

## PROPOSED INTERNATIONAL STANDARD ON AUDITING 706 (REVISED)

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

(Effective for audits of financial statements for periods [beginning/ending on or after date])

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[MARKED FROM CHANGES PROPOSED IN THE EXPOSURE DRAFT]

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Proposed International Standard on Auditing (ISA) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, should be read in conjunction with ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with additional communication in the auditor's report when the auditor considers it necessary to:
  - (a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
  - (b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.
2. Proposed ISA 701<sup>1</sup> establishes requirements and provides guidance when the auditor determines key audit matters and communicates them in the auditor's report. When the auditor includes a Key Audit Matters section in the auditor's report, this ISA addresses the relationship between key audit matters and any additional communication in the auditor's report in accordance with this ISA. (Ref: Para. A1–A3~~2~~)
3. Proposed ISA 570 (Revised)<sup>2</sup> and proposed ISA 720<sup>3</sup> establish requirements and provide guidance about communication in the auditor's report relating to going concern and other information, respectively.
4. Appendices 1 and 2 identify ISAs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs or Other Matter paragraphs in the auditor's report. In those circumstances, the requirements in this ISA regarding the form and placement of such paragraphs apply. (Ref: Para. A4~~3~~)

### Effective Date

5. This ISA is effective for audits of financial statements for periods [beginning/ending on or after date].

### Objective

6. The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:
  - (a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or
  - (b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

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<sup>1</sup> Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>2</sup> Proposed ISA 570, *Going Concern*, paragraphs 19–25

<sup>3</sup> Exposure Draft, Proposed ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

## Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:
- (a) **Emphasis of Matter paragraph** – A paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.
  - (b) **Other Matter paragraph** – A paragraph included in the auditor’s report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report.

## Requirements

### Emphasis of Matter Paragraphs in the Auditor’s Report

8. 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: (Ref: Para. ~~A54–A65~~)
- (a) The auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements; and
  - (b) When proposed ISA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor’s report in accordance with proposed ISA 701, if applicable. (Ref: Para. A1–A32)
9. When the auditor includes an Emphasis of Matter paragraph in the auditor’s report, the auditor shall:
- (a) Include the paragraph within a separate section of the auditor’s report with the heading “Emphasis of Matter in the Financial Statements,” or other appropriate heading;
  - ~~(b) When key audit matters are communicated in the auditor’s report, include a statement that explains that the matter being emphasized is separate from key audit matters;~~
  - ~~(be) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements; and~~
  - ~~(cd) Indicate that the auditor’s opinion is not modified in respect of the matter emphasized; and~~
  - (de) Include a statement explaining that, in the auditor’s judgment, this matter being emphasized is fundamental to users’ understanding of the financial statements. (Ref: Para. ~~A76–A87, A1645–A1746~~)

## Other Matter Paragraphs in the Auditor's Report

10. 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, the auditor shall include an Other Matter paragraph in the auditor's report, provided:
- (a) This is not prohibited by law or regulation; and
  - (b) When proposed ISA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report in accordance with proposed ISA 701, if applicable. (Ref: Para. ~~A98~~A1413)
11. When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with~~use~~ the heading "Other Matter," or other appropriate heading. (Ref: Para. ~~A1514~~AA1715)

## Communication with Those Charged with Governance

12. If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the wording of this paragraph. (Ref: Para. A1847)

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## Application and Other Explanatory Material

### The Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor's Report (Ref: Para. 2, 8(b))

- A1. Key audit matters are defined in proposed ISA 701 as those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance, which include the significant findings from the audit of the financial statements of the current period.<sup>4</sup> In many instances, key audit matters will relate to matters presented or disclosed in the financial statements, and the auditor is required to refer to these disclosures in accordance with proposed ISA 701.<sup>5</sup>
- A2. Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters. Communicating key audit matters may also assist intended users of the financial statements in understanding the entity and areas of significant management judgment in the audited financial statements, ~~as such matters are areas of focus in performing the audit.~~ When proposed ISA 701 applies, key audit matters are communicated in the auditor's report, the use of Emphasis of Matter paragraphs is not a substitute for a description of individual matters determined to be key audit matters and the requirements in paragraphs 12–13 of proposed ISA 701 relating to communicating key audit matters apply. The purpose of an Emphasis of Matter paragraph is to draw users' attention in specific circumstances to other financial

<sup>4</sup> Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16

<sup>5</sup> Proposed ISA 701, paragraph 12(b)<sup>40</sup>

statement matters that are not key audit matters in accordance with proposed ISA 701. Accordingly, when a Key Audit Matters section is included in the auditor's report, Emphasis of Matter paragraphs are expected to be rare, except when otherwise required by other ISAs or by law or regulation.

A3. Based on the nature of the matter, in describing a key audit matter in accordance with paragraph 12(a) of proposed ISA 701, the auditor may also wish to emphasize that, in the auditor's judgment, a matter is fundamental to users' understanding of the financial statements. However, this ISA does not require the auditor to make such a determination for each key audit matter communicated in the auditor's report.

#### **Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary** (Ref: Para. 4, 8)

A43. Appendix 1 identifies ISAs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs in the auditor's report in certain circumstances. These circumstances include:

- When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
- To alert users that the financial statements are prepared in accordance with a special purpose framework.
- When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).<sup>6</sup> In such circumstances, ISA 560 permits the auditor to include an Other Matter paragraph rather than an Emphasis of Matter paragraph if additional information is provided beyond a reference to the applicable disclosure in the notes to the financial statements.

A54. Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- A new accounting standard (for example, a new International Financial Reporting Standard) that is not yet effective but is expected to have a material effect on the financial statements.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.<sup>7</sup>

A65. However, a widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication about such matters.

#### **Including an Emphasis of Matter Paragraph in the Auditor's Report** (Ref: Para. 9)

A76. The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for:

<sup>6</sup> ISA 560, *Subsequent Events*, paragraph 12 and 16

<sup>7</sup> See paragraph 6 of ISA 560.

- (a) The auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement (see proposed ISA 705 (Revised)<sup>8</sup>);
- (b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make; or
- (c) ~~Required statements in the auditor's report relating to going concern~~ Reporting in accordance with proposed ISA 570-<sup>9</sup> when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

A87. The illustrative report in Appendix 43 includes an Emphasis of Matter paragraph in an auditor's report for an entity other than a listed entity that contains a qualified opinion and for which key audit matters have not been communicated. Paragraphs A15–A16 provide further guidance on the placement of Emphasis of Matter paragraphs in particular circumstances.

### **Other Matter Paragraphs in the Auditor's Report** (Ref: Para. 10–11)

#### *Circumstances in Which an Other Matter Paragraph May Be Necessary*

##### Relevant to Users' Understanding of the Audit

A98. Proposed ISA 260 (Revised) requires the auditor to communicate with those charged with governance about the planned scope and timing of the audit, which includes communication about the significant risks identified by the auditor.<sup>10</sup> Although matters relating to significant risks may be determined to be key audit matters, other planning and scoping matters (e.g., the planned scope of the audit, or the application of materiality in the context of the audit) are unlikely to be key audit matters because of how key audit matters are defined in proposed ISA 701. However, law or regulation may require the auditor to communicate about planning and scoping matters in the auditor's report, or the auditor may consider it necessary to communicate about such matters in an Other Matter paragraph.

A109. 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,<sup>11</sup> 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.

##### Relevant to Users' Understanding of the Auditor's Responsibilities or the Auditor's Report

A1140. 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~~ When relevant the Other Matter section includes more than one matter that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, it may be helpful to

<sup>8</sup> Proposed ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>9</sup> Proposed ISA 570 (Revised), ~~Going Concern~~ paragraphs 22–23

<sup>10</sup> Proposed ISA 260 (Revised), paragraph 15

<sup>11</sup> See paragraph 13(b)(ii) of proposed ISA 705 (Revised) for a discussion of this circumstance.

~~use one or more different sub-headings may be used for each matter that describe the content of the Other Matter paragraph.~~

A1244. 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 proposed ISA 700 (Revised)<sup>12</sup>), or where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters.

#### Reporting on more than one set of financial statements

A1342. 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.

#### Restriction on distribution or use of the auditor's report

A1443. Financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs. Since the auditor's report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.

#### *Including an Other Matter Paragraph in the Auditor's Report*

A1544. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

#### **Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor's Report** (Ref: Para. 9, 11)

A1645. The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to ~~the intended users~~ compared to other elements required to be reported in accordance with proposed ISA 700 (Revised). For example:

<sup>12</sup> Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 41–43

### *Emphasis of Matter Paragraphs*

- When the Emphasis of Matter paragraph relates to the applicable financial reporting framework, including circumstances where the auditor determines that the financial reporting framework prescribed by law or regulation would otherwise be unacceptable,<sup>13</sup> the auditor may consider it necessary to place the paragraph immediately following the Basis of Opinion section to provide appropriate context to the auditor's opinion.
- When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented either before or after the Key Audit Matters section, based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph. The auditor may also consider it necessary to add further context to the heading "Emphasis of Matter ~~in the Financial Statements~~", such as "Emphasis of Matter ~~in the Financial Statements~~— Subsequent Events", to differentiate the Emphasis of Matter paragraph from the individual matters described in the Key Audit Matters section.

### *Other Matter Paragraphs*

- When a Key Audit Matters section is presented in the auditor's report and an Other Matter paragraph is also considered necessary, the auditor may wish to add further context to the heading "Other Matter", such as "Other Matter – Scope of the Audit", to differentiate the Other Matter paragraph from the individual matters described in the Key Audit Matters section.
- When an Other Matter paragraph is included to draw users' attention to a matter relating to Other Reporting Responsibilities addressed in the auditor's report, the paragraph may be included in the ~~section sub-titled~~ "Report on Other Legal and Regulatory Requirements" section.
- When relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the Other Matter paragraph may be included as a separate section following the Report on the Audit of the Financial Statements and the Report on Other Legal and Regulatory Requirements.

A1746. ~~The following Appendix 3~~ is an illustration of the interaction between the Key Audit Matters section, ~~and an Emphasis of Matter paragraph and an Other Matter paragraph when all both~~ are presented in the auditor's report.

#### **Key Audit Matters**

~~[Introductory language as required by paragraph 9 of proposed ISA 701]~~

~~Subheading for each individual matter~~

~~[Description of each individual matters as required by paragraph 10 of proposed ISA 701]~~

#### **Emphasis of Matter in the Financial Statements – Uncertainty Related to the Outcome of a Lawsuit**

<sup>13</sup> For example, as required by ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 19 and ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 14

~~Separately from the matters described in the *Key Audit Matters* section of our report, we also draw attention to Note 4 of the financial statements, which describes the uncertainty related to the outcome of the lawsuit filed against the Company by XYZ Company. Our opinion is not qualified in respect of this matter.~~

**~~Going Concern~~**

~~[Reporting in accordance with proposed ISA 570 (Revised). For purposes of this illustration, it is assumed that the auditor has not identified a material uncertainty relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.]~~

**Communication with Those Charged with Governance** (Ref. Para. 12)

A1847. The communication required by paragraph 12 enables those charged with governance to be made aware of the nature of any specific matters that the auditor intends to highlight in the auditor's report, and provides them with an opportunity to obtain further clarification from the auditor where necessary. Where the inclusion of an Other Matter paragraph on a particular matter in the auditor's report recurs on each successive engagement, the auditor may determine that it is unnecessary to repeat the communication on each engagement, unless otherwise required to do so by law or regulation.

## Appendix 1

(Ref: Para. 4, A43)

### List of ISAs Containing Requirements for Emphasis of Matter Paragraphs

This appendix identifies paragraphs in other ISAs in effect for audits of financial statements for periods [beginning/ending on or after date] that require the auditor to include an Emphasis of Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 210, *Agreeing the Terms of Audit Engagements* – paragraph 19(b)
- ISA 560, *Subsequent Events* – paragraphs 12(b) and 16
- ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* – paragraph 14

## Appendix 2

(Ref: Para. 4)

### List of ISAs Containing Requirements for Other Matter Paragraphs

This appendix identifies paragraphs in other ISAs in effect for audits of financial statements for periods [beginning/ending on or after date] that require the auditor to include an Other Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 560, *Subsequent Events* – paragraphs 12(b) and 16
- ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraphs 13–14, 16–17 and 19

## Appendix 3

(Ref: Para. A17)

### **Illustration of an Auditor’s Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph**

**Note:** Only the required reporting elements that would be affected by this ISA have been reproduced in this illustration. The Appendix of proposed ISA 700 (Revised) contains the illustrative wording for sections whose contents would not be affected by this ISA.

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600<sup>14</sup> does not apply).
- Audit of a complete set of general purpose financial statements prepared by management of a listed entity in accordance with International Financial Reporting Standards (IFRSs).
- Corresponding figures are presented, and the prior period’s financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor’s report on the corresponding figures and decides to do so.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- There is uncertainty relating to a pending exceptional litigation matter.
- Key audit matters have been communicated in accordance with proposed ISA 701.
- The financial statements for the prior period were audited by a predecessor auditor.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

### **INDEPENDENT AUDITOR’S REPORT**

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### **Report on the Audit of the Financial Statements**<sup>15</sup>

#### **Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

<sup>14</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>15</sup> The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

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

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to the audit of the financial statements in [jurisdiction] and have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter – Uncertainty Related to the Outcome of a Lawsuit**

We draw attention to Note X of the financial statements, which describes the uncertainty related to the outcome of the lawsuit filed against the company by XYZ Company. In our judgment, this matter is fundamental to the users understanding of the financial statements. Our opinion is not modified in respect of this matter.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 20X1. Our audit included performing procedures designed to address the risks of material misstatement associated with these matters. Such procedures were designed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, but do not provide a basis for a separate opinion on these individual matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

[Reporting of individual matters in accordance with proposed ISA 701.]

### **Other Matter**

The financial statements of ABC Company for the year ended December 31, 20X0, were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.

### **Other Information**

[Reporting in accordance with proposed ISA 720 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

### **Responsibilities of [Management<sup>16</sup> and Those Charged with Governance or other appropriate terms] for the Financial Statements**

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

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<sup>16</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

**Auditor's Responsibilities for the Audit of the Financial Statements**

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustrations 1 and 3 in proposed ISA 700 (Revised).]

**Report on Other Legal and Regulatory Requirements**

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor's Address]

[Date]

## Appendix 43

(Ref: Para. A7)

### Illustration of an Auditor's Report that Includes an Emphasis of Matter Paragraph

**Note:** Only the required reporting elements that would be affected by this ISA have been reproduced in this illustration. The Appendix of proposed ISA 700 (Revised) contains the illustrative wording for sections whose contents would not be affected by this ISA.

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of general purpose financial statements prepared by management of an entity other than a listed entity in accordance with International Financial Reporting Standards (IFRSs). The audit is not a group audit ~~conducted in accordance with ISA 600 (i.e., ISA 600 does not apply), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.~~
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- A departure from the applicable financial reporting framework resulted in a qualified opinion.
- There is uncertainty relating to a pending exceptional litigation matter.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with proposed ISA 701.
- ~~A departure from the applicable financial reporting framework resulted in a qualified opinion.~~
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

### INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

#### Report on the Audit of the Financial Statements<sup>17</sup>

##### Qualified Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

<sup>17</sup> The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[Note: The ordering of paragraphs in this section have been reversed.]

### **Basis for Qualified Opinion**

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

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to the audit of the financial statements in [jurisdiction] ~~within the meaning of [indicate relevant ethical requirements or applicable law or regulation]~~ and have fulfilled our other ethical responsibilities in accordance with these ~~under those ethical~~ requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Emphasis of Matter – Uncertainty Related to the Outcome of a Lawsuit in the Financial Statements**

We draw attention to Note X of the financial statements, which describes the uncertainty related to the outcome of the lawsuit filed against the company by XYZ Company. In our judgment, this matter is fundamental to the users understanding of the financial statements. Our opinion is not ~~modified~~ qualified in respect of this matter.

### **Going Concern**

~~[Reporting in accordance with proposed ISA 570 (Revised) – see Illustration 1 in proposed ISA 700 (Revised) and proposed ISA 570 (Revised).]~~

### **Other Information**

~~[Reporting in accordance with proposed ISA 720 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]~~

### **Responsibilities of [Management's<sup>18</sup> and Those Charged with Governance or other appropriate terms] for the Financial Statements**

~~[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]~~

### **Auditor's Responsibilities for the Audit of the Financial Statements**

~~[Reporting in accordance with proposed ISA 700 (Revised) – see Illustrations 1 and 3 in proposed ISA 700 (Revised).]~~

<sup>18</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

**Report on Other Legal and Regulatory Requirements**

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 ~~in~~ proposed ISA 700 (Revised).]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor's Address]

[Date of the auditor's report]