



Financial Reporting Council

October 2012

International Standard on Auditing (UK and Ireland) 706

Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report

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INTERNATIONAL STANDARD ON AUDITING (UK AND IRELAND) 706 (REVISED OCTOBER 2012)

EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

(Effective for audits of financial statements for periods commencing on or after 1 October 2012)

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International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) 706, “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report” should be read in conjunction with ISA (UK and Ireland) 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK and Ireland).”

Introduction

Scope of this ISA (UK and Ireland)

1. This International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) 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 statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
 - (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.
 2. Appendices 1 and 2 identify ISAs (UK and Ireland) 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 and placement of such paragraphs apply.
- 2-1 At the date of publication of this ISA (UK and Ireland) illustrative examples of emphasis of matter paragraphs for UK and Irish financial statements are contained in the compendia Bulletins 2010/2 "Compendium of Illustrative Auditor's Reports on United Kingdom Private Sector Financial Statements for periods ended on or after 15 December 2010" (Revised) and 1(I) "Compendium of Illustrative Auditor's Reports on Irish Financial Statements".

Effective Date

3. This ISA (UK and Ireland) is effective for audits of financial statements for periods commencing on or after 1 October 2012. Earlier adoption is permitted.

Objective

4. 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:
 - (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
 - (b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Definitions

5. For the purposes of the ISAs (UK and Ireland), 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 statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements.
 - (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.

Requirements

Emphasis of Matter Paragraphs in the Auditor’s Report

6. If the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the financial 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 the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements^{1a}. Such a paragraph shall refer only to information presented or disclosed in the financial statements. (Ref: Para. A1-A2)
7. When the auditor includes an Emphasis of Matter paragraph in the auditor’s report, the auditor shall:
- (a) Include it immediately after the Opinion on Financial Statements paragraph in the auditor’s report;
 - (b) Use the heading “Emphasis of Matter,” or other appropriate heading;
 - (c) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements; and
 - (d) Indicate that the auditor’s opinion is not modified in respect of the matter emphasized. (Ref: Para. A3-A4)

^{1a} Paragraph 19 of ISA (UK and Ireland) 570, “Going Concern,” requires, where adequate disclosure is made in the financial statements, the auditor always include an Emphasis of Matter paragraph in the auditor’s report to highlight the existence of a material uncertainty relating to an event or condition that may cast significant doubt on the entity’s ability to continue as a going concern.

Other Matter Paragraphs in the Auditor’s Report

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

Communication with Those Charged with Governance

9. If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor’s report, the auditor shall communicate with those charged with governance regarding this expectation and the proposed wording of this paragraph. (Ref: Para. A12)

Application and Other Explanatory Material

Emphasis of Matter Paragraphs in the Auditor’s Report

Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary (Ref: Para. 6)

- A1. Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:
- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
 - Early application (where permitted) of a new accounting standard (for example, a new International Financial Reporting Standard) that has a pervasive effect on the financial statements in advance of its effective date.
 - A major catastrophe that has had, or continues to have, a significant effect on the entity’s financial position.
- A2. A widespread use of Emphasis of Matter paragraphs diminishes the effectiveness of the auditor’s communication of such matters. Additionally, to include more information in an Emphasis of Matter paragraph than is presented or disclosed in the financial statements may imply that the matter has not been appropriately presented or disclosed; accordingly, paragraph 6 limits the use of an Emphasis of Matter paragraph to matters presented or disclosed in the financial statements.

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

- A3. The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for either:
- (a) The auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement (see ISA (UK and Ireland) 705¹); or
 - (b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make.

A4. *[Deliberately left blank].*

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

Circumstances in Which an Other Matter Paragraph May Be Necessary

Relevant to Users' Understanding of the Audit

- A5. In the rare circumstance where the auditor is unable to withdraw from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive,² the auditor may consider it necessary to include an Other Matter paragraph in the auditor's report to explain why it is not possible for the auditor to withdraw from the engagement.

Relevant to Users' Understanding of the Auditor's Responsibilities or the Auditor's Report

- A6. Law, regulation or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the auditor's report thereon. Where relevant, one or more sub-headings may be used that describe the content of the Other Matter paragraph.
- A7. An Other Matter paragraph does not deal with circumstances where the auditor has other reporting responsibilities that are in addition to the auditor's responsibility under the ISAs (UK and Ireland) to report on the financial statements (see "Other Reporting

¹ ISA (UK and Ireland) 705, "Modifications to the Opinion in the Independent Auditor's Report."

² See paragraph 13(b)(ii) of ISA (UK and Ireland) 705 for a discussion of this circumstance.

Responsibilities” section in ISA (UK and Ireland) 700³), 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 set of financial statements

- A8. An entity may prepare one set of financial statements in accordance with a general purpose framework (for example, the national framework) and another set of financial statements in accordance with another general purpose framework (for example, 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.

A8-1 The situation described in paragraph A8 is differentiated from the requirement in paragraph 19 of ISA (UK and Ireland) 700 in that, in the latter case, the auditor is engaged to express in the same auditor’s report an opinion on the compliance of the financial statements with an additional financial reporting framework. This is only permissible if the auditor is satisfied that there are no differences between the two financial reporting frameworks that affect the financial statements being reported on.

Restriction on distribution or use of the auditor’s report

- A9. 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.

Including an Other Matter Paragraph in the Auditor’s Report

- A10. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An Other Matter

³ ISA 700, “Forming an Opinion and Reporting on Financial Statements,” paragraphs 38-39.

The FRC has not promulgated ISA 700 as issued by the IAASB for application in the UK and Ireland. In the UK and Ireland the applicable auditing standard is ISA (UK and Ireland) 700, “The Auditor’s Report on Financial Statements.” Paragraphs 21 and 22 of ISA (UK and Ireland) 700 are the equivalent paragraphs to 38 -39 of ISA 700.

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.

- A11. The placement of an Other Matter paragraph depends on the nature of the information to be communicated. When an Other Matter paragraph is included to draw users' attention to a matter relevant to their understanding of the audit of the financial statements, the paragraph is included immediately after the Opinion on Financial Statements paragraph and any Emphasis of Matter paragraph. When an Other Matter paragraph is included to draw users' attention to a matter relating to Other Reporting Responsibilities addressed in the auditor's report, the paragraph may be included in the Opinion on Other Matters (prescribed by applicable legislation under the terms of our engagement) paragraph. Alternatively, when relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the Other Matter paragraph may be included as a separate section at the end of the auditor's report^{3a}.

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

- A12. Such communication enables those charged with governance to be made aware of the nature of any specific matters that the auditor intends to highlight in the auditor's report, and provides them with an opportunity to obtain further clarification from the auditor where necessary. Where the inclusion of an Other Matter paragraph on a particular matter in the auditor's report recurs on each successive engagement, the auditor may determine that it is unnecessary to repeat the communication on each engagement.

^{3a} In the UK and Ireland separate auditor's reports may be provided where the consolidated financial statements of a group of companies and the financial statements of the parent company are presented separately. In such cases, an "Other Matter" paragraph explaining that separate auditor's reports have been provided is usually included as the final paragraph of both of the auditor's reports.

Appendix 1

(Ref: Para. 2)

List of ISAs (UK and Ireland) Containing Requirements for Emphasis of Matter Paragraphs

This appendix identifies paragraphs in other ISAs (UK and Ireland) in effect for audits of financial statements for periods ending on or after 15 December 2010 that require the auditor to include an Emphasis of Matter paragraph in the auditor’s report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA (UK and Ireland) 210, “Agreeing the Terms of Audit Engagements” – paragraph 19(b)
- ISA (UK and Ireland) 560, “Subsequent Events” – paragraphs 12(b) and 16
- ISA (UK and Ireland) 570, “Going Concern” – paragraph 19
- ISA 800^{3b}, “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks” – paragraph 14

^{3b} ISA 800 has not been promulgated by the FRC for application in the UK and Ireland.

Appendix 2

(Ref: Para. 2)

List of ISAs (UK and Ireland) Containing Requirements for Other Matter Paragraphs

This appendix identifies paragraphs in other ISAs (UK and Ireland) in effect for audits of financial statements for periods ending on or after 15 December 2010 that require the auditor to include an Other Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA (UK and Ireland) 560, "Subsequent Events" – paragraphs 12(b) and 16
- ISA (UK and Ireland) 710, "Comparative Information—Corresponding Figures and Comparative Financial Statements" – paragraphs 13-14, 16-17 and 19
- ISA (UK and Ireland) 720 Section A, "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements" – paragraph 10(a)



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