

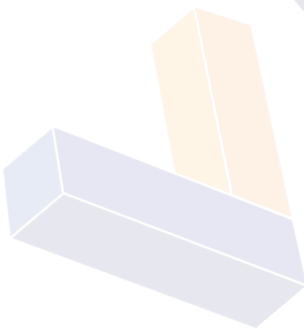
ADVANCED AUDIT AND ASSURANCE

CORPORATE LEVEL

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Emphasis of matter paragraphs and other matter paragraphs in the auditor's report – (S.L.Au.S – 706)

The Auditor's Responsibilities Relating to Other Information - (S.L.Au.S – 720)



by

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Emphasis of matter paragraphs and other matter paragraphs in the auditor's report – (S.L.Au.S – 706)

Introduction

Emphasis of matter paragraphs and other matter paragraphs can be included in the auditor's report under certain circumstances. Their use **does not modify the auditor's opinion** on the financial statements

S.L.Au.S 706 (Revised) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report provides guidance to auditors on the inclusion of paragraphs in the auditor's report that either draw users' attention to a matter that is of such importance that it is fundamental to their understanding or that is relevant to their understanding of the audit, the auditor's responsibilities or the auditor's report.

Emphasis of matter paragraphs

"An emphasis of matter paragraph is 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 judgement, is of such importance that it is fundamental to users' understanding of the financial statements"

Emphasis of matter paragraphs are used to draw readers' attention to a matter **already presented or disclosed** in the financial statements that the auditor feels is **fundamental to their understanding**, provided that the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated.

IMPORTANT.

- A) Note that an emphasis of matter paragraph is not used when the issue has been covered as a key audit matter.
- B) The paragraph must contain a clear reference to the matter being emphasised and to where relevant disclosures that fully describe it can be found in the financial statements.
- C) The paragraph must state that the auditor's opinion is not modified in respect of the matter emphasised.

Situations in which the auditor might include an emphasis of matter paragraph in the auditor's report.

- ✚ An uncertainty relating to the future outcome of exceptional litigation or regulatory action
- ✚ A significant subsequent event which occurs between the date of the financial statements and the date of the auditor's report
- ✚ Early application of a new accounting standard that has a pervasive effect on the financial statements
- ✚ A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position

Emphasis of Matter

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

Other matter paragraphs

An other matter paragraph is 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 judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Other matter paragraphs are used where the auditor considers it necessary to draw readers' attention to a matter that is relevant to their understanding of the audit, the auditor's responsibilities or the auditor's report.

The other matter paragraph can be used whenever the auditor judges the matter to be relevant to users' understanding of the audit. Examples include:

- ✚ The auditor is unable to withdraw from the engagement and yet is unable to obtain sufficient appropriate audit evidence.
- ✚ The auditor has been requested to report on other matters or to provide more clarifications in line with the legal jurisdiction of the country.

IMPORTANT

An other matter paragraph must not refer to something that has been included as a key audit matter.

Communication with those charged with governance

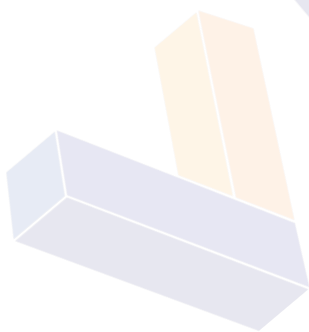
S.L.Au.S 706 states that when the auditor expects to include an emphasis of matter paragraph or an other matter paragraph, the auditor must communicate with those charged with governance the circumstances and the proposed wording of the paragraph in the auditor's report.

Relationship with Emphasis of Matter (EM) and Other Matter (OM) with Key Audit Matter Paragraph

Where S.L.Au.S 701 applies, S.L.Au.S 706 states that the use of an EoM is not a substitute for a description of individual key audit matters. In other words if the matter meets the definition of a KAM it should be disclosed as such. Where a KAM is also judged to be fundamental to the users' understanding of the financial statements the auditor may wish to highlight its relative importance

If a matter is not determined to be a KAM but is fundamental to the users' understanding and the auditor wishes to draw attention to the matter it should be disclosed in the EoM paragraph.

A similar principle applies to the potential overlap between matters that may be included as 'Other Matters'. S.L.Au.S 706 states that the matter must be included in an 'Other Matter' paragraph provided, where SLAuS 701 applies, the matter has not been determined to be a KAM.



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The Auditor's Responsibilities Relating to Other Information - (S.L.Au.S – 720)

Auditors shall review the other information to determine whether there are any material inconsistencies or whether other information is materially misstated. The objective of the auditor is to respond appropriately when documents containing audited financial statements include other information that could undermine the credibility of the financial statements and the auditor's report.

"Other information is financial or non-financial information (other than the financial statements and the auditor's report thereon) included in an entity's annual report"

Material misstatements of the other information

S.L.Au.S 720 states that the auditor shall read the other information to identify material inconsistencies with the audited financial statements. If a material inconsistency is identified, the auditor shall determine whether the audited financial statements or other information is misstated.

- A) If the financial statements are materially misstated but management refuses to correct the misstatement, the auditor shall modify the audit opinion.
- B) If the other information is materially misstated and needs to be revised but management refuses, the auditor shall communicate this matter to those charged with governance and:
 - 1) Consider the implications for the auditor's report, or
 - 2) Withdraw from the engagement (where this is legally permitted).

Reporting

The auditor's report will always include a separate Other Information section when the auditor has obtained some or all of the other information as of the date of the auditor's report.

The Other Information section is placed after the Key Audit Matters section and where the other information is not materially misstated it would be worded as follows:

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

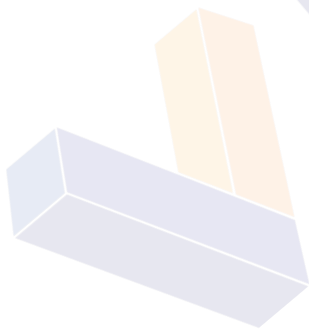
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statement or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

If the auditor concludes that there is a material misstatement of the other information, the 'Other Information' section is placed immediately after the basis of opinion section. It will state:

'As described below, we have concluded that such a material misstatement of the other information exists.'

Master Short Note



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