



## Agenda Item 3B

### Proposed Statement on Auditing Standards (SAS), *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*

Matrix — Comparison of ISA 706 (Revised), *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* to proposed SAS, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, and extant AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
Introduction	Introduction	Introduction	
Scope of this ISA	Scope of this <del>ISA</del> <b>Proposed SAS</b>	Scope of This <del>Section</del> <b>Proposed SAS</b>	
1. This International Standard on Auditing (ISA) deals with additional communication in the auditor's report when the auditor considers it necessary to:	1. This <b>proposed Statement on Auditing Standards (SAS)</b> <del>addresses International Standard on Auditing (ISA)</del> <b>addresses</b> additional communications in the auditor's report when the auditor considers it necessary to:	<del>1.</del> This <b>proposed Statement on Auditing Standards (SAS)</b> <del>section</del> <b>addresses</b> additional communications in the auditor's report when the auditor considers it necessary to	

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
(a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or	(a) <del>d</del> Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements _____ (emphasis-of-matter paragraph); or	a. draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements (emphasis-of-matter paragraph) or	Col. B - Clarity changes

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>(b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.</p>	<p>(b) <del>d</del>Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report <u>(other-matter paragraph)</u>.</p>	<p><i>b.</i> draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report (other-matter paragraph).</p>	<p>B - Clarity changes</p>

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>2. ISA 701<sup>1</sup> establishes requirements and provides guidance when the auditor determines key audit matters and communicates them in the auditor’s report. When the auditor includes a Key Audit Matters section in the auditor’s report, this ISA addresses the relationship between key audit matters and any additional communication in the auditor’s report in accordance with this ISA. (Ref: Para. A1–A3)</p>	<p>2. <u>Proposed AU-C <del>ISA</del>—section 701, <i>Communicating Key Audit Matters in the Independent Auditor’s Report</i></u><sup>2</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 <u>proposed SAS <del>ISA</del></u> addresses the relationship between key audit matters and any additional communication in the auditor’s report in accordance with this <u>proposed SAS</u><del>ISA</del>. (Ref: <u>para. A1–A3</u> A2)</p>	<p>2. <u>Proposed AU-C section 701, <i>Communicating Key Audit Matters in the Independent Auditor’s Report</i></u> 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 <u>key audit matters section in the auditor’s report, this proposed SAS</u> addresses the relationship between key audit matters and any additional communication in the auditor’s report in accordance with this proposed SAS. (Ref: Par. <u>A2</u>)</p>	<p>C - Added for 701</p>

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

<sup>2</sup> ~~ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*~~

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>3. ISA 570 (Revised)<sup>3</sup> and ISA 720 (Revised)<sup>4</sup> establishes requirements and provides guidance about communication in the auditor’s report relating to going concern.</p>	<p>3. <u><a href="#">AU-C section <del>ISA</del> 570, <i>The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern</i> (Revised)<sup>5</sup></a></u> and <u><a href="#">AU-C section <del>ISA</del> 720, <i>Other Information in Documents Containing Audited Financial Statements</i> (Revised)<sup>6</sup></a></u> establishes requirements and provides guidance about communication in the auditor’s report relating to going concern <u>and other information, respectively.</u></p>	<p>3. <u><a href="#">AU-C section 570, <i>The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern</i></a></u> and <u><a href="#">AU-C section 720, <i>Other Information in Documents Containing Audited Financial Statements</i></a></u> establish requirements and provide guidance about communication in the auditor’s report relating to going concern and other information, respectively.</p>	

<sup>3</sup> ISA 570 (Revised), *Going Concern*

<sup>4</sup> ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

<sup>5</sup> ~~ISA 570 (Revised), *Going Concern*~~

<sup>6</sup> ~~ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*~~

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>4. Appendices 1 and 2 identify ISAs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs or Other Matter paragraphs in the auditor’s report. In those circumstances, the requirements in this ISA regarding the form of such paragraphs apply. (Ref: Para. A4)</p>	<p>4. <u>Exhibit B, "List of AU-C Sections Containing Requirements for Emphasis-of-Matter Paragraphs," and exhibit C, "List of AU-C Sections Containing Requirements for Other-Matter Paragraphs," Appendices 1 and 2</u> identify AU-C sections ISAs that containing specific requirements for the auditor to include <u>an</u> <del>an</del> <u>Emphasis-of-M</u> <del>Emphasis-of-M</del> <u>matter paragraphs or o</u> <del>Other-</del> <u>Other-</u> <del>M</del> <u>matter paragraph, respectively, s</u> <del>e</del> in the auditor’s report. <u>Accordingly, in those circumstances,</u> the requirements in this <u>proposed SAS</u> <del>ISA</del> regarding the form of such paragraphs apply. (Ref: <u>p</u> <del>Para.</del> <u>A1 and A3-A4</u>)</p>	<p><del>4.02</del> Exhibit B, "List of AU-C Sections Containing Requirements for Emphasis-of-Matter Paragraphs," and exhibit C, "List of AU-C Sections Containing Requirements for Other-Matter Paragraphs," identify AU-C sections containing specific requirements for the auditor to include an emphasis-of-matter paragraph or other-matter paragraph, respectively, in the auditor’s report. Accordingly, the requirements in this section regarding the form <u>and placement</u> of such paragraphs apply. (Ref: par. <del>A1 and A3</del>)</p>	<p>B - Clarity changes C - “and placement” removed to align with ISA</p>
<b>Effective Date</b>	<b>Effective Date</b>	Effective Date	
<p>5. This ISA is effective for audits of financial statements for periods ending on or after December 15, 2016.</p>	<p>5. This <u>proposed SAS</u> <del>ISA</del> is effective for audits of financial statements for periods ending on or after December 15, 20<u>XX</u><del>16</del>.</p>	<p><del>5.03</del> This <u>proposed SAS</u> <del>section</del> is effective for audits of financial statements for periods ending on or after December 15, 20<u>XX</u><del>12</del>.</p>	

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
Objective	Objective	Objective	
<p>6. The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:</p>	<p>6. <del>6.</del>—The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:</p>	<p><del>6.</del><sup>6.04</sup> The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to</p>	
<p>(a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or</p>	<p>(a) <del>a</del><sup>a</sup>A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or</p>	<p>a. a matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements or</p>	
<p>(b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.</p>	<p>(b) <del>a</del><sup>a</sup>As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.</p>	<p>b. as appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report.</p>	
Definitions	Definitions	Definitions	
<p>7. For purposes of the ISAs, the following terms have the meanings attributed below:</p>	<p>7. <del>7.</del>—For purposes of <u>generally accepted auditing standards (GAAS)</u>, <del>the ISAs,</del> the following terms have the meanings attributed <u>as follows</u><del>below</del>:</p>	<p><del>7.</del><sup>7.05</sup> For the purposes of generally accepted auditing standards (GAAS), the following terms have the meanings attributed as follows:</p>	

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>(a) Emphasis of Matter paragraph – A paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.</p>	<p><del>(a)</del> <b>Emphasis of Matter paragraph.</b> — A paragraph included in the auditor’s report that <u>is required by GAAS, or is included at the auditor’s discretion, and that</u> refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s <u>professional</u> judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.</p>	<p><b>Emphasis-of-matter paragraph.</b> A paragraph included in the auditor’s report that is required by GAAS, or is included at the auditor’s discretion, and that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s professional judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.</p>	<p>B - Clarity changes</p>
<p>(b) Other Matter paragraph – A paragraph included in the auditor’s report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report.</p>	<p><del>(b)</del> <b>Other Matter paragraph.</b> — A paragraph included in the auditor’s report that <u>that is required by GAAS, or is included at the auditor’s discretion, and that</u> refers to a matter other than those presented or disclosed in the financial statements that, in the auditor’s <u>professional</u> judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report.</p>	<p>Other-matter paragraph. A paragraph included in the auditor’s report that is required by GAAS, or is included at the auditor’s discretion, and that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor’s professional judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities, or the auditor’s report.</p>	<p>B - Clarity changes</p>



A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
Requirements	Requirements	Requirements	
<b>Emphasis of Matter Paragraphs in the Auditor's Report</b>	<b>Emphasis-of-Matter Paragraphs in the Auditor's Report</b>	Emphasis-of-Matter Paragraphs in the Auditor's Report	
<p>8. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided: (Ref: Para. A5–A6)</p>	<p>8. <del>8.</del> If the auditor considers it necessary to draw users' attention to a matter <u>appropriately</u> presented or disclosed in the financial statements that, in the auditor's <u>professional</u> judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor <u>should shall</u> include an <u>e</u>Emphasis-of-mMatter paragraph in the auditor's report, provided: (Ref: <u>p</u>Para. A4–A5 <u>A5–A6</u>)</p>	<p><del>8.06</del> If the auditor considers it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the auditor's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor should include an emphasis-of-matter paragraph in the auditor's report, provided <del>that the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph should refer only to information presented or disclosed in the financial statements.</del> (Ref: par. <del>A42–A53</del>)</p>	<p>C - Deleted content was from prior ISA 700 that is not included in ISA 700(revised) C - Last sentence moved to par. 9b below</p>

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
(a) The auditor would not be required to modify the opinion in accordance with ISA 705 (Revised) <sup>7</sup> as a result of the matter; and	(a) The auditor would not be required to modify the opinion in accordance with <u>proposed AU-C section 705, Modifications to the Opinion in the Independent Auditor's Report (Revised)</u> <sup>8</sup> as a result of the matter; and	<u>(a) The auditor would not be required to modify the opinion in accordance with proposed AU-C section 705, Modifications to the Opinion in the Independent Auditor's Report as a result of the matter; and</u>	C - From ISA 700 (R)
(b) When ISA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A1–A3)	(b) When <u>proposed AU-C section 701</u> applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: <u>Para. A2 A1–A3</u> )	<u>(b) When proposed AU-C section 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: par. A2)</u>	C - ISA 700 (R) – added due to 701
9. When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:	9. <del>9.</del> When the auditor includes an <del>Emphasis of Matter</del> paragraph in the auditor's report, the auditor <del>should</del> <u>shall</u> :	<del>9.</del> When the auditor includes an emphasis-of-matter paragraph in the auditor's report, the auditor should	
(a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";	(a) include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";	<u>a. include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term</u> <del>include it immediately after the opinion paragraph in the auditor's report,</del> <u>b. use the heading "Emphasis of Matter" or other appropriate heading, (Ref: par. A4)</u>	

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

<sup>8</sup> ~~ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*~~

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
(b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and	(b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph <del>should</del> refer only to information presented or disclosed in the financial statements; and	<del>be.</del> include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. <u>The paragraph should refer only to information presented or disclosed in the financial statements; and;</u> and	
(c) Indicate that the auditor’s opinion is not modified in respect of the matter emphasized. (Ref: Para. A7–A8, A16–A17)	(c) <del>i</del> ndicate that the auditor’s opinion is not modified <del>with in</del> respect <del>to of</del> the matter emphasized. (Ref: <del>p</del> Para. <del>A7–A8, A16–A17</del> A6–A7, A14–A15)	<del>cd.</del> indicate that the auditor’s opinion is not modified with respect to the matter emphasized. (Ref: par. <del>.A6–A7, A14–A15</del> )	

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<b>Other Matter Paragraphs in the Auditor's Report</b>	<b>Other Matter Paragraphs in the Auditor's Report</b>	Other-Matter Paragraphs in the Auditor's Report	
10. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:	10. <del>10.</del> If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's <u>professional</u> judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor <del>should</del> <u>shall</u> include an <del>o</del> <u>Other-</u> <del>M</del> <u>matter</u> paragraph in the auditor's report, provided <u>when proposed AU-C section 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: par. A8-A12):</u>	<del>10.08</del> If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's professional judgment, is relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report, the auditor should <u>include an other-matter</u> <del>do so in a</del> paragraph in the auditor's report, <u>provided- when proposed AU-C section 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: par. A8-A12)</u> <del>with the heading "Other Matter" or other appropriate heading. The auditor should 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: par. A6-A11)</del>	B – revised from ISA 706 (Revised) because KAM is not required  C - Added for 701

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
(a) This is not prohibited by law or regulation; and	<del>(a) This is not prohibited by law or regulation; and</del>		B - Clarity removed reference to law or regulation
(b) When ISA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A9–A14)	<del>(b) When ISA 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A8–A14)</del>		B - Moved this into body of par. 10 - don't need bullets since we deleted (a)
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)	11. <del>11.</del> When the auditor includes an <del>Other-</del> <del>M</del> matter paragraph in the auditor's report, the auditor <del>should</del> <del>shall</del> include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading. (Ref: <del>p</del> Para. A13 <del>A15–A15</del> <del>A17</del> )	<u>11. When the auditor includes an other-matter paragraph in the auditor's report, the auditor should include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading. (Ref: par. A13–A15)</u>	
Communication with Those Charged with Governance	Communication <del>W</del> with Those Charged <del>W</del> with Governance	Communication With Those Charged With Governance	

Auditor Reporting – Matrix Proposed AU-C 706  
ASB Meeting, May 15-18, 2017

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
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)	12. <del>12.</del> If the auditor expects to include an <del>e</del> Emphasis <del>_</del> of <del>_</del> M <del>m</del> atter or <del>an</del> Other <del>_</del> M <del>m</del> atter paragraph in the auditor's report, the auditor <del>should</del> <del>shall</del> communicate with those charged with governance regarding this expectation and the wording of this paragraph. (Ref: <del>p</del> Para. A16 <del>A18</del> )	<del>12</del> <del>09</del> If the auditor expects to include an emphasis-of-matter or other-matter paragraph in the auditor's report, the auditor should communicate with those charged with governance regarding this expectation and the <del>proposed</del> wording of this paragraph. (Ref: par. A16 <del>2</del> )	
Application and Other Explanatory Material	Application and Other Explanatory Material	Application and Other Explanatory Material	
	<u>Scope of This Proposed SAS (Ref: par. 4)</u>	Scope of This <u>Proposed SAS</u> <del>Section</del> (Ref: par. <del>04</del> <del>2</del> )	

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
	<p><u>A1. The AU-C sections identified in exhibits B and C require the auditor to include an emphasis-of-matter paragraph or other-matter paragraph, respectively, in the auditor’s report relating to certain matters. The nature of these matters is such that they are brought to the attention of users of the auditor’s report in all instances rather than at the discretion of the auditor. The explanatory language provided by such required paragraphs achieves the same objective as an emphasis-of-matter or other-matter paragraph that is included based on the professional judgment of the auditor (that is, to provide additional communication to the users of the auditor’s report). Therefore, the auditor follows the requirements in this section regarding the form of these required paragraphs.</u></p>	<p><b>.A1</b> The AU-C sections identified in exhibits B and C require the auditor to include an emphasis-of-matter paragraph or other-matter paragraph, respectively, in the auditor’s report relating to certain matters. The nature of these matters is such that they are brought to the attention of users of the auditor’s report in all instances rather than at the discretion of the auditor. The explanatory language provided by such required paragraphs achieves the same objective as an emphasis-of-matter or other-matter paragraph that is included based on the professional judgment of the auditor (that is, to provide additional communication to the users of the auditor’s report). Therefore, the auditor follows the requirements in this section regarding the form <del>and placement</del> of these required paragraphs.</p>	<p>B – par A1 added as part of clarity</p>
<p><b>The Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor’s Report</b> (Ref: Para. 2, 8(b))</p>	<p><b>The Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor’s Report</b> (Ref: <del>p</del>Para. 2, 8(b))</p>	<p><u><b>The Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor’s Report</b> (Ref: <del>par.</del> par. 2, 8(b))</u><del>Emphasis-of-Matter Paragraphs in the Auditor’s Report</del></p>	

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>A1. Key audit matters are defined in ISA 701 as those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance, which include significant findings from the audit of the financial statements of the current period.<sup>9</sup> Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor’s professional judgment, were of most significance in the audit and may also assist them in understanding the entity and areas of significant management judgment in the audited financial statements. When ISA 701 applies, the use of Emphasis of Matter paragraphs is not a substitute for a description of individual key audit matters.</p>	<p><del>A1.</del><u>A2.</u><del>A1.</del> Key audit matters are defined in <u>proposed AU-C section ISA-701</u> as those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance, which include significant findings from the audit of the financial statements of the current period.<sup>10</sup> Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor’s professional judgment, were of most significance in the audit and may also assist them in understanding the entity and areas of significant management judgment in the audited financial statements. When <u>proposed AU-C section ISA-701</u> applies, the use of <del>e</del><u>Emphasis-of-M</u>atter paragraphs is not a substitute for a description of individual key audit matters.</p>	<p><del>A2.</del> <u>Key audit matters are defined in proposed AU-C section 701 as those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance, which include significant findings from the audit of the financial statements of the current period.<sup>11</sup> Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor’s professional judgment, were of most significance in the audit and may also assist them in understanding the entity and areas of significant management judgment in the audited financial statements. When proposed AU-C section 701 applies, the use of emphasis-of-matter paragraphs is not a substitute for a description of individual key audit matters.</u></p>	<p>C - Added for KAM (ISA 701)</p>

<sup>9</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16

<sup>10</sup> Proposed AU-C ISA-260 (Revised), *Communication with Those Charged with Governance*, paragraph ~~xx~~46

<sup>11</sup> Proposed AU-C 260, Communication with Those Charged with Governance, paragraph xx



A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>A2. Matters that are determined to be key audit matters in accordance with ISA 701 may also be, in the auditor’s judgment, fundamental to users’ understanding of the financial statements. In such cases, in communicating the matter as a key audit matter in accordance with ISA 701, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users’ understanding of the financial statements.</p>	<p><del>A2. Matters that are determined to be key audit matters in accordance with ISA 701 may also be, in the auditor’s judgment, fundamental to users’ understanding of the financial statements. In such cases, in communicating the matter as a key audit matter in accordance with ISA 701, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users’ understanding of the financial statements.</del></p>		<p>B – removed from the proposed SAS because the task force believes that paragraphs A2 and A3 of ISA 706 are not needed in the U.S. These paragraphs were included in the ISA, among other reasons, to reflect the views of certain jurisdictions. The task force believes that the reference to “fundamental to users’ understanding” would be confusing because KAM are not required for nonissuers.</p>

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
A3. There may be a matter that is not determined to be a key audit matter in accordance with ISA 701 (i.e., because it did not require significant auditor attention), but which, in the auditor’s judgment, is fundamental to users’ understanding of the financial statements (e.g., a subsequent event). If the auditor considers it necessary to draw users’ attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor’s report in accordance with this ISA.	<del>A3.— There may be a matter that is not determined to be a key audit matter in accordance with ISA 701 (i.e., because it did not require significant auditor attention), but which, in the auditor’s judgment, is fundamental to users’ understanding of the financial statements (e.g., a subsequent event). If the auditor considers it necessary to draw users’ attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor’s report in accordance with this ISA.</del>		B – same reason as previous paragraph.
<b>Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary</b> (Ref: Para. 4, 8)	<b>Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary</b> (Ref: <del>p</del> Para. 4, 8)	<b>Circumstances in Which an Emphasis-of-Matter Paragraph May Be Necessary</b> (Ref: par. <del>.0604, .08</del> )	
A4. Appendix 1 identifies ISAs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs in the auditor’s report in certain circumstances. These circumstances include:	<del>A2-A3. A4. Exhibit B</del> Appendix 1 identifies <del>ISAs—AU-C sections</del> that contain specific requirements for the auditor to include <del>e</del> Emphasis—of—Mmatter paragraphs in the auditor’s report in certain circumstances. These circumstances include:	<del>A3. Exhibit B</del> Appendix 1 identifies <del>ISAs—AU-C sections</del> that contain specific requirements for the auditor to include <del>e</del> Emphasis—of—Mmatter paragraphs in the auditor’s report in certain circumstances. These circumstances include:	

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<ul style="list-style-type: none"> <li>When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.</li> </ul>	<ul style="list-style-type: none"> <li>When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.</a></li> </ul>	
<ul style="list-style-type: none"> <li>To alert users that the financial statements are prepared in accordance with a special purpose framework.</li> </ul>	<ul style="list-style-type: none"> <li>To alert users that the financial statements are prepared in accordance with a special purpose framework.</li> </ul>	<ul style="list-style-type: none"> <li><a href="#">To alert users that the financial statements are prepared in accordance with a special purpose framework.</a></li> </ul>	C – Added to converge with ISA 706 (R)
<ul style="list-style-type: none"> <li>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>12</sup></li> </ul>	<ul style="list-style-type: none"> <li>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 (such as, subsequent events).<sup>13</sup></li> </ul>	<ul style="list-style-type: none"> <li><a href="#">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 (such as, subsequent events).</a><sup>14</sup></li> </ul>	
A5. Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:	<del>A3-A4.A5-</del> <a href="#">In addition to the required emphasis-of-matter paragraphs listed in exhibit B, the following are e</a> Examples of circumstances when <del>n</del> <sup>e</sup> the auditor may consider it necessary to include an <del>e</del> Emphasis- <del>of-</del> <del>M</del> matter paragraph <del>are</del> :	<del>A4.62</del> In addition to the required emphasis-of-matter paragraphs listed in exhibit B, the following are examples of circumstances when the auditor may consider it necessary to include an emphasis-of-matter paragraph:	B - Clarity changes

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

<sup>13</sup> [AU-C ISA 560, Subsequent Events and Subsequently Discovered Facts](#), paragraphs 12(b) and 16

<sup>14</sup> [AU-C 560, Subsequent Events and Subsequently Discovered Facts, paragraphs 12\(b\) and 16](#)

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<ul style="list-style-type: none"> <li>An uncertainty relating to the future outcome of exceptional litigation or regulatory action.</li> </ul>	<ul style="list-style-type: none"> <li>An uncertainty relating to the future outcome of <u>unusually important</u> <del>exceptional</del> litigation or regulatory action.</li> </ul>	<ul style="list-style-type: none"> <li>An uncertainty relating to the future outcome of unusually important litigation or regulatory action</li> </ul>	B - Clarity changes
<ul style="list-style-type: none"> <li>A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.<sup>15</sup></li> </ul>	<ul style="list-style-type: none"> <li>A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.<sup>16</sup></li> </ul>	<ul style="list-style-type: none"> <li><u>A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.</u><sup>17</sup> <del>Unusually important subsequent events</del></li> </ul>	
<ul style="list-style-type: none"> <li>Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.</li> </ul>	<p style="color: red;"><del>Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.</del></p>		B - Clarity deletion
<ul style="list-style-type: none"> <li>A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.</li> </ul>	<ul style="list-style-type: none"> <li>A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.</li> </ul>	<ul style="list-style-type: none"> <li>A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position</li> </ul>	
	<ul style="list-style-type: none"> <li><u>Significant transactions with related parties</u></li> </ul>	<ul style="list-style-type: none"> <li>Significant transactions with related parties</li> </ul>	B - clarity add

<sup>15</sup> ISA 560, paragraph 6

<sup>16</sup> AU-C ISA 560, paragraph 76

<sup>17</sup> AU-C 560, paragraph 7

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
A6. However, a widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor’s communication about such matters.	<del>A4-A5. A6. However, a widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor’s communication about such matters. Paragraph .088 requires that an emphasis-of-matter paragraph refer only to matters appropriately presented or disclosed in the financial statements. To include information in an emphasis-of-matter paragraph about a matter beyond what is presented or disclosed in the financial statements may raise questions about the appropriateness of such presentation or disclosure.</del>	<del>A5.A3</del> Paragraph <del>8</del> -.06 requires that an emphasis-of-matter paragraph refer only to matters appropriately presented or disclosed in the financial statements. To include information in an emphasis-of-matter paragraph about a matter beyond what is presented or disclosed in the financial statements may raise questions about the appropriateness of such presentation or disclosure.	
<b>Including an Emphasis of Matter Paragraph in the Auditor’s Report</b> (Ref: Para. 9)	<b>Including an Emphasis of Matter Paragraph in the Auditor’s Report</b> (Ref: <del>p</del> Para. 9)	Including an Emphasis-of-Matter Paragraph in the Auditor’s Report (Ref: par. <del>.097</del> )	
		<del>.A4 ——— If the heading “Emphasis of Matter” is not used, another heading may be considered appropriate if it adequately describes the nature of the matter being disclosed or communicated.</del>	C – Removed extant par .A4 because proposed SAS requires the use of “EOM” in the title in paragraph 9.

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
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:	<del>A5-A6, A7.</del> The inclusion of an <del>e</del> Emphasis- <del>of-</del> <del>M</del> atter paragraph in the auditor’s report does not affect the auditor’s opinion. An <del>e</del> Emphasis- <del>of-</del> <del>M</del> atter paragraph is not a substitute for:	<del>A6, A5.</del> 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 <del>either</del>	

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
(a) A modified opinion in accordance with ISA 705 (Revised) when required by the circumstances of a specific audit engagement;	(a) <del>a</del> A modified opinion in accordance with <del>proposed AU-C</del> <u>section ISA</u> 705 <del>(Revised)</del> when required by the circumstances of a specific audit engagement;	a. <u>A modified opinion in accordance with proposed AU-C section 705 when required by the circumstances of a specific audit engagement;</u> <del>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 section 705, Modifications to the Opinion in the Independent Auditor's Report) or</del>	
(b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or	(b) <del>d</del> Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or	b. disclosures in the financial statements that the applicable financial reporting framework requires management to make, <u>or that are otherwise necessary to achieve fair presentation; or.</u>	
(c) Reporting in accordance with ISA 570 (Revised)18 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.	(c) Reporting in accordance with <del>AU-C</del> <u>ISA section 570.</u> <del>(Revised)19</del> <del>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.</del>	c. <u>Reporting in accordance with AU-C section 570.</u>	
A8. Paragraphs A16–A17 provide further guidance on the placement of Emphasis of Matter paragraphs in particular circumstances.	<del>A6-A7.</del> <u>A8.</u> Paragraphs A14–A15 provide further guidance on the placement of <del>e</del> <u>Emphasis</u> <del>of</del> <del>M</del> atter paragraphs in particular circumstances.	<u>A7.</u> Paragraphs A14–A15 <u>provide further guidance on the placement of emphasis-of-matter paragraphs in particular circumstances.</u>	C – Added to converge with ISA

A	B	C	D
<b>ISA 706</b>	<b>ISA 706 (marked for proposed AU-C 706)</b>	<b>Extant AU-C 706 (marked for proposed AU-C 706)</b>	<b>Comments</b>
<b>Other Matter Paragraphs in the Auditor’s Report</b> (Ref: Para. 10–11)	<b>Other-Matter Paragraphs in the Auditor’s Report</b> (Ref: <del>p</del> Para. 10–11)	<b>Other-Matter Paragraphs in the Auditor’s Report</b> (Ref: par. <del>1008</del> -11)	
Circumstances in Which an Other Matter Paragraph May Be Necessary	Circumstances in Which an Other-Matter Paragraph May Be Necessary	Circumstances in Which an Other-Matter Paragraph May Be Necessary	
Relevant to Users’ Understanding of the Audit	Relevant to Users’ Understanding of the Audit	<i>Relevant to Users’ Understanding of the Audit</i>	

<sup>18</sup> ISA 570 (Revised), paragraphs 22–23

~~<sup>49</sup> ISA 570 (Revised), paragraphs 22–23~~



A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>A9. ISA 260 (Revised) requires the auditor to communicate with those charged with governance about the planned scope and timing of the audit, which includes communication about the significant risks identified by the auditor.<sup>20</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 ISA 701. However, law or regulation may require the auditor to communicate about planning and scoping matters in the auditor's report, or the auditor may consider it necessary to communicate about such matters in an Other Matter paragraph.</p>	<p><del>A7-A8.</del> <u>A9.</u> <u>Proposed AU-C section ISA-260 (Revised)</u> 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>21</sup> Although matters relating to significant risks may be determined to be key audit matters, other planning and scoping matters (<u>for example, e.g.,</u> 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 <u>proposed AU-C section ISA-701</u>. However, <del>law or regulation may require the auditor to communicate about planning and scoping matters in the auditor's report,</del> or the auditor may consider it necessary to communicate about such matters in an <u>Other-M</u>matter paragraph.</p>	<p><del>A8.</del> <u>Proposed AU-C section 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.</u><sup>22</sup> Although matters relating to significant risks may be determined to be key audit matters, other planning and scoping matters (<u>for example, the planned scope of the audit, or the application of materiality in the context of the audit</u>) are unlikely to be key audit matters because of how key audit matters are defined in <u>proposed AU-C section 701</u>. However, <u>the auditor may consider it necessary to communicate about such matters in an other-matter paragraph.</u></p>	<p>C - Added to converge with ISA 706 (R)</p>

<sup>20</sup> ISA 260 (Revised), paragraph 15

<sup>21</sup> Proposed AU-C ISA-260 (Revised), paragraph xx15

<sup>22</sup> Proposed AU-C 260, paragraph xx

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>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>23</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.</p>	<p><del>A8-A9</del>. <del>A10</del>. In the rare circumstance when<del>re</del> 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>24</sup> the auditor may consider it necessary to include an <del>o</del>Other-<del>M</del>matter paragraph in the auditor's report to explain why it is not possible for the auditor to withdraw from the engagement.</p>	<p><del>A9-A6</del> In the rare circumstance when 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>fn 1</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.</p>	
<p>Relevant to Users' Understanding of the Auditor's Responsibilities or the Auditor's Report</p>	<p>Relevant to Users' Understanding of the Auditor's Responsibilities or the Auditor's Report</p>	<p><i>Relevant to Users' Understanding of the Auditor's Responsibilities or the Auditor's Report</i></p>	

<sup>23</sup> See paragraph 13(b)(ii) of ISA 705 (Revised) for a discussion of this circumstance.

<sup>24</sup> See paragraph 13(b)(iii) of ~~proposed AU-C ISA-705 (Revised)~~ for a discussion of this circumstance.

<sup>fn 1</sup> See [paragraph .13](#) of section 705, *Modifications to the Opinion in the Independent Auditor's Report*, for a discussion of this circumstance.

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>A11. Law, regulation or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that provide further explanation of the auditor’s responsibilities in the audit of the financial statements or of the auditor’s report thereon. When the Other Matter section includes more than one matter that, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report, it may be helpful to use different sub-headings for each matter.</p>	<p><del>A9-A10.</del> <del>A11.</del> Law, regulation or generally accepted practice <del>in a jurisdiction</del> may require or permit the auditor to elaborate on matters that provide further explanation of the auditor’s responsibilities in the audit of the financial statements or of the auditor’s report thereon. When the <del>o</del>Other <del>-</del>mMatter section includes more than one matter that, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report, it may be helpful to use different sub-headings for each matter.</p>	<p><del>A10.</del><del>A7.</del> Law, regulation, or generally accepted practice may require or permit the auditor to elaborate on matters that provide further explanation of the auditor’s responsibilities in the audit of the financial statements or the auditor’s report thereon. <del>When relevant, one or more subheadings may be used that describe the content of the other-matter paragraph.</del> <u>When the other-matter section includes more than one matter that, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report, it may be helpful to use different sub-headings for each matter.</u></p>	

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>A12. An Other Matter paragraph does not deal with circumstances where the auditor has other reporting responsibilities that are in addition to the auditor’s responsibility under the ISAs (see Other Reporting Responsibilities section in ISA 700 (Revised)<sup>25</sup>), or where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters.</p>	<p><del>A10-A11.</del> <del>A12.</del> An <del>Other—M</del>matter paragraph does not <del>address deal with</del> circumstances when <del>re</del> the auditor has other reporting responsibilities that are in addition to the auditor’s responsibility under <del>GAAS</del><del>the ISAs</del> (see <del>the</del> “Other Reporting Responsibilities” section in <del>proposed AU-C section ISA-700 (Revised)</del><sup>26</sup>), or when <del>re</del> the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters.</p>	<p><del>A11.</del><del>A8</del> An other-matter paragraph does not address circumstances when the auditor has other reporting responsibilities that are in addition to the auditor’s responsibility under GAAS to report on the financial statements (see the “Other Reporting Responsibilities” section in <del>proposed AU-C</del> section 700, <i>Forming an Opinion and Reporting on Financial Statements</i>) or when the auditor has been asked to perform and report on additional specified procedures or to express an opinion on specific matters.</p>	<p>B - Clarity changes</p>

<sup>25</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 42–44

<sup>26</sup> ~~Proposed AU-C~~ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs ~~xx42–xx44~~

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
Reporting on more than one set of financial statements	<del>Reporting on more than one set of financial statements</del>	<i>Reporting on More Than One Set of Financial Statements</i>	
A13. An entity may prepare one set of financial statements in accordance with a general purpose framework (e.g., the national framework) and another set of financial statements in accordance with another general purpose framework (e.g., International Financial Reporting Standards), and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an Other Matter paragraph in the auditor's report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements.	<del>A11-A12.</del> <u>A12.</u> <del>A13.</del> An entity may prepare one set of financial statements in accordance with a general purpose framework ( <u>for example, e.g., accounting principles generally accepted in the United States of America</u> <del>the national framework</del> ) and another set of financial statements in accordance with another general purpose framework ( <u>for example, e.g., International Financial Reporting Standards promulgated by the International Accounting Standards Board</u> ), and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an <u>Other—M</u> atter paragraph in the auditor's report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements.	<del>A9.</del> <u>A12.</u> An entity may prepare one set of financial statements in accordance with a general purpose framework (for example, accounting principles generally accepted in the United States of America) and another set of financial statements in accordance with another general purpose framework (for example, International Financial Reporting Standards promulgated by the International Accounting Standards Board) and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an other-matter paragraph in the auditor's report referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements.	
Restriction on distribution or use of the auditor's report	<del>Restriction on distribution or use of the auditor's report</del>		

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>A14. Financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs. Since the auditor's report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.</p>	<p><del>A14. Financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs. Since the auditor's report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.</del></p>		<p>B - Clarity change – restriction on use covered in AU-C 905</p>

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<i>Including an Other Matter Paragraph in the Auditor's Report</i>	<i>Including an Other-<del>M</del>atter Paragraph in the Auditor's Report</i>	<i>Including an Other-Matter Paragraph in the Auditor's Report</i>	
A15. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.	<del>A12-A13.</del> <del>A15.</del> The content of an <del>o</del> Other- <del>M</del> atter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An <del>o</del> Other- <del>M</del> atter 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 <del>o</del> Other- <del>M</del> atter paragraph also does not include information that is required to be provided by management.	<del>A13.-A10</del> The content of an other-matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An other-matter paragraph does not include information that the auditor is prohibited from providing by law, regulation, or other professional standards (for example, ethical standards relating to the confidentiality of information). An other-matter paragraph also does not include information that is required to be provided by management.	
<b>Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor's Report</b> (Ref: Para. 9, 11)	<b>Placement of Emphasis-<del>o</del>of-<del>o</del>Matter Paragraphs and Other-<del>M</del>atter Paragraphs in the Auditor's Report</b> (Ref: <del>p</del> Para. 9, 11)		

A16. The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with ISA 700 (Revised). 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>27</sup> the auditor may consider it necessary to place the paragraph immediately following the Basis of Opinion section to provide appropriate context to the auditor's opinion.
- When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph. The

~~A13-A14. A16.~~ The placement of an ~~eEmphasis-of-M~~atter paragraph or ~~oOther-M~~atter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with ~~proposed AU-C ISA-section 700 (Revised)~~. 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>28</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 ~~eEmphasis-of-m~~atter 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 ~~eEmphasis-of-M~~atter paragraph. The

~~A14.-A14~~ The placement of an emphasis-of-matter paragraph or other-matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with proposed AU-C section 700. For example:.

*Emphasis of Matter Paragraphs*

- When a Key Audit Matters section is presented in the auditor's report, an emphasis-of-matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor's judgment as to the relative significance of the information included



A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>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.</p>	<p>auditor may also add further context to the heading “Emphasis of Matter”, such as “Emphasis of Matter – Subsequent Event”, to differentiate the <del>e</del>Emphasis-<del>of-</del>Mmatter paragraph from the individual matters described in the Key Audit Matters section.</p>	<p><u>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.</u></p>	

A1. <sup>27</sup> For example, as required by ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 19 and ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 14

<sup>28</sup> ~~For example, as required by ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 19 and ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 14~~

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p><i>Other Matter Paragraphs</i></p> <ul style="list-style-type: none"> <li>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.</li> </ul>	<p><i>Other Matter Paragraphs</i></p> <ul style="list-style-type: none"> <li>When a Key Audit Matters section is presented in the auditor’s report and an <del>Other</del>—<del>M</del>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.</li> </ul>	<p><i><u>Other Matter Paragraphs</u></i></p> <ul style="list-style-type: none"> <li><u>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.</u></li> </ul>	

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<ul style="list-style-type: none"> <li>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.</li> </ul> <p>When relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the Other Matter paragraph may be included as a separate section following the Report on the Audit of the Financial Statements and the Report on Other Legal and Regulatory Requirements.</p>	<ul style="list-style-type: none"> <li>When an Other Matter paragraph is included to draw users' attention to a matter relating to <del>Other</del> Reporting Responsibilities addressed in the auditor's report, the paragraph may be included in the Report on Other Legal and Regulatory Requirements section.</li> </ul> <p>When relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the <del>Other-M</del>matter paragraph may be included as a separate section following the "Report on the Audit of the Financial Statements" and the "Report on Other Legal and Regulatory Requirements."</p>	<ul style="list-style-type: none"> <li><del>When an other-matter paragraph is included to draw users' attention to a matter relevant to their understanding of the audit of the financial statements, the paragraph is included immediately after the opinion paragraph and any emphasis-of-matter paragraph.</del> 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 <del>section subtitled "Report on Other Legal and Regulatory Requirements</del> <u>section.</u></li> </ul> <p><del>Alternatively, w</del>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 <u>Audit of the</u> Financial Statements" and the "Report on Other Legal and Regulatory Requirements."</p>	

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<p>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.</p>	<p><del>A14-A15.</del> <del>A17.</del> <del>Exhibit Appendix 3D</del> is an illustration of the interaction between the Key Audit Matters section, an <del>e</del>Emphasis-<del>of-</del>Mmatter paragraph and an <del>o</del>Other-<del>M</del>matter paragraph when all are presented in the auditor’s report. The illustrative report in <del>exhibit Appendix</del> 4 includes an <del>e</del>Emphasis-<del>of-</del>Mmatter 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.</p>	<p><del>A15.</del> <del>Exhibit Appendix 3D</del> is an illustration of the <u>interaction between the Key Audit Matters section, an eEmphasis-of-Mmatter paragraph and an oOther-Mmatter paragraph when all are presented in the auditor’s report. The illustrative report in exhibit Appendix 4 includes an eEmphasis-of-Mmatter 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.</u></p>	<p>Exhibits to be provided at a future date once proposed AU-C 700 and 701 are agreed to by the ASB.</p>

A	B	C	D
ISA 706	ISA 706 (marked for proposed AU-C 706)	Extant AU-C 706 (marked for proposed AU-C 706)	Comments
<b>Communication with Those Charged with Governance</b> (Ref. Para. 12)	<b>Communication with Those Charged with Governance</b> (Ref. <del>p</del> Para. 12)	<b>Communication With Those Charged With Governance</b> (Ref: par. <del>.1209</del> )	
<p>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.</p>	<p><del>A15-A16.</del> <del>A18.</del> The <u>auditor's communication with those charged with governance, as</u> 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 when <del>n</del>e necessary. When <del>n</del>e the inclusion of an <del>o</del>ther <del>M</del>atter 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, <del>unless otherwise required to do so by law or regulation.</del></p>	<p><del>A16.-A12</del> The auditor's communication with those charged with governance, as <u>required by described in</u> paragraph <del>.1209</del>, 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, when necessary. When 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.</p>	

The following is a listing of the illustrations included in ISA 706 and extant AU-C 706. Task force to provide illustrations at a future time once the elements of AU-C 700, 701, 705 and 706 are agreed to.

ISA 706 (Revised)	Extant AU-C 706
	<b>Exhibit A — Illustrations of Auditor’s Reports With Emphasis-of-Matter or Other-Matter Paragraphs</b>
Exhibit D - Illustration of an Auditor’s Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph	
	Illustration 1 — An Auditor’s Report With an Emphasis-of-Matter Paragraph Because There Is Uncertainty Relating to a Pending Unusually Important Litigation Matter
	Illustration 2 — An Auditor’s Report With an Other-Matter Paragraph That May Be Appropriate When an Auditor Issues an Updated Report on the Financial Statements of a Prior Period That Contains an Opinion Different From the Opinion Previously Expressed
Exhibit E - 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	Illustration 3 — An Auditor’s Report With a Qualified Opinion Due to a Material Misstatement of the Financial Statements and an Emphasis-of-Matter Paragraph Because There Is Uncertainty Relating to a Pending Unusually Important Litigation Matter

## **Exhibit B – List of AU-C Sections ISAs Containing Requirements for Emphasis-of-Matter Paragraphs**

### **(Ref. par. 4)**

This ~~exhibit~~~~appendix~~ identifies paragraphs in other AU-C sections ISAs that require the auditor to include an ~~e~~Emphasis-of-mMatter 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 AU-C sections ISAs.

- ~~Paragraph .16c of AU-C section 560, ISA 210, *Agreeing the Terms of Audit Engagements*—paragraph 19(b)~~
- ~~ISA 560, *Subsequent Events and Subsequently Discovered Facts*—paragraphs 12(b) and 16~~
- Paragraphs .15–.16 of AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*
- Paragraphs .08–.09 and .11–.13 of AU-C section 708, *Consistency of Financial Statements*
- Paragraphs .19 and .21 of AU-C section ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*—paragraph 14

**Exhibit C – List of ISAs AU-C Sections Containing Requirements for Other-Matter Paragraphs**

**(Ref. par. 4)**

This ~~exhibit appendix~~ identifies paragraphs in other ~~AU-C sections-ISAs~~ that require the auditor to include an ~~o~~ther-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 ~~AU-C sections-ISAs~~.

- ~~ISA 560, Subsequent Events—paragraphs 12(b) and 16~~
- ~~ISA 710, Comparative Information—Corresponding Figures and Comparative Financial Statements—paragraphs 13–14, 16–17 and 19~~
- ~~ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements—paragraph 10(a)~~
- ~~Paragraph .16c of section 560, Subsequent Events and Subsequently Discovered Facts~~
- ~~Paragraphs .55-.56 and .58-.59 of proposed AU-C section 700, Forming an Opinion and Reporting on Financial Statements~~
- ~~Paragraph .12 of section 720, Other Information in Documents Containing Audited Financial Statements~~
- ~~Paragraph .09 of section 725, Supplementary Information in Relation to the Financial Statements as a Whole~~
- ~~Paragraph .07 of section 730, Required Supplementary Information~~
- ~~Paragraph .20 of section 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks~~
- ~~Paragraph .13 of section 806, Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements~~
- ~~Paragraph .07 of section 905, Alert That Restricts the Use of the Auditor's Written Communication~~