

## **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 December 15, 2016~~date~~)

**MARKED TO INCORPORATE ALL CHANGES AGREED DURING THE SEPTEMBER 2014 IAASB DISCUSSIONS**

#### CONTENTS

	Paragraph
<b>Introduction</b>	
Scope of this ISA .....	1–4
Effective Date .....	5
<b>Objective</b> .....	6
<b>Definitions</b> .....	7
<b>Requirements</b>	
Emphasis of Matter Paragraphs in the Auditor's Report .....	8–9
Other Matter Paragraphs in the Auditor's Report .....	10–11
Communication with Those Charged with Governance .....	12
<b>Application and Other Explanatory Material</b>	
The Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor's Report .....	A1–A3
Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary .....	A4–A6
Including an Emphasis of Matter Paragraph in the Auditor's Report .....	A7–A8
Other Matter Paragraphs in the Auditor's Report .....	A9–A15
Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the	

\* [Agenda Item 2-D was updated during the September 15–19, 2014 IAASB meeting to reflect in marked text changes based on decisions taken at the meeting. The updated agenda item is included here for information purposes only and is not the final pronouncement. Interested parties are discouraged from distributing, translating or using the updated agenda item for any purpose. They should await the release of the final pronouncement, which may contain minor modifications when compared to the updated agenda item. The final pronouncement is that approved by the IAASB and published by IFAC after the PIOB has confirmed that due process was followed in its development. It will be available at [www.ifac.org/auditing-assurance/publications-resources](http://www.ifac.org/auditing-assurance/publications-resources).]

Auditor’s Report .....	A16–A17
Communication with Those Charged with Governance .....	A18
Appendix 1: List of ISAs Containing Requirements for Emphasis of Matter Paragraphs	
Appendix 2: List of ISAs Containing Requirements for Other Matter Paragraphs	
Appendix 3: Illustration of an Auditor’s Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph	
Appendix 4: Illustration of an Auditor’s Report <u>Containing a Qualified Opinion Due to a Departure from the Applicable Financial Reporting Framework and</u> that Includes an Emphasis of Matter Paragraph	

~~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)
3. ~~Proposed~~ ISA 570 (Revised)<sup>2</sup> and proposed ISA 720 (Revised)<sup>+</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)

### Effective Date

5. This ISA is effective for audits of financial statements for periods ending on or after December 15, 2016 ~~{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

---

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

<sup>2</sup> ~~Proposed~~ ISA 570 (Revised), *Going Concern*

<sup>+</sup> Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*. Note: References to proposed ISA 720 (Revised) have been shown in shaded text. This text is included for reference purposes but is subject to further change as a result of the finalization of proposed ISA 720 (Revised). The shaded text will be removed from the final approved standard and conforming amendments to the suite of Auditor Reporting Standards will be made when that ISA is finalized.

- (b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

## 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. A5–A6)
  - (a) The auditor ~~has obtained sufficient appropriate audit evidence that would not be required to modify the opinion in accordance with ISA 705 (Revised)<sup>3</sup> as a result of 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. (Ref: Para. A1–A3)
- 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 an appropriate heading that includes the term "Emphasis of Matter," ~~unless law or regulation prescribe a specific heading;~~<sup>3</sup>
  - (b) 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. The paragraph shall refer only to information presented or disclosed in the financial statements; and
  - (c) Indicate that the auditor's opinion is not modified in respect of the matter emphasized. –(Ref: Para. A7–A8, A16–A17)

<sup>3</sup> ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report

## 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. (Ref: Para. A9–A14)
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 the heading “Other Matter,” or other appropriate heading. (Ref: Para. A15–A17)

## 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. A18)

\*\*\*

## 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 significant findings from the audit of the financial statements of the current period.<sup>4</sup> Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor’s professional judgment, were of most significance in the audit and may also assist them in understanding the entity and areas of significant management judgment in the audited financial statements. ~~When ISA 701 applies, the use of Emphasis of Matter paragraphs is not a substitute for a description of individual key audit matters.~~
- A2. Matters that are determined to be key audit matters in accordance with ~~proposed~~ ISA 701 may also be, in the auditor’s judgment, fundamental to users’ understanding of the financial statements. In such cases, in communicating the matter as a key audit matter in accordance with ~~proposed~~ ISA 701, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate ~~that the~~ importance of the matter ~~is fundamental~~ to users’ understanding of the financial statements.

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

- A3. There may be a matter that is not determined to be a key audit matter in accordance with ~~proposed~~ ISA 701, (i.e., because it did not require significant auditor attention), but which, in the auditor's judgment, is fundamental to users' understanding of the financial statements (e.g., a subsequent event). If the auditor considers it necessary to draw users' attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor's report in accordance with this ISA.

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

- A4. 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>5</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.~~
- A5. 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 significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.<sup>6</sup>
  - ~~An uncertainty relating to the future outcome of exceptional litigation or regulatory action.~~
  - ~~A new Early application (where permitted) of a new accounting standard (for example, a new International Financial Reporting Standard) that is not yet effective but is expected to have~~ has 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.
- A6. 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)

- A7. 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:
- (a) A modified opinion in accordance with ISA 705 (Revised) ~~The auditor expressing a qualified~~

<sup>5</sup> ISA 560, *Subsequent Events*, paragraphs 12(b) and 16

<sup>6</sup> ISA 560, paragraph 6

- ~~opinion or an adverse opinion, or disclaiming an opinion,~~ when required by the circumstances of a specific audit engagement ~~in accordance with proposed ISA 705 (Revised);<sup>7</sup>~~
- (b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or
  - (c) Reporting in accordance with ~~proposed~~ ISA 570 ~~(Revised)~~<sup>8</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.
- A8. ~~The illustrative report in Appendix 4 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 A16–A17 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

- A9. ~~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>9</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.
- A10. 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>10</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

- A11. 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. When 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 use different sub-headings for

<sup>7</sup> ~~Proposed ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report~~

<sup>8</sup> ~~Proposed~~ ISA 570 (Revised), paragraphs 22–23

<sup>9</sup> ~~Proposed~~ ISA 260 (Revised), paragraph 15

<sup>10</sup> See paragraph 13(b)(ii) of ~~proposed~~ ISA 705 (Revised) for a discussion of this circumstance.

each matter.

- A12. 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>11</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

- A13. An entity may prepare one set of financial statements in accordance with a general purpose framework (~~for example e.g.~~, the national framework) and another set of financial statements in accordance with another general purpose framework (~~for example e.g.~~, International Financial Reporting Standards), and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an Other Matter paragraph in the auditor's report, referring to the fact that another set of financial statements has been 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

- A14. 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*

- A15. 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)

- A16. 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 intended users compared to other elements required to be reported in accordance with ~~proposed~~ ISA 700 (Revised). For example:

#### *Emphasis of Matter Paragraphs*

- When the Emphasis of Matter paragraph relates to the applicable financial reporting

---

<sup>11</sup> ~~Proposed~~ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 43–45



framework, including circumstances where the auditor determines that the financial reporting framework prescribed by law or regulation would otherwise be unacceptable,<sup>12</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 directly 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”, such as “Emphasis of Matter – 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 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 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.

A17. Appendix 3 is an illustration of the interaction between the Key Audit Matters section, an Emphasis of Matter paragraph and an Other Matter paragraph when all are presented in the auditor’s report. [The illustrative report in Appendix 4 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.](#)

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

A18. 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.

---

<sup>12</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

## Appendix 1

(Ref: Para. 4, A4)

### 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>13</sup> does not apply).
- The financial statements are prepared ~~for a general purpose~~ by management of the entity in accordance with International Financial Reporting Standards (IFRSs) (a general purpose framework).
- 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.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ~~proposed~~ ISA 570 (Revised).
- ~~• There is a new accounting standard that is not yet effective but is expected to have a material effect on the financial statements.~~
- ~~• Between the date of the financial statements and the date of the auditor’s report, there was a fire in the entity’s production facilities, which was disclosed by the entity as a subsequent event. In the auditor’s judgment, the matter is of such importance that it is fundamental to users’ understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.~~
- Key audit matters have been communicated in accordance with ~~proposed~~ ISA 701.
- 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 has decided to do so.
- Other information has been obtained at the date of the auditor’s report (i.e., proposed ISA 720 (Revised) applies).
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.

<sup>13</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- 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>14</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.

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 our audit of the financial statements in [jurisdiction], and we 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<sup>15</sup>

We draw attention to Note X of the financial statements, which describes the effects of ~~the application of IFRS Y, which is not yet effective but is expected to have a material effect on a fire in the financial statements~~Company’s production facilities. 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 of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, ~~and~~but we do not provide a separate opinion on these matters.

[~~Descriptions~~ of each key audit matter 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.

<sup>14</sup> The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

<sup>15</sup> As noted in paragraph A16, an Emphasis of Matter paragraph may be presented either directly 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.

**Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]**

[Reporting in accordance with the reporting requirements in proposed ISA 720 (Revised).]

**Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>16</sup>**

[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 Illustration 1 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]

---

<sup>16</sup> ~~Throughout these illustrative auditor’s reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction. Or other term that is appropriate in the context of the legal framework in the particular jurisdiction~~

## Appendix 4

(Ref: Para. A8)

### Illustration of an Auditor's Report Containing a Qualified Opinion Due to a Departure from the Applicable Financial Reporting Framework and 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 financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 does not apply).
- The financial statements are prepared ~~for a general purpose~~ by management of the entity in accordance with IFRSs. ~~(for a general purpose framework).~~
- 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.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ~~proposed~~ ISA 570 (Revised).
- ~~• There is a new accounting standard that is not yet effective but is expected to have a material effect on the financial statements.~~
- ~~• Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.~~
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ~~proposed~~ ISA 701.
- No other information has been obtained at the date of the auditor's report (i.e., proposed ISA 720 (Revised) does not apply).
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- 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 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 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 our audit of the financial statements in [*jurisdiction*], and we 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 qualified opinion.

#### Emphasis of Matter – ~~Expected Effect of New Accounting Standard~~Effects of a Fire

We draw attention to Note X of the financial statements, which describes the effects of ~~the application of IFRS Y, which is not yet effective but is expected to have a material effect on the financial statements~~a fire in the Company’s production facilities. Our opinion is not modified in respect of this matter.

#### Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in proposed ISA 720 (Revised).]

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

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>18</sup>**

[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 Illustration 1 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).]

[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]

---

<sup>18</sup> Or other terms that ares appropriate in the context of the legal framework ofin the particular jurisdiction