

INTOSAI



*Practice Note to ISA 706*

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

# INTOSAI



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*This Practice Note in combination with the International Standard on Auditing (ISA) 706 "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report" issued by the International Federation of Accountants (IFAC) constitute ISSAI 1706.*

*Practice Note to International Standard on Auditing (ISA) 706 (Revised)*

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

## Background

This Practice Note provides supplementary guidance on ISA 706 (Revised) – Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report. It is read together with the ISA. ISA 706 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

## Introduction to the ISA

ISA 706 (Revised) provides the requirements for an auditor who, having formed an opinion on the financial statements, has determined that it is necessary to draw users' attention, 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.

ISA 706 (Revised) also guides the relationship between key audit matters and any additional communication in the auditor's report when the auditor includes a Key Audit Matters section in the auditor's report.

Appendices 1 and 2 of the ISA 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 the ISA regarding the form and placement of such paragraphs apply.

## Content of the Practice Note

- P1. The Practice Note provides additional guidance for public sector auditors related to:
- (a) Emphasis of Matter paragraphs in the auditor's report.
  - (b) Other Matter paragraphs in the auditor's report.
  - (c) Communication with those charged with governance.

## Applicability of the ISA in Public Sector Auditing

P2. ISA 706 (Revised) is applicable to auditors of public sector entities in their role as auditors of financial statements.

## Additional Guidance on Public Sector Issues

### Emphasis of Matter Paragraphs in the Auditor's Report

P3. In the public sector, audit mandates or expectations may expand circumstances relevant for reporting by public sector auditors in an Emphasis of Matter paragraph. Refer to paragraph 7 of the ISA and par 8 of ISA 701 when considering reporting in an Emphasis of Matter paragraph the examples provided below and in paragraph A5 of the ISA:

- Legislative actions on programs or the budget;
- Contradictive laws, regulations or directives with a significant effect on the entity;
- Fraud, abuse or losses;
- Significant transactions;
- Significant internal control deficiencies;
- Questionable business practices;
- Transactions entered into without due regard for economy;
- Prior period restatements;
- Environmental issues;
- Corporate social responsibility issues;
- Ethical issues (proper behavior by public officials); or
- Ineffective and uneconomical use of public assets.

P4. Auditors shall exercise caution when electing to report key audit matters in the auditor's report to ensure items most appropriately addressed as key audit matters are not presented as Emphasis of Matters or Other Matters as directed by ISSAI 1701.A8

### Other Matter Paragraphs in the Auditor's Report

P5. The same examples provided in paragraph P3 above may be relevant for Other Matter Paragraphs, as outlined in paragraph 10 of the ISA, when the information is not disclosed in the financial statements.

P6. Restrictions on distribution or use of the auditor's report, as suggested in paragraph A14 of the ISA, may not be an option in the public sector. Further guidance on restriction on distribution or use is provided in ISSAI 1800<sup>2</sup> paragraph 11.

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<sup>2</sup> ISSAI 1800, "Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks."

## Communication with Those Charged with Governance

- P7. Paragraph 12 of the ISA requires the auditor to communicate with those charged with governance if the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report. Public sector auditors may be required to or decide to communicate with other intended users, such as the legislature, in addition to those charged with governance.
- P8. When considering paragraph A18 of the ISA, public sector auditors may be expected to communicate with those charged with governance on all matters included in an Other Matters paragraph even those matters that are recurring. Public sector auditors may also decide to communicate recurring matters to other parties such as the legislature.