

## CANADIAN AUDITING STANDARDS

### CAS 706

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

##### SUPPLEMENT

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of approving [CAS 570, Going Concern](#).

- A5. 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.
  - A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.<sup>7</sup>
  - Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
  - A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
- A7. 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:
- (a) A modified opinion in accordance with [CAS 705 when required by the circumstances of a specific audit engagement](#);
  - (b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or
  - (c) Reporting in accordance with [CAS 570 8 when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern](#).
- A16. The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with [CAS 700. For example](#):

##### *Emphasis of Matter Paragraphs*

- When the Emphasis of Matter paragraph relates to the applicable financial reporting framework, including circumstances where the auditor determines that the financial reporting framework prescribed by law or regulation would otherwise be unacceptable,<sup>12</sup> the auditor may consider it necessary to place the paragraph immediately following the Basis for Opinion section to provide appropriate context to the auditor's opinion.
- When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph. The auditor may also add further context to the heading "Emphasis of Matter", such as "Emphasis of Matter – Subsequent Event", to differentiate the Emphasis of Matter paragraph from the individual matters described in the Key Audit Matters section.

##### Appendix 3

(Ref: Para. A17)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., CAS 600 1 does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB) (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in CAS 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.

- The relevant ethical requirements that apply to the audit are those of Canada.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with CAS 570.
- Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.
- Key audit matters have been communicated in accordance with CAS 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

#### **Appendix 4**

(Ref: Para. A8)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., CAS 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRS Accounting Standards as issued by the IASB (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in CAS 210.
- A departure from the applicable financial reporting framework resulted in a qualified opinion.
- The relevant ethical requirements that apply to the audit are those of Canada.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with CAS 570.
- Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with CAS 701.
- The auditor has not obtained any other information prior to the date of the auditor's report.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

#### **SUPPLEMENT**

This supplement sets out the previous wording of paragraphs that have been amended as a consequence of revisions to *IAS 1 Presentation of Financial Statements*, which were published in Part 1 of the CPA Canada Handbook – Accounting in June 2021. The revisions require entities to disclose material accounting policy information rather than significant accounting policies.

#### **Appendix 3**

(Ref: Para. A17)

#### **Illustration of an Independent Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph**

##### **Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and

statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

**Appendix 4**  
(Ref: Para. A8)

**Illustration of an Independent Auditor's Report Containing a Qualified Opinion Due to a Departure from the Applicable Financial Reporting Framework and that Includes an Emphasis of Matter Paragraph**

**Qualified Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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## Footnotes

7. CAS 560, paragraph [6](#)

8. CAS 570, paragraphs [22-23](#)

12. For example, as required by CAS 210, *Agreeing the Terms of Audit Engagements*, paragraph [19](#) and CAS 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph [14](#).

1. *CAS 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)* does not apply).

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