
Standard on Auditing (SA) 706

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

Overview

- ▶ **Introduction**
 - ▶ Scope
 - ▶ Objective
- ▶ **Definitions**
- ▶ **Requirements & Application**
 - ▶ Emphasis of matter paragraphs
 - ▶ Other matter paragraphs
 - ▶ Communication with TCWG

Scope and Auditor's Objectives

- ▶ Additional communication in audit report (AR).
- ▶ When auditor considers necessary.
- ▶ To draw users' attention to:
 - ▶ Matter/s presented or disclosed in FS that are of such importance that they are fundamental to users' understanding of FS.

OR

- ▶ Matter/s other than those presented/ disclosed in FS that are relevant to users' understanding of audit/ auditor's responsibilities/AR.

Definitions

- ▶ **Emphasis of Matter Paragraph (EMP):**
 - ▶ Para included in AR.
 - ▶ Refers to a matter appropriately presented/ disclosed in FS that.
 - ▶ In the auditor's judgment is of such importance that.
 - ▶ It is fundamental to users' understanding of FS.
- ▶ **Other Matter Paragraph (OMP):**
 - ▶ Para included in AR.
 - ▶ Refers to matter other than those presented/ disclosed in FS.
 - ▶ In auditor's judgment.
 - ▶ Is relevant to users' understanding of audit, auditor's responsibilities or auditor's report.

Examples – Situations where emphasis of matter paragraph is required

Instances given below :

- ▶ An uncertainty relating to the future outcome of an exceptional litigation or regulatory action.
- ▶ Early application (where permitted) of a new accounting 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.

It may be noted that the paragraph is limited to matters that are already disclosed in the financial statements

EMP in Audit Report

- ▶ **Matters fundamental to understanding of FS:**
 - ▶ Auditor should have obtained SAAE that matter is not materially misstated in FS.
 - ▶ EMP to refer only to info presented/ disclosed in FS.

- ▶ **Widespread use of EMP reduces effectiveness of auditor's communication of such matters:**
 - ▶ More info in EMP than FS may imply matter not adequately presented or disclosed in FS.
 - ▶ Thus, EMP limited to matter presented/ disclosed in FS.

Emphasis of matter paragraph- not a substitute

- ▶ It must be noted that emphasis of matter paragraph is:
 - ▶ Not a substitute for adverse opinion , disclaimer of opinion and qualified opinion
 - ▶ Not a substitute for disclosures under an accounting framework

EMP – Some More Considerations

- ▶ Placement - immediately after Opinion para.
- ▶ Use heading “EMP” or other appropriate heading.
- ▶ EMP to contain clear ref to:
 - ▶ Matter being emphasized.
 - ▶ Where relevant, disclosure that fully describe the matter can be found in FS.
- ▶ Indicate that audit opinion is not modified in respect of matter emphasized.

OMP in Audit Report

- ▶ Include if not prohibited by L&R.
- ▶ Use heading “Other Matter”/ other appropriate heading.
- ▶ Placement:
 - ▶ immediately after Opinion para & EMP; or
 - ▶ elsewhere if OMP is relevant to Other Reporting Responsibilities section.

OMP – Other Considerations

- ▶ Clearly reflect that such other matter is not required to be presented and disclosed in FS.
- ▶ Not to include:
 - ▶ Info prohibited from inclusion by L&R, other standards, e.g., ethics relating to confidentiality of information.
 - ▶ Info required to be provided by mgt.
- ▶ Placement:
 - ▶ Depends upon nature of info to be communicated.