

EXPOSURE DRAFT

**ED 02/15**

(April 2015)

# **Proposed Auditing Standard ASA 706** *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

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

Draft

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**Australian Government**

**Auditing and Assurance Standards Board**

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## PREFACE

### **Reasons for Issuing ED 02/15**

The AUASB issues exposure draft ED 02/15 of proposed 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 committee 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 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, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

### **Main Proposals**

This proposed Auditing Standard represents the Australian equivalent of revised ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (January 2015) and will replace the current ASA 706 issued by the AUASB in October 2009 (as amended).

This proposed Auditing Standard contains differences from the revised ISA 706, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

### **Proposed Operative Date**

It is intended that this proposed Auditing Standard will be operative for financial reporting periods ending on or after 15 December 2016.

### **Main changes from existing ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (October 2009)**

The main differences between this proposed Auditing Standard and the Auditing Standard that it supersedes, ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (October 2009, as amended), are included in the Tables of Differences provided as an attachment to this Exposure Draft.

### **Request for Comments**

Comments are invited on this Exposure Draft of the proposed re-issuance of ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* by no later than 26 June 2015. The AUASB is seeking comments from respondents on the following questions:

1. Have applicable laws and regulations been appropriately addressed in the proposed standard?
2. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?
3. What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the requirements of this

**Proposed Auditing Standard ASA 706**

***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report***

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proposed standard? If there are significant costs, do these outweigh the benefits to the users of audit services?

4. Are there any other significant public interest matters that constituents wish to raise?

The AUASB prefers that respondents express a clear opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the above matters. The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Auditing Standard.

Draft

### **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* 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 Standards*.

Draft

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

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* 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 following application and other explanatory material is additional to ISA 706:

Appendix      One illustrative example auditor’s report that conforms with the requirements of the *Corporations Act 2001*.

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISA 706 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISA 706.

## AUDITING STANDARD ASA 706

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

#### 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 ending on or after 15 December 2016.

#### Introduction

##### Scope of this Auditing Standard

1. This Auditing Standard 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 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.
2. ASA 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 Auditing Standard addresses the relationship between key audit matters and any additional communication in the auditor's report in accordance with this Auditing Standard. (Ref: Para. A1–A3)
3. ASA 570<sup>2</sup> establishes requirements and provides guidance about communication in the auditor's report relating to going concern.
4. 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 of such paragraphs apply. (Ref: Para. A4)

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<sup>1</sup> See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>2</sup> See ASA 570 *Going Concern*.



### **Effective Date**

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

### **Objective**

6. 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**

7. For the purposes of this Auditing Standard, 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 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** – 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**

8. 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: (Ref: Para. A5–A6)
- (a) The auditor would not be required to modify the opinion in accordance with ASA 705<sup>3</sup> as a result of the matter; and
  - (b) When ASA 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";
  - (b) 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.

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<sup>3</sup> See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

The paragraph shall refer only to information presented or disclosed in the financial report; and

- (c) Indicate that the auditor's opinion is not modified in respect of the matter emphasised. (Ref: Para. A7–A8, A16–A17)

### **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 report that, in the auditor's judgement, 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 ASA 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)

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### **Application and Other Explanatory Material**

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

- A1. Key audit matters are defined in ASA 701 as those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial report 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 report of the current period.<sup>4</sup> Communicating key audit matters provides additional information to intended users of the financial report to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit and may also assist them in understanding the entity and areas of significant management judgement in the audited financial report. When ASA 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 ASA 701 may also be, in the auditor's judgement, fundamental to users' understanding of the financial report. In such cases, in communicating the matter as a key audit matter in accordance with ASA 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 the importance of the matter to users' understanding of the financial report.

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<sup>4</sup> See ASA 260 *Communication with Those Charged with Governance*, paragraph 16.

## **Proposed Auditing Standard ASA 706**

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

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- A3. There may be a matter that is not determined to be a key audit matter in accordance with ASA 701 (i.e., because it did not require significant auditor attention), but which, in the auditor's judgement, is fundamental to users' understanding of the financial report (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 ASA.

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

- A4. Appendix 1 identifies Australian Auditing Standards 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 the 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 report 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>

- 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 report and the date of the auditor's report.<sup>6</sup>
- Early application (where permitted) of a new accounting standard that has a material effect on the financial report.
- 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 ASA 705 when required by the circumstances of a specific audit engagement;
  - (b) Disclosures in the financial report 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 ASA 570<sup>7</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.

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

<sup>6</sup> See ASA 560, paragraph 6.

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

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- A8. 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. ASA 260 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>8</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 ASA 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>9</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 report or of the auditor's report thereon. When the Other Matter section includes more than one matter that, in the auditor's judgement, 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 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 Australian Auditing Standards (see Other Reporting Responsibilities section in ASA 700<sup>10</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

- A13. An entity may prepare one financial report in accordance with a general purpose framework and another financial report in accordance with another general purpose framework (e.g., Australian Accounting Standards), and engage the auditor to report on both sets of the financial report. 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.

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<sup>7</sup> See ASA 570, paragraphs 22–23.

<sup>8</sup> See ASA 260, paragraph 15.

<sup>9</sup> See ASA 705, paragraph 13(b)(ii) for a discussion of this circumstance.

<sup>10</sup> See ASA 700 *Forming an Opinion and Reporting on a Financial Report*, paragraphs 42–44.

Restriction on distribution or use of the auditor's report

- A14. 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*

- 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 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, relevant 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 judgement as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with ASA 700. For example:

*Emphasis of Matter Paragraphs*

- When the Emphasis of Matter paragraph relates to the applicable financial reporting framework, including circumstances where the auditor determines that the financial reporting framework prescribed by law or regulation would otherwise be unacceptable,<sup>11</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 judgement as to the relative significance of the information included in the Emphasis of Matter paragraph. The auditor may also add further context to the heading "Emphasis of Matter", such as "Emphasis of Matter—Subsequent Event", 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.

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<sup>11</sup> For example, as required by ASA 210 *Agreeing the Terms of Audit Engagements*, paragraph 19 and ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*, paragraph 14.

- 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 Report 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.

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**Appendix 1**

(Ref: Para. 4, A4)

**LIST OF AUSTRALIAN AUDITING STANDARDS CONTAINING  
REQUIREMENTS FOR EMPHASIS OF MATTER PARAGRAPHS**

This appendix identifies paragraphs in other Australian Auditing Standards 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 Australian Auditing Standards.

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

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**Appendix 2**

(Ref: Para. 4)

**LIST OF AUSTRALIAN AUDITING STANDARDS CONTAINING  
REQUIREMENTS FOR OTHER MATTER PARAGRAPHS**

This appendix identifies paragraphs in other Australian Auditing Standards 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 Australian Auditing Standards.

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

Draft



**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**

**Example Auditor's Report  
Single Company—Corporations Act 2001  
(Fair Presentation Framework)**

[Aus] Illustration

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

- Audit of a single listed company's financial report using a fair presentation framework. The audit is not a group audit (i.e., ASA 600<sup>12</sup> does not apply).
- The financial report is prepared by the directors of the entity in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 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 the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- 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 ASA 570.
- Between the date of the financial report 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 judgement, the matter is of such importance that it is fundamental to users' understanding of the financial report. The matter did not require significant auditor attention in the audit of the financial report in the current period.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained the other information and includes an other information section in accordance with [proposed ISA 720.\*]
- Corresponding figures are presented, and the prior period's financial report was 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.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

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<sup>12</sup> See ASA 600 *Special Considerations—Audits of Group Financial Reports (Including the Work of Component Auditors)*.

\* See proposed ISA 720, *The Auditor's Responsibilities Relating to Other Information* [proposed standard being that based on December 2014 IAASB published board paper version.]

## **INDEPENDENT AUDITOR'S REPORT**

[Appropriate Addressee]

### **Report on the Audit of the Financial Report<sup>13</sup>**

#### **Opinion**

We have audited the financial report of ABC Company Ltd.(the Company), which comprises the statement of financial position as at 30 June 20X1, 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 report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### **Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of a Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia, and we have fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if given to the directors as at the time of this auditor's report.\*

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

#### **Emphasis of Matter<sup>14</sup>**

We draw attention to Note X of the financial report, which describes the effects of a fire in the 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 judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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<sup>13</sup> The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

\* Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*]

<sup>14</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.

## **Proposed Auditing Standard ASA 706**

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

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*[Description of each key audit matter in accordance with ASA 701.]*

#### **Other Information**

*[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]*

#### **Other Matter**

The financial report of ABC Company Ltd., for the year ended 30 June 20X0, was audited by another auditor who expressed an unmodified opinion on that report on 31 August 20X1.

#### **Responsibilities of the Directors for the Financial Report<sup>15</sup>**

*[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]*

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

*[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]*

#### **Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]*

*[Auditor's name and signature]\**

*[Date of the auditor's report]*

*[Auditor's address]*

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<sup>15</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.

\* The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

**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**

[Aus] Illustration

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

- Audit of a financial report of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ASA 600 does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.
- A departure from the applicable financial reporting framework resulted in a qualified opinion.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- 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 ASA 570.
- Between the date of the financial report 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 judgement, the matter is of such importance that it is fundamental to users' understanding of the financial report. The matter did not require significant auditor attention in the audit of the financial report in the current period.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ASA 701.
- The auditor has obtained the other information and therefore is required to include an other information section in accordance with [proposed ISA 720.\*]
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under law.

**INDEPENDENT AUDITOR'S REPORT**

To the Members of ABC Entity [or Other Appropriate Addressee]

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\* See proposed ISA 720, *The Auditor's Responsibilities Relating to Other Information* [proposed standard being that based on December 2014 IAASB published board paper version.]

## **Report on the Audit of a Financial Report<sup>16</sup>**

### **Qualified Opinion**

We have audited the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, 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 report, including a summary of significant accounting policies, and the declaration by those charged with governance.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report presents fairly, in all material respects, (or *give a true and fair view of*) the financial position of the 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.

### **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.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### **Emphasis of Matter – Effects of a Fire**

We draw attention to Note X of the financial report, which describes the effects of a fire in the Entity's production facilities. Our opinion is not modified in respect of this matter.

### **Other Information**

[Reporting in accordance with proposed ISA 720.<sup>#</sup>]

### **Responsibilities of Management and Those Charged with Governance for the Financial Report<sup>17</sup>**

[Reporting in accordance with ASA 700 – see Illustration 3 in ASA 700.]

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

[Reporting in accordance with ASA 700 – see Illustration 3 in ASA 700.]

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<sup>16</sup> The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>\*</sup> Or other applicable assertion by management or those charged with governance.

<sup>#</sup> Paragraph 22 of proposed ISA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705. See proposed ISA 720, Appendix 2, Illustration 6, for circumstances where the matter giving rise to a qualified opinion impacts on the conclusion provided on the other information.

<sup>17</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

**Proposed Auditing Standard ASA 706**

***Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report***

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**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]*

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

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

*[Auditor Address]*

*[Date]*

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**Tables of Differences — ASA 706 and Existing ASA 706**

*Summary of Main Differences — ASA 706 and Existing ASA 706*

The table below details the main differences (excluding editorial amendments) between this proposed Auditing Standard and existing ASA 706.

**Table 1: New Requirements**

Item #	New Standard Para. No.	Requirements/Significant Guidance Extract or Description	Commentary
1	2	Revised ASA 706 addresses the relationship between key audit matters (KAM) and any additional communication in the auditor’s report in accordance with this standard (i.e. EOM and O paragraphs)	<p>As ASA 706 retains the concepts of EOM and OM paragraphs, however, the main change to the standard is differentiation of these concepts particularly in light of an auditor’s report that communicates KAM.</p> <p>Communicating a matter under ASA 701 serves as the most useful and meaningful mechanism for highlighting the importance of the matter. This is because communicating KAM is intended to provide <i>additional</i> information beyond what is include in an EOM paragraph (i.e. a reference to emphasise only).</p> <p>Accordingly, ASA 706 prohibits use of an EOM paragraph or an OM paragraph when the matter has been determined to be a KAM. Furthermore, the use of an EOM paragraph is not a substitute for KAM.</p>
2	9(a)	The term “Emphasis of Matter” is to be included in the heading when an EOM paragraph is included in the auditor’s report.	The standard provides flexibility for the auditor to provide greater specificity in the heading tailored to the matter.
3	A1 – A3	Guidance were a matter is determined to be a KAM but may also be, in the auditor’s judgement, fundamental to users’ understanding of the financial report.	The guidance encourages the matter to be presented more prominently than other KAM or by including additional information to indicate the importance of the matter to users’ understanding of the financial report.

Item #	New Standard Para. No.	Requirements/Significant Guidance Extract or Description	Commentary
4	Appendices	Illustrative example auditor’s reports.	The illustrative auditor’s reports clearly distinguish the concepts in circumstances where KAM, an EOM paragraph and an OM paragraph are included in the same auditor’s report.

**Table 2: Existing Requirements Not Included in the Proposed Standard**

Item #	Existing Standard Para. No.	Requirements/Significant Guidance Extract or Description	Commentary
1	Aus 6.1	In addition to the requirements in paragraph 6 of this Auditing Standard, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report where required by other Auditing Standards.	In conforming with the ISAs, the AUASB’s policy is to limit amendments to the relevant ISA when developing the equivalent Australian standard. Accordingly, the AUASB does not intend to carry forward the Australian requirement in paragraphs Aus 6.1 because it is effectively a duplication of requirements in other auditing standards.
2	Aus 7.1	<p>When the financial report has been prepared in accordance with Australian Accounting Standards but additional disclosures have been made in the financial report:</p> <ul style="list-style-type: none"> <li>• on the basis that, or which imply that, application of a particular Accounting Standard has resulted in the financial report being potentially misleading; or</li> <li>• that, in the opinion of those charged with governance, are necessary to present a true and fair view; and</li> </ul> <p>the auditor is of the opinion that:</p> <p>(a) it is likely, in the absence of the additional disclosures, that users would be misled when</p>	<p>These requirements are not carried forward to the revised standard because:</p> <ul style="list-style-type: none"> <li>• The objective of the auditor and the requirements in ASA 706 are considered sufficient to prompt the auditor to consider the need for an EOM paragraph in the event of additional disclosure included in the financial report so as to achieve fair presentation.</li> </ul>



Item #	Existing Standard Para. No.	Requirements/Significant Guidance Extract or Description	Commentary
		<p>making evaluations or decisions about the allocation of scarce resources; and</p> <p>(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,</p> <p>the auditor shall include in the auditor’s report an Emphasis of Matter paragraph headed "Application of Australian Accounting Standard AASB ..." or an appropriate alternative which:</p> <p>(i) draws attention to the additional disclosures;</p> <p>(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;</p> <p>(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</p> <p>(iv) states that, in the auditor's opinion, the additional disclosures are relevant and reliable in meeting the objectives of the financial report</p>	

Item #	Existing Standard Para. No.	Requirements/Significant Guidance Extract or Description	Commentary
3	Aus 8.1	In addition to the requirements in paragraph 8 of this Auditing Standard, the auditor shall include an Other Matter paragraph in the auditor’s report where required by other Auditing Standards.	In conforming with the ISAs, the AUASB’s policy is to limit amendments to the relevant ISA when developing the equivalent Australian standard. Accordingly, the AUASB does not intend to carry forward the Australian requirement in paragraphs Aus 8.1 because it is effectively a duplication of requirements in other auditing standards.

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