

**ASA 706**

(October 2009)

**Auditing Standard ASA 706**  
*Emphasis of Matter*  
*Paragraphs and Other Matter*  
*Paragraphs in the*  
*Independent Auditor's Report*  
**(Revised and Redrafted)**

Issued by the **Auditing and Assurance Standards Board**

**DISCLAIMER**

This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.



**Australian Government**

**Auditing and Assurance Standards Board**

## Obtaining a Copy of this Auditing Standard

This Auditing Standard is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

### Contact Details

Auditing and Assurance Standards Board  
Level 7  
600 Bourke Street  
Melbourne Victoria 3000  
AUSTRALIA

Phone: (03) 8080 7400  
Fax: (03) 8080 7450  
E-mail: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

**Postal Address:**  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007  
AUSTRALIA

### COPYRIGHT

© 2009 ~~Commonwealth of Australia 2009 Auditing and Assurance Standards Board (AUASB)~~. The text, graphics and layout of this Auditing Standard are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to the Executive Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne Victoria 8007. Otherwise, no part of ~~this~~ Auditing Standard may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

ISSN 1833-4393

## CONTENTS

PREFACE	
AUTHORITY STATEMENT	
	<i>Paragraphs</i>
<b>Application</b> .....	Aus 0.1-Aus 0.2
<b>Operative Date</b> .....	Aus 0.3
<b>Introduction</b>	
Scope of this <a href="#">ASA Auditing Standard</a> .....	1-2
Effective Date .....	3
<b>Objective</b> .....	4
<b>Definitions</b> .....	5
<b>Requirements</b>	
Emphasis of Matter Paragraphs in the Auditor's Report .....	6-Aus 7.1
Other Matter Paragraphs in the Auditor's Report .....	8
Communication with Those Charged with Governance .....	9
<b>Application and Other Explanatory Material</b>	
Emphasis of Matter Paragraphs in the Auditor's Report .....	A1-Aus A4.1
Other Matter Paragraphs in the Auditor's Report .....	A5-A11
Communication with Those Charged with Governance .....	A12
<b>Conformity with International Standards on Auditing</b>	
Appendix 1: List of <a href="#">Australian</a> Auditing Standards Containing Requirements for Emphasis of Matter Paragraphs	
Appendix 2: List of <a href="#">Australian</a> Auditing Standards Containing Requirements for Other Matter Paragraphs	
Appendix 3: Illustration of an Auditor's Report that Includes an Emphasis of Matter Paragraph	

## PREFACE

### **Reasons for Issuing Auditing Standard ASA 706** ***Emphasis of Matter Paragraphs and Other Matter*** ***Paragraphs in the Independent Auditor's Report*** **(Revised and Redrafted)**

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Australian Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the [International Auditing and Assurance Standards Board \(IAASB\)](#) for the revision and enhancement of the [International Standards on Auditings \(ISAs\)](#) and to make appropriate consequential amendments to the Australian Auditing Standards. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report* (Revised and Redrafted)**

---

## **Main Features**

This Auditing Standard establishes ~~mandatory~~ Requirements and provides Application and Other Explanatory Material regarding the auditor's responsibility to draw user's attention to a matter in the financial report that is of such importance that it is fundamental to the user's understanding of the financial report or to any other matter that is relevant to the user's understanding of the audit, the auditor's responsibilities or the auditor's report.

**AUASB**

This Auditing Standard:

- (a) ~~d~~**Defines, and distinguishes between,** an "Emphasis of Matter" paragraph and an "Other Matter" paragraph;-
- (b) ~~d~~**Describes** the circumstances when an emphasis of matter paragraph is used and the form and content of such paragraphs;-
- (c) ~~d~~**Describes** the circumstances when an other matter paragraph is used and the form and content of such paragraphs;-
- (d) ~~r~~**Requires** the auditor to communicate with those charged with governance when the auditor expects to include an emphasis of matter paragraph and/or an other matter paragraph in the auditor's report; and-
- (e) ~~i~~**Identifies** other Auditing Standards containing Requirements for Emphasis of Matter paragraphs and Other Matter paragraphs.

### **AUASB Information Note**

~~The IAASB has announced completion of the "Clarity" project. While all currently known conforming amendments are incorporated into this Exposure Draft, readers are advised that the AUASB may decide to make further conforming amendments and other editorial changes.~~

**Auditing Standard ASA 706**  
*Emphasis of Matter Paragraphs and Other Matter Paragraphs in the*  
*Independent Auditor's Report* (~~Revised and Redrafted~~)

---

**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (~~Revised and Redrafted~~) pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. [This Auditing Standard is to be read also in conjunction with ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standard.](#)

Dated: 27 October 2009

M H Kelsall  
Chairman - AUASB

## AUDITING STANDARD ASA 706

### *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* **(Revised and Redrafted)**

#### Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
  - (b) an audit of a financial report or a complete set of financial statements for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

#### Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods commencing on or after 1 January 2010.

#### Introduction

##### Scope of this ASA Auditing Standard

1. This Auditing Standard deals with the auditor's responsibility regarding 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 report that are of such importance that they are fundamental to users' understanding of the financial report; or
  - (b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial report that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report (Revised and Redrafted)***

---

2. Appendices 1 and 2 identify ~~Australian~~ Auditing Standards 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 Auditing Standard regarding the form and placement of such paragraphs apply.

**Effective Date**

3. [Deleted by the AUASB. Refer Aus 0.3]

**Objective**

4. The objective of the auditor, having formed an opinion on the financial report, is to draw users' attention, when in the auditor's judgement 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 report, that is of such importance that it is fundamental to users' understanding of the financial report; 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.

**Definitions**

5. For ~~the~~ purposes of the Australian Auditing Standards, the following terms have the meanings attributed below:
- (a) Emphasis of Matter paragraph means a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.
  - (b) Other Matter paragraph means a paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial report that, in the auditor's judgement, 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**

6. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial report. Such a paragraph shall refer only to information presented or disclosed in the financial report. (Ref: Para. A1-A2)

Aus 6.1 The auditor shall include an Emphasis of Matter paragraph in the auditor's report to comply with the Requirements of other Auditing Standards. (Ref: Appendix 1)

Board  
request

7. When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:
- (a) Include it immediately after the Opinion paragraph in the auditor's report;
  - (b) Use the heading "Emphasis of Matter," or other appropriate heading;
  - (c) Include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial report; and
  - (d) Indicate that the auditor's opinion is not modified in respect of the matter emphasised. (Ref: Para. A3-A4)

- Aus 7.1 When the financial report has been prepared in accordance with Australian Accounting Standards but additional disclosures have been made in the financial report:
- on the basis that, or which imply that, application of a particular Accounting Standard has resulted in the financial report being potentially misleading; or

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report*** ~~(Revised and Redrafted)~~

---

- that, in the opinion of those charged with governance, are necessary to present a true and fair view; and

the auditor is of the opinion that:

- (a) it is likely, in the absence of the additional disclosures, that users would be misled when making evaluations or decisions about the allocation of scarce resources; and
- (b) the additional disclosures contain all, and only, relevant and reliable information, and are presented in such a manner as to ensure the financial report as a whole is comparable and understandable in meeting the objectives of the financial report,

the auditor shall include in the auditor's report, an **E**mp~~h~~asis of **M**atter paragraph headed "Application of Australian Accounting Standard AASB ..." or appropriate alternative which:

- (i) draws attention to the additional disclosures;
- (ii) where relevant, states that in the auditor's opinion application of the particular Accounting Standard has, in this instance, resulted in the financial report being potentially misleading;
- (iii) states the specific reasons why the auditor believes the additional disclosures are necessary to ensure the financial report as a whole is not misleading (the auditor's reasons are to be stated in the auditor's report itself rather than only by reference to the reasons included in the financial report); and
- (iv) states that, in the auditor's opinion, the additional disclosures are relevant and reliable in meeting the objectives of the financial report. (Ref: Para. Aus A4.1)

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report (Revised and Redrafted)***

---

**Other Matter Paragraphs in the Auditor's Report**

8. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial report that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report and this is not prohibited by law or regulation, the auditor shall do so in a paragraph in the auditor's report, with the heading "Other Matter," or other appropriate heading. The auditor shall include this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the auditor's report if the content of the Other Matter paragraph is relevant to the Other Reporting Responsibilities section. (Ref: Para. A5-A11)

Aus 8.1 The auditor shall include an Other Matter paragraph in the auditor's report to comply with the Requirements of other Auditing Standards. (Ref: Appendix 2)

Board  
request

**Communication with Those Charged with Governance**

9. 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 proposed wording of this paragraph. (Ref: Para. A12)

\* \* \*

## **Application and Other Explanatory Material**

### **Emphasis of Matter Paragraphs in the Auditor's Report**

*Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary* (Ref: Para. 6-~~Aus 6.1~~)

- A1. 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.
  - Early application (where permitted) of a new accounting standard (for example, a new Australian Accounting Standard) that has a pervasive effect on the financial report in advance of its effective date.
  - A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
- Aus A1.1 Ordinarily, a significant uncertainty, the resolution of which may materially affect the financial report, would warrant an emphasis of matter paragraph in the auditor's report.
- A2. A widespread use of Emphasis of Matter paragraphs diminishes the effectiveness of the auditor's communication of such matters. Additionally, to include more information in an Emphasis of Matter paragraph than is presented or disclosed in the financial report may imply that the matter has not been appropriately presented or disclosed; accordingly, paragraph 6 limits the use of an Emphasis of Matter paragraph to matters presented or disclosed in the financial report.
- Aus A2.1 Accounting estimates are ~~customarily~~ ordinarily made in connection with amounts and other disclosures appearing in the financial report. In most cases the auditor is able to be satisfied regarding the reasonableness of an accounting estimate, and ~~mandatory~~ Requirements and explanatory guidance on this matter are contained in ASA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* (~~Revised and Redrafted~~). Such an estimate will not ordinarily be

AUASB

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report*** (~~Revised and Redrafted~~)

---

regarded as a significant uncertainty for the purposes of this Auditing Standard.

*Including an Emphasis of Matter Paragraph in the Auditor's Report*  
(Ref: Para. 7)

- A3. 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 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 ASA 705 (~~Revised and Redrafted~~)<sup>1</sup>); or
  - (b) Disclosures in the financial report that the applicable financial reporting framework requires management to make.
- A4. The illustrative report in Appendix 3 includes an Emphasis of Matter paragraph in an auditor's report that contains a qualified opinion.
- Aus A4.1 When an auditor's report is prepared on a financial report prepared ~~under in accordance with~~ the *Corporations Act 2001* (~~the Act~~), section 308(3B) ~~of the Act~~ requires that if the financial report includes additional information under paragraph 295(3)(c) (additional information included to give a true and fair view of the entity's financial position and performance), the auditor's report includes the auditor's opinion on whether the additional information was necessary to give a true and fair view. (Ref: Aus 7.1)

QA

**Other Matter Paragraphs in the Auditor's Report** (Ref: Para. 8)

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

Relevant to Users' Understanding of the Audit

- A5. 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

---

<sup>1</sup> See ASA 705 (~~Revised and Redrafted~~) *Modifications to the Opinion in the Independent Auditor's Report*.

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report*** ~~(Revised and Redrafted)~~

---

the scope of the audit imposed by management is pervasive,<sup>2</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

- A6. 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 report or of the auditor's report thereon. Where relevant, one or more sub-headings may be used that describe the content of the Other Matter paragraph.
- A7. 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 Australian Auditing Standards to report on the financial report (see "Other Reporting Responsibilities" section in ASA 700 ~~(Revised and Redrafted)~~<sup>3</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 financial report

- A8. An entity may prepare one financial report in accordance with a general purpose framework (e.g. for example, the ~~national framework~~ Australian Accounting Standards) and another financial report in accordance with another general purpose framework (e.g. for example, International Financial Reporting Standards), and engage the auditor to report on both financial reports. 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 financial report has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on that financial report.

QA

ISA

Restriction on distribution or use of the auditor's report

<sup>2</sup> See ASA 705 ~~(Revised and Redrafted)~~ paragraph 13(b)(ii) for a discussion of this circumstance.

<sup>3</sup> See ASA 700 ~~(Revised and Redrafted)~~ *Forming an Opinion and Reporting on a Financial Report*, paragraphs 38-39.

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report (Revised and Redrafted)***

---

- A9. A financial report prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such a general purpose financial report meets 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*

- A10. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial report. 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.
- Aus A10.1 The inclusion of an Other Matter paragraph in the auditor's report does not affect the auditor's opinion. An auditor needs to consider whether, in the circumstances, it is appropriate to indicate that the auditor's opinion is not modified in respect of the Other Matter paragraph.
- A11. The placement of an Other Matter paragraph depends on the nature of the information to be communicated. When an Other Matter paragraph is included to draw users' attention to a matter relevant to their understanding of the audit of the financial report, the paragraph is included immediately after the Opinion paragraph and any Emphasis of Matter paragraph. 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." Alternatively, 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 Financial Report and the Report on Other Legal and Regulatory Requirements.

**Communication with Those Charged with Governance** (Ref: Para. 9)

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report*** ~~(Revised and Redrafted)~~

---

- A12. Such communication 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.

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report*** ~~(Revised and Redrafted)~~

---

## **Conformity with International Standards on Auditing**

Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* ~~(Revised and Redrafted)~~, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix "Aus".

The main differences between this Auditing Standard and ISA 706 ~~is~~ are:

- This Auditing Standard includes the following Requirements that ~~is~~ are not included as ~~a~~ Requirements in ISA 706:

- ◆ The auditor shall include an Emphasis of Matter paragraph in the auditor's report to comply with the Requirements of other Auditing Standards. (Paragraph Aus 6.1)

- ◊ When the financial report has been prepared in accordance with Australian Accounting Standards but additional disclosures have been made in the financial report:

- on the basis that, or which imply that, application of a particular Accounting Standard has resulted in the financial report being potentially misleading; or
- that, in the opinion of those charged with governance, are necessary to present a true and fair view; and

the auditor is of the opinion that:

- (a) it is likely, in the absence of the additional disclosures, that users would be misled when making evaluations or decisions about the allocation of scarce resources; and
- (b) the additional disclosures contain all, and only, relevant and reliable information, and are presented in such a manner as to ensure the financial report

Board  
request

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report (Revised and Redrafted)***

---

as a whole is comparable and understandable in meeting the objectives of the financial report,

the auditor shall include in the auditor's report an Emphasis of Matter paragraph headed "Application of Australian Accounting Standard AASB ..." or appropriate alternative which:

- (i) draws attention to the additional disclosures;
- (ii) where relevant, states that in the auditor's opinion application of the particular Accounting Standard has, in this instance, resulted in the financial report being potentially misleading;
- (iii) states the specific reasons why the auditor believes the additional disclosures are necessary to ensure the financial report as a whole is not misleading (the auditor's reasons are to be stated in the auditor's report itself rather than only by reference to the reasons included in the financial report); and
- (iv) states that, in the auditor's opinion, the additional disclosures are relevant and reliable in meeting the objectives of the financial report.  
(Paragraph Aus 7.1)

◆ The auditor shall include an Other Matter paragraph in the auditor's report to comply with the Requirements of other Auditing Standards. (Paragraph Aus 8.1)

<u>Board request</u>
--------------------------

Compliance with this Auditing Standard enables compliance with ISA 706.

## Appendix 1

(Ref: Para. 2)

### List of ~~Australian~~ Auditing Standards Containing Requirements for Emphasis of Matter Paragraphs

This appendix identifies paragraphs in other ~~Australian~~ Auditing Standards in effect for audits of financial reports for ~~financial reporting~~ periods beginning on or after 1 January 2010 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 the Australian Auditing Standards.

- ~~ASA 210~~ ~~(Revised and Redrafted)~~ *Agreeing the Terms of Audit Engagements* – paragraph ~~19(b)~~
- ~~ASA 560~~ ~~(Revised and Redrafted)~~ *Subsequent Events* – paragraphs 12(b) and 16
- ~~ASA 570~~ ~~(Revised and Redrafted)~~ *Going Concern* – paragraph 19
- ~~ASA 800~~ ~~(Revised and Redrafted)~~ *Special Considerations—Audits of Financial Reports Prepared in Accordance with a Special Purpose Frameworks* – paragraph 14

ISA

## Appendix 2

(Ref: Para. 2)

### List of ~~Australian~~ Auditing Standards Containing Requirements for Other Matter Paragraphs

This appendix identifies paragraphs in other ~~Australian~~ Auditing Standards in effect for audits of financial reports for ~~financial reporting~~ periods beginning on or after 1 January 2010 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 the Australian Auditing Standards.

- ~~ASA 560~~ (~~Revised and Redrafted~~) *Subsequent Events* – paragraphs 12(b) and 16
- ~~ASA 710~~ (~~Revised and Redrafted~~) *Comparative Information—Corresponding Figures and Comparative Financial Reports* – paragraphs ~~13-14~~, 16-17 and 19
- ~~ASA 720~~ (~~Revised and Redrafted~~) *The Auditor's Responsibilities Relating to Other Information in Documents Containing an Audited Financial Report* – paragraph 10(a)

ISA

## Appendix 3

(Ref: Para. A4)

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

Circumstances include the following:

- **Audit of a general purpose financial report prepared by management of the entity in accordance with Australian Accounting Standards but *not* in accordance with the requirements of the *Corporations Act 2001*.**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210 (~~Revised and Redrafted~~).**<sup>4</sup>
- **There is uncertainty relating to a pending exceptional litigation matter.**
- **A departure from the applicable financial reporting framework resulted in a qualified opinion.**
- **In addition to the audit of the financial report, the auditor has other reporting responsibilities required under local law.**

#### INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

#### Report on the Financial Report<sup>5</sup>

We have audited the accompanying financial report of ABC Entity, which comprises the statement of financial position -as at 30 June, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a

<sup>4</sup> See ASA 210 *Agreeing the Terms of Audit Engagements*.

<sup>5</sup> The subtitle "Report on the Financial Report" is unnecessary in circumstances when the second subtitle "Report on Other Legal and Regulatory Requirements" is not applicable.

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report*** ~~(Revised and Redrafted)~~

---

summary of significant accounting policies and other explanatory information.

*Management's<sup>6</sup> Responsibility for the Financial Report*

Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards,<sup>7</sup> and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>8</sup> of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

---

<sup>6</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>7</sup> Where management's responsibility is to prepare the financial report that gives a true and fair view, this may read: "Management is responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards, and for such..."

<sup>8</sup> In the case of footnote 7, this ~~sentence~~ may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but nor for the purpose of expressing an opinion on the effectiveness of the entity's internal control."

ISA

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report (Revised and Redrafted)***

---

effectiveness of the entity's internal control.<sup>9</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

*Basis for Qualified Opinion*

The entity'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 Australian Accounting Standards. The entity's records indicate that had management marked the marketable securities to market, the entity would have recognised an unrealised 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 30 June, 20X1, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

*Qualified Opinion*

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial report presents fairly, in all material respects (*or give a true and fair view of*) the financial position of ABC Entity as at 30 June, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

---

<sup>9</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 7, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances."

**Auditing Standard ASA 706**  
***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the***  
***Independent Auditor's Report*** ~~(Revised and Redrafted)~~

---

*Emphasis of Matter*

We draw attention to Note X to the financial statements which describes the uncertainty<sup>10</sup> related to the outcome of the lawsuit filed against the entity by XYZ Entity. Our opinion is not qualified in respect of this matter.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]\*

[Date of the auditor's report]

[Auditor's address]

---

<sup>10</sup> In highlighting the uncertainty, the auditor uses the same terminology that is used in the note to the financial statements.

\* The auditor's report needs to be signed in one or more of the following ways: the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.