

**AG ISA (NZ) 706 (REVISED)**  
**THE AUDITOR-GENERAL'S STATEMENT ON**  
**EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER**  
**PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT**

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## **Introduction**

### **Scope of this Statement**

1. This Auditor-General's Auditing Statement sets out the Auditor-General's requirements for issuing audit reports that contain emphasis of matter or other matter paragraphs. Also, it provides examples (in Appendix 1) of emphasis of matter and other matter paragraphs that are based on the requirements of:
  - (a) AG ISA (NZ) 700 (Revised): *Forming an opinion and reporting on financial and performance information*; and
  - (b) ISA (NZ) 706 (Revised): *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (ISA (NZ) 706).<sup>1</sup>

### **Application**

2. Compliance with this Statement is mandatory for Appointed Auditors who carry out annual audits on behalf of the Auditor-General. This Statement requires compliance with all of the requirements of ISA (NZ) 706, except to the extent that this Statement provides otherwise. Where a conflict between this Statement and ISA (NZ) 706 exists, the requirements of this Statement shall prevail.
3. This Statement applies to audits of financial statements and/or performance information which has been prepared for reporting periods ending on or after 15 December 2016.

### **Objective**

4. The objective of the Appointed Auditor, having formed an opinion on the financial and performance information, is to draw readers' attention, when in the Appointed Auditor's judgement 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 and performance information, that is of such importance it is fundamental to a reader's understanding of the financial and performance information; and/or
  - (b) as appropriate, any other matter that is relevant to a reader's understanding of the annual audit, the Auditor-General's responsibilities, or the auditor's report.

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<sup>1</sup> The ISA (NZ) auditing standards are scoped so that they apply to audits of "historical financial information". However, for the purposes of the Auditor-General's auditing standards and statements, all references to "historical financial information" should be read as the audit of "historical financial and historical performance information".

5. The availability of emphasis of matter and/or other matter paragraphs is a particularly important means of reporting significant matters in the context of audits carried out by, or on behalf of, the Auditor-General. For example, Appointed Auditors may draw attention to matters of interest in the audit report, such as non-compliance with legislation relating to a matter of financial management or accountability, or to an instance of spending that, in the opinion of the Appointed Auditor, is wasteful.

## **Definitions**

6. For the purpose of this Auditor-General's Auditing Statement, the defined terms have the meanings attributed:
  - (a) in the Glossary of Terms issued by the New Zealand Auditing and Assurance Standards Board (the NZAuASB glossary) of the External Reporting Board (although where a term with a specific meaning in the New Zealand public sector differs from the NZAuASB glossary, the New Zealand public sector definition shall prevail); and
  - (b) in the Auditor-General's Glossary of Terms.

## **Requirements**

### **Authority for Appointed Auditors to issue audit reports including emphasis of matter and/or other matter paragraphs without prior OAG approval**

7. Appointed Auditors are authorised to issue audit reports that include emphasis of matter and/or other matter paragraphs without prior OAG approval in the following circumstances:
  - where financial statements and performance information has been appropriately prepared on a basis of accounting, other than the going concern basis of accounting, and where the auditor draws attention to the other basis of accounting in the auditor's report; and/or
  - where prior authorisation has been provided by the OAG in an audit brief or other authority.

### **Matters to consider when preparing an audit report containing an emphasis of matter or other matter paragraph**

8. As a general principle Appointed Auditors shall position emphasis of matter or other matter paragraphs towards the beginning of the audit report. Where the auditor's

opinion is unmodified, the emphasis of matter or other matter paragraph will usually be positioned immediately after the *Opinion* section. Where the auditor's opinion has been modified, the emphasis of matter or other matter paragraph will usually be positioned immediately after the *Basis for [modification]* section.

9. When preparing an audit report containing an emphasis of matter or other matter paragraph, the Appointed Auditor shall ensure that they apply any requirements:
  - (a) issued by the OAG in respect of particular audits or sectors;
  - (b) in AG ISA (NZ) 700 (Revised) – if the Appointed Auditor *seriously considers* including an emphasis of matter or other matter paragraph in an audit report where the OAG has not provided any direction or guidance;
  - (c) in AG ISA (NZ) 706 (Revised) and ISA (NZ) 706 (Revised).
10. In addition to the requirements in paragraph 9, Appointed Auditors shall refer to the example audit reports in Appendix 1 for guidance on presentation and format.

#### **Audit reports to be referred to the OAG before they are issued**

11. The Appointed Auditor shall refer the audit report to the Accounting and Auditing Policy team at the OAG for prior OAG approval, when the Appointed Auditor seriously considers including an emphasis of matter or other matter paragraph in an audit report. The procedures for referring such audit reports to the OAG are specified in AG ISA (NZ) 700 (Revised).

#### **Reporting audit reports containing an emphasis of matter or other matter paragraph to the OAG**

12. The Appointed Auditor shall forward to the OAG a copy of all audit reports issued (including audit reports containing an emphasis of matter or other matter paragraph), in keeping with the requirements set out in AG-1: *Reporting to the OAG*.

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#### **Application and other explanatory material**

- A1. Paragraph 9(a) of ISA (NZ) 706 (Revised) requires the auditor to include a heading that includes the term “Emphasis of Matter” whenever the auditor includes an emphasis of matter paragraph in the auditor's report. For audit reports issued by, or on behalf of, the Auditor-General the inclusion of a heading that includes the term

“Emphasis of Matter” does not clearly convey the nature of the matter to readers of the audit report, and is not a requirement of this statement.

## **Appendix 1 – Examples of emphasis of matter and other matter paragraphs**

This appendix contains two example audit reports. The examples are intended to provide guidance on the formatting of audit reports that include an “emphasis of matter” and “other matter” paragraph.

**Example 1** shows the positioning of an “emphasis of matter” paragraph and an “other matter” paragraph when the auditor is issuing an unmodified audit opinion. In this instance the “emphasis of matter” paragraph draws readers’ attention to a note that discloses why the public entity has appropriately prepared the financial statements and performance information using a disestablishment basis of accounting. In addition, because the public entity has not prepared its financial statements and performance information within the statutory deadline, and has not disclosed this breach of law, the auditor has drawn readers’ attention to this matter by way of an “other matter” paragraph.

**Example 2** shows the positioning of an “emphasis of matter” paragraph and an “other matter” paragraph when the auditor is issuing a modified audit opinion. In this instance the “emphasis of matter” paragraph draws readers’ attention to a note that discloses that a third party has initiated legal proceedings against it; a matter that, in the auditor’s judgement, is fundamental to the readers’ understanding of the financial statements and performance information. In addition, the auditor wishes to draw readers’ attention to expenditure incurred by the public entity that the auditor considers to be wasteful by way of an “other matter” paragraph.

## Example 1 – Auditor’s report: Unmodified audit opinion with “emphasis of matter” and “other matter” paragraphs

[Firm’s letterhead]

**INDEPENDENT AUDITOR’S REPORT**  
**TO THE [READERS] OF**  
**[NAME OF ENTITY]’S**  
**FINANCIAL STATEMENTS AND STATEMENT OF PERFORMANCE**  
**FOR THE YEAR ENDED [DD MM 20XX]**

The Auditor-General is the auditor of [Name of Entity] (the [entity type]). The Auditor-General has appointed me, [Name of Appointed Auditor], using the staff and resources of [Name of Auditing Firm], to carry out the audit of the financial statements and statement of performance of the [entity type] on his behalf.

### Opinion

We have audited:

- the financial statements of the [entity type] on pages [...] to [...], that comprise<sup>2</sup> the [statement of financial position] as at [DD MM 20XX], the [statement of comprehensive income, statement of changes in equity and statement of cash flows] for the year ended on that date, and [the notes to the financial statements that include accounting policies and other explanatory information]; and
- the statement of performance<sup>3</sup> of the [entity type] on pages [...] to [...].

In our opinion:

- the financial statements of the [entity type] on pages [...] to [...], which have been prepared on a disestablishment basis:
  - present fairly, in all material respects:
    - its financial position as at [DD MM 20XX]; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with [the applicable financial reporting framework].
- the statement of performance of the [entity type] on pages [...] to [...], which has been prepared on a disestablishment basis:
  - presents fairly, in all material respects, the [entity type]’s performance for the year ended [DD MM 20XX], including:
    - its performance achievements as compared with forecasts included in the statement of performance expectations for the financial year; and
    - its actual revenue and expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on [Date]. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to other matters. In addition, we outline the responsibilities of the [Governing body] and our responsibilities relating to the financial statements and the statement of performance, we comment on other information, and we explain our independence.

**The financial statements and the statement of performance are appropriately prepared on a disestablishment basis**

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<sup>2</sup> Ensure that the names that are used in the financial statements and performance information are replicated in the audit report.

Without modifying our opinion, we considered the accounting policy on page [...], about the financial statements and statement of performance being prepared on a disestablishment basis. We consider the disestablishment basis of accounting to be appropriate as the [entity type] closed on [date].

**The [entity type] did not report within its statutory reporting deadline**

Without modifying our opinion, we draw attention to the fact that the [entity type] did not comply with [relevant Act of Parliament], which requires the [Governing body] to provide its audited financial statements and statement of performance to [name of recipient] by [date].

**Basis for opinion**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Responsibilities of the [Governing body] for the financial statements and the statement of performance**

The [Governing body] is responsible on behalf of the [entity type] for preparing financial statements and a statement of performance that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The [Governing body] is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and a statement of performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of performance, the [Governing body] is responsible on behalf of the [entity type] for assessing the [entity type]'s ability to continue as a going concern. The [Governing body] is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the [Governing body] intends to liquidate the [entity type] or to cease operations, or has no realistic alternative but to do so.

The [Governing body]'s responsibilities arise from the [Name of relevant Act(s)].

**Responsibilities of the auditor for the audit of the financial statements and statement of performance**

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of performance, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts and disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and statement of performance.

For the budget information reported in the financial statements and the statement of performance, our procedures were limited to checking that the information agreed to the [entity type]'s [statement of performance expectations].

We did not evaluate the security and controls over the electronic publication of the financial statements and statement of performance.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [entity type]'s internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [Governing body].
- We evaluate the appropriateness of the reported performance information within the [entity type]'s framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the [Governing body] and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity type]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity type] to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of performance, including the disclosures, and whether the financial statements and the statement of performance represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the [Governing body] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

#### Other Information

The [Governing body] is responsible for the other information. The other information comprises the information included on pages [...] to [...], but does not include the financial statements and the statement of performance, and our auditor's report thereon.

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

In connection with our audit of the financial statements and the statement of performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, 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.

#### Independence

We are independent of the [entity type] in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board..

Other than the audit, we have no relationship with, or interests in, the [entity type].

Or

*[In addition to the audit, we have carried out engagements in the areas of [insert description of engagements], which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with, or interests in, the [entity type].]*

[Signature of Appointed Auditor]

[Name of Appointed Auditor]

[Name of Auditing Firm]

On behalf of the Auditor-General

[City], New Zealand

## Example 2 – Auditor’s report: Modified audit opinion with “emphasis of matter” and “other matter” paragraphs

[Firm’s letterhead]

### INDEPENDENT AUDITOR’S REPORT

#### TO THE [READERS] OF [NAME OF ENTITY]’S FINANCIAL STATEMENTS AND STATEMENT OF PERFORMANCE FOR THE YEAR ENDED [DD MM 20XX]

The Auditor-General is the auditor of [Name of Entity] (the [entity type]). The Auditor-General has appointed me, [Name of Appointed Auditor], using the staff and resources of [Name of Auditing Firm], to carry out the audit of the financial statements and statement of performance of the [entity type] on his behalf.

We have audited:

- the financial statements of the [entity type] on pages [...] to [...], that comprise the [statement of financial position] as at [DD MM 20XX], the [statement of comprehensive income, statement of changes in equity and statement of cash flows] for the year ended on that date, and [the notes to the financial statements that include accounting policies and other explanatory information]; and
- the statement of performance of the [entity type] on pages [...] to [...].

#### Qualified opinion

##### Qualified opinion on the financial statements – Non disclosure of related party transactions

In our opinion, except for the matter described in the *Basis for our qualified opinion* section of our report, the financial statements of the [entity type] on pages [...] to [...]:

- present fairly, in all material respects:
  - its financial position as at [DD MM 20XX]; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with [the applicable financial reporting framework].

##### Unmodified opinion on the statement of performance

In our opinion, the statement of performance of the [entity type] on pages [...] to [...]:

- presents fairly, in all material respects, the [entity type]’s performance for the year ended [DD MM 20XX], including:
  - its performance achievements as compared with forecasts included in the statement of performance expectations for the financial year; and
  - its actual revenue and expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
- complies with generally accepted accounting practice in New Zealand.

Our audit of the financial statements and the statement of performance was completed on [Date]. This is the date at which our qualified opinion is expressed.

The basis for our qualified opinion is explained below, and we draw your attention to other matters. In addition, we outline the responsibilities of the [Governing body] and our responsibilities relating to the financial statements and the statement of performance, we comment on other information, and we explain our independence.

#### Basis for our qualified opinion

The [entity type] has not provided us with evidence that the other remuneration and compensation paid to key management personnel and to close members of key management personnel has been charged to the [entity type] on normal commercial terms. If other remuneration and compensation of this nature is not charged on normal commercial terms, [entity type] is required to disclose the total amount of other remuneration and compensation paid to key management personnel and to close members of key management personnel in accordance with Public Benefit Entity International Public Sector Accounting Standard 20: *Related Party Disclosures*.

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Responsibilities of the auditor* section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Legal proceedings have been brought against the [entity type]**

We draw your attention to the disclosure in note [...] on page [...] of the financial statements, which outline that legal proceedings have been brought against the [entity type] by [name of third party]. Our opinion is not modified in respect of this matter.

**The [entity type] has incurred expenditure that is considered to be wasteful**

During the year the [entity type] incurred entertainment expenditure for staff of [\$xxx]. The entertainment expenditure is included in the expenditure category "administration expenses" of [\$yyy] in the statement of comprehensive income. As the [entity type] was unable to demonstrate that the entertainment expenditure had a justifiable business purpose, we concluded that the expenditure was wasteful. Our opinion is not modified in respect of this matter.

**Responsibilities of the [Governing body] for the financial statements and the statement of performance**

The [Governing body] is responsible on behalf of the [entity type] for preparing financial statements and a statement of performance that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The [Governing body] is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and a statement of performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of performance, the [Governing body] is responsible on behalf of the [entity type] for assessing the [entity type]'s ability to continue as a going concern. The [Governing body] is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the [Governing body] intends to liquidate the [entity type] or to cease operations, or has no realistic alternative but to do so.

The [Governing body]'s responsibilities arise from the [Name of relevant Act(s)].

**Responsibilities of the auditor for the audit of the financial statements and the statement of performance**

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of performance, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts and disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and statement of performance.

For the budget information reported in the financial statements and the statement of performance, our procedures were limited to checking that the information agreed to the [entity type]'s [statement of performance expectations].

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of performance.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [entity type]'s internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [Governing body].

- We evaluate the appropriateness of the reported performance information within the [entity type]'s framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the [Governing body] and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity type]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity type] to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of performance, including the disclosures, and whether the financial statements and the statement of performance represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the [Governing body] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

#### Other information

The [Governing body] is responsible for the other information. The other information comprises the information included on pages [...] to [...], but does not include the financial statements and the statement of performance, and our auditor's report thereon.

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

In connection with our audit of the financial statements and the statement of performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, 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.

#### Independence

We are independent of the [entity type] in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the [entity type].

Or

*[In addition to the audit, we have carried out engagements in the areas of [insert description of engagements], which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with, or interests in, the [entity type].]*

[Signature of Appointed Auditor]

[Name of Appointed Auditor]

[Name of Auditing Firm]

On behalf of the Auditor-General

[City], New Zealand