



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. 3

Meeting Date: 26 May 2020

Subject: AUASB'S exposure draft process for standards based on an equivalent IAASB standard

Date Prepared: 19 May 2020

Action Required

For Information Purposes Only

Objective of the agenda item:

1. For the AUASB to consider the experiences of the Exposure Draft (ED) processes adopted for ASA 315, the Quality Management standards (ISQM 1, ISQM 2, ISA 220 and conforming amendments) and AUP engagements.
2. For the AUASB to agree the process to be adopted going forward in exposing standards based on an equivalent IAASB standard, which will be incorporated into the updated AUASB Functions and Processes document.

Background:

3. At the April 2018 AUASB meeting, the AUASB considered the ED process when using an equivalent IAASB standard. The AUASB considered three options:
 - Process A - The current process included in the AUASB Functions and Processes document is to conduct outreach activities such as roundtables at the IAASB ED stage of the development phase, and issue an Australian ED based on the final ISA standard.
 - Process B - issue the IAASB ED concurrently as an Australian ED including all known Australian amendments.
 - Process C – issue the IAASB ED concurrently as an Australian ED without any Australian amendments. Note this is the process adopted by other standard setters.
4. The AUASB agreed to trial option B for ED ASA 315 *Identifying and Assessing the Risk of Material Misstatement*.
5. At the 4 December 2018 AUASB meeting, the AUASB requested the ATG to analyse the results of the pilot and to consider if this process was to be adopted for the upcoming Quality Management standards and / or permanently. The ATG prepared and distributed a paper to AUASB members on 4 February 2019 which summarized the lessons learned in the pilot and to seek feedback on the change to ED process (the 'ED process paper' which is summarized in the section "experience of issuing ED 315 concurrently with the IAASB" section below):
6. At its March 2019 meeting the AUASB:
 - (a) Discussed the results of the exposure process trialled for the ASA 315 (as detailed in the ED process paper) with the majority of AUASB members expressing support for applying Option B in future. No AUASB members supported retaining the existing AUASB exposure

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process. But when it came to the detail associated with Option B the feedback from AUASB members was mixed.

- (b) Agreed the principles to achieve in the ED Process are to:
- maximise the AUASB's ability to influence the IAASB as early as possible in the ED process:
 - As part of the regular activities of the AUASB and before the IAASB issues its ED, the ATG and AUASB members should identify all 'significant issues' they believe exist within each proposed IAASB Standard, including those that may potentially result in an Australian 'compelling reason' due to local principles or practices.
 - The AUASB should expose its proposed standards in parallel with the equivalent IAASB standard rather than wait until the IAASB has been finalised.
 - ensure IAASB EDs are made available to our constituents as promptly as possible. The ATG should ensure IAASB EDs are ready for AUASB review and approval as soon as practicable after their release by the IAASB.
 - aid the efficiency of AUASB Board and staff time. The ED process selected should limit duplication of effort by the ATG staff and ensure Board deliberations on the ED are well-organized and effective.
 - facilitate the engagement of AUASB members in the ED process sufficient time must be scheduled at AUASB meetings for members to consider the 'significant issues' and potential Australian 'compelling reasons' as part of the IAASB ED review process by the AUASB. This process includes reviewing the status of the significant issues previously identified, to determine whether these have been adequately addressed in the IAASB ED.
 - generate the greatest opportunity for feedback by our constituents, the AUASB ED process needs to include appropriate outreach activities that enable all types of stakeholders to provide feedback.
- (c) Agreed that an approach of 'wrapping-around' an IAASB ED with an Australian Explanatory Memorandum best balanced each of the exposure principles. The purpose of the Australian Explanatory Memorandum would be to draw Australian stakeholders' attention to areas of the proposed standard which the AUASB have been tracking during its development by the IAASB. Australian specific questions will be asked in relation to "significant matters" in the proposed standard on which the AUASB would like more feedback.
- (d) Requested greater clarity around when re-exposure of an ED may be necessary.
- (e) Expressed concern that the revised ED process adopted for ISA/ASA 315 did not illicit responses from two large audit firms (although it was noted in the paper that the overall number of responses and level of engagement from stakeholders for this ED was at or above the level the AUASB experienced for previous EDs).
7. The AUASB Agreed to trial this process for the exposure of Quality Management Standards in Australia. Subject to the success of this process for the Quality Management Standards and agreement of the AUASB at a future Board meeting, the AUASB Functions and Processes document will be updated to reflect this revised process identify common principles supported by a majority of AUASB members when it comes to the AUASB's ED process. The experiences of the various process are outlined in the matters to consider section below.

Matters to consider

Experience of ASA 315 ED process

8. The IAASB ED was converted into an Australian ED and issued on 7 August 2018 with comments due 15 October. No Australian compelling reason amendments were identified and included in the ED.
9. The AUASB also sought feedback via roundtables held late September to mid-October in Perth, Hobart, Canberra, Brisbane, Sydney and Melbourne. This is wider outreach than have been held for other standards in the past, which were largely limited to Melbourne and Sydney. This was done as ASA 315 is a “foundation” standard and the proposed changes would impact all audit firms and engagements. So, the outreach was to ensure we obtained feedback from auditors in smaller practices. In addition, the NZAuASB and the AUASB hosted two webinars presented by the IAASB Deputy Chair which were educative in nature.
10. Written submissions were received from:
 - Deloitte
 - KPMG
 - UNSW
 - ACAG
 - IIA
 - Confidential (audit firm)
 - Confidential (professional body)
11. The submissions received included more comprehensive feedback on ED 315 than those received on previous EDs. Previously by issuing the Australian ED on the final ISA the submissions focused on Australian amendments, including the identification of any compelling reason. In particular, the submissions received from the audit firms were not supportive of many technical aspects of ED 315.
12. The AUASB did not receive submissions from all the large firms directly as they submitted a global firm submission directly to the IAASB. The ATG do not consider that this impacted the quality of feedback we received as throughout the physical roundtables, the larger firms expressed and shared views.
13. Overall, the ATG considered that exposing the IAASB’s ED resulted in more comprehensive feedback at the right time to influence the IAASB in its deliberations on ED 315.

Experience of Quality Management ED process

14. Rather than duplicate material, the IAASB proposed standards on quality management were issued for comment in Australia by the AUASB without modification (as agreed in March 2019, refer 6(c) above). This approach differs from the process when the AUASB exposed ED 01/18 Proposed Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement* in August 2018, where the AUASB converted the IAASB’s proposed standard into an Australian specific format.
15. This process explained all the matters that the AUASB had identified and considered open matters. All such matters were tracked to either an international question on exposure or an Australian specific question.
16. The wrap around ED was issued in March 2019, with a comment close date of 5 June.
17. The AUASB also sought feedback via roundtables held in Sydney, Melbourne and Brisbane. The ATG visited less destinations than was done for the ASA 315 outreach, as the number of attendees at the smaller locations was very limited for the ASA 315 outreach. In addition, the ATG held a session with the large national networks firms that was well attended.
18. The AUASB received minimal written feedback (only ACAG and UNSW). The ATG understand that the firms submitted responses directly to the IAASB. The ATG found that although the

roundtables were reasonably well attended, the level of feedback through the roundtables was at a very high level.

19. Overall, based on feedback from roundtables and AUASB member feedback the ATG considered that the feedback the AUASB was able to provide to the IAASB was at an appropriate time to influence their deliberations.

Experience of AUP process

20. Rather than duplicate material, the IAASB ED-ISRS 4400 was issued as a consultation paper in Australia with a comment period closing 18 February 2019.
21. The Audit Technical Group (ATG) held an educative webinar on 8 February 2019 where we had an attendance of over 50 stakeholders. Additionally, the AUASB received five formal responses, from stakeholders on the consultation paper.
22. The AUASB used the feedback from the webinar, the responses above and AUASB member feedback in providing a response to the IAAB on their ED-ISRS 4400. This feedback was used to influence the IAASB in their final standard setting process.
23. The final ISRS 4400 was approved by the IAASB in December 2019 and released in January 2020. The final standard had addressed many of the AUASB comments. The Australian ED 01/20 was issued in February 2020 based on the final ISRS 4400, with a 60-day comment period initially ending 20 April 2020.
24. The AUASB held a webinar on 27 April 2020 taking stakeholders through the main changes from extant ASRS 4400 to the proposed revised standard.
25. The AUASB received submissions/comments from 7 stakeholders.
26. This feedback will be deliberated by the AUASB at the June AUASB meeting. It is expected that the final Australian standard will be issued in September 2020 approximately 8 months after the issuance of the final international standard.

Experiences of ED process (past and pilot experiences)

27. The table below show the advantages and disadvantages of each process updated based on the pilot experiences of ASA 315 and the proposed QM suite of standards.

	Existing ¹	315 ²	QM ³	AUP
Outreach conducted (roundtables, targeted) with Australian stakeholders with information gathered to feed into an AUASB response to the IAASB on their Exposure Draft	✓	✓	✓	✓
The Australian ED is based on the final ISA and includes the known proposed Australian amendments identified through outreach activities, and therefore is very close to the final ASA. This significantly minimizes the risk of having significant changes to the standard after exposure, and therefore the risk of having to re-expose	✓	✗	✗	✗
Stakeholders perception that when issuing an ED at the time of an international final standard, they lose the ability to influence the direction of standard and accordingly may not respond to the AUASBs ED at this late stage.	✓	✗	✗	✗

¹ Australian ED issued at the time of final ISA. Outreach is done based on International ED.

² Australian ED issued at the time of international ED.

³ International ED issued as the Australian ED.

Timeliness between issuance of final ISA and final ASA	x	✓	✓	x
Potential duplicate effort of respondents to IAASB ED and AUASB ED	✓	✓	✓	✓
Time spent converting International ED to Australian ED and then Final Standard.	x	✓	x	x
Time spent on detailed Australian specific Explanatory Guide/Memorandum	x	x	✓	✓
Local members of international network firms may not respond to the AUASB as their firms centrally provide responses to IAASB – impact on written submissions, shouldn't impact attendance and contribution at roundtables.	✓	✓	✓	✓
There may be significant changes to the IAASB ED to the ISA issued, which may result in the IAASB re-expose, and the AUASB also re-exposing.	x	✓	✓	x
Australian compelling reasons may be identified through the ED process which may require re-exposure in Australia. However, as there aren't many Australian compelling reasons this is not a high risk.	x	✓	✓	✓

28. In determining the possible processes, the AUASB Technical Group have reached out to other National Standard Setters (NZAuASB, Canada, South Africa, UK FRC, AASB) and have determined that they expose concurrently the IAASB's ED, except the UK FRC. Refer to Appendix 1 for more detail.
29. The ATG is aware through prior knowledge and experience of the 'old process' that the AUASB is receiving less written submissions with the onset of the new ED process. Historically, the AUASB received submissions from all of the big 6 firms, some other network organisations, the professional bodies and in some instances universities/academics. Under the 'new process' for the most part, the AUASB is receiving less written submissions, particularly from practitioners. This is observed as part of a worldwide trend from other National Standards Setters and may be attributable to multiple reasons including:
- complexity of standard and volume of questions being asked on exposure;
 - time required to provide a detailed written response; and
 - not duplicating international firm efforts/responses.

However, even though the level of written responses has declined, the ATG is confident that targeted outreach including outreach with the big 6 firms, large national network group, ASIC, academics and the professional bodies, will provide the level of input needed to early influence the IAASB. This has been demonstrated with the ASA 315 and Quality Management suite of standards.

ATG Recommendation

30. Based on the above, the ATG recommends:
- The actual (Aus) paragraphs not being drafted at the time of exposure but rather an Australian explanatory guide/memorandum explaining any 'open' Australian specific matters
 - This Explanatory guide/memorandum wraps around an International ED that is not Australianised.
 - The above being issued as close as possible to the issuance of the international ED.
31. The ATGs reasons for the recommendations are as follows:

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- (a) Significant time saved (from both an ATG and AUASB perspective) in not converting the international ED to an Australian ED and then a final standard;
- (b) An Australian Explanatory guide/memorandum can highlight to stakeholders where the AUASB may have identified issues with the standard and seek stakeholders' views on these matters. Significant compelling reasons (non-Corporations Act related) have historically been few and far between; they take time to draft and agree, and if included in an Australian ED can significantly delay the issuance of the ED in Australia. Drawing stakeholders attention to the matter at the ED stage is considered sufficient.

The final Australian standard could be issued at a very similar time to that of the international standard with the advantage being that Australian entities have the same adoption response time as international entities.

Action for the AUASB

Do you agree with the ATG's recommendation?

Material Presented

Agenda Item	AUASB Board Meeting Summary Paper Apr18_3(b)1_AUASB_Functions_and_Processes
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Appendix 1 – other NSS timeline for issuing EDs based on the IAASB’s	
New Zealand - NZAuASB	<p>The NZAuASB’s policy is to expose the IAASB’s ED concurrently.</p> <p>The IAASB’s ED is issued as is, unless there are known compelling reasons to change. This is not common. If there are minimal changes from the IAASB ED to the ISA, the NZAuASB will issue an equivalent ISA (NZ) with minimal changes only to reflect references, language and grammatical conventions used in New Zealand, and do not re-expose. However if compelling reasons for amendments to the international proposals are subsequently identified, NZAuASB issue another exposure draft in New Zealand.</p> <p>Note that changes to reflect references, language and grammatical conventions in New Zealand are not considered compelling reasons and not exposed.</p>
Canada - AASB	Issue the IAASB ED as close as possible to the same time as the IAASB, with deadlines that are the same as the IAASB EDs. Make minimal changes to the ISA.
South Africa	IAASB's proposed international pronouncements and consultation papers issued on exposure internationally are exposed simultaneously in South Africa. The exposure period ends fourteen (14) days before the comments are due to be submitted to the IAASB.
United States – AICPA’s ASB	<p>The ASB’s policy is not set with regards to the timing of issuance of domestic EDs of corresponding ISA EDs. Sometimes the ASB will issue an ED at the same time the IAASB issues its ISA ED, while other times it will wait until the IAASB approves the ISA as it prefers to work from the most final version of the ISA when developing its equivalent domestic standard.</p> <p>The ASB’s policy is to responds to all ISA EDs. ASB does not conduct stakeholder outreach in gathering input for its IAASB response letters. The response letter is based on input gathered through task forces and ASB members.</p>
UK FRC	Issue EDs after the IAASB issue the final standard. Whilst the UK FRC adopt the ISAs they do amend the ISAs more than the AUASB.
Australian Accounting Standards Board	Issue the International EDs as soon as possible with a cover letter asking for feedback as well as any Australian issues.



Project Plan

Project Title:	Proposed ASA 600 <i>Special Considerations—Audits of a Group Financial Report (Including the Work of Component Auditors)</i> ; and Proposed Conforming and Consequential Amendments to Other ASAs
Project Objective(s):	1. To provide comments on ED ISA 600 to the IAASB; 2. To issue revised ASA 600 and conforming amendments to other standards based on the amended ISA and making appropriate Australian amendments
Priority:	High
Issue/Reason:	Refer AUASB Strategic Direction re adoption of ISAs
Date Prepared:	8 May 2020
Date to Be Approved:	Objective 1: June 2020 AUASB meeting Objective 2: TBD (subject to IAASB timelines)

1 *Project Objectives*

- (a) To provide comments to the IAASB on ED ISA 600 based on stakeholder input (Phase 1).
- (b) To release a revised ASA 600 and conforming and consequential amendments to impacted standards, based on the amended ISA, after making appropriate Australian amendments to conform to Australian regulatory and statutory requirements, and further amendments where is a compelling reason to do so (Phase 2).

This project plan is for Phase 1 only. Phase 2 will be developed once the timing of the issuing of the final ISA 600 by the IAASB is determined – expected approximately mid-2021.

2 *What is being requested of the AUASB*

The technical team is seeking AUASB approval of the project plan for Phase 1 – facilitating feedback into the IAASB ED-ISA 600.

3 *Background*

At its March 2020 meeting the IAASB approved ED-ISA 600 for a 150-day exposure period. This ED was issued late April 2020 with a comment close date of 2 October 2020. The AUASB has closely tracked the progress of the development of ED-ISA 600 with particular attention to the key points raised by the AUASB at the time of the invitation to comment (ITC) including:

- (a) At the time of the ITC, the AUASB supported a combination of a top down/bottom up approach to scoping of group audits. Since the progression of ISA 315, the AUASB supports a top down risk-based approach – with audit effort responsive to the risk of material misstatement.

- (b) Explanation on elements of ISA 600 applicability where the component auditor is the group auditor.
- (c) Broadening to ISA to include all types of structures including for example branches, divisions, joint ventures.
- (d) Guidance on practical access issues.
- (e) The involvement of the group engagement partner (GEP) to direct and supervise the component teams work; and additional application material on communications upward from the component auditor to the group auditor could be strengthened as the group auditor is not necessarily the best placed to determine and understand the significant risks at a component level.
- (f) Guidance required in relation to component materiality, component performance materiality and component trivial thresholds, particularly in relation to the concept of aggregation risk.
- (g) Guidance as to extent of documentation of the GETs involvement in the work of component auditors.

The AUASB will now have the opportunity to provide comment to the IAASB on all aspects of the Exposure Draft with input from Australian stakeholders.

4 *Stakeholders*

- Practitioners – private (large, medium and SMP) and public sector
- Regulators - ASIC, APRA
- Entities preparing general or special purpose financial statements that are audited
- Accounting bodies – CA ANZ, CPA Australia & IPA – representing practitioners.
- Other Standards Setting Boards – NZAuASB, IAASB

5 *Risks/Issues*

- Issues are not identified and communicated to the IAASB on the ED.
- Final ISA 600 not consistent with feedback from the AUASB (and its stakeholders).
- Proposed amendments to the ISA are not made only in accordance with the “compelling reasons” policies and such changes are consistently applied to the relevant standards.
- Proper consideration is given to stakeholder input.

6 *Action Plan*

Phase 1

To provide comments to the IAASB on ED ISA 600 based on AUASB member and Australian stakeholder input.

- Draft the AUASB’s Explanatory Memorandum to accompany ED-ISA 600 (wrap around). The Explanatory Memorandum (EM) is to include an explanation to the one “Aus” paragraph Aus A12.1¹, in the extant ASA 600 relating to a *Corporations Act 2001* requirement. In discussions to date there have been no other indicators in relation to compelling reasons. The EM to include any other specific Australian matters that the AUASB may determine appropriate – to be discussed at the June 2020 AUASB meeting.

¹ Aus A12.1 Section 323B of the Corporations Act 2001 (the Act) requires the auditor of a controlled (component) entity to give the principal (group) auditor any information, explanation or assistance required under section 323A of the Act.

- Exposure period less than the IAASB’s to allow time to consider comments, obtain AUASB input and prepare submission - proposed 70 days (consistent with ED-ISA 315).
- Promote initial educative webinar in June 2020 being hosted by IAASB.
- Outreach to be conducted via remote zoom roundtables on various dates through July and August 2020.
- Other outreach may be conducted as the need/opportunity arises – we are currently investigating whether the IAASB taskforce chair can present a webinar for the Australian audience.
- AUASB to review submissions received from Australian stakeholders and the submission to the IAASB at a date to be determined in mid/late September 2020.

Phase 2

To be developed at a later stage with timing reflective of the IAASB.

7 *Timetable and outreach*

9 June 2020	AUASB meeting to approve the EM to accompany the international ED-ISA 600 and conforming amendments.
15 June 2020	Issue EM and international ED-ISA 600 with a 70-day comment period closing 24 August 2020
mid-June 2020	IAASB Educative Webinar – advertised via website and social media platforms
Late June – Mid August	Remote roundtables via Zoom with limited participants at each meeting – advertised via website and social media platforms with some targeted advertising. Roundtables would be split into large national networks, mid-size and professional bodies, other.
24 August 2020	Comment period closes
Mid-September 2020	Feedback summary and draft response to AUASB – form and timing of meeting to be determined
End September 2020	Out of session AUASB approval of final response to IAASB
2 October 2020	Submission due to IAASB

8 *Responsibility*

Rodney Piltz – Project Specific AUASB sponsor.

Rene Herman – Project Specific dedicated AUASB technical group member.



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5.0**
Meeting Date: 26 May 2020
Subject: COVID-19 Plan
Date Prepared: 19 May 2020

Action Required

For Information Purposes Only

Agenda Item Objectives

1. To provide an update to the AUASB on the COVID-19 initiatives to date.
2. For the AUASB to provide feedback on the AASB-AUASB COVID-19 Response Action Plan, and in particular on whether there are other actions we should be considering.
3. For the AUASB to provide input on specific FAQs in progress on, in particular:
 - (a) the auditor reporting FAQs, especially for issues where the auditing standards may be considered as being open to interpretation.
 - (b) FAQs concerning director's solvency statements.

Background

4. To date the AUASB Technical Group have issued ([refer to AUASB website](#)):
 - (a) AASB-AUASB Joint FAQs
 - (b) More detailed FAQs for auditors
 - (c) AASB-AUASB Joint publication The Impact of COVID-19 on Going Concern and Related Assessments (Going concern publication).

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Matters to Consider

AASB-AUASB COVID-19 Response Action Plan

3. The ATG have prepared an AASB-AUASB COVID-19 Response Action Plan (COVID-19 Action Plan) which details the various projects and initiatives to assist both preparers and auditors in financial reporting and auditing issues as a result of the COVID-19 pandemic. This includes a list of projects that are currently ongoing and the future projects that are planned to be undertaken in response to the COVID-19 event.

Question for the AUASB

Are there any other projects or initiatives that should be included in the COVID-19 Action Plan?

Auditor Reporting

Listed entities reporting

4. The ATG have been monitoring auditor reporting by ASX listed companies to analyse how auditors are reporting on COVID-19 matters. We have looked at all reporting to the ASX from 24 March 2020 until now. This includes reporting from December year ends through to March year ends which are just starting to report. Refer to Appendix 1 for a summary of the observations to date.
5. Key observations
 - (a) For 31/12/19 year end audit reports which reported on COVID-19 matters;
 - (i) 37% included an Emphasis of Matter (EOM) paragraph with the majority being to subsequent notes (COVID-19 was a non-adjusting subsequent event).
 - (ii) 70% included a Material Uncertainties Relating to Going Concern (MURGC) paragraph which include a reference to COVID-19. Most of the MURGCs reference to existing events and conditions, such as an existing significant net loss, cash outflows from operating/investing activities and/or a high value of current liabilities relative to current assets, and also that the COVID-19 pandemic is an event which exacerbates the existing going concern issues rather than as a MURGC in its own right. The ATG are continuing to gather information in relation to the comparative previous years audit reports to confirm whether COVID-19 resulted in higher MURGCs this year compared to prior years.
 - (iii) One audit report was qualified on matters on asset valuations, however also included a reference to COVID-19 but this does not appear to be the main factor which resulted in the qualification.
 - (iv) Only 5% included a KAM which is expected given the timing of COVID-19.
 - (b) Of the 7 March year end audit reports issued to date, 86% included reporting on the impact of COVID-19. All of the audit reports which reported on COVID-19 included a KAM referencing the estimation uncertainties in asset valuations or expected credit losses calculations. One audit report referred to the impact of COVID-19 in a KAM on the valuation of investment property and an EOM on the subsequent event note in the financial report that describes the unprecedented uncertainty of the economic environment, and the uncertainty this creates for valuations of investment properties. The ATG consider this is in

accordance with ASA 706 paragraph 8 as whilst the same topics they are communicating different information (refer paragraph 7 below).

- (c) For half year review reports which report on COVID-19 this is done by an EOM to alert users to the uncertainty created by COVID-19. The percentage of review reports which include EOMs is lower for 31 March 2020 half years than December year ends and January and February half years. Upon further analysis this seems reasonable given that the 31 March 2020 half years to date are mainly very large entities and some are in industries not significantly impacted, also note the very small number of entities who have reported to date.

Question for the AUASB

Do any of the observations raise any concerns that we should address?

FAQs

6. The ATG are currently drafting FAQs on auditor reporting considerations. The IAASB is also about to issue some auditor reporting guidance. The ATG will finalise and release our FAQs after we receive feedback from the AUASB on the matters detailed following, and ensuing there are no inconsistencies with the IAASB. We are also monitoring guidance issued by other National Standard Setters and ensuing consistency of messages.
7. The ATG have received feedback that there are some practical issues in relation to the auditor reporting Auditing Standards. Specifically:

- (a) When to include a KAM verses an EOM

ASA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report details that if a matter is a KAM it is not reported as an EOM. This has resulted in a question - can auditors include the impact of COVID-19 as a KAM, and also include an EOM to draw user's attention to certain disclosure relevant to COVID-19? The ATG have addressed this in the attached FAQs and are seeking feedback from AUASB members.

- (b) When to issue a modified opinion including a disclaimer

Auditors may experience scope limitations due to inability to perform some procedures which they would normally perform (for example stocktake, visit components). Also for some entities there is significant uncertainty about the future making it difficult to conclude on the appropriateness of management's key assumptions and judgement. This may result in material misstatements and / or difficulty concluding there is sufficient appropriate audit evidence. The ATG have prepared FAQs to provide guidance when a modified opinion may be appropriate and the type of modification. The ATG are seeking feedback from AUASB members.

8. The AASB – AUASB's Going Concern publication details that if events or conditions have been identified that may cast significant doubt over the entity's ability to continue as a going concern, entities are required to disclose the significant judgements made in the process of concluding that no material uncertainty exists. ASA 570 requires auditors to evaluate whether these disclosures are adequate. In the draft Going Concern publication the ATG included that auditors can consider whether these disclosures meet the definition of an EOM. The ATG acknowledge that EOMs are not usually used for going concern disclosures ie. close calls, however are of the view that in the current environment these disclosures may be of such importance that it is fundamental to users' understanding of the financial report. For listed entities auditors may highlight this through a KAM, but for entities where KAMs are not reported, an EOM may be appropriate. This would be a judgement for the auditor depending on the specific facts and circumstances. This was removed from

this publication in order to discuss with the AUASB and communicated via FAQs if the AUASB agree. Note a FAQ hasn't been drafted yet.

Action and question for AUASB members

Review the draft 5.1 Auditor Reporting FAQs and provide feedback on the following (note comments / editorials are welcome also):

Do you agree with the messaging for:

- When to include a KAM and / or EOM?
- When a modified opinion may be necessary?
- Any other comments or other FAQs the ATG should address?

Do you agree that auditors may include an EOM for going concern close calls if in their judgement this meets the definition under ASA 706? Do you think this should be included in the FAQs, or not, as not including this does not preclude an auditor from doing this?

9. The ATG have also received feedback that directors have raised concerns about how users may interpret audit reports in particular if the auditor reports more than usual ie EOMs etc. The ATG are preparing a document *What does the audit report mean?* The purpose of this is to explain to non-auditors in a traffic light format about the information in the auditor's report. This would be referenced in our FAQs, available on our website and we would send this to the AICD and professional bodies and request they communicate this through their channels. Note that the NZAuASB are just about to release a document titled *Modified Audit Reports Explained* (not yet finalised therefore a copy has not been provided to the AUASB) which has a similar objective however the ATG had already drafted our document before we received a draft the NZAuASBs.

Action and question for AUASB members

Review and provide feedback on 5.3 *What does the audit report mean?*

Do you agree that this is useful to non-auditors, and / or useful to auditors to explain to clients their report?

Director's Solvency Statements

10. Due to the disruption to economic activity as a result of COVID-19 some entities may find themselves temporarily in an insolvent position due to poor trading conditions, but still consider themselves a going concern, given that once the current restrictions are lifted they expect to trade their way out of this predicament with the support of their creditors. Due to the relaxation of certain directors' solvency requirements (refer [ASIC's FAQ number 11](#)) this may mean some entities issue a material uncertainty or negative solvency statement however continue trading and prepare a financial report.
11. The ATG have attended a number of forums where attendees have asked for guidance on what is the impact on the auditor's report if they do not agree with the solvency statement, or even if they agree

how should the auditor report if the solvency statement is negative or includes a material misstatement.

12. The auditor is not required to express a distinct opinion on the solvency statement. However as the directors' solvency statement is contained in the directors' declaration on the financial report and therefore auditors consider its compliance with the *Corporations Act 2001* when forming a view on the financial report as a whole.
13. Negative solvency statements or solvency statements with material uncertainties have been rare in the past, especially for entities which were a going concern.
14. As communicated to the AUASB in an email on 8 May 2020, the ATG have been considering this and did include a response for the AUASB to consider in the AASB-AUASB joint publication *The Impact of COVID-19 on Going Concern and related Assessments*. The ATG received feedback from two AUASB members that this to be considered by the AUASB as this was new guidance (note no other AUASB members provided comments on this). This was subsequently removed from this publication, for discussion at this Board meeting.
15. The proposed Auditor reporting FAQs include a question in relation to this. When drafting this the ATG formed the view that if the auditor concluded that the solvency statement was not appropriate (for example the solvency statement was unmodified however the auditor considered the entity was not solvent) this would always be a material misstatement due to non-compliance with the *Corporations Act 2001*, and therefore a modified opinion would be issued. The ATG formed the view that this is material by nature. The draft FAQ has been drafted based on this.
16. However an alternate view is that this should be assessed like other misstatements and the auditors uses judgement when concluding whether this was material and a modified opinion would be required. The ATG are seeking AUASB members feedback on this.
17. The ATG will consult with ASIC on this matter as well.

Action and question for the AUASB members

Review the draft Solvency Statement FAQ.

- Do you agree that if the auditor concludes that the solvency statement was not appropriate this would always be a material misstatement and therefore a modified opinion would be issued?
- Or do you agree with the alternate view which is this should be assessed like other misstatements and the auditors uses judgement when concluding whether this was material and a modified opinion would be required?
- Provide feedback on the FAQ. Are there other scenarios that should be included?

Material Presented

Agenda Item

5.0 AUASB Board Meeting Summary Paper

5.1 Auditor Reporting FAQs

5.2 Flowchart - What type of opinion?

5.3 What does the audit report mean?

Appendix 1: Summary of Auditors' Reporting of COVID-19

Financial Year End	31/12/19 FY	31/03/20 FY	31/12/19 HY	29/02/20 HY	31/01/20 HY	31/03/20 HY
Number of Audit Reports Released	188	7	20	3	10	10
Percentage of Audit Reports Referencing COVID-19	43%	86%	15%	67%	40%	30%
Percentage of Audit Reports Not Referencing COVID-19	57%	14%	85%	33%	60%	70%
Percentages in final six rows relate only to firms with audit reports referencing COVID-19						
Percentage of Unqualified Audit Opinions	93%	100%	67%	100%	100%	100%
Percentage of Qualified Audit Opinions	7%	0%	33%	0%	0%	0%
Percentage of Disclaimers	0%	0%	0%	0%	0%	0%
Percentage of EOMs	37%	17%	67%	67%	75%	100%
Percentage of MURGCs	70%	0%	67%	0%	50%	0%
Percentage of KAMs	5%	100%	0%	0%	0%	0%

Audit Conclusion and Reporting

Q: When should I modify my audit opinion as a result of COVID-19?

The auditor expresses an unmodified audit opinion if they conclude they have sufficient appropriate audit evidence that the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework. In accordance with ASA 700 *Forming an Opinion and Reporting on a Financial Report*, the auditor modifies the audit opinion when:

- They conclude based on the audit evidence obtained that the financial report is not free from material misstatement; or
- They are unable to obtain sufficient appropriate audit evidence to conclude that the financial report is free from material misstatement.

The COVID-19 pandemic may result in modified auditor's reports due to:

- Inappropriate recognition and measurement of assets and liabilities which may be significantly affected by COVID-19 (material misstatement).
- Inadequate disclosure about the effects of the COVID-19 including the relevant risks, key assumptions and judgements applied by management (material misstatement).
- Inability to perform required procedures and appropriate alternate procedures cannot be performed (unable to obtain sufficient and appropriate audit evidence).
- Significant uncertainty about the economy and future earnings make it difficult to support key management's judgements or assumptions for example, those used in asset and liability valuations or cashflow estimates (unable to obtain sufficient and appropriate audit evidence).

Under ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* a modified opinion may be qualified, adverse or a disclaimer. The decision regarding which type of modified opinion to issue depends upon:

- The nature of the matter giving rise to the modification, that is, whether the financial report is materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.

ASA 705 paragraph 5 details that pervasive is when the effects on the financial report of misstatements or possible misstatements that may be undetected due to the inability to obtain sufficient appropriate audit evidence. Pervasive is when the effects cannot be confined to a specific element, account or items in the financial report. Or if can be confined, they represent or could represent a substantial proportion of the financial report. Or in relation to disclosures are fundamental to user's understanding of the financial report.

In reaching a conclusion, the auditor has a duty to remain objective and use professional scepticism to critically assess the available evidence and form an independent opinion.

Qualified Opinion

Where an auditor cannot obtain sufficient appropriate audit evidence and the effects on the financial report is limited to specific set of balances, transactions or disclosure the auditor issues a qualified opinion. If the effects on the financial report are pervasive a disclaimer of opinion is issued.

Where the auditor has obtained sufficient appropriate audit evidence and concludes that there are material misstatements in the financial report, including the effects and disclosures related to COVID-19, the auditor issues a qualified or adverse opinion depending on the pervasiveness of the misstatements.

Adverse Opinion

Where the auditor has obtained sufficient, appropriate evidence and concludes that material and pervasive misstatements exist that undermine the reliability of the financial statements as a whole then they give an 'adverse' opinion (refer ASA 705 paragraph 8).

Disclaimer Opinion

Where an auditor is unable to obtain sufficient appropriate audit evidence and the effects on the financial report of undetected misstatements could be both material and pervasive, the auditor issues a disclaimer of opinion (refer ASA 705, paragraph 9). The auditor also disclaims their opinion if in extremely rare circumstances, involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion due to the potential interaction of the uncertainties and their possible cumulative effect on the financial report (refer ASA 705, paragraph 10).

Disclaimers are only appropriate if the effects of COVID-19 cannot be confined to specific elements, accounts or items in the financial report (ie. are pervasive), or if can be confined to specific elements, accounts or items in the financial report, they represent or could represent a substantial proportion of the financial report. Professional judgement is required in making the assessment as to whether a qualified or disclaimer opinion is appropriate in the circumstances.

If a disclaimed audit opinion is issued the reason for this is described in the Basis for Disclaimer of Opinion section of the auditor's report to explain to users, the circumstances. Also Key Audit Matters and Other Information sections are not included in the auditor's report.

Refer to flowchart *What type of opinion?* And *What does the audit report mean?*

Also refer to the AASB-AUASB joint publication *Impact of COVID-19 on Going Concern Assessments* for when an auditor may modify their report for going concern matters.

Q. How else may an auditor report on COVID-19 matters?

Key Audit Matters

Auditors of listed entities (or other entities for which key audit matters (KAMs) are communicated) apply professional judgement to determine which matters are of most significance to the audit and therefore a KAM. The objective of KAM reporting is to provide information to users about the conduct of the audit. For many entities it is likely that COVID-19 will impact the conduct of the audit. Auditors may describe how they addressed the impact of COVID-19 in areas identified as KAMs, such as valuation of non-current assets (PPE, Goodwill, investments), receivables and inventories, and provisioning such as credit loss provisions. Or the auditor may include a KAM on the impact of COVID-19 on the overall audit approach.

As detailed in ASA 701, if a COVID-19 related issue results in a modified opinion or a MURGC these are by definition a KAM, however they are not described in the KAM section of the Auditor's Report, but are reported in accordance with the requirements of the relevant standards (ASA 705 and 570).

If KAMs are not communicated in the auditor's report, the auditor may elect to communicate how COVID-19 impacted the audit in an Other Matter Paragraph (see below).

Emphasis Of Matter

Auditors may consider it necessary to draw user's attention to specific disclosures in the financial report by including an Emphasis of Matter (EOM) in their audit report. An EOM paragraph may be included in the auditor's report to draw users' attention to a matter presented or disclosed in the financial report that, in their judgement, is of such importance that it is fundamental to users' understanding of the financial report (Par 8 ASA706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*).

What is considered "fundamental to users' understanding of the financial report" is a matter of professional judgement and will be specific to the audit client's circumstances.

Examples of disclosures where the auditor may determine are fundamental to users and include an EOM are the impact of uncertainty caused by COVID-19 on valuations of debtors, inventories, non current assets (PPE, Goodwill, investments), and credit loss provisions.

Importantly an EOM is only appropriate when the auditor has concluded the financial report is materially correct including the disclosures are complete and accurate, and the auditor would not be required to modify the opinion as a result of the matter. ASA 706 also details that if a matter is a KAM it is not reported as an EOM. However the KAM description can highlight or draw further attention to the disclosures relative importance therefore meet the purpose of an EOM. COVID-19 may impact an entity in a number of ways and it may meet the definition of a KAM on one impact (for example on asset valuation) and an EOM on another (for example to draw attention to disclosure on other impacts on the entity). Refer to ASA 706 for more detail on EOM paragraphs.

Where the audit report does not include KAMs, an EOM may be used to signal an important matter for users.

Other Matter Paragraphs

Auditors may consider it necessary to communicate an ‘Other Matter Paragraph’ (OMP) to draw users’ attention to matters that are relevant to understanding the audit or the auditor’s responsibilities for the financial report. For example, auditors may communicate how they obtained sufficient appropriate audit evidence or changed their audit approach as a result of the COVID-19 matter, particularly if not communicating KAMs. Note that if the auditor has assessed this to be a KAM they do not also include an OMP paragraph (ie. so not to communicate twice).

Refer to ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report* for more detail on OMP paragraphs.

Also refer to Going Concern publication for detail on when to include a Material Uncertainty in Relation to Going Concern Paragraph.

What is the impact on the auditor’s report if the director’s solvency statement includes a material uncertainty or is negative, or they disagree with the director’s solvency statement?

Refer to the joint AASB-AUASB joint publication *The Impact of COVID-19 on Going Concern and related Assessments* for details on the director’s solvency statement and going concern assessments. In accordance with ASIC’s Regulatory Guide 22 the director’s solvency statement may be that:

- the company will be able to pay its debts as and when they become due and payable;
- the company will not be able to pay its debts as and when they become due and payable (negative declaration) or
- there is a material uncertainty as to the ability of the company to pay its debts as and when they become due and payable – for example, the ability to renegotiate loans due for repayment.

Negative and solvency statements which include a material uncertainty have to date been rare in practice. A negative solvency statement in usual circumstances means that the directors consider on that day that the entity is insolvent and the directors would be breaching the *Corporations Act 2001* if they were to continue trading.

Due to COVID-19 some entities may find themselves temporarily in an insolvent position due to poor trading conditions, but still consider themselves a going concern, given that once the current restrictions are lifted they expect to trade their way out of this predicament with the support of their creditors. Due to the relaxation of certain directors’ solvency requirements (refer [ASIC’s FAQ number 11](#)) this may mean some entities issue a qualified or negative solvency statement and prepare the financial report using the going concern basis of preparation.

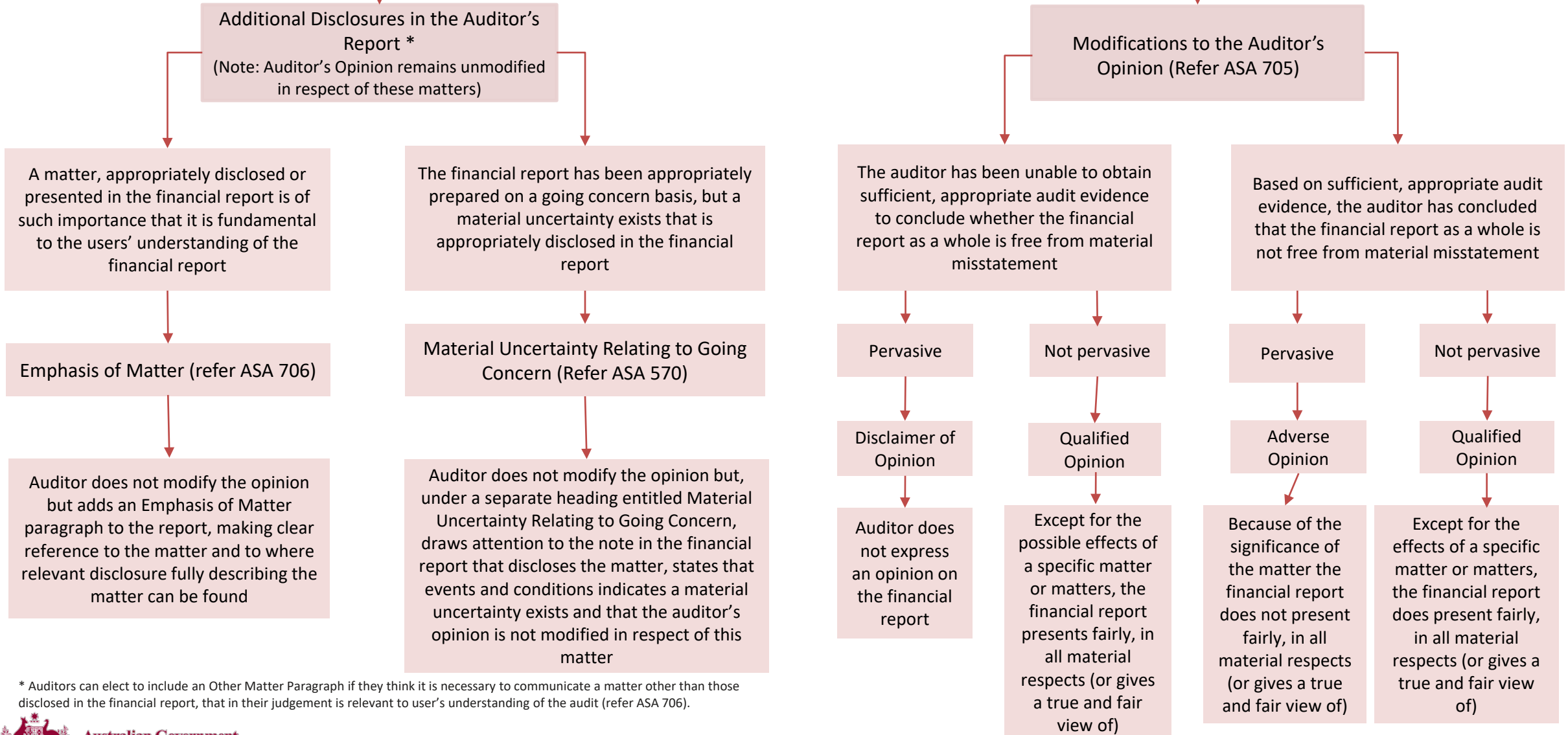
Auditors should carefully consider the impact on their audit report when this occurs. The auditor, based on audit evidence obtained through conducting the audit and the specific facts and circumstances, considers if they agree with the director’s solvency statements and its compliance with the *Corporations Act 2001* when forming a view on the financial report as a whole.

There may be the following scenarios:

- The director's solvency statement is negative or includes a material uncertainty, and the financial report is prepared using the going concern basis of accounting. If the auditor agrees with the solvency statement and the going concern assessment and there are adequate disclosures in the financial report, the audit opinion is not modified for this. If the auditor does not agree with the going concern assessment and / or the adequacy of disclosures the auditor issues a modified opinion in accordance with ASA 570 (refer to the AASB-AUASB joint publication *The Impact of COVID-19 on Going Concern and related Assessments* for further detail).
- The director's solvency statement is not modified and the financial report is prepared using the going concern basis of accounting, however the auditor does not agree with the solvency statement ie. that the entity is solvent. In this scenario this is likely to be a material misstatement due to a significant non-compliance with the *Corporations Act 2001* and issues a modified opinion. Refer to ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* for the different types of modified audit opinions however in this scenario the modification is likely to be an adverse. If the auditor does not agree with the going concern basis of accounting the auditor also modifies the opinion in accordance with ASA 570.
- The director's solvency statement is unmodified and the financial report has been prepared as a non-going concern basis of accounting. If the auditor agrees with both assessments and adequacy of disclosures, they issue an unmodified opinion. If they do not agree with the director's solvency statement, this is likely to be a material misstatement due to a significant non-compliance with the *Corporations Act 2001* and issues a modified opinion. If they do not agree with the going concern assessments, they issue a modified opinion in accordance with ASA 570 (refer to the AASB-AUASB joint publication *The Impact of COVID-19 on Going Concern and related Assessments* for further detail).

In these scenarios if the auditor concludes a modified opinion is not required in relation to the solvency statement or the going concern basis of basis of accounting, they consider if a KAM or EOM are required.




Modifications to the Auditor's Opinion or Additional Disclosures in the Auditor's Report














* Auditors can elect to include an Other Matter Paragraph if they think it is necessary to communicate a matter other than those disclosed in the financial report, that in their judgement is relevant to user's understanding of the audit (refer ASA 706).

AUDITOR REPORTING – WHAT DOES IT ALL MEAN?

The table below shows the five types of audit opinions that the auditor might reach in order of impact on the entity ranging from:

- financial report is materially correct 
- financial report is materially correct however the auditor wants to alert users to specific disclosures 
- financial report is not materially correct, or that the auditor cannot conclude 

Auditors opinion	Circumstances	Impact for financial report/degree of caution for the company
Unmodified opinion	The financial report is materially correct.	
Modified Opinions		
Qualified Opinion	The financial report is materially correct, “except for” the specific account balances, transactions or disclosures detailed in the “basis of qualified opinion” in the audit report, the auditor has concluded that the financial report is materially correct. The except for could be as a result of inadequate disclosures or insufficient audit evidence.	
Adverse opinion (inadequate disclosure)	The financial report is not materially correct as a result of inadequate disclosures which are pervasive. The auditor shall express an adverse opinion when the auditor concludes that the effects on the financial report of such inadequate disclosures are so material and pervasive that a qualified opinion is not sufficient to disclose the incomplete or misleading nature of the financial report which results from the inadequate disclosures.	
Adverse opinion (going concern basis inappropriate)	The auditor disagrees with the management’s use of the going concern basis of accounting in the preparation of the financial report. In other words, the auditor concludes the going concern basis of preparation of the financial report is inappropriate. In this case, a material uncertainty exists that may cast significant doubt on the entity’s ability to continue as a going concern and that the financial report does not adequately disclose this matter.	

Auditors opinion	Circumstances	Impact for financial report/degree of caution for the company
Disclaimer of opinion	<p>The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the misstatements could be material and pervasive.</p> <p>In other words, the auditor does not have sufficient evidence to provide an audit opinion due to the significance of the matters described in the Basis for Disclaimer of Opinion section.</p>	
Other information in the auditor’s report		
Unqualified opinion but with a material uncertainty related to going concern paragraph	The financial report is materially correct, but there are material uncertainties that cast significant doubt on the company’s ability to continue as a going concern. Such material uncertainties are adequately disclosed in the financial report.	
Emphasis of Matter	A paragraph included in the auditor’s report that draw users’ attention to a matter presented or disclosed in the financial report that, in the auditor’s judgement, is of such importance that it is fundamental to users’ understanding of the financial report.	 or 
Key Audit Matter Paragraph	Those matters that, in the auditor’s professional judgement, were of most significance in the audit of the financial report of the current period. Key audit matters are selected from matters communicated with those charged with governance.	
Other Matter Paragraph	A paragraph included in the auditor’s report to communicate a matter other than those that are presented or disclosed in the financial report, that, in the auditor’s judgement, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report.	
Other Information Paragraph	<p>Other information is financial or non-financial information (other than the financial report and the auditor’s report thereon) included in an entity’s annual report.</p> <p>When other information has been obtained prior to the date of the auditor’s report, the auditor will state the conclusion of other information in this paragraph that. The conclusion can be either a statement that the auditor has nothing to report; or if the auditor has concluded that there is an uncorrected material misstatement of the</p>	

Auditors opinion	Circumstances	Impact for financial report/degree of caution for the company
	<p>other information, a statement that describes the uncorrected material misstatement of the other information.</p> <p>Note that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon.</p>	