

Excerpts from Extant ISAs re: Emphasis of Matter Paragraphs (for information purposes only)

Extant ISA 570.33

(ISA 570.33) **If adequate disclosure is made in the financial statements, the auditor should express an unqualified opinion but modify the auditor's report by adding an emphasis of matter paragraph that highlights the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern and draws attention to the note in the financial statements that discloses the matters set out in ISA 570.32.**

Extant ISA 700

Matters That Do Not Affect the Auditor's Opinion

30. In certain circumstances, an auditor may add an emphasis of matter paragraph to the auditor's report to highlight a matter affecting the financial statements which is included in a note to the financial statements that more extensively discusses the matter. The addition of such an emphasis of matter paragraph does not affect the auditor's opinion. The paragraph would preferably be included after the opinion paragraph and would ordinarily refer to the fact that the auditor's opinion is not qualified in this respect.
31. **The auditor should modify the auditor's report by adding a paragraph to highlight a material matter regarding a going concern problem.**
32. **The auditor should consider modifying the auditor's report by adding a paragraph if there is a significant uncertainty (other than a going concern problem), the resolution of which is dependent upon future events and which may affect the financial statements.** An uncertainty is a matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.
33. An illustration of an emphasis of matter paragraph for a significant uncertainty in an auditor's report follows:

“In our opinion ... (remaining words are the same as illustrated in the opinion paragraph – paragraph 28 above).

Without qualifying our opinion we draw attention to Note X to the financial statements. The Company is the defendant in a lawsuit alleging infringement of certain patent rights and claiming royalties and punitive damages. The Company has filed a counter action, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.”

(An illustration of an emphasis of matter paragraph relating to going concern is set out in [ISA 570](#), “[Going Concern](#).”)

34. The addition of a paragraph emphasizing a going concern problem or significant uncertainty is ordinarily adequate to meet the auditor's reporting responsibilities regarding such matters. However, in extreme cases, such as situations involving multiple uncertainties that are significant to the financial statements, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph.
35. In addition to the use of an emphasis of matter paragraph for matters that affect the financial statements, the auditor may also modify the auditor's report by using an emphasis of matter paragraph, preferably after the opinion paragraph, to report on matters other than those affecting the financial statements. For example, if an amendment to other information in a document containing audited financial statements is necessary and the entity refuses to make the amendment, the auditor would consider including in the auditor's report an emphasis of matter paragraph describing the material inconsistency. An emphasis of matter paragraph may also be used when there are additional statutory reporting responsibilities.¹

¹ Extracted from IFAC Handbook of International Auditing, Assurance, and Ethics Pronouncements, 2004, ISA 700 -- THE AUDITOR'S REPORT ON FINANCIAL STATEMENTS.