

AG ISA (NZ) 706

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

At a glance

This standard differs from the [underlying standard ISA \(NZ\) 706 \(XRB website\)](#) in that all audit reports seriously considering an “emphasis of matter” or “other matter” paragraph must be referred to the OAG for approval. The exception to this rule is when the OAG has already provided authority to issue audit reports, including “emphasis of matter” or “other matter” paragraphs.

Scope of this Statement

1. This Auditor-General's Auditing Statement:
 - (a) establishes the Auditor-General's requirements in relation to [ISA \(NZ\) 706 \(Revised\) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*](#) (ISA (NZ) 706);¹
 - (b) provides guidance to reflect the public sector perspective.

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 ISA (NZ) 706 and the additional requirements included in this Statement.
3. The additional requirements, that are contained in AG ISA (NZ) 700 and/or this Statement relate to:
 - (a) Applying specific phrases in the audit report where ISA (NZ) 706 contains optional phrases. These phrases are commonly applied in New Zealand.
 - (b) Providing specific expectations for consultation with the OAG on the audit report and translations.
 - (c) Amending the layout or positioning of specific sections of the audit report as required by ISA (NZ) 700, paragraphs 21-49. Such amendments are identified in the 'Application and other explanatory material' of this Statement.
4. The additional requirements apply to Appointed Auditors who carry out annual audits of FMC reporting entities on behalf of the Auditor-General to the extent that these requirements do not affect the layout or positioning of the audit report. This is because the Auditor-General must (at a minimum) comply with the “auditing and assurance standards”

¹ 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”.

that apply to an audit of an FMC reporting entity.² Audit reports related to FMC reporting entities have to comply with:

- (a) ISA (NZ) 700, paragraphs 21-49 as illustrated in examples 1 and 2; and
 - (b) ISA (NZ) 706, paragraphs 9 and 11 as illustrated in the example in Appendix 3.
5. This Statement applies to audits of financial statements and/or performance information commencing on or after 1 April 2023.

Objective

6. The objective of the Appointed Auditor in terms of this Statement is to clearly communicate matters in the auditor's report, that are for the readers' attention, in accordance with ISA (NZ) 706.

Definitions

7. For the purpose of this Auditor-General's Auditing Statement, the defined terms listed below has the following meaning:

Appointed Auditor

means the person or persons appointed by the Auditor-General to carry out the annual audit on behalf of the Auditor-General, and who are supported by other members of the audit team. Where an Auditor-General's Statement or Standard expressly intends that a requirement be fulfilled by the Appointed Auditor personally, the requirement will indicate that the Appointed Auditor shall personally satisfy the requirement.

Reportable findings

means findings that are considered to be material to the readers of the audit report but that do not affect the auditor's opinion on the fair presentation of the financial statements and the performance information. Examples of reportable findings may include:

- non-compliance with legislation relating to a matter of financial management or accountability;
- instances of spending that, in the opinion of the Appointed Auditor, is wasteful;
- references to fundamental uncertainties disclosed by the entity;
- highlighting when financial statements have been on a basis other than the going concern basis of accounting and when the auditor concurs with the basis of accounting applied by the entity.

² Section 15(3) of the Public Audit Act 2001. When auditing an FMC reporting entity "auditing and assurance standards" means the auditing and assurance standards issued by the External Reporting Board.

Reportable findings are normally presented by means of an “emphasis of matter” or an “other matter” paragraph.

Requirements

Matters to consider when preparing an audit report containing emphasis of matter paragraphs and/or other matter paragraphs

8. When considering whether to include an emphasis of matter paragraph or other matter paragraph, the Appointed Auditor shall consider the purpose of an audit in the public sector context in addition to the definitions of such paragraphs in ISA (NZ) 706 ([Ref: Para. A1](#)).
9. Subject to paragraph 4 regarding the layout of the audit reports of FMC reporting entities, Appointed Auditors shall position emphasis of matter paragraphs or other matter paragraphs towards the beginning of the audit report. Where the auditor’s opinion is unmodified, these paragraphs shall be positioned immediately after the Opinion section. Where the auditor’s opinion has been modified, these paragraphs shall be positioned immediately after the *Basis for [modification]* section ([Ref: Para. A2-A4](#)).

Consultation with the OAG

10. The Appointed Auditor shall consult with the Audit Quality team at the OAG (in accordance with [AG ISA \(NZ\) 700](#)), before issuing an audit report where the Appointed Auditor seriously considers including an:
 - (a) emphasis of matter; and/or
 - (b) other matter paragraph;in the audit report, unless the Auditor-General has provided direction or guidance to the contrary.

Application and other explanatory material

Matters to consider when preparing an audit report containing emphasis of matter and/or other matter paragraphs [\(Ref: Para. 8\)](#)

- A1. The availability of emphasis of matter and/or other matter paragraphs is a particularly important means of communicating reportable findings in the context of audits carried out by, or on behalf of, the Auditor-General. For example, Appointed Auditors may draw attention to reportable findings 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.
- A2. When presenting reportable findings in the audit report, the Auditor-General has departed from the requirement in ISA (NZ) 700, paragraph 28, which states the 'Basis for opinion' section must be included directly below the 'Opinion' section of the audit report.
- A3. The Auditor-General presents reportable findings towards the beginning of the audit report due to their importance to the reader of the financial statements and performance information.
- A4. Appendix 1, examples 1 and 2 illustrate the placement of an emphasis of matter paragraph and/or other matter paragraph in an audit report where the opinion is unmodified and modified, respectively.

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 example, 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” paragraphs and an “other matter” paragraph when the auditor is issuing a modified audit opinion. In this example, the first “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. The second “emphasis of matter” paragraph draws readers’ attention to disclosures outlining that the financial statements have been withdrawn and reissued in accordance with the requirements in [ISA \(NZ\) 560: Subsequent Events](#). 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 comprise³ 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 performance³ 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]; and
- 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

³ Ensure that the names that are used in the financial statements and performance information are replicated in the audit report.

- its actual revenue and expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
- 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 prepared on a disestablishment basis

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. The [entity type] closed on [date], so it was appropriate to use the disestablishment basis of accounting.

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. If the [governing body] concludes that a going concern basis of accounting is inappropriate, the [governing body] is responsible for preparing financial statements on a disestablishment basis and making appropriate disclosures.

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 disestablishment basis by the [governing body].
- 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: *Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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; and
- 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] spent [\$xxx] entertaining staff. The entertainment spending was included in the category "administration expenses" of [\$yyy] in the statement of comprehensive

income. The [entity type] could not show a justifiable business purpose for the spending, so we consider it wasteful. Our opinion is not modified in respect of this matter.

Replacement financial statements, statement of performance, and audit report

We draw your attention to the fact that the financial statements on pages [...] to [...] and the statement of performance on pages [...] to [...] replace the previously issued financial statements and statement of performance dated [date]. The previous financial statements and statement of performance have been replaced because [explain reason]. Attention is drawn to note [...] on page [...], which outlines the circumstances in more detail. This audit report replaces the audit report issued on [date].

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: *Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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