the auditor's decision-making process in further narrowing the matters to be discussed. Therefore, the following definitions are proposed:

Matters of audit significance—Those matters that relate to significant auditor judgments made in [planning and] performing the audit, including those discussed with those charged with governance or the engagement quality control reviewer, and any other matters that involved significant auditor judgment during the audit.

Application material could be developed to:

- Explain that matters communicated with TCWG includes those matters required to be communicated in accordance with ISA 260 and other ISAs, as well as other communications to TCWG the auditor judges necessary to comply with the objective and requirements of ISA 260 in the circumstances of the engagement.
- Explain that matters discussed with the EQCR include those matters required to be discussed or otherwise included in the EQCR's evaluation as required by ISA 220 and ISQC 1.
- Highlight other matters that may be considered, including communications with regulatory bodies.

Significance—The relative importance of a matter, taken in context. The significance of a matter is judged by the auditor in the context in which it is being considered. This might include, for example, the reasonable prospect of its changing or influencing the decisions of intended users of the auditor’s report; or, as another example, where the context is a judgment about whether to report a matter to TCWG, whether the matter would be regarded as important by them in relation to their duties. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients.

Matters for IAASB Consideration

5. The IAASB is asked for its views on the proposed definition of MAS.

Establishing Appropriate Criteria to Facilitate the Auditor’s Identification of, and Communication about, Key Matters of Audit Significance

30. While the majority of respondents to the ITC supported the IAASB’s position that matters to be addressed in AC should be left to the judgment of the auditor, many were of the view that robust guidance in the standards to inform the auditor’s judgment will be necessary to enhance consistency in reporting of the most critical matters. The first issue to be resolved relates to whether there are specific circumstances or conditions that, if they exist, should always be included in the auditor’s report. DT-707 considered whether to establish a reporting obligation when particular circumstances exist, based on a focus on critical accounting estimates, including those with a high degree of estimation uncertainty, a topic cited by many respondents to the ITC as an area to be further explored.¹⁶ For example, while participants at the US Public Company Accounting Oversight Board’s (PCAOB) Standing Advisory Group (SAG) meeting in November 2012 were largely of the view that communication in the auditor’s report should be left to the auditor’s judgment, some concern was expressed about a possible lack of consistency in judgments by the auditor on the most significant matters and how that may affect comparability between audits of similar entities. On balance, DT-707 believes that, rather than including more prescriptive requirements or distinguishing matters on which discussion would always be expected in the auditor’s report, ISA 707 could include robust application material to explain factors that increase the likelihood that the auditor will judge it necessary to identify particular matters as “key”, for which communication will be necessary in the auditor’s report.
31. In light of the proposed objective in paragraph 13 and definition in paragraph 29, DT-707 proposes the following requirements for ISA 707. Additional requirements may be considered necessary as DT-707 and the IAASB’s discussions continue. Initial areas identified for which application material

¹⁶ It has also been suggested by a few respondents that drawing attention *in all auditors’ reports* to where management’s critical accounting estimates are disclosed in the financial statements may be a useful means of alerting users of the financial statements to areas where auditors would typically focus their attention.

may be useful are also highlighted, and DT-707 would welcome the IAASB's views as to what additional guidance may be useful.¹⁷

Identifying Key Matters of Audit Significance

1. Using professional judgment, the auditor shall identify key matters of audit significance to be communicated in the auditor's report. Factors that shall be taken into account include:
 - The nature and extent of discussions about the matter with management, those charged with governance or the engagement quality control reviewer.
 - The effect on the overall audit strategy and the auditor's ability to obtain sufficient appropriate audit evidence, including:
 - Implications for the auditor's initial risk assessment, in particular in relation to matters identified as significant risks.
 - Whether the auditor's initial risk assessment and planned response needed to be modified in light of the audit evidence obtained.
 - Difficulties in obtaining sufficient appropriate audit evidence.
 - The level of audit effort and allocation of resources related to the matter.
 - The difficulty of the judgments involved, including the extent to which the matter involved consultation with others within or outside of the firm.
 - The involvement of experts, whether auditors' or managements' experts.
 - The involvement of internal auditors.
 - Whether the auditor considered the matter to be difficult or contentious.
 - Whether misstatements, either corrected or uncorrected, were identified.
 - Whether disclosure in the auditor's report about the matter would enhance users' understanding of the audit that had been performed.

Application material could be developed to:

- Explain that implication of the timing of this process. For example:
 - That the identification of KMAS, which is done after the audit has concluded, is not intended to be a separate assessment or identification process for purposes of planning and performing the audit and is not meant to call into question the auditor's risk assessment and response process under ISA 315 and ISA 330.¹⁸
 - To further support new requirement 6 and explain that when communicating with TCWG and the EQCR throughout the audit the auditor may have a preliminary view about what matters the auditor may consider for inclusion in the auditor's report.

¹⁷ Respondents to the ITC provided specific suggestions on other areas where guidance could be helpful. These were included in Agenda Item 6-A of the December 2012 IAASB meeting materials and will be further considered by DT-707 in developing a full draft of ISA 707 for discussion at the April 2013 IAASB meeting.

¹⁸ ISA 330, *The Auditor's Responses to Assessed Risks*

- In light of the definition of MAS, explain that judging the significance of a matter requires an objective analysis of the facts and circumstances of the engagement. Paragraph 1 lists a number of factors that are required to be taken into account in narrowing MAS to those key matters for which communication should be included in the auditor's report. Often, more than one factor may be applicable in the context of a particular matter, and this in turn influences the likelihood of the auditor identifying it as a key matter. In particular, the extent of communications with TCWG or the EQCR may provide a signal to the auditor as to what matters are likely to be identified as KMAS. For example, in relation to a significant or unusual transaction outside the entity's normal course of business, management or TCWG may have discussed the matter with the auditor prior to undertaking the transaction and at various stages throughout the audit.
- Provide context about how the auditor may consider significant risks in identifying KMAS, in particular when the auditor has determined that an accounting estimate with a high degree of estimation uncertainty gives rise to a significant risk.
- Provide further examples of how the concept of "key" can be applied, in particular in relation to the audit approach and effort unique to the circumstances of the engagement.
- Explain the relationship between the factors that shall be taken into account in identifying KMAS and specific requirements and application material in other ISAs, including ISA 220, 230 and 260, in particular relating to significant matters arising during the audit and significant audit findings.
- Provide additional context to areas that may assist the auditor in identifying KMAS (for example, in relation to significant qualitative aspects of the entity's accounting practices, related parties, fraud, etc.)

Communicating Key Matters of Audit Significance

2. The auditor shall communicate in the auditor's report key matters of audit significance identified in paragraph 1.

Application material could be developed to:

- Explain that including such information in the auditor's report is not a substitute for a modified opinion when necessary in the circumstances of the engagement. In such cases, discussion of KMAS that relate to a matter for which a qualified or adverse opinion is expressed should be discussed in the Basis for Qualified (or Adverse) Opinion and not in the section describing KMAS so as to differentiate the two appropriately.
- Highlight that law or regulation may also require communication about particular matters in the auditor's report, and these may be considered to be KMAS and presented together with discussion of those matters the auditor determines to be key.

Preparing the Description of the Matters for Inclusion in the Auditor's Report

3. In developing the additional information to be included in the auditor's report, the auditor shall determine the appropriate degree of detail to be provided. The nature and extent of information to be provided about key matters of audit significance is affected by such factors as:
- The need to communicate to users of the financial statements in a clear and concise manner that would enable the user to understand why the matter was important to the particular audit.
 - The manner in which the matter(s) are disclosed in the financial statements, including the notes.
 - If applicable, whether it is necessary to explain how the auditor concluded that the matter did not result in a material misstatement.
 - The auditor's consideration as to what additional information would enhance users' understanding of the matter(s) or the conduct of the audit.
 - When the audit approach was highly tailored based on the facts and circumstances of the entity.

Application material could be developed to:

- Explain the need for the discussion in the auditor's report to limit the use of highly technical language to ensure users will be able to understand key concepts. To a certain extent, the standardized language in the Auditor's Responsibility will provide context to the audit-focused descriptions in KMAS; however, the auditor will need to ensure that discussion of individual matters is sufficiently clear.
- Note that the auditor may consider it necessary to include a reference to where management's disclosures are presented to enable users to understand both management's and the auditor's perspectives on these matters.
- Explain that the auditor may consider whether a description of the auditor's procedures, or a conclusion based on these procedures, would be necessary in order to enable users to understand the importance of such matters and the basis for the auditor's judgments, recognizing the challenges of describing the auditor's procedures in a succinct yet meaningful way.
- Provide illustrative examples of descriptions of matters that may be identified as KMAS, either in an illustrative report or otherwise included in an Appendix to ISA 707.
- While highlighting the merits of the auditor explaining how particular matters were addressed in the audit, explain concerns about including a conclusion, in particular that this may be seen as an opinion on an individual financial statement line item or transaction.

Presentation in the Auditor's Report

4. [Additional requirements about the placement in the auditor's report, the use of headings, and the need for introductory language to place the discussion in the context of the auditor's

opinion on the financial statements as a whole in light of the description of the auditor's responsibilities].

Application material could be developed to:

- Explain how other approaches, for example reporting about the work of the audit committee as proposed by the UKFRC, the French “justification of assessments” model, and the US PCAOB’s approach, meet the objective of KMAS and what flexibility may be necessary for the presentation of such information.
- Explain how auditors of non-listed entities may present this section to ensure it is clear that it is not required to be included in an ISA audit for such entities.

*When No Key Matters of Audit Significance Have Been Identified*¹⁹

5. In the rare circumstances where the auditor determines, in the auditor’s professional judgment, that there are no key matters of audit significance to be communicated, the auditor shall:

- Confirm this conclusion with the engagement quality control reviewer and those charged with governance.
- Include a statement in the auditor’s report explaining that the ISAs require the auditor to communicate about key matters of audit significance and that the auditor has nothing to report in this respect; and
- Document the rationale for the auditor’s conclusion in the audit file.

Application material could be developed to:

- Explain that such circumstances are expected to be rare given the linkage to matters discussed with TCWG and the EQCR (i.e., it is highly unlikely that an auditor of a listed entity would not have discussed any matters with TCWG and EQCR that would be considered a KMAS).
- Explain how the presentation of this section may be affected when there is nothing to report (i.e., that the placement may be less prominent in the auditor’s report than if a detailed discussion of key matters had been included).

Discussion of the Proposed Auditor’s Report with Those Charged With Governance and the Engagement Quality Control Reviewer

6. [New requirement to ensure that all matters to be communicated in the auditor’s report have been communicated to TCWG and the EQCR. Because matters of audit significance include matters already discussed with TCWG and the EQCR, it is relatively rare that either party would not be aware of the audit implications of the key matters proposed to be included in the auditor’s report. However, since the auditor’s identification of KMAS is likely to occur near the end of the audit, this new requirement is intended to ensure that TCWG and the EQCR are

¹⁹ As an alternative, DT-707 considered whether ISA 707 should specify that at least one KMAS should be communicated in the auditor’s report, but was of the view that a more explicit “nothing to report” statement would set an appropriate threshold.

aware of what will be communicated in the auditor's report and how this will be communicated.]

Application material could be developed to:

- Explain the implications of such a requirement, including the effect on the finalization of the auditor's report and, where practicable, the need for the auditor to provide a preliminary indication to TCWG when reporting on the significant findings from the audit which matters are likely to be discussed in the auditor's report.
- Ensure that it is clear that the auditor is responsible for the content of the auditor's report and retains final responsibility for what is included therein.

Documentation

7. [New requirement to require the auditor to document the decision-making process in relation to the identification and communication of KMAS in the auditor's report as a significant matter in accordance with ISA 230.]

32. DT-707 intends to present illustrative examples based on the criteria articulated in these requirements for discussion at the April 2013 IAASB meeting. It is likely that as these examples are developed, further refinements to the proposed requirements will be considered necessary, and additional topics for application material will be identified.

Matters for IAASB Consideration

6. The IAASB is asked for its views on:
- (a) Whether it agrees with DT-707's conclusion that it is not necessary to specify particular matters for which discussion in the auditor's report would always be expected;
 - (b) Whether the proposed requirements, including DT-707's recommendation that a requirement addressing circumstances where the auditor has not identified any KMAS on which to report, are appropriate; and
 - (c) Areas where additional application material would be useful in support of the proposed requirements.

Level of Detail to Be Provided in the Auditor's Report

33. Proposed requirement #3 in the table in paragraph 31 attempts to address what level of detail would be appropriate in the auditor's report to provide appropriate context to readers. While the focus is on the key audit areas and significant auditor judgments, it will likely be important for readers to understand the relationship between the communication in the auditor's report and the financial statements. In developing illustrative examples, DT-707 and the IAASB will need to form a view as to what level of detail is generally appropriate, recognizing that it may depend on the nature of the particular matter being described.

34. Some respondents to the ITC who supported a focus on the audit suggested that the auditor could include:

- The nature of each significant risk (i.e., why a risk was significant from an audit perspective);
- The audit approach undertaken in response to this significant risk; and
- The key findings from that audit work.

It was also suggested that, where applicable, the auditor could refer to management's disclosure of these matters. However, many respondents to the ITC were of the view that describing the auditor's approach and findings from the auditor's procedures may not be necessary or appropriate in light of concerns that describing the audit approach succinctly will be difficult, and that a discussion of findings is conducted with TCWG in arriving at the auditor's opinion on the financial statements as a whole and with additional contextual information provided to TCWG.

35. DT-707 intends to consider these matters in greater detail after receiving the IAASB's feedback on the objective and requirements. However, it would be useful for the IAASB to share its initial views as to an approach to providing illustrative examples.

IV. Retaining the Concept of EOM and OM Paragraphs

EOM Paragraphs

36. The ITC explained the IAASB's initial view that, because the overarching objective of AC involved providing transparency about matters relating to both the audited financial statements and the audit itself, there may no longer be a need to retain the separate concepts of EOM and OM paragraphs. Further, the suggested improvements in the ITC relating to GC assumed that material that would previously have been included as a separate EOM paragraph would be subsumed into a new section "Going Concern" with a subheading "Material Uncertainties Related to Events or Conditions that May Cast Significant Doubt on the Company's Ability to Continue as a Going Concern." Should the IAASB determine this suggested presentation is no longer appropriate in light of responses to the ITC (including the suggestion that EOM paragraphs for GC continue to be appropriate), a decision to retain EOM paragraphs for GC reporting for all entities may be necessary. This matter will be further considered by the ISA 700 Drafting Team (DT-700) and will inform the IAASB's final decision on whether both required EOM paragraphs and those included at the judgment of the auditor should be retained.

37. As an initial step, at its December 2012 meeting, the TF agreed that the concept of EOM paragraphs should likely be retained, in light of the view of many IAASB members and respondents to the ITC that the mechanism provides a way for auditors to send an appropriately strong signal to readers of the auditor's report (characterized as a "buyer beware"), which may be lost if such matters are simply included in a separate "AC" section among other matters that may be deemed by users to be of less importance. This is also consistent with the Board's view that, within AC, a focus on matters relating to the audit (rather than matters relating to the financial statements) was an appropriate way forward. Accordingly, there may need to continue to be a means whereby auditors of listed entities could simply draw attention to fundamental matters in the financial statements if the auditor considered it necessary to do so (i.e., to preserve the auditor's ability to draw attention to *matters in the financial statements* that are fundamental to users' understanding). More importantly, it is likely necessary to retain a mechanism for auditors of non-listed entities (who

are not required to provide KMAS) to describe fundamental matters relating to users’ understanding of the financial statements if the auditor judges it necessary to do so.

38. Because the TF recognized the use of EOM paragraphs for matters other than highlighting material uncertainties relating to GC was extremely rare, it was suggested that further liaison with NSS or review of academic research may be necessary to determine what other types of EOM paragraphs have been provided. Nevertheless, noting the respondents’ views that an EOM paragraph can be a valuable informational tool, DT-700 will continue to discuss how this tool might be used, considering how KMAS and GC evolve.
39. DT-707’s discussions on whether to retain the ability to include EOM paragraphs for listed entities (i.e., those entities for which discussion of KMAS will be required in the auditor’s report) have focused on the benefits and challenges to doing so. DT-707 also recognizes there may be ways to mitigate some of the identified challenges, as highlighted below.

<i>Benefits</i>	
A clear signal is retained for those matters that are fundamental to users’ understanding of <i>the financial statements</i> ; these can be prominently presented following the auditor’s opinion and labeled as “Emphasis of Matter” paragraphs to ensure they are recognized by users as such.	
<i>Challenges and Potential Ways to Mitigate the Challenges</i>	
Discussion in EOM is limited to reference to where the matter is presented or disclosed in the financial statements – while this paragraph would be presented more prominently than matters in the KMAS section, it could potentially contain less detail.	Matters for which an EOM paragraph is determined to be necessary could be designated as required KMAS for which additional information would need to be provided. This would recognize the interaction between significant management judgments and significant auditor judgments.
There may be matters for which an auditor may judge it necessary to include an EOM paragraph (because such matters are considered “fundamental to users’ understanding of the financial statements”) that are also determined to be KMAS for which disclosure in the auditor’s report is necessary.	Two options are likely possible: i) cross reference could be made to the KMAS section where more context is provided about the matter emphasized from an audit perspective or ii) all discussion of the matter, including detail that would otherwise be required to be presented in the KMAS section, could be presented with the extant EOM paragraph. Both options would require changes to ISA 706.
If matters that would have otherwise been included as an EOM paragraph are included in the KMAS section, their importance may be blurred.	Guidance could be included in ISA 707 to explain that the auditor’s presentation within the section depends on the relative importance of the matter and that those that would meet the “fundamental’ criteria of an EOM paragraph would always be presented first in the KMAS

	<p>section, with appropriate context to enable users to understand the fundamental importance of the matter. Introductory language could also be tailored to explain that items are presented in light of the auditor's view of the relative significance of the matters.</p> <p>If such an approach would not be seen as retaining the informational value of an EOM paragraph, an alternative approach could be to include a requirement in ISA 707 to require auditors to determine whether any matters presumed to be included in the KMAS section should instead be presented as an EOM paragraph with appropriate context explaining why the matter was a KMAS.</p>
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40. Appendix 3 includes a listing of examples provided in ISA 706 as possible topics for which an EOM paragraph may be considered necessary, as well as requirements in other ISAs. DT-707's view as to how such topics could be treated going forward is also included.

OM Paragraphs

41. Respondents to the ITC did not express strong views as to whether the concept of OM should be retained, though two accounting firm respondents were of the view that the current OM model needed to be retained, both for factual matters regarding the audit that are required to be disclosed in the ISAs today (e.g., identification of a predecessor auditor) and to continue to give auditors a means of communicating very significant matters affecting the audit. Importantly though, these respondents supported a focus in AC on matters relating to the financial statements rather than the audit.
42. Recognizing the similarities between the proposed objective of ISA 707 and the objective relating to OM paragraphs in ISA 706, DT-707 discussed the inherent challenges of not retaining OM paragraphs for non-listed entities. It is important to note that, while both the proposed objective of ISA 707 and the objective of ISA 706 reference matters that would enhance users' understanding of the audit, ISA 706 has a broader objective, enabling the auditor to also communicate about matters judged to be relevant to users' understanding of the auditor's responsibilities or the auditor's report. While DT-707 has agreed that auditors of non-listed entities would not be precluded from including a discussion of KMAS in their auditors' reports, it was particularly concerned that, for such entities, requiring the presentation of matters that would have been previously considered OMs in a KMAS section of the auditor's report could have unintended consequences. For example, DT-707 did not believe it was appropriate to require non-listed entities to include a full section on KMAS in the auditor's report when an extant OM paragraph would have been considered necessary; while on the other hand, DT-707 was concerned that an auditor issuing just one specific OM paragraph in the KMAS section may be misleading because this treatment may imply that the auditor has provided a full auditor commentary, prepared in accordance with the requirements in ISA 707 for identifying matters to report, even though it was

not. DT-707 was not convinced that either option would work well for non-listed entities and as a result the concept of OM paragraph may need to be retained, at a minimum for these entities.

43. DT-707’s discussions on whether to retain OM paragraphs for listed entities (i.e., those entities for which discussion of KMAS will be required in the auditor’s report) have focused on the benefits and challenges to doing so. DT-707 also recognizes there may be ways to mitigate some of the identified challenges, and that the decision on whether to retain OM paragraphs for listed entities may need to be revised as the IAASB’s debates on reporting on KMAS, in particular whether to require discussion of audit scope and strategy (see paragraphs 20–24), evolve.

<i>Benefits</i>	
Retaining OM paragraphs for matters relevant to users’ understanding of the auditor’s report or the auditor’s responsibilities is likely necessary given that ISA 707’s objective is limited to users’ understanding of the audit.	
<i>Challenges and Potential Ways to Mitigate the Challenges</i>	
If retained, there would be duplication between the current objective of ISA 706 and the proposed objective of ISA 707, which both address the inclusion of matters “relevant to users’ understanding of the audit.”	Reference in the requirement relating to OM of providing information “relevant to users’ understanding of the audit,” could be removed, while retaining the ability of auditors of listed entities to include an OM paragraph to communicate about matters that are relevant to users’ understanding of the auditor’s responsibilities or the auditor’s report. However, doing so would have the consequence of removing the ability for auditors of non-listed entities to communicate about the audit and would need to be addressed by some other means. Another alternative would be instead to include guidance in ISA 706 that indicates that, if auditors of listed entities consider it necessary to communicate a matter relevant to users’ understanding of the audit, this would be done in accordance with ISA 707.
Matters of audit scope or strategy, including the involvement of other auditors, may be more appropriately presented outside the discussion of KMAS, in particular if the IAASB decides to require discussion of such matters for all listed entities, rather than leaving their inclusion in the auditor’s report to the judgment of the auditor.	Two options are likely possible: (i) require discussion of these matters in an OM paragraph so that such information is easily located across all listed entity auditors’ reports or (ii) designate these as required KMAS for which additional information would need to be provided. Under the second option, further consideration would be needed as to how to distinguish required

	KMAS from other KMAS provided for listed entities based on the auditor's judgment.
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44. Appendix 4 includes a listing of examples provided in ISA 706 as possible topics for which an OM paragraph may be considered necessary, as well as requirements in other ISAs. DT-707's view as to how such topics could be treated going forward is also included.

Matters for IAASB Consideration

7. In light of the benefits and challenges explained above, the IAASB is asked for its views in relation to retaining EOM and OM paragraphs, and retaining ISA 706 separate from a new ISA 707.

V. Implications of DT-707's Proposals on Other ISAs

45. The IAASB and TF has previously acknowledged that, as the concept of AC is refined, there may be a need to ensure the requirements and guidance in ISA 260 encompass the matters included in the criteria in the proposed requirements above. Previous IAASB, TF and AC Subcommittee meetings have also identified a potential need to revisit ISA 260 in light of the European Commission's (EC) Article 23, which addresses long-form reporting by auditors of public interest entities to audit committees, and the issuance of the PCAOB's Auditing Standard No. 16 addressing communication with audit committees. DT-707 is also of the view that, since the IAASB has agreed that AC should be required to be provided by auditors of listed entities, there may also be merit in making reference to the matters discussed with the EQCR as potential matters to discuss with TCWG, in light of the nature of an engagement quality control review: an objective evaluation, on or before the date of the report, of the significant judgments the engagement team made and the conclusions it reached in formulating the report. As a consequence of this proposed approach, the IAASB may also need to consider whether any changes to ISA 220 or ISQC 1 may be necessary in light of expanding the auditor's report.
46. In agreeing that MAS are largely related to matters discussed with TCWG, DT-707 acknowledged the principles-based nature of ISA 260 can lead to diversity in practice in determining what is necessary to communicate to TCWG. In addition, the nature and extent of communication with TCWG often depends on the size and complexity of the entity and the strength of TCWG, a point noted at the IAASB's North American roundtable. DT-707 also noted that while the auditor is required by ISA 260 to communicate both about the planned scope and timing of the audit and the significant findings from the audit, the auditor is not explicitly required to communicate in relation to significant risks, although significant risks are identified as significant matters that are required to be documented.
47. At a minimum, DT-707 believes there may be merit in revising ISA 260 to explicitly require the auditor to communicate about significant risks, both at the time of the discussion on the planned scope and timing of the audit (as already suggested by the application material), but also when discussing the significant findings from the audit. Doing so would potentially better align the work effort in ISA 260, which will be leveraged for external auditor reporting, with areas that investors have said would be of interest. DT-707 is of the view that a conforming amendment to ISA 260 could be included in the June 2013 ED.

48. However, while DT-707 agrees it will be useful to consider whether further revisions to ISA 260 are needed in light of the EC's proposals and the PCAOB's new auditing standard, it may be extremely difficult for the IAASB to progress a more substantive revision of ISA 260 for purposes of the June 2013 ED. One alternative may be for DT-707 to put forth a recommendation to the IAASB for its consideration at its June 2013 meeting in relation to the need to substantively revise ISA 260, so that the IAASB could signal its intent in the ED.
49. It may also be useful at that time for the IAASB to consider whether any changes are necessary in ISA 220 to ensure the auditor's dialogue with the EQCR is sufficiently robust as a basis for external communication about KMAS (for example, whether the EQCR is in agreement with the engagement's teams risk assessment and planned response). However, the same concerns about the time required to progress a more substantive revision of ISA 220 (or ISQC 1) would exist.

Matters for IAASB Consideration

8. Does the IAASB agree with DT-707's suggestion that significant risks should be required to be discussed with TCWG and accordingly included as a requirement in ISA 260?
9. What are the IAASB's views as to whether, as a result of the approach taken to KMAS, further changes to ISA 260, ISA 220 or ISQC 1 may be useful?

Appendix 1

(Ref: Para. 9)

Qualitative Aspects of Accounting Practices

The communication required by paragraph 16(a) of ISA 260, and discussed in paragraph A17 of ISA 260, may include such matters as:

Accounting Policies

- The appropriateness of the accounting policies to the particular circumstances of the entity, having regard to the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements. Where acceptable alternative accounting policies exist, the communication may include identification of the financial statement items that are affected by the choice of significant accounting policies as well as information on accounting policies used by similar entities.
- The initial selection of, and changes in significant accounting policies, including the application of new accounting pronouncements. The communication may include: the effect of the timing and method of adoption of a change in accounting policy on the current and future earnings of the entity; and the timing of a change in accounting policies in relation to expected new accounting pronouncements.
- The effect of significant accounting policies in controversial or emerging areas (or those unique to an industry, particularly when there is a lack of authoritative guidance or consensus).
- The effect of the timing of transactions in relation to the period in which they are recorded.

Accounting Estimates

- For items for which estimates are significant, issues discussed in ISA 540,²⁰ including, for example:
 - Management's identification of accounting estimates.
 - Management's process for making accounting estimates.
 - Risks of material misstatement.
 - Indicators of possible management bias.
 - Disclosure of estimation uncertainty in the financial statements.

Financial Statement Disclosures

- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures (for example, disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingency issues).
- The overall neutrality, consistency and clarity of the disclosures in the financial statements.

Related Matters

- The potential effect on the financial statements of significant risks, exposures and uncertainties, such as pending litigation, that are disclosed in the financial statements.

²⁰ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

- The extent to which the financial statements are affected by unusual transactions, including non-recurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements.
- The factors affecting asset and liability carrying values, including the entity's bases for determining useful lives assigned to tangible and intangible assets. The communication may explain how factors affecting carrying values were selected and how alternative selections would have affected the financial statements.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

Appendix 2

(Ref: Para. 21)

Excerpt from UKFRC Response to the ITC—Illustrative Disclosures in the Auditor’s Report

Note: The UKFRC’s response to the ITC included illustrative examples of how an auditor might discuss the auditor’s assessment of risks significant to the audit, the auditor’s assessment of materiality and the scope of the audit. It is anticipated that, in advance of the IAASB meeting, the UKFRC will issue a Consultation Paper, including an illustrative report to accompany the UKFRC’s proposals for auditor reporting on these areas. DT-707’s understanding is that such a report is not intended that to be included in the UKFRC’s compendia auditor report bulletins. Rather, the illustrative reports would include a general comment that the auditor should include a description of these matters as required by ISA (UK and Ireland) 700, in order to avoid encouraging the use of standardized text.

Our assessment of risks significant to our audit

We identified the following risks that we believed to be significant to our audit and that, therefore, required special audit consideration:

- The timing of revenue recognition, including that relating to long-term contracts in the Services’ business;
- Internal control failures in the Far Eastern businesses, including the risk of fraud and illegal payments;
- Impairments of fixed assets and goodwill in the European businesses; and
- The Group’s exposure to unpredictable tax and legal risks in emerging markets.

Our assessment of materiality

We determined planning materiality²¹ for the group to be £600 million (£550 million), which is below 5% (20X0 5%) of normalised pre-tax profit, and below 1% (20X0 – 1%) of equity. On the basis of our risk assessments, together with our assessment of the group’s overall control environment, our judgment is that overall performance materiality for the group should be 75% (20X0 – 75%) of planning materiality, namely £450 million (20X0 – £413 million). Our objective in adopting this approach was to ensure that the total detected and undetected audit differences in all accounts did not exceed our planning materiality level.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £30 million (£27.5 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Companies within the group in emerging markets are defendants in certain legal actions alleging damage to the environment arising from the company’s activities. There is considerable uncertainty over both the merits of such claims and their ultimate outcome. Given that, in this case, the reasonable range of

²¹ The terms planning materiality, normalised pre-tax profit and performance materiality are explained in the description of the scope of an audit at [www.cross reference to FRC web-site].

potential outcomes exceeded our quantitative measure of planning materiality, we evaluated materiality in relation to this item qualitatively. Our evaluation was primarily based on our assessment of the extent to which a description of the uncertainties and of the range of potential outcomes, in the relevant notes to the financial statements, would be relevant to the economic decisions of a shareholder taken on the basis of the financial statements as a whole.

The scope of our audit

Our Group audit scope focused primarily on the audit work at 12 locations. Five of these were subject to a full audit, whilst the remaining seven were subject to a partial audit where the extent of our testing was based on our assessment of the audit risk and materiality of the Group's business operations at those locations. These 12 locations represent the principal business units within the Group's three reportable segments and account for 72% (68%) of the Group's total assets and 63% (66%) of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the significant audit risks described above. In addition, we performed statutory audits at a further 60 (20X0 – 58) locations, which represented a further 25% (20X0 – 27%) of the Group's total assets and 32% (20X0 – 29%) of the Group's profit before tax. Our audit work at the 12 locations and our statutory audits were executed at levels of materiality applicable to each individual entity, which are much lower than Group materiality.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits each of the locations where the Group audit scope was focused at least once every two years and the most significant of them at least once a year.

The Group has interests in a number of material joint ventures some of which are not operated by the Group and of which we are not the auditor. In all of these cases, the Group has audit rights that provide us with the necessary access in order to perform specific procedures. Approximately 18% (20X0 – 15%) of the Group's total assets and 16% (20X0 – 17%) of the Group's profit before tax fell into this category.

Appendix 3

(Ref: Para. 40)

Requirements in ISA 706 and Other ISAs in Relation to EOM Paragraphs

1. Paragraph 6 of ISA 706 notes the following:

If the auditor considers it 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 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.

2. The table below illustrates guidance in ISA 706 as to when an EOM paragraph may be necessary, as well as requirements in other ISAs mandating the inclusion of an EOM paragraph in particular circumstances.

Requirement or Guidance Relating to Including an EOM Paragraph	Views on Interaction with “Key Matters of Audit Significance”
<p>Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:</p> <ul style="list-style-type: none"> • 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. (Para. A1 of ISA 706) 	<p>All of the examples could be presented separately in an EOM paragraph if considered to be fundamental to users' understanding of the financial statements. If considered to be a significant risk or otherwise meeting the proposed criteria of the new KMAS section in the auditor's report, additional disclosure would be needed as well.</p>
<p>If the auditor has determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor shall accept the audit engagement only if the following conditions are present:</p> <p>(a) Management agrees to provide additional disclosures in the financial statements required to avoid the financial statements being misleading;</p>	<p>It would be beneficial to keep this as a separate EOM paragraph to give it the appropriate amount of attention, and in light of the fact that it would be relatively rare.</p>

Requirement or Guidance Relating to Including an EOM Paragraph	Views on Interaction with “Key Matters of Audit Significance”
<p>and</p> <p>(b) It is recognized in the terms of the audit engagement that:</p> <p>(i) The auditor’s report on the financial statements will incorporate an Emphasis of Matter paragraph, drawing users’ attention to the additional disclosures, in accordance with ISA 706; and</p> <p>(ii) Unless the auditor is required by law or regulation to express the auditor’s opinion on the financial statements by using the phrases “present fairly, in all material respects,” or “give a true and fair view” in accordance with the applicable financial reporting framework, the auditor’s opinion on the financial statements will not include such phrases. (Para. 19(b) of ISA 210)²²</p>	
<p>Where law, regulation or the financial reporting framework does not prohibit management from restricting the amendment of the financial statements to the effects of the subsequent event or events causing that amendment and those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment, the auditor is permitted to restrict the audit procedures on subsequent events required in paragraph 11(b)(i) to that amendment. In such cases, the auditor shall either:</p> <p>(a) Amend the auditor’s report to include an additional date restricted to that amendment that thereby indicates that the auditor’s procedures on subsequent events are restricted solely to the</p>	<p>Because ISA 560 allows either an EOM or OM paragraph it would seem that flexibility is necessary. This could be addressed separately in the auditor’s report under an EOM or OM paragraph to give it appropriate emphasis or could be included in the KMAS section. Further information on how often this occurs in practice may be useful.</p>

²² ISA 210, *Agreeing the Terms of Audit Engagements*

Requirement or Guidance Relating to Including an EOM Paragraph	Views on Interaction with “Key Matters of Audit Significance”
<p>amendment of the financial statements described in the relevant note to the financial statements; or</p> <p>(b) Provide a new or amended auditor’s report that includes a statement in an Emphasis of Matter paragraph or Other Matter paragraph that conveys that the auditor’s procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements. (Para. 12 (b) of ISA 560²³ in relation to facts that become known after the auditor’s report but before the financial statements are issued)</p>	
<p>The auditor shall include in the new or amended auditor’s report an Emphasis of Matter paragraph or Other Matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor. (Para. 16 of ISA 560, in relation to facts that become known after the auditor’s report and financial statements have been issued)</p>	<p>Because ISA 560 allows either an EOM or OM paragraph it would seem that flexibility is necessary. This could be addressed separately in the auditor’s report under an EOM or OM paragraph to give it appropriate emphasis or could be included in the KMAS section. Further information on how often this occurs in practice may be useful.</p>
<p>If adequate disclosure is made in the financial statements, the auditor shall express an unmodified opinion and include an Emphasis of Matter paragraph in the auditor’s report to:</p> <p>(a) Highlight 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</p> <p>(b) Draw attention to the note in the financial statements that discloses the</p>	<p>The ITC proposed that this would be subsumed into a new section on GC. Based on responses to the ITC, it is unclear whether the concept of EOM for GC should be retained given the importance of the issue to users. This matter will be further considered by the ISA 700 Drafting Team.</p>

²³ ISA 560, *Subsequent Events*

Requirement or Guidance Relating to Including an EOM Paragraph	Views on Interaction with “Key Matters of Audit Significance”
<p style="text-align: center;">matters set out in paragraph 18. (Para. 19 of ISA 570)²⁴</p>	
<p>The auditor’s report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor’s report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading. (Para. 14 of ISA 800)²⁵</p>	<p>It would be beneficial to keep this as a separate EOM paragraph to give it the appropriate amount of attention, and in light of the fact that it is intended to provide context to the entire auditor’s report.</p>

²⁴ ISA 570, *Going Concern*

²⁵ ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

Appendix 4

(Ref: Para. 44)

Requirements in ISA 706 and Other ISAs in Relation to OM Paragraphs

1. Paragraph 8 of ISA 706 notes the following:

If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor’s judgment, is relevant to users’ understanding of the audit, 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 paragraph in the auditor’s report, with the heading “Other Matter,” 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 paragraph is relevant to the Other Reporting Responsibilities section.

2. The table below illustrates guidance in ISA 706 as to when an OM paragraph may be necessary, as well as requirements in other ISAs mandating the inclusion of an OM paragraph in particular circumstances.

Requirement or Guidance Relating to Including an OM Paragraph	Views on Interaction with “Key Matters of Audit Significance”
<p>In the rare circumstance where the auditor is unable to withdraw 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, the auditor may consider it necessary to include an Other Matter paragraph in the auditor’s report to explain why it is not possible for the auditor to withdraw from the engagement. (Para. A5 of ISA 706)</p>	<p>It would be beneficial to keep this as a separate OM paragraph to give it the appropriate amount of attention, and in light of the fact that it would be relatively rare. While listed under the heading of “Relevant to Users’ Understanding of the Audit”, it could be re-characterized as a matter “Relevant to Users’ Understanding of the Auditor’s Responsibilities or the Auditor’s Report.”</p>
<p>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</p>	<p>It was noted during previous discussions that this guidance was believed to be intended to apply to the Bannerman paragraphs²⁶ in the UK, as well as the “justification of assessments” used in France. The former would likely continue to be best addressed in an OM paragraph, while the latter would be addressed in the KMAS section.</p>

²⁶ This paragraph states: “This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.” This language does not appear in the revised illustrative report included in the UKFRC’s response to the ITC.

Requirement or Guidance Relating to Including an OM Paragraph	Views on Interaction with “Key Matters of Audit Significance”
<p>may be used that describe the content of the Other Matter paragraph.</p> <p>An Other Matter 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 on the financial statements (see “Other Reporting Responsibilities” section in ISA 700), or where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters. (Para. A6–A7 of ISA 706)</p>	
<p>An entity may prepare one set of financial statements in accordance with a general purpose framework (for example, the national framework) and another set of financial statements in accordance with another general purpose framework (for example, 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 prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements. (Para. A8 of ISA 706)</p>	<p>As this is under the heading “Relevant to Users’ Understanding of the Auditor’s Responsibilities or the Auditor’s Report”, it would be beneficial to keep this as a separate OM paragraph to give it the appropriate amount of attention, as it relates more specifically to the auditor’s report rather than key auditor judgments.</p>
<p>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</p>	<p>As this is under the heading “Relevant to Users’ Understanding of the Auditor’s Responsibilities or the Auditor’s Report”, It would be beneficial to keep this as a separate OM paragraph to give it the appropriate amount of attention, and in light of the fact that it is intended to provide context to the entire auditor’s report.</p>

Requirement or Guidance Relating to Including an OM Paragraph	Views on Interaction with “Key Matters of Audit Significance”
should not be distributed to or used by other parties. (Para. A9 of ISA 706)	
Para. 12 (b) of ISA 560 – as noted in Appendix 3	Because ISA 560 allows either an EOM or OM paragraph it would seem that flexibility is necessary. This could be addressed separately in the auditor’s report under an EOM or OM paragraph to give it appropriate emphasis or could be included in the KMAS section. Further information on how often this occurs in practice may be useful.
Para. 16 of ISA 560 – as noted in Appendix 3	Because ISA 560 allows either an EOM or OM paragraph it would seem that flexibility is necessary. This could be addressed separately in the auditor’s report under an EOM or OM paragraph to give it appropriate emphasis or could be included in the KMAS section. Further information on how often this occurs in practice may be useful.
<p>If revision of the other information is necessary and management refuses to make the revision, the auditor shall communicate this matter to those charged with governance, unless all of those charged with governance are involved in managing the entity; and</p> <p>(a) Include in the auditor’s report an Other Matter paragraph describing the material inconsistency in accordance with ISA 706;</p> <p>(b) Withhold the auditor’s report; or</p> <p>(c) Withdraw from the engagement, where withdrawal is possible under applicable law or regulation. (Para. 10 of ISA 720)²⁷</p>	Reporting on other information is addressed separately in the proposed revised auditor’s report. The ITC included an example of how the previously required OM paragraph would be subsumed into the Other Information section. Accordingly, if the IAASB continues to require a separate section on other information, this requirement will need to be modified. This matter will be further considered by the ISA 700 Drafting Team, in connection with the ISA 720 Task Force, when responses to the ISA 720 Exposure Draft are analyzed.
If the financial statements of the prior period were audited by a predecessor auditor and the auditor is not prohibited by law or regulation from referring to the predecessor auditor’s report on the corresponding figures	As this would fall under the heading “Relevant to Users’ Understanding of the Auditor’s Responsibilities or the Auditor’s Report”, it would be beneficial to keep this as a separate OM paragraph to give it the appropriate amount of

²⁷ ISA 720, *The Auditor’s Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

Requirement or Guidance Relating to Including an OM Paragraph	Views on Interaction with “Key Matters of Audit Significance”
<p>and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor’s report:</p> <p>(a) That the financial statements of the prior period were audited by the predecessor auditor;</p> <p>(b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and</p> <p>(c) The date of that report. (Para. 13 of ISA 710)²⁸</p>	<p>attention, and appropriately draw attention to the responsibilities of another auditor in the context of the financial statements.</p>
<p>If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor’s report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period’s financial statements. (Para. 14 of ISA 710)</p>	<p>As this would fall under the heading “Relevant to Users’ Understanding of the Auditor’s Responsibilities or the Auditor’s Report”, it would be beneficial to keep this as a separate OM paragraph to give it the appropriate amount of attention, and appropriately draw attention to the fact that the prior period financial statements are unaudited.</p> <p>However, the auditor may decide to provide additional context about the audit if obtaining sufficient appropriate evidence to support the opening balances was a significant issue.</p>
<p>When reporting on prior period financial statements in connection with the current period’s audit, if the auditor’s opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with ISA 706. (Para. 16 of ISA 710)</p>	<p>As this would fall under the heading “Relevant to Users’ Understanding of the Auditor’s Responsibilities or the Auditor’s Report”, it would be beneficial to keep this as a separate OM paragraph to give it the appropriate amount of attention.</p>
<p>If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period’s financial statements, the auditor shall state in an Other Matter</p>	<p>It would be beneficial to keep this as a separate OM paragraph to give it the appropriate amount of attention, and appropriately draw attention to the responsibilities of another auditor in the context of the financial statements.</p>

²⁸ ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*

Requirement or Guidance Relating to Including an OM Paragraph	Views on Interaction with “Key Matters of Audit Significance”
<p>paragraph:</p> <p>(a) that the financial statements of the prior period were audited by a predecessor auditor;</p> <p>(b) the type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and</p> <p>(c) the date of that report,</p> <p>unless the predecessor auditor’s report on the prior period’s financial statements is reissued with the financial statements. (Para. 17 of ISA 710)</p>	
<p>If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph that the comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period’s financial statements. (Para. 19 of ISA 710)</p>	<p>As this would fall under the heading “Relevant to Users’ Understanding of the Auditor’s Responsibilities or the Auditor’s Report”, it would be beneficial to keep this as a separate OM paragraph to give it the appropriate amount of attention, and appropriately draw attention to the fact that the prior period financial statements are unaudited.</p> <p>However, the auditor may decide to provide additional context about the audit if obtaining sufficient appropriate evidence to support the opening balances was a significant issue.</p>