

Agenda Item 3-F

Disposition of the Present Tense in the Proposed Redrafted ISA 706

§ in Closed-off ISA	Present Tense Statements in Closed-off ISA	§ in Redrafted ISA	Change to Shall?	Rationale or Comments
9	ISA 570, "Going Concern," requires the auditor to include an Emphasis of Matter paragraph in the auditor's report on financial statements to highlight the existence of a material uncertainty regarding an entity's ability to continue as a going concern. The auditor <i>draws</i> attention to the disclosure in the financial statements that discusses the going concern uncertainty.	A1	No	Explains the requirement to include an EOM in ISA 560.
12	The auditor <i>does not</i> make disclosures in the Emphasis of Matter paragraph beyond those included in the financial statements because doing so may imply that the matter has not been appropriately disclosed or that there is a disagreement with management.	A3	No	Explains the nature of an EOM; no new requirement intended.

MAPPING DOCUMENT

This mapping document demonstrates how the material in the closed off ISA 706 has been reflected in the proposed redrafted ISA. Highlighted material identifies material that is proposed to be deleted.

Closed-Off ISA 706	New Para	Comments
Introduction 1. This International Standard on Auditing (ISA) establishes standards and provides guidance on: (a) Circumstances when the auditor includes an Emphasis of Matter paragraph or an Other Matter(s) paragraph in the auditor's report on the financial statements; and (b) The form and placement of such paragraphs.	1	
2. ISA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements," establishes standards and provides guidance on the auditor's report when the auditor is able to express an unmodified opinion on a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation.		Sign-posting unnecessary.
3. [Proposed] ISA 701, "The Independent Auditor's Report on Other Historical Financial Information," establishes standards and provides guidance on the auditor's report when the auditor is able to express an unmodified opinion on historical financial information other than (a) a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, and (b) summary audited financial statements.		Same as 2. above.
4. [Proposed] ISA 705, "Modifications to the Opinion in the Independent Auditor's Report," establishes standards and provides guidance for auditors' reports issued in accordance with ISA 700 (Revised) and [proposed] ISA 701 when the auditor's opinion is modified.		Same as 2. above.
5. The standards and guidance in this ISA are to be applied in circumstances when the auditor includes an Emphasis of Matter paragraph or an Other Matter(s) paragraph in an auditor's report issued in accordance with ISA 700 (Revised), [proposed] ISA 701 or [proposed] ISA 705. The Appendix to this ISA provides an		Same as 2. above.

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illustrative report based on the form and content of the auditor's report as set out in ISA 700 (Revised).		
<p>Emphasis of a Matter in the Financial Statements in the Auditor's Report</p> <p>6. In rare circumstances, the auditor may consider a matter disclosed in the financial statements to be of such importance to users' understanding of the financial statements as a whole that it would be appropriate to draw their attention to it. An Emphasis of Matter paragraph in the auditor's report provides the means for the auditor to do so. However, a widespread use of Emphasis of Matter paragraphs diminishes the effectiveness of the auditor's communication of such matters.</p>	2	
<p>7. The auditor may determine it is appropriate to emphasize in the auditor's report a matter presented and disclosed in the financial statements when, in the auditor's judgment, the matter is of such importance that it is fundamental to the users' understanding of the financial statements, provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements.</p>	A1	Redrafted to include conforming amendment proposed in the close-off version of ISA 800 and the requirement to include an EOM in paragraph 15 of the proposed ISA 560 (Redrafted).
<p>8. The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An emphasis of matter is not a substitute for either (a) the auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement (see [proposed] ISA 705), or (b) disclosures in the financial statements that the applicable financial reporting framework requires management to make.</p>	A4	
<p>9. ISA 570, "Going Concern," requires the auditor to include an Emphasis of Matter paragraph in the auditor's report on financial statements to highlight the existence of a material uncertainty regarding an entity's ability to continue as a going concern. The auditor draws attention to the disclosure in the financial statements that discusses the going concern uncertainty.</p>	A1	
<p>10. Examples of circumstances other than a going concern uncertainty where the auditor may determine that an Emphasis of Matter paragraph is appropriate may include:</p> <ul style="list-style-type: none"> • An uncertainty relating to the future outcome of an exceptional litigation or regulatory action; • Application 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 (i.e., 	A2	

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<p>where early application is permitted);</p> <ul style="list-style-type: none"> • A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position. 		
<p>11. When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor should include it immediately after the opinion paragraph in the auditor's report and use the heading "Emphasis of Matter." The Emphasis of Matter paragraph should clearly highlight the matter being emphasized and indicate where relevant disclosures that fully describe the matter can be found in the financial statements. The Emphasis of Matter paragraph should also indicate that the auditor's opinion is not modified in respect of the matter emphasized.</p>	6	
<p>12. The auditor does not make disclosures in the Emphasis of Matter paragraph beyond those included in the financial statements because doing so may imply that the matter has not been appropriately disclosed or that there is a disagreement with management.</p>	A3	
<p>13. The example report in the Appendix provides an illustration of an Emphasis of Matter paragraph in an auditor's report that contains a qualified opinion.</p>	A5	
<p>Other Matter(s) in the Auditor's Report</p> <p>14. The auditor may consider it necessary to use the auditor's report as a means of communicating information relating to matters other than those that are presented and disclosed in the financial statements. Such information is referred to in this ISA as "Other Matter(s)" in order to distinguish it from a matter highlighted in an Emphasis of Matter paragraph.</p>	3	
<p>15. If the auditor considers it necessary to communicate matter(s) other than those that are presented and disclosed in the financial statements and this is not prohibited by law or regulation, the auditor should do so in a separate paragraph in the auditor's report with the subheading "Other Matter(s)," placed after the auditor's opinion and any Emphasis of Matter paragraph.</p>	7	Redrafted to include linkage to the proposed requirement in proposed ISA 700 (Redrafted) to use an Other Matter(s) paragraph to address certain other matters in the auditor's report.
<p>16. The content of the Other Matter(s) paragraph reflects clearly that such other matter(s) are not required to be</p>		Repetitive of the substance of the

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presented and disclosed in the financial statements.		requirement in new para. 7.
<p>17. Examples of other matters that are not required to be recognized or disclosed in the financial statements by the applicable financial reporting framework include the following:</p> <p>(a) Avoidance of auditor association with materially inconsistent information in a document containing audited financial statements (see ISA 720, “Other Information in Documents Containing Audited Financial Statements”).</p> <p>(b) Circumstances where the incoming auditor is permitted to refer to the predecessor auditor’s report on the corresponding figures in the incoming auditor’s report for the current period (see ISA 710, “Comparatives”).</p> <p>(c) Where standards or laws require, or generally accepted practice in a jurisdiction permits, the auditor to elaborate on matters that provide further explanation of the auditor’s responsibilities in an audit of financial statements or of the auditor’s report thereon.</p> <p>(d) In rare circumstances, other matters that the auditor considers necessary to communicate to the user, for example, where the auditor judges it necessary to explain why the auditor is unable to resign from the engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a scope limitation imposed by management is pervasive.</p>	A6	Now included as a reference to [proposed] ISA 700 (Redrafted) in new para. 7.
<p>18. An Other Matter(s) paragraph does not deal with circumstances where the auditor has additional reporting responsibilities that are supplementary to the auditor’s responsibility to express an opinion on the financial statements, or where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters (see paragraphs 46-49 of ISA 700 (Revised)).</p>	A7	
<p>Communication with Those Charged with Governance</p> <p>19. When the auditor expects to include an Emphasis of Matter or an Other Matter(s) paragraph in the auditor’s report, the auditor should communicate with those charged with governance regarding this expectation, and the proposed wording of this paragraph.</p>	8	
<p>20. Such communication enables those charged with governance to be made aware of the nature of any specific</p>	A8	

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<p>matters that the auditor intends to highlight in the auditor's report, and provides them with an opportunity to obtain further clarification from the auditor where necessary. Where the inclusion of an Other Matter(s) paragraph on a particular matter in the auditor's report recurs on each successive engagement (for example, in circumstances such as those described in paragraph 17(c)), the auditor may determine that it is unnecessary to repeat the communication on each engagement.</p>		<p>No longer relevant after 17(c) moved back to proposed ISA 700 (Redrafted).</p>
<p>Effective Date</p> <p>21. This ISA is effective for auditors' reports dated on or after [Date].</p>	<p>4</p>	